Severfield

Interim report
for the six months ended
30 September 2018
Stock code: SFR
www.severfield.com

BUILDING FROM A STRONG FOUNDATION

Directors and advisers

Alan Dunsmore
Chief executive officer

Adam Semple
Group finance director

Ian Cochrane
Chief operating officer

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
(resigned 4 September 2018)

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
PO Box 82
The Pavilions
Bridgwater Road
Bristol, BS99 7NP

Public relations
Camarco
107 Cheapside
London, EC2V 6DN

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

Revenue

£149.1m

(2017: £137.1m)

Underlying* profit before tax

£13.1m

(2017: £12.9m)

Underlying* operating profit (before JVs and associates)

£12.5m

(2017: £12.7m)

Underlying* operating margin (before JVs and associates)

8.4%

(2017: 9.3%)

Operating profit (before JVs and associates)

£12.5m

(2017: £11.4m)

Profit before tax

£13.1m

(2017: £11.5m)

Underlying* basic earnings per share

3.54p

(2017: 3.50p)

Basic earnings per share

3.54p

(2017: 3.14p)

- Revenue up 9% to £149.1m (2017: £137.1m)
- Underlying* profit before tax up 2% to £13.1m against a particularly strong 2017 profit of £12.9m which included higher than normal profits from certain project completions
- Interim dividend increased by 11% to 1.0p per share (2017: 0.9p per share)
- Continued cash generation, resulting in period-end net funds of £25.3m (31 March 2018: £33.0m) after the payment of 2018 final and special dividends (£10.3m)
- Over 70 projects undertaken during the period in key market sectors including the new stadium for Tottenham Hotspur FC, the retractable roof for Wimbledon No. 1 Court and a new commercial tower in London at 22 Bishopsgate
- UK order book of £230m at 1 November 2018 (1 June 2018: £237m) comprising more small, lower risk projects
- Continued good performance from Indian joint venture – share of profit of £0.4m (2017: £0.1m)
- Improving Indian market position reflected in order book of £124m at 1 November 2018 (1 June 2018: £106m), expansion of Bellary facility now underway

* Underlying results are stated before non-underlying items of £nil (2017: £1.3m):
 – Amortisation of acquired intangible assets – £nil (2017: £1.3m)
 – The associated tax impact of the above – £nil (2017: £0.3m)

Interim statement 2018

Introduction

The first six months of the year have seen good progress across the whole Group. We have delivered further revenue growth, continued to improve our underlying operating margin from the 2018 full year position and reported another period of cash generation. The half year results also show an increase in profit before tax but this was against a particularly strong first half profit performance in the prior period, which included higher than normal profits from certain project completions. Our UK order book and pipeline of potential future orders has remained stable with a good balance of work across all key market sectors. Both the quality of the order book and the strength of the UK pipeline are consistent with our continued progress towards our strategic targets.

The market position of our Indian joint venture ('JSSL') continues to improve. This is reflected in JSSL's order book, which has increased again to £124m, and a growing pipeline of commercial opportunities, which positions the business well for the future. JSSL has continued to perform well and the results for the first six months of the year have benefited from revenue growth, good operational performance and lower financing costs following the repayment of the term debt in June 2017.

Financials

Revenue of £149.1m (2017: £137.1m) represents an increase of £12.0m (9 per cent) compared with the prior period, predominantly reflecting an increase in order flow and production activity during the period.

Underlying operating profit (before JVs and associates) of £12.5m (2017: £12.7m) represents a small decrease of £0.2m (2 per cent) over the prior period. This mainly reflects a lower underlying operating margin (before JVs and associates) of 8.4 per cent (2017: 9.3 per cent) which is predominantly due to the prior year benefitting from higher than normal profits from certain project completions. Notwithstanding this, the margin for the first six months of the year compares favourably to the 2018 full year underlying operating margin (before JVs and associates) of 8.3 per cent, demonstrating further margin progression and improvements to our operational execution.

The share of results of JVs and associates in the first half of the year was a profit of £0.7m (2017: £0.3m). This includes a share of profit from the Indian joint venture of £0.4m (2017: £0.1m), reflecting revenue growth, good operational performance and lower financing costs. 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 £0.3m (2017: £0.2m).

The Group's underlying operating profit was £13.2m (2017: £13.0m) and underlying profit before tax was £13.1m (2017: £12.9m), an increase of 2 per cent compared to the previous period.

There were no non-underlying items in the period. Non-underlying items in the prior period included the amortisation of acquired intangible assets of £1.3m, identified on the acquisition of Fisher Engineering in 2007, which are now fully amortised. 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 (2017: £2.4m). 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 £13.1m (2017: £11.5m). The statutory profit after tax is £10.8m (2017: £9.4m) and has been transferred to reserves.

Underlying basic earnings per share is 3.54p (2017: 3.50p). This calculation is based on the underlying profit after tax of £10.8m (2017: £10.5m) and 303,951,597 shares (2017: 299,555,911 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 3.54p (2017: 3.14p). 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 2018 were £25.3m (31 March 2018: £33.0m) following the payment of the 2018 final dividend (£5.2m) and special dividend (£5.2m). Operating cash flow for the period before working capital movements was £13.9m (2017: £14.1m). Net working capital increased by £9.7m during the period reflecting the timing of ongoing contract works and the unwinding of advance payments from customers. Excluding advance payments, year-end net working capital represented approximately five per cent of revenue, which is within the four to six per cent range which we have been targeting over recent years.

Capital expenditure of £2.4m (2017: £3.3m) represents the continuation of the Group's capital investment programme. This predominantly included continued investment in new equipment for our fabrication lines and site infrastructure improvements. Depreciation in the period was £1.9m (2017: £1.8m).

The Group's defined benefit pension liability at 30 September 2018 was £16.7m, a decrease of £0.5m from the year-end position of £17.2m. The decrease in the liability is primarily the result of an 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 was carried out in 2018 with a valuation date of 5 April 2017.

On 31 October 2018, the Group refinanced its existing borrowing facilities of £25m with HSBC Bank plc and Yorkshire Bank. This new facility, also a £25m revolving credit facility ('RCF'), matures in October 2023. The facility continues to include an accordion facility of £20m, which allows the Group to increase the aggregate available borrowings to £45m at the Group's request. The facility is subject to two financial covenants namely the cover of interest costs and the ratio of net debt to EBITDA.

Dividend

As part of the Group's commitment to a progressive dividend policy, the board has decided to increase the interim dividend by 11 per cent to 1.0p per share (2017: 0.9p per share). The dividend will be paid on 11 January 2019 to shareholders on the register on 14 December 2018.

UK review

The Group's main activities continue to be the design, fabrication and construction of structural steel for construction projects and more than 70 live projects were worked on during the period. These cover a wide range of sectors that the Group can service including commercial offices, industrial and distribution, data centres, transport and retail. During the period, we continued to work on three large projects in London, each of which have project revenues in excess of £20m. These comprise a new commercial tower at 22 Bishopsgate, where work remains ongoing, and two projects where work is substantially complete, namely the new stadium for Tottenham Hotspur FC and the retractable roof for Wimbledon No. 1 Court. A fourth large project, for a major new commercial head office building in London, was substantially completed in the previous financial year.

Interim statement 2018

Other significant projects worked on in the period included commercial office developments in London and outside (including North Wharf Road, St. Giles Circus, One Crown Place, Birmingham Snowhill and Cardiff Central Square), two large data centres in Belgium and the Republic of Ireland, two large industrial and distribution projects for Amazon, and the Engineering Campus Development at Manchester University.

Revenue has increased by nine per cent from the prior period predominantly reflecting an increase in order flow and production activity during the period. The UK order book of £230m at 1 November 2018 continues to include a high proportion of smaller projects, particularly in the industrial and distribution sector, which typically have shorter lead times than, for example, the large London projects (discussed above) which are either complete or nearing completion. The order book, of which £183m is for delivery over the next 12 months, remains in line with our normal order book levels, which typically equate to eight to ten months of annualised revenue. This provides us with good visibility of earnings and supports continued progress towards our strategic targets.

Significant new orders secured in the period include several commercial office developments in London and in Manchester, a significant number of industrial and distribution projects for a variety of clients, a large project at Heathrow airport and a car park development at Manchester airport. Furthermore, the new Google Headquarters, for which an order of £50m was secured in December 2017, will require us to provide over 15,000 tonnes of structural steelwork for an eleven storey head office building at Kings Cross in London. Work on this project is scheduled to commence in the second half of the current financial year.

Overall, the UK market continues to appear stable, with modest economic growth forecast, in tandem with our pipeline of potential future orders which also remains stable. We continue to see good opportunities across the commercial office, industrial and distribution, data centre and infrastructure sectors, together with those in Europe and the Republic of Ireland. Whilst we are currently seeing some lower tender margins on projects that we are bidding for we have been able to offset these with efficiency improvements and other contract execution gains.

Looking further ahead, we continue to pursue a number of significant infrastructure opportunities, particularly in the transport sector, which are being driven by the UK government's investment in infrastructure commitment which is targeted to increase over the next few years. This will include projects such as HS2 (both stations and bridges) and the expansion of Heathrow airport. In addition, we also see good opportunities from the government's ongoing Network Rail and Highways England investment programmes. The combination of the Group's historical track record in transport infrastructure, together with our in-house bridge operations, leaves us well positioned to win work from such projects, all of which have significant steelwork content.

The Group is working with industry bodies to identify and manage any challenges caused by the UK's exit from the European Union. At this stage, we have seen no material impact from Brexit however, with continued uncertainty, we are scenario-planning and working with our clients and others in the industry to ensure we are able to respond to any future changes in market conditions.

The underlying operating margin (before JVs and associates) was 8.4 per cent (2017: 9.3 per cent) resulting in an underlying operating profit (before JVs and associates) of £12.5m

(2017: £12.7m). Although underlying operating profit is broadly unchanged, it was against a strong comparator in the prior period, which included higher than normal profits from certain project completions. Notwithstanding this, we are pleased that the first half underlying operating margin has continued to improve from the 2018 full year position of 8.3 per cent, and remains firmly within the margin range of 8 to 10 per cent required to achieve our strategic profit target of doubling 2016 underlying profit before tax to £26m by 2020.

The margin performance continues to reflect improvements in our operational execution. This includes the benefits from our programme of projects categorised under the banner of 'Smarter, Safer, more Sustainable' which provides a framework for the ongoing improvements to our business and factory processes, use of technology and operating efficiencies. Our new dedicated 'SSS' team is working on improving many aspects of our internal operations, including the application of Lean manufacturing techniques, together with our engineering forum which is looking at new and innovative ways of working.

During the period, we have continued to invest in research and development into advanced technologies to further improve efficiencies and client service. We have also now fully rolled out our new Group-wide production management system which will help drive ongoing value through increased productivity coupled with greater transparency and assurance.

In January 2018, we reorganised our factory operations in North Yorkshire to drive further operational improvements, resulting in the consolidation of steel fabrication at Dalton and Sherburn into the Dalton facility. This combined facility is now operating at scale and the reorganisation of our operational footprint has contributed to increased operational efficiencies which are benefitting operating margins. Furthermore, in February 2018, in response to changes in the current work mix which has changed the requirement for steel fabrication at our Lostock and Dalton facilities, we transitioned a number of job roles from Lostock to Dalton. This process has also been concluded successfully with both facilities now operating with workforce capacities which are more closely aligned with current and expected orders.

Our specialist cold rolled steel joint venture business, CMF, has continued to grow and has performed well during the period. We are the only fabricator in the UK to have both a hot and cold rolled manufacturing capability. We continue to look at ways to improve factory efficiencies at CMF and to expand the product range, which now includes a growing purlin business, allowing the Group to continue integrating elements of its supply chain.

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 has continued to grow and recorded a profit in the period, of which the Group's after tax share was £0.4m (2017: £0.1m). The higher profitability in the period reflects both a good operating performance, together with lower financing costs following the repayment of the term debt in June 2017. JSSL's revenue has increased to £32m compared with £22m in the previous period, assisted by the higher order book coming into the financial year. The impact of this has been offset by a reduction in the operating margin to 7.0 per cent compared to 9.3 per cent in the previous period.

Interim statement 2018

The lower margin is consistent with the ongoing fluctuations in the timing and mix of industrial and commercial work in a growing order book.

The market for structural steel in India continued to improve and we are seeing clear signs of the conversion of the market from concrete to steel, which is vital to the success and long-term value of the business. This position is evident in an order book at 1 November 2018 of £124m (1 June 2018: £106m) which includes a large commercial order (Sattva) in the state of Hyderabad, along with a growing large number of potential higher margin commercial projects in the pipeline. In addition, we also have visibility of an increased pipeline of industrial work, including for our joint venture partner, JSW Steel ('JSW'), which is currently increasing its domestic steel output, a process which is expected to continue in the short to medium term.

As a result of these continued market improvements, we have agreed with JSW to increase factory capacity at the Bellary facility from c.60,000 tonnes to c.90,000 tonnes. This project will be financed by a combination of equity of c.£8m, provided in equal cash amounts of c.£4m by the Group and JSW, and debt of c.£8m, provided directly to JSSL by Indian lenders. Significant work on this expansion will commence in the second half of the year and will take around 12 to 18 months to complete. This will provide the business with the springboard to deliver future profitable growth, and its value will continue to build as it continues to expand and develop.

Strategy

In addition to making good progress towards our 2020 strategic profit target, we continue to pursue our three new areas of organic growth – Severfield (Products & Processing) ('SPP'), Europe and medium to high rise residential construction.

SPP, our new business venture at the Sherburn facility, commenced trading in April 2018. This business is allowing us to address smaller scale projects, a segment of the market that we have not historically focused on, and provides a one-stop shop for smaller fabricators to source high quality processed steel and ancillary products. The business is developing in line with expectations and has secured and delivered a number of orders to a variety of new customers in the first six months of the year. During this time, we have also gained more market intelligence on both our customers and competitors and are developing our customer relationships and pipeline of potential future orders.

We have continued to develop our European business venture, based in the Netherlands, aided by a small locally-based team which includes our business development director. During the period, we have submitted a number of tenders for work in continental Europe and there is now a growing pipeline of opportunities which includes many potentially interesting and high quality projects, some of which are with clients with whom we are used to working with in the UK. The European team's market knowledge and experience has also been invaluable to our UK business when tendering for and delivering European work, providing us with a competitive advantage and the ability to deliver excellent client service.

We have also maintained our focus on the market for medium to high rise residential construction where we have developed a steel solution. We continue to see plenty of potential opportunities and discussions with a number of interested parties are ongoing. We remain highly focused on this area of potential growth and are pushing hard to secure our first order which we believe will be an important step in establishing a track record in the sector.

Safety
The Group strategy continues to support health and safety as being at the forefront of everything we do.

There are now more than 150 behavioural safety coaches across the Group, encouraging ownership of safety across all levels of the business. The coaching programme has been extremely successful in engaging employees in our 'Six Life Saving Rules' and 'SLAM' messaging campaigns. This has positively contributed to the overall safety culture, encouraging and empowering employees to raise their concerns and highlight any best practice to coaches who can respond to queries giving more direct and personal feedback.

The number of visits to sites by board members continues to grow year-on-year, and more emphasis is being given on employee engagement, enabling the Group to gain vital feedback and suggestions for improvement around safety. Work has finished on a new in-house audit system allowing better analysis of site visits, meaning prevention campaigns are better targeted to high potential for harm incidents and minor injuries. By identifying key areas within our working environment, we have been able to set out a programme of senior management led quarterly presentations, to deliver key messages across our employee network in our commitment to a 'safety first' culture.

We recognise that mental health is a major concern in our industry. In raising awareness of mental health, we have developed an internal campaign ('Head's Up') to communicate a 'door is always open' policy. We now have a growing community of over 25 mental health first aiders, and have signed up to the Build UK Charter to improve and promote positive mental health in construction. Alongside our occupational health we have introduced an employee helpline that gives those working with us and their families access to qualified councillors for anything they require help with.

Sustainability remains a key part of this strategy, with work being undertaken to develop a new all-encompassing policy which cascades from board level. Smarter, Safer, more Sustainable stays at the forefront of all new projects, with our dedicated team of in-house experts ensuring that we always put safety at the core of every decision whilst developing smarter ways of working.

Summary and outlook
The strong recent performance of the Group has continued in the first six months of the current financial year. The Group has delivered further revenue growth, a strong underlying profit performance and continued cash generation and we continue to see tangible benefits coming from our business improvement initiatives.

In India, with the expansion of the operations in Bellary now underway, an order book of £124m and a growing level of new opportunities, which includes a number of higher margin commercial projects, our joint venture business remains well positioned to take advantage of a market for structural steel which continues to improve.

With a quality order book and a stable pipeline of UK opportunities, the outlook for the Group remains good. As a result, we expect further progress during the second half of the financial year and remain confident that the Group's full year results will be in line with expectations.

Alan Dunsmore
Chief executive officer

Condensed consolidated interim financial information
Consolidated income statement

	Six months ended 30 September 2018 (unaudited)		
	Underlying £000	Non-underlying £000	Total £000
Revenue	149,089	–	149,089
Operating costs	(136,610)	–	(136,610)
Operating profit before share of results of JVs and associates	12,479	–	12,479
Share of results of JVs and associates	738	–	738
Operating profit	13,217	–	13,217
Finance expense	(109)	–	(109)
Profit before tax	13,108	–	13,108
Taxation	(2,351)	–	(2,351)
Profit for the period	10,757	–	10,757
Earnings per share:			
Basic	3.54p	–	3.54p
Diluted	3.54p	–	3.54p

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

Six months ended 30 September 2017 (unaudited)			Year ended 31 March 2018 (audited)		
Underlying £000	Non-underlying £000	Total £000	Underlying £000	Non-underlying £000	Total £000
137,107	–	137,107	274,203	–	274,203
(124,414)	(1,333)	(125,747)	(251,337)	(1,333)	(252,670)
12,693	(1,333)	11,360	22,866	(1,333)	21,533
283	–	283	882	–	882
12,976	(1,333)	11,643	23,748	(1,333)	22,415
(119)	–	(119)	(236)	–	(236)
12,857	(1,333)	11,524	23,512	(1,333)	22,179
(2,386)	253	(2,133)	(4,385)	352	(4,033)
10,471	(1,080)	9,391	19,127	(981)	18,146
3.50p	(0.36p)	3.14p	6.38p	(0.33p)	6.05p
3.50p	(0.36p)	3.14p	6.29p	(0.32p)	5.97p

Consolidated statement of comprehensive income

	Six months ended 30 September 2018 (unaudited) £000	Six months ended 30 September 2017 (unaudited) £000	Year ended 31 March 2018 (audited) £000
Actuarial gain on defined benefit pension scheme*	**113**	940	3,606
(Losses)/profits taken to equity on cash flow hedges	**(265)**	253	435
Reclassification adjustments on cash flow hedges	**176**	(420)	(346)
Tax relating to components of other comprehensive income*	**(19)**	(160)	(700)
Other comprehensive income for the period	**5**	613	2,995
Profit for the period from continuing operations	**10,757**	9,391	18,146
Total comprehensive income for the period attributable to equity shareholders of the parent	**10,762**	10,004	21,141

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

Consolidated balance sheet

	At 30 September 2018 (unaudited) £000	At 30 September 2017 (unaudited) £000	At 31 March 2018 (audited) £000
ASSETS			
Non-current assets			
Goodwill	**54,712**	54,712	54,712
Other intangible assets	**34**	172	103
Property, plant and equipment	**81,553**	80,172	81,239
Interests in JVs and associates	**19,194**	17,857	18,456
Deferred tax asset	**–**	513	–
	155,493	153,426	154,510
Current assets			
Inventories	**8,122**	6,368	9,646
Trade and other receivables	**64,389**	52,439	56,270
Derivative financial instruments	**12**	–	167
Cash and cash equivalents	**25,409**	31,602	33,114
	97,932	90,409	99,197
Total assets	**253,425**	243,835	253,707
LIABILITIES			
Current liabilities			
Trade and other payables	**(61,096)**	(59,980)	(64,225)
Financial liabilities - finance leases	**(139)**	(180)	(180)
Derivative financial instruments	**–**	(33)	–
Current tax liabilities	**(2,981)**	(2,635)	(1,645)
	(64,216)	(62,828)	(66,050)
Non-current liabilities			
Retirement benefit obligations	**(16,692)**	(20,167)	(17,248)
Financial liabilities - finance leases	**–**	(139)	(49)
Deferred tax liabilities	**(1,381)**	(790)	(1,363)
	(18,073)	(21,096)	(18,660)
Total liabilities	**(82,289)**	(83,924)	(84,710)
NET ASSETS	**171,136**	159,911	168,997
EQUITY			
Share capital	**7,599**	7,488	7,492
Share premium	**87,254**	85,702	85,702
Other reserves	**3,162**	3,873	4,749
Retained earnings	**73,121**	62,848	71,054
TOTAL EQUITY	**171,136**	159,911	168,997

Consolidated statement of changes in equity

	Share capital £000	Share premium £000	Other reserves £000	Retained earnings £000	Total equity £000
At 1 April 2018	**7,492**	**85,702**	**4,749**	**71,054**	**168,997**
Total comprehensive income for the period	**–**	**–**	**(89)**	**10,851**	**10,762**
Ordinary shares issued*	**107**	**1,552**	**–**	**–**	**1,659**
Equity settled share-based payments	**–**	**–**	**(1,498)**	**1,533**	**35**
Dividends paid	**–**	**–**	**–**	**(10,317)**	**(10,317)**
At 30 September 2018 (unaudited)	**7,599**	**87,254**	**3,162**	**73,121**	**171,136**

* The issue of shares represents shares allotted to satisfy the 2015 Performance Share Plan award, which vested in June 2018, and shares allotted under the Group's 2015 Save As You Earn share option plan which became exercisable in the period.

	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)
At 30 September 2017 (unaudited)	7,488	85,702	3,873	62,848	159,911

* 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 2017	7,471	85,702	3,710	57,274	154,157
Total comprehensive income for the year	–	–	89	21,052	21,141
Ordinary shares issued*	21	–	–	–	21
Equity settled share-based payments	–	–	950	218	1,168
Dividends paid	–	–	–	(7,490)	(7,490)
At 31 March 2018 (audited)	7,492	85,702	4,749	71,054	168,997

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

Consolidated cash flow statement

	Six months ended 30 September 2018 (unaudited) £000	Six months ended 30 September 2017 (unaudited) £000	Year ended 31 March 2018 (audited) £000
Net cash flow from operating activities	**3,198**	11,414	19,039
Cash flows from investing activities			
Proceeds on disposal of property, plant and equipment	**342**	927	1,012
Purchases of land and buildings	**(82)**	(137)	(412)
Purchases of plant and equipment	**(2,350)**	(3,160)	(5,996)
Investment in JVs and associates	**–**	(5,330)	(5,506)
Net cash used in investing activities	**(2,090)**	(7,700)	(10,902)
Cash flows from financing activities			
Proceeds from shares issued	**1,659**	–	–
Interest paid	**(65)**	(78)	(202)
Dividends paid	**(10,317)**	(4,793)	(7,490)
Repayment of obligations under finance leases	**(90)**	(90)	(180)
Net cash used in financing activities	**(8,813)**	(4,961)	(7,872)
Net (decrease)/increase in cash and cash equivalents	**(7,705)**	(1,247)	265
Cash and cash equivalents at beginning of period	**33,114**	32,849	32,849
Cash and cash equivalents at end of period	**25,409**	31,602	33,114

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 2018 were approved by the board of directors on 20 June 2018 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 2018 has been reviewed, not audited, and was approved for issue by the board of directors on 26 November 2018.

2. Basis of preparation

The condensed consolidated interim financial information for the six months ended 30 September 2018 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 2018 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 2018.

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 2018 which have a material impact on the Group.

IFRS 15 – Revenue from contracts with customers

The Group has adopted IFRS 15 from 1 April 2018. The new standard modifies the determination of how much revenue to recognise, and when, and introduces a single, principles-based five-step model to be applied to all contracts with customers. IFRS 15 replaces the separate models for goods, services and construction contracts currently included in IAS 11 'Construction Contracts' and IAS 18 'Revenue'.

The implementation of IFRS 15 did not have a material impact on the timing or amount of revenue recognised by the Group in the current or comparative period. This is because, under IFRS 15, the services provided under a typical contract for the Group represent one performance obligation, providing the customer with an integrated solution and where the services (and consequently any variations and claims) are highly interrelated. Furthermore, revenue on construction contracts meets the criteria for over time recognition under IFRS 15 and revenue will be recognised with reference to the measurement of contract progress (costs to complete). This is similar to that under IAS 11 'Construction Contracts'.

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 2019, other than as disclosed below, have not changed significantly from those disclosed on pages 62 to 68 of the strategic report included in the annual report for the year ended 31 March 2018. The annual report is available on the Company's website www.severfield.com. These risks and uncertainties include, but are not limited to:

- Health and safety
- Information technology resilience
- The commercial and market environment within which the Group operates
- Failure to mitigate onerous contract terms
- Supply chain
- The Indian joint venture
- People
- Brexit (new for 2018/19).

Notes to the condensed consolidated interim financial information

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 businesses 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.

7. Non-underlying items

	Six months ended 30 September 2018 £000	Six months ended 30 September 2017 £000	Year ended 31 March 2018 £000
Amortisation of acquired intangible assets	**–**	(1,333)	(1,333)
Non-underlying items before tax	**–**	(1,333)	(1,333)
Tax on non-underlying items	**–**	253	352
Non-underlying items after tax	**–**	(1,080)	(981)

7. Non-underlying items continued

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.

A non-underlying loss of £1,333,000 was recognised in the first half of the prior period reflecting the amortisation of customer relationships, which were identified on the acquisition of Fisher Engineering in 2007. These relationships are now fully amortised.

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 2019.

9. Dividends

	Six months ended 30 September 2018 £000	Six months ended 30 September 2017 £000	Year ended 31 March 2018 £000
2017 final – 1.6p per share	**–**	4,793	4,793
2018 interim – 0.9p per share	**–**	–	2,697
2018 final – 1.7p per share	**5,158**	–	–
2018 special – 1.7p per share	**5,158**	–	–
	10,317	4,793	7,490

The directors have declared an interim dividend in respect of the six months ended 30 September 2018 of 1.0p per share (2017: 0.9p per share) which will amount to an estimated dividend payment of £3,040,000 (2017: £2,697,000). This dividend is not reflected in the balance sheet as it will be paid after the balance sheet date.

Notes to the condensed consolidated interim financial information

10. Earnings per share

Earnings per share is calculated as follows:

	Six months ended 30 September 2018 £000	Six months ended 30 September 2017 £000	Year ended 31 March 2018 £000
Earnings for the purposes of basic earnings per share being net profit attributable to equity holders of the parent company	**10,757**	9,391	18,146
Earnings for the purposes of underlying basic earnings per share being underlying net profit attributable to equity holders of the parent company	**10,757**	10,471	19,127
Number of shares	**Number**	Number	Number
Weighted average number of ordinary shares for the purposes of basic earnings per share	**303,951,597**	299,555,911	299,682,810
Effect of dilutive potential ordinary shares and under share plans	**–**	–	4,520,463
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**303,951,597**	299,555,911	304,203,273
Basic earnings per share	**3.54p**	3.14p	6.05p
Underlying basic earnings per share	**3.54p**	3.50p	6.38p
Diluted earnings per share	**3.54p**	3.14p	5.97p
Underlying diluted earnings per share	**3.54p**	3.50p	6.29p

11. Property, plant and equipment

During the period, the Group acquired land and buildings of £82,000 (2017: £137,000) and other property, plant and equipment of £2,350,000 (2017: £3,160,000). The Group also disposed of other property, plant and equipment for £342,000 (2017: £927,000) resulting in a profit on disposal of £88,000 (2017: £664,000).

12. Net funds

The Group's net funds are as follows:

	At 30 September 2018 £000	At 30 September 2017 £000	At 31 March 2018 £000
Cash and cash equivalents	**25,409**	31,602	33,114
Unamortised debt arrangement costs	**51**	114	83
Financial liabilities - finance leases	**(139)**	(319)	(229)
Net funds	**25,321**	31,397	32,968

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 2018 £000	At 30 September 2017 £000	At 31 March 2018 £000
Assets/(liabilities)			
Foreign exchange contracts	**12**	(33)	167

Notes to the condensed consolidated interim financial information

14. Net cash flow from operating activities

	Six months ended 30 September 2018 £000	Six months ended 30 September 2017 £000	Year ended 31 March 2018 £000
Operating profit from continuing operations	**13,217**	11,643	22,415
Adjustments:			
Depreciation of property, plant and equipment	**1,864**	1,772	3,656
Gain on disposal of other property, plant and equipment	**(88)**	(664)	(590)
Amortisation of intangible assets	**69**	1,402	1,471
Movements in pension scheme liabilities	**(443)**	(307)	(560)
Share of results of JVs and associates	**(738)**	(283)	(882)
Share-based payments	**35**	526	1,168
Operating cash flows before movements in working capital	**13,916**	14,089	26,678
Decrease/(increase) in inventories	**1,524**	1,382	(1,896)
(Increase)/decrease in receivables	**(8,151)**	13,927	10,064
Decrease in payables	**(3,075)**	(15,884)	(11,897)
Cash generated from operations	**4,214**	13,514	22,949
Tax paid	**(1,016)**	(2,100)	(3,910)
Net cash flow from operating activities	**3,198**	11,414	19,039

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 29 on page 162 of the annual report for the year ended 31 March 2018 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 2018.

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 £738,000 for the period reflects a profit from JSSL of £431,000 and from CMF of £307,000.

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 2018 this amounted to £nil (2017: £nil). 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.

Notes to the condensed consolidated interim financial 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 2018. During the six months ended 30 September 2018, Chris Holt resigned as a non-executive director and stood down at the conclusion of the AGM on 4 September 2018. Except for this, there have been no changes in directors during the period.

The maintenance and integrity of the Severfield plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept 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

Alan Dunsmore
Chief executive officer
27 November 2018

Adam Semple
Group finance director
27 November 2018

Independent review report to Severfield plc

Conclusion

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2018 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 set of financial statements in the half-yearly financial report for the six months ended 30 September 2018 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 half-yearly financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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.

Independent review report to Severfield plc

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial 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 set of financial statements included in the half-yearly financial 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 set of financial statements in the half-yearly financial 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.

David Morritt
for and on behalf of KPMG LLP
Chartered Accountants
One Sovereign Square
Sovereign Street
Leeds
LS1 4DA
27 November 2018

Consultation, design and production by:
jonesandpalmer.co.uk

Severfield

SEVERFIELD PLC
Severs House
Dalton Airfield Industrial Estate
Dalton, Thirsk
North Yorkshire
YO7 3JN

Tel: (01845) 577896
Fax: (01845) 577411

www.severfield.com