



Severfield

**BUILDING FROM A  
STRONG FOUNDATION**

Interim report  
for the six months ended  
30 September 2017  
Stock code: SFR  
[www.severfield.com](http://www.severfield.com)

# DIRECTORS AND ADVISERS

**Ian Lawson**

**Chief executive officer**  
(currently on temporary leave of absence)

**Alan Dunsmore**

**Group finance director**  
(currently acting chief executive officer)

**Ian Cochrane**

**Chief operating officer**

**Derek Randall**

**Executive director and managing director at JSW Severfield Structures Limited**

**Adam Semple**

**Group financial controller**  
(currently acting Group finance director)

**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

**John Dodds**

**Non-executive chairman**  
(currently executive chairman)

**Kevin Whiteman**

**Senior independent director**

**Tony Osbaldiston**

**Non-executive director**

**Alun Griffiths**

**Non-executive director**

**Chris Holt**

**Non-executive director**

**Registrars**

**Computershare Investor Services PLC**  
PO Box 82  
The Pavilions  
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Bristol, BS99 7NP

**Public relations**

**Camarco**  
107 Cheapside  
London, EC2V 6DN

**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

**Bankers**

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

**Yorkshire Bank**

(Part of CYBG plc)  
94 Albion Street  
Leeds, LS1 6AG

# HIGHLIGHTS

## Underlying\* profit before tax

2017

£12.9m

2016: £8.1m

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

2017

£12.7m

2016: £8.2m

## Operating profit (before JVs and associates)

2017

£11.4m

2016: £7.6m

## Underlying\* basic earnings per share

2017

3.50p

2016: 2.25p

## Revenue

2017

£137.1m

2016: £118.2m

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

2017

9.3%

2016: 7.0%

## Profit before tax

2017

£11.5m

2016: £7.4m

## Basic earnings per share

2017

3.14p

2016: 2.07p

\* Underlying results are stated before non-underlying items of £1.3m (2016: £0.7m).

- Revenue up 16% to £137.1m (2016: £118.2m)
- Underlying\* profit before tax up 59% to £12.9m (2016: £8.1m)
- Underlying basic earnings per share up 56% at 3.50p per share (2016: 2.25p per share)
- Interim dividend increased by 29% to 0.9p per share (2016: 0.7p per share)
- Continued strong cash performance, resulting in period-end net funds of £31.4m (31 March 2017: £32.6m) after equity investment in Indian joint venture of £5.3m to repay term debt
- Over 80 projects undertaken during the period in key market sectors including the new stadium for Tottenham Hotspur F.C., the retractable roof for Wimbledon No. 1 Court and a new commercial tower in London at 22 Bishopsgate
- Share of profit from Indian joint venture of £0.1m (2016: loss of £0.2m) reflecting continued stability and profitability of the business
- UK order book of £245m at 1 November 2017 (1 June 2017: £229m)
- India order book of £79m at 1 November 2017 (1 June 2017: £73m)
- 2018 full year results expected to be comfortably ahead of previous expectations

# INTERIM STATEMENT 2017

## Introduction

For the first six months of the year we have delivered another strong increase in operating profit, continued good cash generation and an increase in the order book. The strength and quality of both the order book and the UK pipeline of opportunities remain consistent with our continued progress towards our strategic targets, including the doubling of underlying profit before tax by 2020.

The Indian joint venture continues to perform steadily and profitably. Operational performance remains good and the repayment of the joint venture's term debt during the period will benefit its ongoing profitability. With an improved order book and an encouraging level of new opportunities, the Indian business remains well positioned to take advantage of an improving local economy.

## Financials

The Group's performance for the first six months of the financial year reflects continuing operating profit improvement on a year-on-year basis, building on the strong commercial and risk management disciplines established over the past four years, and stable year-on-year performance from the Indian joint venture which has, once again, recorded a small profit.

Revenue of £137.1m (2016: £118.2m) represents an increase of £18.9m (16 per cent) compared with the prior period, predominately reflecting an increase in production activity over the same period, together with an increase in steel prices. The order book has increased during the first half of 2018, resulting in an order book at 1 November of £245m, a step up from recently reported order book levels, of which £216m is for delivery over the next 12 months.

Underlying operating profit (before JVs and associates) of £12.7m (2016: £8.2m) represents an increase of £4.5m (55 per cent) over the prior period, reflecting an increased underlying operating margin (before JVs and associates) of 9.3 per cent (2016: 7.0 per cent). The underlying operating margin (before JVs and associates) has continued to benefit from the embedding of operational efficiencies across the Group through better risk and contract management processes and production process improvements, together with higher profits from certain project completions.

The share of results of JVs and associates in the first half of the year was a profit of £0.3m (2016: nominal loss). This includes a share of profit from the Indian joint venture of £0.1m (2016: loss of £0.2m), reflecting the continued stability of the business and higher operating margins of 9.2 per cent (2016: 7.6 per cent). The share of results of JVs and associates also includes those of Composite Metal Flooring ('CMF') Limited which has contributed a share of profit for the Group of £0.2m (2016: £0.1m).

The Group's underlying operating profit was £13.0m (2016: £8.2m) and underlying profit before tax was £12.9m (2016: £8.1m), an increase of 59 per cent compared to the previous period.

Non-underlying items in the period include the amortisation of acquired intangible assets of £1.3m (2016: £1.3m), representing the amortisation of customer relationships identified on the acquisition of Fisher Engineering in 2007, which are now fully amortised. Non-underlying items in the prior period included non-cash gains of £0.6m in relation to the movement in the fair value of derivative financial instruments. No similar items have been recorded in the current period following the adoption of hedge accounting at the 2017 financial year end, thereby mitigating the impact of fair value changes in the income statement. Non-underlying items are classified as such as they do not form part of the profit monitored in the ongoing management of the Group.

An underlying tax charge of £2.4m is shown for the period (2016: £1.4m). This tax charge is recognised based upon the best estimate of the average effective income tax rate on profit before tax for the full financial year and equates to the UK statutory rate of 19 per cent.

The statutory profit before tax, which includes both underlying and non-underlying items, is £11.5m (2016: £7.4m). The statutory profit after tax is £9.4m (2016: £6.2m) and has been transferred to reserves.

Underlying basic earnings per share is 3.50p (2016: 2.25p). This calculation is based on the underlying profit after tax of £10.5m (2016: £6.7m) and 299,555,911 shares (2016: 298,497,784 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 3.14p (2016: 2.07p). 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 2017 were £31.4m (31 March 2017: £32.6m) following the investment of additional equity into the Indian joint venture (£5.3m) and the payment of the 2017 final dividend (£4.8m). Operating cash flow for the period before working capital movements was £14.1m (2016: £10.6m).

Capital expenditure of £3.3m (2016: £2.6m) represents the continuation of the Group's capital investment programme. This included continued investment in the new in-house painting facilities at Lostock and Ballinamallard, new equipment for our fabrication lines, further enhancement of our in-house fleet of construction site equipment and improvements to our staff welfare facilities. Depreciation in the period was £1.8m (2016: £1.8m).

The Group's defined benefit pension liability at 30 September 2017 was £20.2m, a decrease of £1.2m from the year-end position of £21.4m. The decrease in the liability is primarily the result of a small increase in the assumption for corporate bond yields (used as the discount rate in the calculation of scheme liabilities) and ongoing deficit contributions made by the Group during the period. The triennial funding valuation of the scheme is being carried out in the current financial year, with a valuation date of 31 March 2017.

The Group has a £25m borrowing facility with Yorkshire 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 financial covenants which are tested quarterly, net debt: EBITDA of < 2.5x, and interest cover of >4x.

# INTERIM STATEMENT 2017

## Dividend

As part of the Group's commitment to a progressive dividend policy, the board has decided to increase the interim dividend by 29 per cent to 0.9p per share (2016: 0.7p per share). The dividend will be paid on 12 January 2018 to shareholders on the register on 15 December 2017.

## UK review

The Group's main activities continue to be the design, fabrication and construction of structural steel for construction projects and more than 80 live projects were worked on during the period. These cover a wide range of sectors that the Group can service including commercial offices, stadia and leisure, transport, industrial and distribution, and power and energy. During the period, we have continued to work on four large projects in London, each of which has project revenues in excess of £20m. These are the new stadium for Tottenham Hotspur F.C., the retractable roof for Wimbledon No. 1 Court, a major new commercial head office building and a new commercial tower at 22 Bishopsgate. Other significant projects in the period included commercial office developments in London and outside (including Southbank Place, Shard Place, Kings Cross S2 and Snowhill), the Ordsall Chord railway bridges in Manchester and Ferrybridge Power Station.

Revenue has increased by 16 per cent from the prior period predominately reflecting an increase in order flow and production activity during the period, together with an increase in steel prices. The UK order book at 1 November of £245m remains healthy with a good mix of projects and reflects the anticipated increase from the 1 June position of £229m at the time of announcing the 2017 full year results.

This leaves us well positioned to deliver good revenue performance both in the second half of the current year and into the next financial year. The current order book, of which £216m is for delivery over the next 12 months, provides visibility of earnings and remains at a level which supports continued progress towards our strategic targets.

Significant new orders secured in the period include a number of commercial office developments in London and in Cardiff, industrial and distribution projects for a variety of clients, two large data centres in Belgium and the Republic of Ireland and a pharmaceutical facility in the Republic of Ireland.

Encouragingly, the UK market continues to appear stable and the pipeline for potential future orders remains good. We have identified a number of significant new potential projects in the coming months across the commercial office (London and outside), retail, industrial and distribution, and infrastructure sectors. In addition, the Group is continuing to see the re-emergence of the market in the Republic of Ireland as well as potential opportunities in Europe.

UK Government policy is helping to drive a strong pipeline of major infrastructure projects in the transport and power and energy sectors. Over the next few years, we see significant opportunities to participate in these sectors, whilst continuing our focus on only bidding for projects where contract risks and rewards are appropriately balanced. The combination of our in-house bridge capability, which has seen significant investment over recent periods, and our historical record in transport infrastructure, leaves us well positioned to win work from such projects, all of which have a significant steel content.

Underlying operating margins (before JVs and associates) have continued to increase to 9.3 per cent (2016: 7.0 per cent) resulting in an underlying operating profit (before JVs and associates) of £12.7m (2016: £8.2m). This performance reflects continued improvements to our operational execution including further developments to our factory processes to drive efficiencies and reduce costs, as well as better risk and contract management processes. In many cases, this execution improvement only becomes apparent towards the completion of a contract and this is reflected in the improved results for the period, together with higher profits from certain project completions. Operational improvements implemented during the period include the continued roll-out of a new material requirements planning system across the Group to allow seamless sharing of production and improved project information, the opening of our new paint facilities at Lostock and Ballinamallard which will shorten lead times, improve quality and reduce reliance on external suppliers, further investment in our bridge capability to improve the speed and efficiency of these operations and the upgrade of our haulage facilities at Dalton.

Our specialist cold rolled steel joint venture business, CMF, has continued to perform well during the period, having a beneficial impact both on operating margins and the share of results from JVs and associates. We continue to be the only hot rolled steel fabricator in the UK to have this cold rolled manufacturing capability, which has now been expanded to include purlins and additional cold formed products, allowing the Group to further consolidate elements of its supply chain.

In addition, the Group continues to be shaped by the programme of projects launched in the previous year under the banner of 'Smarter, Safer, more Sustainable' which include ongoing improvements to our business processes, use of technology and operating efficiencies.

In November 2017, as part of this business process initiative, we announced a proposal to reorganise our factory operations in North Yorkshire, subject to a consultation process with the workforce. This will result in steel fabrication at Dalton and Sherburn being consolidated into the Dalton facility and a new business venture, Severfield Products and Processing, being launched at Sherburn. This proposed reorganisation addresses two strategic aims for the Group. Firstly, it allows us to make better use of our operational footprint in Yorkshire and, secondly, allows us to address smaller scale projects, a segment of the market which we have not historically focused on.

The proposed new business venture will provide a one stop shop to fabricators who specialise in smaller projects to source processed steel and ancillary products, all delivered to the Group's high standards of quality and service. We believe that this proposed reorganisation will enhance our position as the UK's most efficient structural steel fabricator, continuing to provide our clients with a high quality product and service in the most cost-effective manner. The proposed reorganisation will result in the transition of a number of job roles across the two facilities. All affected employees have been offered a role within the Group.

# INTERIM STATEMENT 2017

The remedial bolt replacement works at Leadenhall were completed during the prior year with the total expenditure being in line with the non-underlying charge made back in 2015. Discussions remain ongoing with all stakeholders to determine where the financial liability for the remedial costs should rest.

## India

The Indian joint venture continued to grow, performing steadily and profitably in the period. The business generated strong operating margins of 9.2 per cent which compares favourably to the level of 7.6 per cent achieved in the previous period. The order book at 1 November of £79m remains broadly consistent with the position at 1 June of £73m, which represented a step change for the business, and contains a similar mix of commercial work and lower margin industrial work. The repayment of the joint venture's term debt of £10.6m in June 2017 will benefit ongoing profitability; however, financing costs at the half year are still at a level which masks JSSL's good operating performance resulting in a share of after tax profit for the Group of £0.1m (2016: loss of £0.2m). Overall, we remain confident in the long-term development of the business and believe it is well positioned to take advantage of an improving local economy.

## Strategy

In addition to making good progress towards our 2020 strategic profit target of £26m, we continue to deliver on our other strategic objectives. In May, we employed a European business development director based in the Netherlands, whose focus is on tailoring our established UK offering for expansion into this market. This has resulted in a growing opportunity pipeline in mainland Europe and has coincided with the continued re-emergence of the market in the Republic of Ireland, where a number of orders have been secured, together with the successful award of a project in Belgium which we have been tracking for some time.

We have continued to identify opportunities to develop our product offering and have been focusing our efforts on the market for medium to high rise residential construction. This has traditionally been a concrete market but we believe that we now have a steel solution which will be attractive to our clients and have commenced market testing on it.

## Safety

Health and safety continues to be central to all of the Group's activities and our strategic programme of activities and improvements has supported progress in the period. We have commenced the next stage of our behavioural safety programme and are now seeing further enhancements around behaviour and cultural change.

Sustainability remains a key part of the Group's strategy, aiming to create visible leadership and objectives at all levels and to all stakeholders. A number of projects have been identified and progressed through an established working group, for example emergency lighting upgrades.

All members of our board continue to participate in site safety visits over the year and we continue to develop the monitoring and analysis of all safety related issues including high potential for harm incidents and also minor injuries for prevention programmes and campaigns.

Safety stand-downs have also continued and further developed across the business to encourage feedback and suggestions for improvement around safety. We have also held a drawing competition for children of employees and their families to encourage discussions around safety at home and what parents do at work.



The next phase of our behavioural safety programme has seen over 140 employees undertake safety coaching sessions and has also inputted into the future development of the programme to facilitate and encourage ownership across all levels of the business.

Our occupational health programme continues to evolve with focus on prevention measures. A number of mental health first aiders have been introduced across the business to raise awareness of mental health in construction and support individuals to seek help where appropriate. This is alongside the promotion of other positive mental health initiatives.

### **Summary and outlook**

The strong recent performance of the Group has continued in the first six months of the current financial year, with revenue and excellent profit growth supported by good cash generation. This, combined with ongoing operational improvements which continue to benefit margins and higher profits from certain project completions, means that the Group's performance for the year ending 31 March 2018 is now expected to be comfortably ahead of previous expectations.

In India, continued strong operational performance, the order book of £79m and the repayment of the high cost local debt during the period gives us confidence that the joint venture now has a solid foundation from which to deliver future profitable growth.

With a high quality order book of £245m and a strong UK pipeline of opportunities, the outlook for the Group remains very good. The underlying strength of the business and its performance in the first half of the financial year remains consistent with our continued progress towards delivering our 2020 strategic profit target of £26m.

### **Alan Dunsmore**

Acting chief executive officer

# CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

## CONSOLIDATED INCOME STATEMENT

Six months ended  
30 September 2017 (unaudited)

	Underlying £000	Non- underlying £000	Total £000
<b>Revenue</b>	137,107	–	137,107
Operating costs	(124,414)	(1,333)	(125,747)
<b>Operating profit before share of results of JVs and associates</b>	12,693	(1,333)	11,360
Share of results of JVs and associates	283	–	283
<b>Operating profit</b>	12,976	(1,333)	11,643
Finance expense	(119)	–	(119)
<b>Profit before tax</b>	12,857	(1,333)	11,524
Taxation	(2,386)	253	(2,133)
<b>Profit for the period</b>	10,471	(1,080)	9,391
<b>Earnings per share:</b>			
Basic	3.50p	(0.36p)	3.14p
Diluted	3.50p	(0.36p)	3.14p

Further details of non-underlying items are disclosed in note 7 to the condensed consolidated interim financial information.

Six months ended 30 September 2016 (unaudited)			Year ended 31 March 2017 (audited)		
Underlying £000	Non- underlying £000	Total £000	Underlying £000	Non- underlying £000	Total £000
118,153	–	118,153	262,224	–	262,224
(109,920)	(673)	(110,593)	(242,610)	(1,790)	(244,400)
8,233	(673)	7,560	19,614	(1,790)	17,824
(37)	–	(37)	457	–	457
8,196	(673)	7,523	20,071	(1,790)	18,281
(105)	–	(105)	(226)	–	(226)
8,091	(673)	7,418	19,845	(1,790)	18,055
(1,381)	135	(1,246)	(3,306)	580	(2,726)
6,710	(538)	6,172	16,539	(1,210)	15,329
2.25p	(0.18p)	2.07p	5.53p	(0.40p)	5.13p
2.25p	(0.18p)	2.07p	5.49p	(0.40p)	5.09p

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<b>Six months ended 30 September 2017 (unaudited) £000</b>	Six months ended 30 September 2016 (unaudited) £000	Year ended 31 March 2017 (audited) £000
Actuarial gain/(loss) on defined benefit pension scheme*	<b>940</b>	(8,289)	(7,412)
Profits/(losses) taken to equity on cash flow hedges	<b>253</b>	–	(93)
Reclassification adjustments on cash flow hedges	<b>(420)</b>	–	110
Tax relating to components of other comprehensive income*	<b>(160)</b>	1,575	1,071
<b>Other comprehensive income for the period</b>	<b>613</b>	(6,714)	(6,324)
Profit for the period from continuing operations	<b>9,391</b>	6,172	15,329
<b>Total comprehensive income for the period attributable to equity shareholders of the parent</b>	<b>10,004</b>	(542)	9,005

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

# CONSOLIDATED BALANCE SHEET

	At 30 September 2017 (unaudited) £000	At 30 September 2016 (unaudited) £000	At 31 March 2017 (audited) £000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Goodwill	54,712	54,712	54,712
Other intangible assets	172	2,989	1,574
Property, plant and equipment	80,172	77,788	78,909
Interests in JVs and associates	17,857	11,573	12,068
Deferred tax asset	513	559	1,029
	<b>153,426</b>	147,621	148,292
<b>Current assets</b>			
Inventories	6,368	6,979	7,750
Trade and other receivables	52,439	57,776	66,398
Derivative financial instruments	–	–	109
Cash and cash equivalents	31,602	24,677	32,849
	<b>90,409</b>	89,432	107,106
<b>Total assets</b>	<b>243,835</b>	237,053	255,398
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	(59,980)	(65,286)	(75,673)
Financial liabilities – finance leases	(180)	(180)	(180)
Derivative financial instruments	(33)	(193)	–
Current tax liabilities	(2,635)	(2,509)	(2,862)
	<b>(62,828)</b>	(68,168)	(78,715)
<b>Non-current liabilities</b>			
Retirement benefit obligations	(20,167)	(22,596)	(21,414)
Financial liabilities – finance leases	(139)	(319)	(229)
Deferred tax liabilities	(790)	(507)	(883)
	<b>(21,096)</b>	(23,422)	(22,526)
<b>Total liabilities</b>	<b>(83,924)</b>	(91,590)	(101,241)
<b>NET ASSETS</b>	<b>159,911</b>	145,463	154,157
<b>EQUITY</b>			
Share capital	7,488	7,461	7,471
Share premium	85,702	85,702	85,702
Other reserves	3,873	3,060	3,710
Retained earnings	62,848	49,240	57,274
<b>TOTAL EQUITY</b>	<b>159,911</b>	145,463	154,157

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital £000	Share premium £000	Other reserves £000	Retained earnings £000	Total equity £000
At 1 April 2017	7,471	85,702	3,710	57,274	154,157
Total comprehensive income for the period	–	–	(167)	10,171	10,004
Ordinary shares issued*	17	–	–	–	17
Equity settled share-based payments	–	–	330	196	526
Dividends paid	–	–	–	(4,793)	(4,793)
<b>At 30 September 2017 (unaudited)</b>	<b>7,488</b>	<b>85,702</b>	<b>3,873</b>	<b>62,848</b>	<b>159,911</b>

\* The issue of shares represents shares allotted to satisfy the 2014 Performance Share Plan award, which vested in June 2017.

	Share capital £000	Share premium £000	Other reserves £000	Retained earnings £000	Total equity £000
At 1 April 2016	7,437	85,702	2,300	52,767	148,206
Total comprehensive income for the period	–	–	–	(542)	(542)
Ordinary shares issued†	24	–	–	–	24
Equity settled share-based payments	–	–	760	–	760
Dividends paid	–	–	–	(2,985)	(2,985)
<b>At 30 September 2016 (unaudited)</b>	<b>7,461</b>	<b>85,702</b>	<b>3,060</b>	<b>49,240</b>	<b>145,463</b>

† The issue of shares represents shares allotted to satisfy the 2013 Performance Share Plan award, which vested in June and September 2016.

	Share capital £000	Share premium £000	Other reserves £000	Retained earnings £000	Total equity £000
At 1 April 2016	7,437	85,702	2,300	52,767	148,206
Total comprehensive income for the period	–	–	17	8,988	9,005
Ordinary shares issued‡	34	–	–	–	34
Equity settled share-based payments	–	–	1,393	597	1,990
Dividends paid	–	–	–	(5,078)	(5,078)
<b>At 31 March 2017 (audited)</b>	<b>7,471</b>	<b>85,702</b>	<b>3,710</b>	<b>57,274</b>	<b>154,157</b>

‡ The issue of shares represents shares allotted to satisfy the 2013 Performance Share Plan award, which vested in June, September and November 2016.

# CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 September 2017 (unaudited) £000	Six months ended 30 September 2016 (unaudited) £000	Year ended 31 March 2017 (audited) £000
<b>Net cash flow from operating activities</b>	<b>11,414</b>	11,352	24,977
<b>Cash flows from investing activities</b>			
Proceeds on disposal of land and buildings	–	–	1,195
Proceeds on disposal of property, plant and equipment	<b>927</b>	403	436
Purchases of land and building	<b>(137)</b>	–	(1,517)
Purchases of property, plant and equipment	<b>(3,160)</b>	(2,559)	(5,442)
Investment in JVs and associates	<b>(5,330)</b>	(413)	(413)
<b>Net cash used in investing activities</b>	<b>(7,700)</b>	(2,569)	(5,741)
<b>Cash flows from financing activities</b>			
Interest paid	<b>(78)</b>	(64)	(162)
Dividends paid	<b>(4,793)</b>	(2,985)	(5,078)
Repayment of obligations under finance leases	<b>(90)</b>	(90)	(180)
<b>Net cash used in financing activities</b>	<b>(4,961)</b>	(3,139)	(5,420)
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(1,247)</b>	5,644	13,816
<b>Cash and cash equivalents at beginning of period</b>	<b>32,849</b>	19,033	19,033
<b>Cash and cash equivalents at end of period</b>	<b>31,602</b>	24,677	32,849

# 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 2017 were approved by the board of directors on 14 June 2017 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 2017 has been reviewed, not audited, and was approved for issue by the board of directors on 20 November 2017.

## 2. Basis of preparation

The condensed consolidated interim financial information for the six months ended 30 September 2017 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 2017 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 2017.

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).

There are no new IFRSs or IFRICs that are effective for the first time for the six months ended 30 September 2017 which have a material impact on the Group. The Group continues to assess the impact of IFRS 15, the new revenue standard, which becomes effective for the 2019 year-end. This assessment is progressing and further contract reviews will take place in conjunction with the budget process in the fourth quarter of the financial year.



#### **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 2018 have not changed significantly from those disclosed on pages 55 to 59 of the strategic report included in the annual report for the year ended 31 March 2017 which is available on the Company's website [www.severfield.com](http://www.severfield.com). These risks and uncertainties include, but are not limited to:

- Health and safety.
- The commercial and market environment within which the Group operates.
- Mispricing a contract (at tender).
- Supply chain.
- The Indian joint venture.
- Information technology resilience.
- People.
- Industrial relations.

#### **5. Segmental analysis**

In accordance with 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 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. Given that only one operating and reporting segment exists, the remaining disclosure requirements of IFRS 8 are provided within the consolidated income statement and balance sheet.

Revenue, which relates wholly to construction contracts and related assets, in all periods 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

## 7. Non-underlying items

	<b>Six months ended 30 September 2017 £000</b>	Six months ended 30 September 2016 £000	Year ended 31 March 2017 £000
Amortisation of acquired intangible assets	<b>(1,333)</b>	(1,310)	(2,620)
Movement in fair value of derivative financial instruments	–	637	830
<b>Non-underlying items before tax</b>	<b>(1,333)</b>	(673)	(1,790)
Tax on non-underlying items	<b>253</b>	135	580
<b>Non-underlying items after tax</b>	<b>(1,080)</b>	(538)	(1,210)

Non-underlying items have been separately identified to provide a better indication of the Group's underlying business performance. They have been separately identified as a result of their magnitude, incidence or unpredictable nature. These items are presented as a separate column within their consolidated income statement category. Their separate identification results in a calculation of an underlying profit measure in the same way as it is presented and reviewed by management.

Amortisation of acquired intangible assets represents the amortisation of customer relationships which were identified on the acquisition of Fisher Engineering in 2007. These relationships are now fully amortised.

A non-underlying profit of £637,000 was recognised in the first half of the prior period reflecting the movement in the fair value of derivative financial instruments. The Group adopted hedge accounting in the second half of the prior year for all material foreign currency hedging positions (cash flow hedges), thereby mitigating the impact of fair value changes in the income statement since 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. 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. In accordance with the Group's accounting policy, these recycled gains or losses together with any movement in fair values associated with ineffective hedging positions will be treated as a component of underlying profit rather than separately disclosed as 'non-underlying items'.

## 8. Taxation

The income tax expense reflects the estimated underlying effective tax rate on profit before taxation for the Group for the year ending 31 March 2018.

## 9. Dividends

	<b>Six months ended 30 September 2017 £000</b>	Six months ended 30 September 2016 £000	Year ended 31 March 2017 £000
2016 final – 1.0p per share	–	(2,985)	(2,985)
2017 interim – 0.7p per share	–	–	(2,093)
2017 final – 1.6p per share	<b>(4,793)</b>	–	–
	<b>(4,793)</b>	(2,985)	(5,078)

The directors have declared an interim dividend in respect of the six months ended 30 September 2017 of 0.9p per share (2016: 0.7p per share) which will amount to an estimated dividend payment of £2,696,000 (2016: £2,093,000). 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:

	<b>Six months ended 30 September 2017 £000</b>	Six months ended 30 September 2016 £000	Year ended 31 March 2017 £000
Earnings for the purposes of basic earnings per share being net profit attributable to equity holders of the parent company	<b>9,391</b>	6,172	15,329
Earnings for the purposes of underlying basic earnings per share being underlying net profit attributable to equity holders of the parent company	<b>10,471</b>	6,710	16,539
<b>Number of shares</b>	<b>Number</b>	Number	Number
Weighted average number of ordinary shares for the purposes of basic earnings per share	<b>299,555,911</b>	298,497,784	298,855,911
Effect of dilutive potential ordinary shares and under share plans	–	–	2,218,914
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<b>299,555,911</b>	298,497,784	301,074,825
Basic earnings per share	<b>3.14p</b>	2.07p	5.13p
Underlying basic earnings per share	<b>3.50p</b>	2.25p	5.53p
Diluted earnings per share	<b>3.14p</b>	2.07p	5.09p
Underlying diluted earnings per share	<b>3.50p</b>	2.25p	5.49p

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

## 11. Property, plant and equipment

During the period, the Group acquired land and buildings of £137,000 (2016: £nil) and other property, plant and equipment of £3,160,000 (2016: £2,559,000). The Group also disposed of other property, plant and equipment for £927,000 (2016: £403,000) resulting in a profit on disposal of £664,000 (2016: £71,000).

## 12. Net funds

The Group's net funds are as follows:

	At 30 September 2017 £000	At 30 September 2016 £000	At 31 March 2017 £000
Cash and cash equivalents	31,602	24,677	32,849
Unamortised debt arrangement costs	114	178	146
Financial liabilities – finance leases	(319)	(499)	(409)
<b>Net funds</b>	<b>31,397</b>	24,356	32,586

## 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 their fair values. 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 2017 £000	At 30 September 2016 £000	At 31 March 2017 £000
<b>(Liabilities)/assets</b>			
Foreign exchange contracts	(33)	(193)	109

**14. Net cash flow from operating activities**

	<b>Six months ended 30 September 2017 £000</b>	Six months ended 30 September 2016 £000	Year ended 31 March 2017 £000
<b>Operating profit from continuing operations</b>	<b>11,643</b>	7,523	18,281
Adjustments:			
Depreciation of property, plant and equipment	<b>1,772</b>	1,801	3,583
Loss on disposal of land and buildings	–	–	271
Gain on disposal of other property, plant and equipment	<b>(664)</b>	(71)	(73)
Amortisation of intangible assets	<b>1,402</b>	1,492	2,906
Movements in pension scheme liabilities	<b>(307)</b>	(295)	(600)
Share of results of JVs and associates	<b>(283)</b>	37	(457)
Share-based payments	<b>526</b>	760	1,990
Movement in fair value of derivatives	–	(637)	(830)
<b>Operating cash flows before movements in working capital</b>	<b>14,089</b>	10,610	25,071
Decrease/(increase) in inventories	<b>1,382</b>	(1,685)	(2,456)
Decrease/(increase) in receivables	<b>13,927</b>	(7,066)	(11,648)
(Decrease)/increase in payables	<b>(15,884)</b>	10,403	16,386
<b>Cash generated from operations</b>	<b>13,514</b>	12,262	27,353
<b>Tax paid</b>	<b>(2,100)</b>	(910)	(2,376)
<b>Net cash flow from operating activities</b>	<b>11,414</b>	11,352	24,977

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

## 15. Related party transactions

There have been no changes in the nature of related party transactions as described in note 30 on page 145 of the annual report for the year ended 31 March 2017 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 2017.

During the period, the Group provided services in the ordinary course of business to its Indian joint venture, JSW Severfield Structures (JSSL), and in the ordinary course of business contracted with and purchased services from its UK joint venture, Composite Metal Flooring Limited ('CMF'). The Group's share of the retained profit in JVs and associates of £283,000 for the period reflects a profit from JSSL of £90,000 and from CMF of £193,000.

In May 2017, the board approved an additional equity investment of £5,330,000 in JSSL, to support repayment of the joint venture's remaining term debt. This decision was made with the agreement of our joint venture partner, JSW, who also contributed a similar investment.

## 16. 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 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 claim has been made and it is not possible to reliably estimate the potential obligation. 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.

The Company and its subsidiaries have provided unlimited multilateral guarantees to secure any bank overdrafts and loans of all other Group companies. At 30 September 2017 these amounted to £15,000,000 (2016: £15,000,000). The Group has also given performance bonds in the normal course of trade.

## 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 2017. There have been no changes in directors during the six months ended 30 September 2017.

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

**John Dodds**

Director

20 November 2017

**Alan Dunsmore**

Director

20 November 2017

# INDEPENDENT REVIEW REPORT TO SEVERFIELD PLC

## Conclusion

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 2017 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 explanatory notes.

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 2017 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting as adopted by the EU and the Disclosure Guidance and Transparency Rules ('the DTR') of the UK's Financial Conduct Authority ('the UK FCA').

## 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 enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the interim report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated financial information.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) 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.



## **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 International Financial Reporting Standards as adopted by the EU. The directors are responsible for preparing the condensed consolidated interim financial information included in the interim report in accordance with IAS 34 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.

## **The purpose of our review work and to whom we owe our responsibilities**

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 DTR of 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.

### **Adrian Stone**

for and on behalf of KPMG LLP  
Chartered Accountants  
One Sovereign Square  
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LS1 4DA  
20 November 2017







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