
Severfield

**Interim report** for the six months ended 30 September 2015
• **Stock code:** SFR • www.severfield.com

# Building a solid platform for growth

# 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

### Kevin Whiteman
Senior independent director

### Tony Osbaldiston
Non-executive director

### Alun Griffiths
Non-executive director

### Chris Holt
Non-executive director

### Secretary and registered office

**Mark Sanderson**
Severs House
Dalton Airfield Industrial Estate,
Dalton, Thirsk,
North Yorkshire, YO7 3JN

### Registered number
1721262

Registered in England and Wales

### Auditor
KPMG LLP
Chartered Accountants
1 Sovereign Square
Leeds, LS1 4DA

### Solicitors
Ashurst LLP
Broadwalk House
5 Appold Street
London, EC2A 2HA

### Stockbrokers
Jefferies International Limited
Vintners Place
68 Upper Thames Street
London, EC4V 3BJ

### Registrars
Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol, BS13 8AE

### Public relations
Bell Pottinger
6th Floor, Holborn Gate
330 High Holborn
London, WC1V 7QD

### Bankers
HSBC Bank plc
Maingate
Kingsway North
Team Valley Trading Estate
Gateshead, NE11 0BE

National Australia Bank Limited
(Yorkshire Bank)
94 Albion Street
Leeds, LS1 6AG

# Highlights

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

**£5.0m**

2014: £3.6m

**Revenue**

**£117.1m**

2014: £97.4m

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

**4.3%**

2014: £3.7%

**Operating profit (before JVs and associates)**

**£3.4m**

2014: £2.3m

**Underlying* profit before tax**

**£4.8m**

2014: £3.0m

**Profit after tax**

**£2.6m**

2014: £1.4m

**Underlying* basic earnings per share**

**1.32p**

2014: 0.83p

- Revenue up 20% to £117.1m (2014: £97.4m)
- Underlying* profit before tax of £4.8m (2014: £3.0m)
- Improvement in UK underlying* operating margin (before JVs and associates) year-on-year to 4.3% (2014: 3.7%)
- Continued focus on tendering and operational processes, reflected in increased margin
- Over 80 projects undertaken during the period in key market sectors:
  - Core construction: office developments, stadia, warehouses and distribution centres; and
  - Core infrastructure: transport
- Share of losses from Indian joint venture of £0.1m (2014: £0.3m), reflecting good production levels, stronger mix and continued operational improvements
- Strong first half cash performance, resulting in net funds of £13.1m (2014: £7.3m)
- UK order book of £185m at 1 November 2015 (1 June 2015: £194m)
- India order book of £35m at 1 November 2015 (1 June 2015: £38m)
- Post period-end, in November 2015, a 50% investment was completed in metal decking manufacturer Composite Metal Flooring Limited
- Interim dividend of 0.5p per share (2014: nil)

* Underlying results are stated before non-underlying items of £1.6m (2014: £1.3m):
  - Amortisation of acquired intangible assets – £1.3m (2014: £1.3m)
  - Valuation of derivative financial instruments – £0.3m adverse (2014: £nil)
  - The associated tax impact of the above.

# Interim statement 2015

## Introduction

The first six months of the year have seen a return to revenue growth for the Group, continued improvement in operating margins on a year-on-year basis, and strong cash generation. The UK market continues to provide a good pipeline of opportunities which will enable the Group to maintain its growth objectives.

Further progress has also been made in implementing the Group's strategy, part of which was the completion, post period-end on 16 November, of a 50% investment in Composite Metal Flooring ('CMF') Limited, a manufacturer of metal decking used in many of our construction projects.

The performance of the Indian joint venture has been steady in a relatively weak market. The Indian market continues to be somewhat challenging but the order book remains at a good level and factory production is at satisfactory levels.

## Financials

The Group's financial performance for the first six months of the financial year reflects the anticipated return to growth enabled by an improving UK market, continuing operating margin improvement on a year-on-year basis, resulting from the Group's operational improvement programme, and steady year-on-year performance from the Indian joint venture.

Revenue of £117.1m is 20% higher than £97.4m achieved last year, reflecting the higher order book coming into the financial year and an improving UK market. Underlying operating profit before results of JVs and associates of £5.0m (2014: £3.6m) represents a margin of 4.3% (2014: 3.7%) which continues the improving trajectory from the Group's operational improvement programme, which is benefiting all aspects of our tendering and execution processes.

The underlying share of results of JVs and associates is a loss of £0.1m (2014: £0.3m), which reflects steady production levels in the Indian factory and higher operating margins of 7.4% compared with the prior year level of 4.3%.

The Group's underlying operating profit after share of results of JVs and associates is £4.9m (2014: £3.3m) and underlying profit before tax is £4.8m (2014: £3.0m).

Non-underlying items in the period include the amortisation of intangible assets of £1.3m (2014: £1.3m) and adverse movements in the valuation of derivative financial instruments of £0.3m (2014: £nil). These are classified as non-underlying as they do not form part of the profit monitored in the ongoing management of the Group.

The underlying tax rate for the first half of the year of 17.0% (2014: 17.0%) is the estimated effective tax rate for the year ending 31 March 2016.

The statutory profit before tax, which includes both underlying and non-underlying items, is £3.2m (2014: £1.7m). The statutory profit after tax is £2.6m (2014: £1.4m) and has been transferred to reserves.

Underlying basic earnings per share is 1.32p (2014: 0.83p). This calculation is based on the underlying profit after tax of £3.9m and 297,503,587 shares, being the weighted average number of shares in issue during the period. Basic earnings per share, which is based on the statutory profit after tax, is 0.89p (2014: 0.48p). 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 2015 were £13.1m, which is an improvement of £6.7m from the year-end position of £6.4m. Net cash flow from operating activities in the period was £10.9m, which included a working capital improvement of £4.2m. This was helped by slightly favourable contract receipts at the period-end.

Capital expenditure of £3.1m (2014: £2.3m) represents the continuation of the Group's capital investment programme. This included further new equipment for our fabrication lines in Dalton, Lostock and Enniskillen, additional mobile equipment for use on our construction sites and continued investment in Seversafe trailer and edge protection systems. Depreciation in the period was £1.9m (2014: £1.8m).

The Group has a £25m borrowing facility with National Australia Bank and HSBC, with an accordion facility of a further £20m available at the Group's request, and is available until July 2019. There are two key financial covenants, with net debt:EBITDA of < 2.5x, and interest cover of > 4x.

## Dividend

As part of the Group's commitment to a progressive dividend policy, an interim dividend of 0.5p per share was declared on 24 November 2015 and will be paid on 15 January 2016 to shareholders on the register on 18 December 2015.

## UK

The Group's main activities are unchanged and consist of the design, fabrication and construction of structural steel for construction projects. The Group worked on over 80 projects in the period. These include: commercial office buildings in London for a variety of clients (including Principal Place, One Angel Court, Nova Victoria, New Street Square and 3 Pancras Square), a continuing wide range of warehouses and distribution centres, the redevelopment of Anfield Stadium for Liverpool FC, station redevelopments, several road and rail bridges, waste facilities and UK-based data centres.

The return to revenue growth in the period at the rate of 20% reflects the continuing success of the business in a slightly stronger UK market. The order book at 1 November of £185m includes a good balance of small and medium sized projects covering many of our key market sectors. Significant new contracts won in the period include London commercial office developments at Kings Cross and Hanover Square, industrial and distribution projects for DHL, BAE Systems and Jaguar Land Rover, the Port of Liverpool biomass terminal (power and energy) and the Victoria and Albert Museum in Dundee. There remains a strong pipeline of opportunities for the Group, albeit a number of larger projects the Group has bid for in the last six months, including three strong prospects worth collectively >£100m, have been subject to material delays or in one case cancellation, as the availability of funding and cost concerns have affected such projects before they convert to orders.

# Interim statement 2015 continued

The ongoing focus on all aspects of internal operations means that the growth being achieved is delivering higher operating margins, with 4.3% being achieved in the period, up from 3.7% last year. Improvements continue to be made to our tendering processes, production efficiencies, other operational processes and effective site execution to enable further margin improvements whilst delivering better value to clients. This improvement programme includes further investment in our factories and construction site plant and equipment, coupled with systems improvement and greater levels of staff training and development. This programme of investment and improving margins will also help increase the Group's return on capital employed from the level of 6.1% in the last financial year towards the target of 10%.

On 16 November, the Group completed its investment in a 50% share of CMF Limited. CMF is a manufacturer of metal decking which is used extensively in construction projects which the Group delivers to clients. CMF is an existing supplier to the Group but following this investment all of the Group's metal decking requirements will come from CMF. The initial consideration for the investment is £4.0m and a further £2.5m is payable over the next five years subject to certain conditions. This investment is another step in the implementation of the Group's strategy and will strengthen the Group's supply chain as well as enabling it to extract greater value from its existing activities.

In line with our strategic intent to secure a greater proportion of the infrastructure sector, the bridge team recruited by the Group from Mabey Bridge are now fully on board and settling in well. A good pipeline of work is being developed already and some projects have already been secured directly by this new team. Consideration is now being given to some factory improvements in order to support the full range of bridge activity which the Group could take in the future. Given the continuing importance of infrastructure investment in the UK, this will remain an important development area for the Group.

The remedial works programme on the Leadenhall building continues to progress in line with planned costs and timescales. Discussions continue between all parties involved to establish where final liability for the remedial works should rest.

Health and safety remains at the centre of everything the Group does. During the period, we started to roll out an extensive behavioural safety training and awareness programme. This will continue over the rest of the year and into next year and it is hoped this will have a significant and lasting benefit on the safety culture within the business. In addition, this year we have instigated director safety tours and, to date, we have undertaken over 80 of these across the Group. This allows our directors and senior management teams to demonstrate how important our safety culture is to them and allows our workforce to directly raise any concerns.

We have engaged with a dynamic lifting consultancy to train all of our factory employees and this has significantly improved our reportable accident rate regarding manual handling (we have had zero since we commenced this programme). We aim to extend the programme to all sites in December 2015.

Our work commonly involves work at height in high population density areas and to protect our workforce, other workers on site and the general public, we have instigated a bespoke safety netting system on our high risk sites. Within our factories we have nearly completed our traffic management upgrades and our lighting upgrades to save energy and improve working conditions.

## India

The performance of the Indian joint venture remained steady in the period and although production volumes of 18,000 tonnes were slightly below last year's level of 23,000 tonnes, this was primarily because of the mix of work being delivered. There was a slightly stronger commercial mix in the period compared to last year, which is illustrated by the operating margin of 7.4% being notably higher than last year's 4.3%. The order book has remained steady at £35m and projects undertaken during the period included key developments for companies such as Intel, NetApp, Godrej and Doosan. The cost of financing the JV's borrowings remains high and turned this operating margin into a small loss, of which the Group reports a 50% share.

## Outlook

Whilst we retain an element of caution around the strong UK pipeline and how quickly it will convert to orders, the outlook remains generally good in the short and medium term and provides confidence that the Group can achieve its growth expectations. The benefits of the ongoing operational improvement and investment programme will continue to support further margin progression alongside revenue growth.

The Indian joint venture is showing greater stability and is expected to maintain this, whilst the wider construction market starts to improve and steel becomes a more widely established alternative to concrete in this market. This remains a medium to long term objective.

I would like to take this opportunity to thank our people once again for all their effort and support over the past six months.

Overall, the Group's performance is expected to continue improving, supporting good cash generation which in turn will support investment, further implementation of its strategy, and dividend progression.

**Ian Lawson**
Chief Executive Officer

# Condensed consolidated interim financial information
# Consolidated income statement

| | Six months ended 30 September 2015 (unaudited) | | |
|---|---|---|---|
| | Before other items £000 | Other items[1] £000 | Total £000 |
| **Revenue** | 117,061 | — | 117,061 |
| Operating costs | (112,016) | (1,604) | (113,620) |
| **Operating profit before share of results of JVs and associates** | 5,045 | (1,604) | 3,441 |
| Share of results of JVs and associates | (149) | — | (149) |
| **Operating profit** | 4,896 | (1,604) | 3,292 |
| Finance expense | (139) | — | (139) |
| **Profit/(loss) before tax** | 4,757 | (1,604) | 3,153 |
| Tax | (834) | 321 | (513) |
| **Profit for the period** | 3,923 | (1,283) | 2,640 |
| **Earnings per share:** | | | |
| Basic | 1.32p | (0.43p) | 0.89p |
| Diluted | 1.32p | (0.43p) | 0.89p |

[1] Further details of other items are disclosed in note 7 to the condensed consolidated interim financial information.

| Six months ended 30 September 2014 (unaudited) | | | Year ended 31 March 2015 (audited) | | |
|---|---|---|---|---|---|
| Before other items £000 | Other items[1] £000 | Total £000 | Before other items £000 | Other items[1] £000 | Total £000 |
| 97,414 | — | 97,414 | 201,535 | — | 201,535 |
| (93,838) | (1,310) | (95,148) | (192,561) | (8,502) | (201,063) |
| 3,576 | (1,310) | 2,266 | 8,974 | (8,502) | 472 |
| (257) | — | (257) | (213) | — | (213) |
| 3,319 | (1,310) | 2,009 | 8,761 | (8,502) | 259 |
| (297) | — | (297) | (450) | — | (450) |
| 3,022 | (1,310) | 1,712 | 8,311 | (8,502) | (191) |
| (557) | 262 | (295) | (1,449) | 1,784 | 335 |
| 2,465 | (1,048) | 1,417 | 6,862 | (6,718) | 144 |
| 0.83p | (0.35p) | 0.48p | 2.31p | (2.26p) | 0.05p |
| 0.83p | (0.35p) | 0.48p | 2.31p | (2.26p) | 0.05p |

# Consolidated statement of comprehensive income

| | **Six months ended 30 September 2015 (unaudited) £000** | Six months ended 30 September 2014 (unaudited) £000 | Year ended 31 March 2015 (audited) £000 |
|---|---|---|---|
| Remeasurement gain/(loss) on defined benefit pension scheme* | **1,674** | (1,382) | (4,471) |
| Tax relating to components of other comprehensive income* | **(335)** | 276 | 1,033 |
| **Other comprehensive income for the period** | **1,339** | (1,106) | (3,438) |
| Profit for the period from continuing operations | **2,640** | 1,417 | 144 |
| **Total comprehensive income for the period attributable to equity shareholders of the parent** | **3,979** | 311 | (3,294) |

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

# Consolidated balance sheet

| | At 30 September 2015 (unaudited) £000 | At 30 September 2014 (unaudited) £000 | At 31 March 2015 (audited) £000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Goodwill | **54,712** | 54,712 | 54,712 |
| Other intangible assets | **5,709** | 8,466 | 7,088 |
| Property, plant and equipment | **77,608** | 75,219 | 76,606 |
| Interests in JVs and associates | **4,653** | 4,758 | 4,802 |
| Deferred tax asset | **1,090** | 1,240 | 1,870 |
| | **143,772** | 144,395 | 145,078 |
| **Current assets** | | | |
| Inventories | **4,782** | 4,861 | 4,767 |
| Trade and other receivables | **56,975** | 49,047 | 64,530 |
| Derivative financial instruments | **—** | — | 118 |
| Cash and cash equivalents | **13,555** | 8,238 | 6,884 |
| | **75,312** | 62,146 | 76,299 |
| **Total assets** | **219,084** | 206,541 | 221,377 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | **(55,341)** | (41,596) | (58,406) |
| Financial liabilities – finance leases | **(180)** | (288) | (205) |
| Derivative financial instruments | **(176)** | — | — |
| Current tax liabilities | **(1,536)** | (1,560) | (1,123) |
| | **(57,233)** | (43,444) | (59,734) |
| **Non-current liabilities** | | | |
| Retirement benefit obligations | **(14,526)** | (13,670) | (16,477) |
| Financial liabilities – finance leases | **(499)** | (679) | (589) |
| Deferred tax liabilities | **(3,225)** | (4,858) | (3,993) |
| | **(18,250)** | (19,207) | (21,059) |
| **Total liabilities** | **(75,483)** | (62,651) | (80,793) |
| **NET ASSETS** | **143,601** | 143,890 | 140,584 |
| **EQUITY** | | | |
| Share capital | **7,437** | 7,437 | 7,437 |
| Share premium | **85,702** | 85,702 | 85,702 |
| Other reserves | **1,775** | 951 | 1,250 |
| Retained earnings | **48,687** | 49,800 | 46,195 |
| **TOTAL EQUITY** | **143,601** | 143,890 | 140,584 |

# Consolidated statement of changes in equity

| | Share capital £000 | Share premium £000 | Other reserves £000 | Retained earnings £000 | Total equity £000 |
|---|---|---|---|---|---|
| At 1 April 2015 | **7,437** | **85,702** | **1,250** | **46,195** | **140,584** |
| Profit for the period (attributable to equity holders of the parent) | **—** | **—** | **—** | **2,640** | **2,640** |
| Dividends paid | **—** | **—** | **—** | **(1,487)** | **(1,487)** |
| Equity settled share-based payments | **—** | **—** | **525** | **—** | **525** |
| Remeasurement gain on defined benefit pension scheme | **—** | **—** | **—** | **1,674** | **1,674** |
| Tax relating to components of other comprehensive income | **—** | **—** | **—** | **(335)** | **(335)** |
| **At 30 September 2015 (unaudited)** | **7,437** | **85,702** | **1,775** | **48,687** | **143,601** |

| | 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 |
| Remeasurement loss on defined benefit pension scheme | — | — | — | (1,382) | (1,382) |
| Tax relating to components of other comprehensive income | — | — | — | 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 2014 | 7,437 | 85,702 | 770 | 49,489 | 143,398 |
| Profit for the year (attributable to equity holders of the parent) | — | — | — | 144 | 144 |
| Equity settled share-based payments | — | — | 480 | — | 480 |
| Remeasurement loss on defined benefit pension scheme | — | — | — | (4,471) | (4,471) |
| Tax relating to components of other comprehensive income | | — | — | 1,033 | 1,033 |
| **At 31 March 2015 (audited)** | 7,437 | 85,702 | 1,250 | 46,195 | 140,584 |

# Consolidated cash flow statement

| | **Six months ended 30 September 2015 (unaudited) £000** | Six months ended 30 September 2014 (unaudited) £000 | Year ended 31 March 2015 (audited) £000 |
|---|---|---|---|
| **Net cash flow from operating activities** | **10,924** | 8,056 | 10,446 |
| **Cash flows from investing activities** | | | |
| Proceeds on disposal of property, plant and equipment | **505** | 4,089 | 4,434 |
| Purchases of property, plant and equipment | **(3,078)** | (2,296) | (5,727) |
| Investment in JVs and associates | **—** | (1,700) | (1,700) |
| **Net cash (used in)/generated from investing activities** | **(2,573)** | 93 | (2,993) |
| **Cash flows from financing activities** | | | |
| Interest paid | **(78)** | (297) | (782) |
| Dividends paid | **(1,487)** | — | — |
| Repayment of obligations under finance leases | **(115)** | (139) | (312) |
| Repayment of borrowings | **—** | (5,000) | (5,000) |
| **Net cash used in financing activities** | **(1,680)** | (5,436) | (6,094) |
| **Net increase in cash and cash equivalents** | **6,671** | 2,713 | 1,359 |
| **Cash and cash equivalents at beginning of period** | **6,884** | 5,525 | 5,525 |
| **Cash and cash equivalents at end of period** | **13,555** | 8,238 | 6,884 |

# Notes to the condensed consolidated interim financial information

## 1. General information

Severfield plc ('the Company') is a 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 435 of the Companies Act 2006. The statutory financial statements for the year ended 31 March 2015 were approved by the board of directors on 17 June 2015 and have been delivered to the registrar of companies. The report of the auditors 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 2015 has been reviewed, not audited, and was approved for issue by the board of directors on 23 November 2015.

## 2. Basis of preparation

The condensed consolidated interim financial information for the six months ended 30 September 2015 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 year ended 31 March 2015, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

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 2015.

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

## 3. Accounting policies continued

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).

There are no new IFRSs or IFRICs that are effective for the first time for the six months ended 30 September 2015 which have a material impact on the Group.

## 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 2016 have not changed significantly from those disclosed on pages 44 to 49 of the strategic report included in the annual report for the year ended 31 March 2015, 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

The Group has identified its operating segments as those upon which the executive committee (the chief operating decision maker) regularly assesses performance. The Group has deemed it appropriate to aggregate its operating segments into one reported segment (construction contracts). The constituent operating segments have been aggregated as they have businesses with similar products and services, production processes, types of customer, methods of distribution, regulatory environments and economic characteristics.

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 ongoing feature of the business, will continue to drive moderate fluctuations in half yearly revenues.

# Notes to the condensed consolidated interim financial information continued

## 7. Other items

| | **Six months ended 30 September 2015 £000** | Six months ended 30 September 2014 £000 | Year ended 31 March 2015 £000 |
|---|---|---|---|
| Amortisation of acquired intangible assets | **(1,310)** | (1,310) | (2,620) |
| Movements in the valuation of derivative financial instruments | **(294)** | — | 118 |
| Contract remedial costs | **—** | — | (6,000) |
| **Other items before tax** | **(1,604)** | (1,310) | (8,502) |
| Tax on other items | **321** | 262 | 1,784 |
| **Other items after tax** | **(1,283)** | (1,048) | (6,718) |

The contract remedial costs in the prior year related to a programme of bolt replacement works at the Leadenhall building, a contract that was completed in 2013. They were treated as non-underlying costs in accordance with the Group's stated policy. The programme to which they relate is being undertaken in conjunction with British Land, Laing O'Rourke and Arup and is likely to continue until the end of the 2015 calendar year. The liability of the Group and the other parties for the programme costs has not yet been determined and, therefore, the charge represented certain costs incurred at the prior year-end, together with management's best estimate of the remaining cost to the Group. This was based on the current requirements of the programme and before taking account of potential future recoveries, as these cannot be recognised under IFRS.

## 8. Taxation

The income tax expense reflects the estimated underlying effective tax rate of 17.0% (2014: 17.0%) on profit before taxation for the Group for the year ending 31 March 2016.

## 9. Dividends

| | **Six months ended 30 September 2015 £000** | Six months ended 30 September 2014 £000 | Year ended 31 March 2015 £000 |
|---|---|---|---|
| 2015 final – 0.5p per share | **(1,487)** | — | — |

The directors have declared an interim dividend in respect of the six months ended 30 September 2015 of 0.5p per share (2014: £nil), which will amount to an estimated dividend payment of £1,487,000 (2014: £nil). This dividend is not reflected in the balance sheet as it will be paid after the balance sheet date.

## 10. Earnings per share

Earnings per share is calculated as follows:

| | **Six months ended 30 September 2015 £000** | Six months ended 30 September 2014 £000 | Year ended 31 March 2015 £000 |
|---|---|---|---|
| Earnings for the purposes of basic earnings per share being net profit attributable to equity holders of the parent company | **2,640** | 1,417 | 144 |
| Earnings for the purposes of underlying basic earnings per share being underlying net profit attributable to equity holders of the parent company | **3,923** | 2,465 | 6,862 |
| **Number of shares** | **Number** | Number | Number |
| Weighted average number of ordinary shares for the purposes of basic earnings per share | **297,503,587** | 297,503,587 | 297,503,587 |
| 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** | 297,503,587 | 297,503,587 |

| | **Six months ended 30 September 2015** | Six months ended 30 September 2014 | Year ended 31 March 2015 |
|---|---|---|---|
| Basic earnings per share | **0.89p** | 0.48p | 0.05p |
| Underlying basic earnings per share | **1.32p** | 0.83p | 2.31p |
| Diluted earnings per share | **0.89p** | 0.48p | 0.05p |
| Underlying diluted earnings per share | **1.32p** | 0.83p | 2.31p |

## 11. Property, plant and equipment

During the period the Group acquired property, plant and equipment of £3,078,000. The Group also disposed of certain other assets for £505,000, resulting in a profit on disposal of £123,000.

# Notes to the condensed consolidated interim financial information continued

## 12. Net funds

The Group's net funds are as follows:

| | **At 30 September 2015 £000** | At 30 September 2014 £000 | At 31 March 2015 £000 |
|---|---|---|---|
| Cash and cash equivalents | **13,555** | 8,238 | 6,884 |
| Unamortised debt arrangement costs | **242** | — | 273 |
| Financial liabilities – finance leases | **(679)** | (967) | (794) |
| **Net funds** | **13,118** | 7,271 | 6,363 |

## 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 2015 £000** | At 30 September 2014 £000 | At 31 March 2015 £000 |
|---|---|---|---|
| **(Liabilities)/assets** | | | |
| Foreign exchange contracts | **(176)** | — | 118 |

## 14. Net cash flow from operating activities

| | Six months ended 30 September 2015 £000 | Six months ended 30 September 2014 £000 | Year ended 31 March 2015 £000 |
|---|---|---|---|
| **Operating profit from continuing operations** | **3,292** | 2,009 | 259 |
| Adjustments: | | | |
| Depreciation of property, plant and equipment | **1,878** | 1,811 | 3,622 |
| Depreciation of investment property | **—** | 10 | 10 |
| (Gain)/loss on disposal of property, plant and equipment | **(123)** | 65 | (46) |
| Amortisation of intangible assets | **1,379** | 1,379 | 2,757 |
| Movements in pension scheme liabilities | **(277)** | (245) | (528) |
| Share of results of JVs and associates | **149** | 257 | 213 |
| Share-based payments | **525** | 181 | 480 |
| Movement in valuation of derivatives | **294** | — | (118) |
| **Operating cash flows before movements in working capital** | **7,117** | 5,467 | 6,649 |
| (Increase)/decrease in inventories | **(15)** | 981 | 1,075 |
| Decrease/(increase) in receivables | **7,524** | 11,004 | (4,206) |
| (Increase)/decrease in payables | **(3,279)** | (8,976) | 7,893 |
| **Cash generated from operations** | **11,347** | 8,476 | 11,411 |
| **Tax paid** | **(423)** | (420) | (965) |
| **Net cash flow from operating activities** | **10,924** | 8,056 | 10,446 |

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.

## 15. Related party transactions

There have been no changes in the nature of related party transactions as described in note 31 on page 128 of the annual report for the year ended 31 March 2015 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 2015.

During the period, the Group provided, services in the ordinary course of business to its Indian joint venture, JSW Severfield Structures. The Group's share of the retained loss in JVs and associates of £149,000 for the period is solely in respect of the Indian joint venture.

# Notes to the condensed consolidated interim financial information continued

## 16. Post balance sheet events

On 16 November 2015, the Group completed an investment in a 50% share of Composite Metal Flooring Limited, a manufacturer of metal decking. The initial consideration for the investment was £4.0m, with a further £2.5m payable over the next five years subject to certain conditions.

## 17. 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.

## 18. 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 2015. There have been no changes in directors during the six months ended 30 September 2015.

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
23 November 2015

**Alan Dunsmore**
Director
23 November 2015

# 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 2015, 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 18. 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 the terms of our engagement to assist the Company in meeting the requirements of the Disclosure and Transparency Rules ('the DTR') of the UK's Financial Conduct Authority ('the UK FCA'). Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this 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 reached.

## 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 DTR of the UK FCA.

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

## 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 UK. 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 2015 is not prepared, in all material respects, in accordance with IAS 34.

**Adrian Stone**
for and on behalf of KPMG LLP
Chartered Accountants, 1 Sovereign Square, Sovereign Street, Leeds, LS1 4DA
23 November 2015


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