Severfield

Building a solid platform for growth

Interim report for the six months ended 30 September 2014 ■ Stock code: SFR ■ www.severfield.com

Directors and advisers

Ian Lawson
Chief executive officer

Ian Cochrane
Chief operating officer

Alan Dunsmore
Group finance director

Derek Randall
Executive director and managing director at JSW Severfield Structures Limited

John Dodds
Non-executive chairman

Alun Griffiths
Non-executive director

Tony Osbaldiston
Non-executive director

Kevin Whiteman
Non-executive director

Chris Holt
Non-executive director

Secretary and registered office
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Registered in England and Wales

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94 Albion Street
Leeds, LS1 6AG

Highlights

Underlying* operating profit
(before JVs and associates)

£3.6m

2013: £3.0m

Revenue **£97.4m** 2013: £117.1m	Underlying* operating margin (before JVs and associates) **3.7%** 2013: 2.5%
Operating profit/(loss) (before JVs and associates) **£2.3m** 2013: (£0.8m)	Underlying* profit before tax **£3.0m** 2013: £1.4m
Profit/(loss) after tax **£1.4m** 2013: (£2.5m)	Underlying* basic earnings per share **0.83p** 2013: 0.28p

- Underlying* profit before tax of £3.0m (2013: £1.4m)
- Improvement in UK underlying* operating margin to 3.7per cent (2013: 2.5 per cent), in line with expectations
- Continued focus on UK operational improvement programme, reflected in increased margin
- Share of losses from Indian joint venture of £0.3m (2013: £1.3m loss) reflecting good production levels and the benefits of the ongoing operational improvement plan
- UK order book of £185m at 1 November 2014 (1 May 2014: £168m), reflecting strong order intake and increase in general market activity
- Over 70 projects undertaken during the period in key market sectors:
  - Infrastructure: rail, transport and bridges; and
  - Commercial property: office developments, stadia, warehouses and distribution centres
- India order book of £38m at 1 November 2014 (1 May 2014: £41m)
- Strong first half cash performance, with period-end net funds of £7.3m (31 March 2014: £0.3m)
- Successful completion of new £25m revolving credit facility until July 2019

* Underlying results are stated before:

- Amortisation of acquired intangible assets – £1.3m (2013: £1.4m)
- Restructuring and redundancy costs – £nil (2013: £2.6m)
- Impairment of investment in associates – £nil (2013: £0.4m)
- Movements in valuation of derivative financial instruments – £nil (2013: £0.2m favourable)
- The associated tax impact of the above

Interim statement 2014

Introduction

The first six months of the year have seen further good progress across the whole Group. Stability within UK operations has supported continued margin improvement in line with expectations, sustained production levels in India have underpinned much improved performance in the joint venture business, and working capital improvements and the sale of non-core assets have resulted in a strong period-end cash position, despite increased capital investment in the UK and additional equity investment in India.

The UK market shows continued signs of improvement and this is starting to materialise in a higher order book, however, some market tension remains as main contractors continue to work through legacy contracts. In India, the initial euphoria following the election of prime minister Modi has faded somewhat, but the business has maintained its order book levels whilst increasing production output to record levels.

Financials

The Group's financial performance in the first six months of the financial year reflects the full impact of the capacity reduction implemented during the first half of last year, along with the continued focus on operational and margin improvement, and much improved performance from the Indian joint venture as a result of full production levels throughout the period.

Revenue of £97.4m (2013: £117.1m) reflects the reduced capacity levels implemented last year, some modest contract delays and more disciplined tendering processes. This is consistent with our previous comments that our short-term focus would be on margin recovery rather than top line growth. Underlying operating profit before results of JVs and associates of £3.6m (2013: £3.0m), representing a margin of 3.7 per cent (2013: 2.5 per cent), highlights the benefits of this continued focus. The ongoing improvements in risk management and operational processes mean that the level of variability in individual contract performance has also reduced year on year.

The underlying share of results of JVs and associates is a loss of £0.3m (2013: £1.3m loss) which reflects the benefits of having good production in the Indian factory along with the increased operational focus of the new management team. The contract mix in the joint venture business is still heavily biased towards lower margin industrial work (rather than the higher margin commercial work) but nevertheless, the operating margin of the Indian business was an encouraging 4.3 per cent in the period. Financing costs turned this operating profit into a net share of loss for the Group.

The Group's underlying operating profit after share of results of JVs and associates is £3.3m (2013: £1.6m) and underlying profit before tax is £3.0m (2013: £1.4m).

The only non-underlying item in the period was the amortisation of intangible assets of £1.3m (2013: £1.4m) and the tax effect thereof. This is classified as non-underlying as it does not form part of the profit monitored in the ongoing management of the Group. Non-underlying items in the prior year also included a restructuring charge of £2.6m, a £0.4m write-off of a historical investment in an associate, and a favourable movement of £0.2m in the valuation of derivatives.

The underlying tax rate for the first half of the year of 17.0 per cent (2013: 20 per cent) is the estimated effective tax rate for the year ending 31 March 2015. The reduction over prior year mainly reflects the UK statutory corporation tax rate which reduced from 23 per cent to 21 per cent on 1 April 2014.

The statutory profit before tax, which includes both underlying and non-underlying items, is £1.7m (2013: £2.7m loss). The statutory profit after tax is £1.4m (2013: £2.5m loss) and has been transferred to reserves.

Underlying basic earnings per share is 0.83p (2013: 0.28p). This calculation is based on the underlying profit after tax of £2.5m and 297,503,587 shares, being the weighted average number of shares in issue during the period. Basic earnings per share, based on the statutory profit after tax, is 0.48p (2013: 0.86p loss). There are no contingent shares outstanding under share-based payment schemes and, accordingly, there is no difference between basic and diluted earnings per share.

Net funds at 30 September 2014 were £7.3m, which is an improvement of £7.0m from the year-end position of £0.3m. Net cash flow from operating activities in the period was £8.1m, including an improvement in working capital of £3.0m. An additional £3.9m of cash was generated from the disposal of a non-core investment property.

Capital expenditure of £3.2m (2013: £0.5m) represents a significant increase in the Group's investment programme. This enabled the replacement and upgrade of some of the Group's core fabrication equipment, which will bring operational benefits over the next few years, and also an increase in the Group's fleet of mobile plant and equipment, used on its construction sites. This was done following a detailed review of the Group's requirements and, given the forecast utilisation levels of this equipment, and the reduced reliance on hire equipment, will also generate operational efficiencies in the coming years.

A further £1.7m of equity was invested in the Indian joint venture. This was planned and was required to help finance some of the previous losses of that business.

In October, the Group refinanced its borrowing facilities with National Australia Bank and HSBC, with HSBC replacing previous lender RBS. The new facilities are for £25m with an accordion facility of a further £20m available at the Group's request, and are available until July 2019. There are two key financial covenants, with net debt: EBITDA of <2.5x, and interest cover of >4x. Other terms and conditions represent a return to normality in comparison with the terms required by the banks at the time of the rights issue in 2013. This new facility provides a solid foundation for the Group, with supportive partners, as it continues to improve its core profitability and develop its wider strategy.

Dividend

Consistent with previous statements, no interim dividend is being declared. The board remains committed to reinstating the payment of dividends depending on continued improvement in the financial performance of the business.

UK

The focus of the business has been on continuing to embed improved operational and risk management processes, whilst running at lower volumes during the period following the ten per cent capacity reduction during H1 last year. Revenue in the period reflects this, along with a more disciplined approach to tendering. The benefits however can be seen in the continuing improvement in the underlying operating margin from 2.5 per cent in H1 last year to 3.7 per cent this year.

Interim statement 2014 continued

The Group's main activities are unchanged and consist of the design, fabrication and construction of structural steel for construction projects. During the period the Group worked on over 70 projects covering most key market sectors. These included commercial office buildings in London for a variety of clients, new railway bridges and stations for Network Rail, data centres in both the UK and continental Europe, the expansion of the Etihad Stadium for Manchester City, further manufacturing plants for Jaguar Land Rover, several energy from waste plants and a continuing wide range of warehouses and distribution centres. New contracts won in the period include London commercial office developments at Principal Place and Angel Court, and the Ordsall Chord link bridge project between Manchester Victoria and Piccadilly stations.

Encouragingly, we are starting to see the expected growth in market activity as evidenced by the increase in the order book to £185m. Whilst there remain signs of tightness and strain within the market, our improving operational processes are helping us to manage this more effectively and deliver improving margins.

Following the rebranding exercise launched in May, the Group is now operating under the single Severfield brand and we believe this is supporting an increasing level of business and market development activity in both existing and adjacent markets.

The improving profitability is supporting an increase in capital investment in the business. The focus of this plan is to replace existing equipment where appropriate, with new state-of-the-art technology to help drive production efficiencies, and to expand the capital equipment base where there is a strong return on investment case.

The health and safety of all our people remains a major priority. During the period, our dedicated health and safety team has been strengthened, communication and awareness improvement programmes have been initiated, investment has been made in our factories to improve the safe layout and operation of them, and a bespoke fleet of haulage trailers has been introduced, which facilitates the safe loading, unloading and transportation of our steel loads around the country. Further initiatives around behavioural safety are being planned.

We are also delighted to welcome Gary Wintersgill as our new managing director for Severfield (UK), our largest business. Gary brings over 20 years of construction contracting experience to the company and further strengthens the management team following the restructuring of that business last year.

India

The much improved performance of the Indian joint venture in the period illustrates the importance of maintaining good levels of production output, with 23,000 tonnes being fabricated in the period, compared with 10,000 tonnes in the same period last year. Whilst the contract mix is still heavily weighted towards lower margin industrial projects, this level of output has resulted in a 4.3 per cent operating margin for the business, helped by the overhead reduction programme implemented at the start of the calendar year along with the operational improvement plan being implemented by the new management team. Financing costs turned this operating margin into a small loss, of which the Group reports a 50 per cent share.

The business has achieved some success in securing better margin commercial work in H1 and, subject to the inherent timing risks within the Indian market, some of this will start to be executed in H2. New contracts include commercial projects for NetApp, Intel and Proplarity. In terms of the wider market, the buoyancy felt immediately following the election of prime minister Modi has eased somewhat, but our view on the market potential remains positive. We are encouraged by some of the contracts we are starting to see in our pipeline but the challenge for the foreseeable future will be striking the right balance between industrial and commercial projects to ensure that production remains at satisfactory levels whilst we continue to improve the overall margin.

Outlook

Our operational improvement programme in the UK is delivering improving margins in line with expectations and we expect this to continue. Whilst the market remains tight in some respects there are now clearer signs that it is starting to improve. If this improvement continues it will further help our margin recovery and help drive revenue growth in due course. We are well placed to support this growth in terms of both our plant capacity and the skills and experience of all our people, who I would like to thank once again for all their hard work and commitment over the past 12 months.

The Indian joint venture is showing the benefits of good production levels and a tight cost base and the challenge now is to maintain this whilst continuing to develop the market for steel construction. The signs remain encouraging but it is still a long-term process.

Overall, the Group's strengthening operations and performance continues to leave it well placed to benefit from an improving market. Good cash conversion will support continued capital investment and a restoration of the dividend.

Ian Lawson
Chief executive officer

Condensed consolidated interim financial information
Consolidated income statement

	Six months ended 30 September 2014 (unaudited)		
	Before other items £000	Other items[1] £000	Total £000
Revenue	97,414	–	97,414
Operating costs	(93,838)	(1,310)	(95,148)
Operating profit/(loss) before share of results of JVs and associates	3,576	(1,310)	2,266
Share of results of JVs and associates	(257)	–	(257)
Operating profit/(loss)	3,319	(1,310)	2,009
Finance expense	(297)	–	(297)
Profit/(loss) before tax	3,022	(1,310)	1,712
Tax	(557)	262	(295)
Profit/(loss) for the period	2,465	(1,048)	1,417
Earnings per share:			
Basic	0.83p	(0.35p)	0.48p
Diluted	0.83p	(0.35p)	0.48p

1 Further details of other items are disclosed in note 7 to the condensed interim financial statements.

Six months ended 30 September 2013 (unaudited) Before other items £000	Other items[1] £000	Total £000	Year ended 31 March 2014 (audited) Before other items £000	Other items[1] £000	Total £000
117,147	–	117,147	231,312	–	231,312
(114,197)	(3,772)	(117,969)	(223,691)	(7,729)	(231,420)
2,950	(3,772)	(822)	7,621	(7,729)	(108)
(1,325)	(354)	(1,679)	(3,038)	(353)	(3,391)
1,625	(4,126)	(2,501)	4,583	(8,082)	(3,499)
(245)	–	(245)	(558)	–	(558)
1,380	(4,126)	(2,746)	4,025	(8,082)	(4,057)
(543)	754	211	(1,427)	2,844	1,417
837	(3,372)	(2,535)	2,598	(5,238)	(2,640)
0.28p	(1.15p)	(0.86p)	0.88p	(1.77p)	(0.89p)
0.28p	(1.15p)	(0.86p)	0.88p	(1.77p)	(0.89p)

Consolidated statement of comprehensive income

	Six months ended 30 September 2014 (unaudited) £000	Six months ended 30 September 2013 (unaudited) £000	Year ended 31 March 2014 (audited) £000
Actuarial (loss)/gain on defined benefit pension scheme*	**(1,382)**	335	(1,261)
Tax relating to components of other comprehensive income*	**276**	(67)	(101)
Other comprehensive income for the period	**(1,106)**	268	(1,362)
Profit/(loss) for the period from continuing operations	**1,417**	(2,535)	(2,640)
Total comprehensive income for the period attributable to equity shareholders of the parent	**311**	(2,267)	(4,002)

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

Consolidated balance sheet

	At 30 September 2014 (unaudited) £000	At 30 September 2013 (unaudited) £000	At 31 March 2014 (audited) £000
ASSETS			
Non-current assets			
Goodwill	**54,712**	54,712	54,712
Other intangible assets	**8,466**	13,657	9,845
Property, plant and equipment	**75,219**	74,356	74,128
Investment property	**–**	3,890	3,870
Interests in JVs and associates	**4,758**	3,190	3,315
Deferred tax asset	**1,240**	1,840	1,780
	144,395	151,645	147,650
Current assets			
Inventories	**4,861**	6,650	5,842
Trade and other receivables	**49,047**	52,562	60,801
Derivative financial instruments	**–**	213	–
Cash and cash equivalents	**8,238**	1,832	5,525
	62,146	61,257	72,168
Total assets	**206,541**	212,902	219,818
LIABILITIES			
Current liabilities			
Trade and other payables	**(41,596)**	(47,107)	(51,322)
Financial liabilities – borrowings	**–**	–	(5,000)
Financial liabilities – finance leases	**(288)**	(196)	(181)
Current tax liabilities	**(1,560)**	(1,031)	(1,422)
	(43,444)	(48,334)	(57,925)
Non-current liabilities			
Retirement benefit obligations	**(13,670)**	(11,179)	(12,533)
Financial liabilities – finance leases	**(679)**	(108)	(25)
Deferred tax liabilities	**(4,858)**	(8,229)	(5,937)
	(19,207)	(19,516)	(18,495)
Total liabilities	**(62,651)**	(67,850)	(76,420)
NET ASSETS	**143,890**	145,052	143,398
EQUITY			
Share capital	**7,437**	7,437	7,437
Share premium	**85,702**	85,702	85,702
Other reserves	**951**	689	770
Retained earnings	**49,800**	51,224	49,489
TOTAL EQUITY	**143,890**	145,052	143,398

Consolidated statement of changes in equity

	Share capital £000	Share premium £000	Other reserves £000	Retained earnings £000	Total equity £000
At 1 April 2014	7,437	85,702	770	49,489	143,398
Profit for the period (attributable to equity holders of the parent)	–	–	–	1,417	1,417
Equity settled share-based payments	–	–	181	–	181
Actuarial loss on defined benefit pension scheme	–	–	–	(1,382)	(1,382)
Deferred income taxes on defined benefit pension scheme	–	–	–	276	276
At 30 September 2014 (unaudited)	7,437	85,702	951	49,800	143,890

	Share capital £000	Share premium £000	Other reserves £000	Retained earnings £000	Total equity £000
At 1 April 2013	2,231	46,152	527	53,491	102,401
Loss for the period (attributable to equity holders of the parent)	–	–	–	(2,535)	(2,535)
Proceeds from shares issued	5,206	39,550	–	–	44,756
Equity settled share-based payments	–	–	162	–	162
Actuarial gain on defined benefit pension scheme	–	–	–	335	335
Deferred income taxes on defined benefit pension scheme	–	–	–	(67)	(67)
At 30 September 2013 (unaudited)	7,437	85,702	689	51,224	145,052

	Share capital £000	Share premium £000	Other reserves £000	Retained earnings £000	Total equity £000
At 1 April 2013	2,231	46,152	527	53,491	102,401
Loss for the period (attributable to equity holders of the parent)	–	–	–	(2,640)	(2,640)
Proceeds from shares issued	5,206	39,550	–	–	44,756
Equity settled share-based payments	–	–	243	–	243
Actuarial loss on defined benefit pension scheme	–	–	–	(1,261)	(1,261)
Deferred income taxes on defined benefit pension scheme	–	–	–	(101)	(101)
At 31 March 2014 (audited)	7,437	85,702	770	49,489	143,398

The prior year movements in share capital and share premium reflect the 7:3 rights issue of 208,252,511 new ordinary shares at 23p per share which was approved by shareholders on 18 March 2013. The rights issue completed on 5 April 2013, with the Group receiving net proceeds of £44,756,000 consisting of gross proceeds of £47,898,000 offset by transaction costs of £3,142,000.

Consolidated cash flow statement

	Six months ended 30 September 2014 (unaudited) £000	Six months ended 30 September 2013 (unaudited) £000	Year ended 31 March 2014 (audited) £000
Net cash flow from operating activities	**8,056**	56	2,522
Cash flows from investing activities			
Proceeds on disposal of property, plant and equipment	**4,089**	581	746
Purchases of property, plant and equipment	**(2,296)**	(513)	(2,218)
Investment in JVs and associates	**(1,700)**	(1,700)	(3,538)
Net cash generated from/(used in) investing activities	**93**	(1,632)	(5,010)
Cash flows from financing activities			
Interest paid	**(297)**	(462)	(759)
Repayment of obligations under finance leases	**(139)**	(96)	(194)
New borrowings	**–**	–	5,000
Repayment of borrowings	**(5,000)**	(41,461)	(41,461)
Proceeds from shares issued	**–**	44,756	44,756
Net cash (used in)/ generated from financing activities	**(5,436)**	2,737	7,342
Net increase in cash and cash equivalents	**2,713**	1,161	4,854
Cash and cash equivalents at beginning of period	**5,525**	671	671
Cash and cash equivalents at end of period	**8,238**	1,832	5,525

Notes to the condensed consolidated interim financial information

1) General information

The Company is a limited liability company, incorporated and domiciled in the UK. The address of its registered office is Severs House, Dalton Airfield Industrial Estate, Dalton, Thirsk, North Yorkshire, YO7 3JN.

The Company is listed on the London Stock Exchange.

The condensed consolidated interim financial information does not constitute the statutory financial statements of the Group within the meaning of section 434 of the Companies Act 2006. The statutory financial statements for the year ended 31 March 2014 were approved by the board of directors on 11 July 2014 and have been delivered to the registrar of companies. The report of the auditor on those financial statements was unqualified, did not draw attention to any matters by way of emphasis and did not contain any statement under section 498 of the Companies Act 2006.

The condensed consolidated interim financial information for the six months ended 30 September 2014 has been reviewed, not audited, and was approved for issue by the board of directors on 24 November 2014.

2) Basis of preparation

The condensed consolidated interim financial information for the six months ended 30 September 2014 has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union. The condensed consolidated interim financial information should be read in conjunction with the statutory financial statements for the year ended 31 March 2014 which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. During the period the Group classified the expenses in the income statement by their nature; in prior periods these were classified by their function.

In determining whether the Group's condensed consolidated interim financial information 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.

Having considered all the factors impacting the Group's business, including certain downside sensitivities, the directors are satisfied that the Group will be able to operate within the terms and conditions of the Group financing facilities for the foreseeable future.

3) Accounting policies

Except as described below, the accounting policies applied in preparing the condensed consolidated interim financial information are consistent with those used in preparing the statutory financial statements for the year ended 31 March 2014.

Taxes on profits in interim periods are accrued using the tax rate that will be applicable to expected total annual profits.

New and amended standards and interpretations need to be adopted in the first interim financial statements issued after their effective date (or date of early adoption). The following new standards, amendments and interpretations were effective for the first time during the six months ended 30 September 2014:

- IFRS 10, 'Consolidated Financial Statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. It also provides additional guidance to assist in the determination of control where this is difficult to assess. There is no material impact on the Group as a result of applying this standard.
- IFRS 11, 'Joint Arrangements' gives a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. Investments in joint arrangements are classified either as joint operations or joint ventures. The Group's interest in its jointly controlled entity, JSW Severfield Structures, was previously accounted for using the equity method of accounting. Under IFRS 11, the jointly controlled entity has been assessed to be a joint venture and so the equity method remains appropriate.
- IFRS 12, 'Disclosures of Interests in Other Entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. There is no material impact on the Group as a result of applying this standard.

Other amendments to IFRSs effective for the financial year ending 31 March 2015 are not expected to have a material impact on the Group.

Notes to the condensed consolidated interim financial information continued

4) Risks and uncertainties

The principal risks and uncertainties which could have a material impact upon the Group's performance over the remaining six months of the year ending 31 March 2015 have not changed significantly from those disclosed on pages 40–43 of the strategic report included in the Annual Report for the year ended 31 March 2014 which is available on the Company's website www.severfield.com. These risks and uncertainties include, but are not limited to:

- the commercial and market environment within which the Group operates;
- reliance on key skills and personnel within our workforce;
- interruption to steel fabrication facilities;
- the Indian joint venture;
- health and safety; and
- information technology.

5) Segmental analysis

Revenue, profit before tax, and net assets all relate to the design, fabrication, and construction of structural steelwork and related activities. All of the Group's subsidiary businesses have similar products and services, production processes, types of customer, methods of distribution, regulatory environments, and economic characteristics. The Group has one reported segment (construction contracts).

Revenue, which relates wholly to construction contracts and related assets in both years originated from the United Kingdom.

There has been no change in the basis of segmentation or in the basis of measurement of segment profit or loss in the period.

6) Seasonality

There are no particular seasonal variations which impact the split of revenue between the first and second half of the financial year. Underlying movements in contract timing and phasing, which are an on going feature of the business, will continue to drive moderate fluctuations in half yearly revenues.

7) Other items

	Six months ended 30 September 2014 £000	Six months ended 30 September 2013 £000	Year ended 31 March 2014 £000
Amortisation of acquired intangible assets	**(1,310)**	(1,374)	(2,748)
Restructuring and redundancy costs	**–**	(2,611)	(2,611)
Retirement of acquired intangible asset	**–**	–	(2,370)
Impairment of investment in associates	**–**	(354)	(353)
Valuation of derivative financial instruments	**–**	213	–
Other items before tax	**(1,310)**	(4,126)	(8,082)
Tax on other items	**262**	754	2,844
Other items after tax	**(1,048)**	(3,372)	(5,238)

Restructuring and redundancy costs in the prior year arose on the reorganisation of the Group's largest businesses (Severfield-Rowen Structures and Watson Steel Structures) which commenced trading as a single entity, Severfield-Watson Structures, from January 2013. In May 2013, a further reorganisation of Severfield-Watson Structures was announced, resulting in the reduction in factory capacity by approximately ten per cent and a reduction in headcount of 84 people. On 30 May 2014, Severfield-Watson Structures changed its name to Severfield (UK).

The retirement in the prior year of the acquired intangible asset for the Fisher Engineering brand arose following the rebranding exercise undertaken by the Group.

8) Taxation

The income tax expense reflects the estimated underlying effective tax rate of 17 per cent (2013: 20 per cent) on profit before taxation for the Group for the year ending 31 March 2015.

9) Dividends

The directors have not declared an interim dividend for the six months ended 30 September 2014.

No dividends were either paid or declared for the year ended 31 March 2014.

Notes to the condensed consolidated interim financial information continued

10) Earnings per share

Earnings per share is calculated as follows:

	Six months ended 30 September 2014 £000	Six months ended 30 September 2013 £000	Year ended 31 March 2014 £000
Earnings for the purposes of basic earnings per share being net profit/(loss) attributable to equity holders of the parent company	**1,417**	(2,535)	(2,640)
Earnings for the purposes of underlying basic earnings per share being underlying net profit attributable to equity holders of the parent company	**2,465**	837	2,598
Number of shares	**Number**	Number	Number
Weighted average number of ordinary shares for the purposes of basic earnings per share	**297,503,587**	294,089,611	295,791,922
Effect of dilutive potential ordinary shares and under share plans	**–**	–	–
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**297,503,587**	294,089,611	295,791,922

On completion of the rights issue on 5 April 2013 the number of ordinary shares in issue increased from 89,251,076 to 297,503,587.

	Six months ended 30 September 2014	Six months ended 30 September 2013	Year ended 31 March 2014
Basic earnings per share	**0.48p**	(0.86p)	(0.89p)
Underlying basic earnings per share	**0.83p**	0.28p	0.88p
Diluted earnings per share	**0.48p**	(0.86p)	(0.89p)
Underlying diluted earnings per share	**0.83p**	0.28p	0.88p

11) Property, plant and equipment

During the period the Group acquired property, plant and equipment of £3,196,000, including assets of £900,000 held under finance leases. The Group also disposed of its sole investment property in Leeds for a consideration of £3,786,000, after deducting transaction costs, resulting in a loss on disposal of £74,000. In addition, certain other assets were sold for £303,000 resulting in a profit on disposal of £9,000.

12) Net funds

The Group's net funds are as follows:

	At 30 September 2014 £000	At 30 September 2013 £000	At 31 March 2014 £000
Cash and cash equivalents	**8,238**	1,832	5,525
Financial liabilities – borrowings	**–**	–	(5,000)
Financial liabilities – finance leases	**(967)**	(304)	(206)
Net funds	**7,271**	1,528	319

On 31 October 2014, the Group entered into a new £25m revolving credit facility ('RCF') with HSBC Bank plc and Yorkshire Bank (a member of the National Australia Bank group) which matures in July 2019 and cancelled the existing RCF facility with Royal Bank of Scotland plc and Yorkshire Bank which was due to expire in November 2016.

The new facility includes an accordion facility of £20m, which allows the Group to increase the aggregate available borrowings to £45m, at the Group's request. The new facility is subject to certain covenants, similar to those previously in place, including the cover of interest costs and the ratio of net debt to EBITDA.

Notes to the condensed consolidated interim financial information continued

13) Fair value disclosures

The Group's financial instruments consist of borrowings, cash, 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.

Derivative financial instruments are the only instruments valued at fair value through profit or loss, and are valued as such on initial recognition. These are 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.

The fair values of the Group's derivative financial instruments which are marked-to-market and recorded in the balance sheet were as follows:

	At 30 September 2014 £000	At 30 September 2013 £000	At 31 March 2014 £000
Assets			
Foreign exchange contracts	**–**	213	–

14) Net cash flow from operating activities

	Six months ended 30 September 2014 £000	Six months ended 30 September 2013 £000	Year ended 31 March 2014 £000
Operating profit/(loss) from continuing operations	**2,009**	(2,501)	(3,499)
Adjustments:			
Depreciation of property, plant and equipment	**1,811**	1,801	3,581
Depreciation of investment property	**10**	20	40
Loss/(gain) on disposal of property, plant and equipment	**65**	(84)	(96)
Amortisation of intangible assets	**1,379**	1,443	2,885
Retirement of acquired intangible asset	**–**	–	2,370
Movements in pension scheme liabilities	**(245)**	(297)	(539)
Share of results of JVs and associates	**257**	1,679	3,391
Share-based payments	**181**	162	243
Movement in valuation of derivatives	**–**	(213)	–
Operating cash flows before movements in working capital	**5,467**	2,010	8,376
Decrease in inventories	**981**	1,564	2,372
Decrease in receivables	**11,004**	19,037	10,798
Decrease in payables	**(8,976)**	(23,570)	(19,433)
Cash generated from/(used in) operations	**8,476**	(959)	2,113
Tax (paid)/received	**(420)**	1,015	409
Net cash flow from operating activities	**8,056**	56	2,522

Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less.

Notes to the condensed consolidated interim financial information continued

15) Related party transactions

There have been no changes in the nature of related party transactions as described in note 31 on page 120 of the Annual Report for the year ended 31 March 2014 and there have been no new related party transactions which have had a material effect on the financial position or performance of the Group in the six months ended 30 September 2014.

During the period the Group provided services in the ordinary course of business to its Indian joint venture, JSW Severfield Structures, and invested in it a further £1,700,000 of equity. The Group's share of the retained loss in JVs and associates of £257,000 for the period is solely in respect of the Indian joint venture.

16) Cautionary statement

The Interim Management Report ('IMR') has been prepared solely to provide additional information to shareholders to assess the Group's strategies and the potential for those strategies to succeed. The IMR should not be relied on by any other party or for any other purpose.

The IMR contains certain forward-looking statements. These statements are made by the directors in good faith based on the information available to them up to the time of their approval of this report but such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

17) Statement of directors' responsibilities

The directors confirm that, to the best of their knowledge, the condensed consolidated interim financial information has been prepared in accordance with IAS 34 as adopted by the European Union, and that the interim report includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R, namely:

- an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed consolidated interim financial information, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related party transactions that have occurred in the first six months of the financial year and any material changes in the related party transactions described in the last annual report and financial statements.

The current directors of Severfield plc are listed in the Annual Report for the year ended 31 March 2014 ('the 2014 Annual Report'). Except as disclosed in the 2014 Annual Report there have been no changes in directors during the six months ended 30 September 2014.

The maintenance and integrity of the Severfield plc website is the responsibility of the directors; the work carried out by the auditor does not involve consideration of these matters and, accordingly, the auditor accepts no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the board

Ian Lawson
Director
24 November 2014

Alan Dunsmore
Director
24 November 2014

Independent review report to Severfield plc

We have been engaged by the Company to review the condensed consolidated interim financial information in the interim report for the six months ended 30 September 2014 which comprises the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement and the related notes 1 to 17. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated interim financial information.

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the Company those matters we are required to state to it in an independent review 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, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The interim report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed consolidated interim financial information included in this interim report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting," as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed consolidated interim financial information in the interim report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial information in the interim report for the six months ended 30 September 2014 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

Deloitte LLP
Chartered Accountants and Statutory Auditor
Newcastle, United Kingdom
24 November 2014

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