Delivering sustainable growth from a strong foundation

Severfield

Interim report
for the six months ended
30 September 2019

Stock code: SFR
www.severfield.com

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

Louise Hardy
Non-executive director
(appointed 4 September 2019)

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HIGHLIGHTS

Revenue

£131.7m

(2018: £149.1m)

Underlying* operating profit (before JVs and associates)

£7.0m

(2018: £12.5m)

Operating profit (before JVs and associates)

£7.0m

(2018: £12.5m)

Underlying* profit before tax

£8.2m

(2018: £13.1m)

Profit before tax

£8.2m

(2018: £13.1m)

Underlying* basic earnings per share

2.27p

(2018: 3.54p)

Basic earnings per share

2.27p

(2018: 3.54p)

Interim dividend per share

1.1p

(2018: 1.0p)

- Revenue of £131.7m (2018: £149.1m)
- Underlying* profit before tax of £8.2m (2018: £13.1m) in line with expectations, current trading remains good with a number of large ongoing contracts expected to deliver stronger profits in the second half of the financial year
- Interim dividend increased by 10 per cent to 1.1p per share (2018: 1.0p per share)
- Good cash generation, resulting in period-end net funds of £22.5m (excluding IFRS 16 lease liabilities of £11.9m**) (31 March 2019: net funds of £25.1m)
- Over 80 projects undertaken during the period in the UK, Ireland and continental Europe in diverse market sectors including commercial offices (both in London and the UK regions), industrial and distribution, data centres and transport infrastructure
- UK and Europe order book of £323m at 1 November 2019 (1 June 2019: £295m), including £20m for Harry Peers
- Share of profit from Indian joint venture ('JSSL') more than trebled at £1.3m (2018: £0.4m), reflecting expanding Indian market position
- India order book of £134m at 1 November 2019 (1 June 2019: £134m), expansion of the Bellary facility on course for completion by the end of the current financial year
- Post period-end acquisition of Harry Peers, a leading structural steelwork business, for net initial consideration of £18m, with contingent consideration of up to £7m potentially payable in the 2021 financial year

* Underlying results are stated before non-underlying items. There were no non-underlying items in the periods ended 30 September 2018 and 2019 and, accordingly, there is no difference between the underlying profit measures and their statutory equivalents.

** The Group excludes IFRS 16 lease liabilities from its measure of net funds / debt as they are excluded from the definition of net debt as set out in the Group's borrowing facilities.

INTERIM STATEMENT 2019

Introduction

The Group's first half performance was in line with expectations. We have continued to make good strategic and operational progress during the first six months of the year and this is reflected in an increased UK and Europe order book, good cash generation and a significantly improved performance from our Indian joint venture.

Further strategic progress has been made post period-end, with the acquisition on 1 October of Harry Peers & Co Limited, a leading structural steelwork business within the highly-regulated nuclear, process industries and power generation sectors, which we believe will enhance the Group's areas of expertise and broaden its market exposure.

As anticipated, the half year results show a decrease in profit before tax compared to the prior period, reflecting the profit phasing of ongoing contract works in the current UK and Europe order book (1 November 2019: £323m). Following two years of more equally weighted profits in H1 and H2, the results for the 2020 financial year are expected to be considerably more second-half weighted, with a number of large ongoing contracts expected to deliver stronger profits in the second half of the financial year. Despite the continued soft market backdrop in the UK, our overall 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 pipeline are consistent with our continued progress towards our strategic targets.

The market position of our Indian joint venture ('JSSL') continues to improve, reflecting the expansion of the market for structural steel in India. This position is evident in JSSL's order book of £134m at 1 November (1 June: £134m) which contains a growing mix of higher margin commercial work. The expanding market position is also reflected in a growing pipeline of commercial and industrial opportunities, which will benefit the business in the current financial year and beyond. JSSL's strong performance in the first half of the year is reflective of the step change in the Indian market position and its results have benefited from significant revenue growth, margin improvements and good operational performance.

Financials

Revenue for the first six months of the year was £131.7m (2018: £149.1m). Although revenue was lower than in the prior period, the UK and Europe order book at 1 November of £323m reflects an increase from the level of six months ago (1 June: £295m), which will generate higher production, and therefore revenue, in the second half of the 2020 financial year.

Underlying operating profit (before JVs and associates) of £7.0m (2018: £12.5m) represents a decrease of £5.5m over the prior period, reflecting the current profit phasing of ongoing contract works. As anticipated, following two years of more equally weighted profits in H1 and H2, the results for the 2020 financial year are expected to be significantly more second-half weighted, with a number of large ongoing contracts expected to deliver stronger profits during this period.

The share of results of JVs and associates in the first half of the year was a profit of £1.5m (2018: £0.7m). This includes a share of profit from the Indian joint venture of £1.3m (2018: £0.4m), reflecting revenue growth and margin improvement as a result of the increased mix of higher margin commercial work being executed in the period. The share of results of JVs and associates also includes those of Construction Metal Forming ('CMF') Limited which has contributed a share of profit for the Group of £0.2m (2018: £0.3m).

The Group's underlying profit before tax was £8.2m (2018: £13.1m), a decrease of 38 per cent compared to the previous period. There were no non-underlying items in the period.

An underlying tax charge of £1.3m is shown for the period (2018: £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 £8.2m (2018: £13.1m). The statutory profit after tax is £6.9m (2018: £10.8m) and has been transferred to reserves.

Underlying basic earnings per share is 2.27p (2018: 3.54p). This calculation is based on the underlying profit after tax of £6.9m (2018: £10.8m) and 304,920,295 shares (2018: 303,951,597 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 2.27p (2018: 3.54p). There are no contingent shares outstanding under share-based payment schemes and, accordingly, there is no difference between basic and diluted earnings per share.

IFRS 16 'Leases' became effective for the Group from 1 April 2019. The profit before tax impact of IFRS 16 in the first half of the year was not material to the Group and represented a credit of £0.2m to underlying operating profit and a finance expense of £0.2m on lease liabilities. As at 30 September 2019, the Group has recognised right-of-use assets of £10.8m and associated lease liabilities of £11.9m. The full impact of the new standard is detailed in note 3. The adoption of IFRS 16 will not impact the Group's existing banking covenants as the calculations are prepared based on the accounting treatment required under IAS 17, the previous lease accounting standard.

Net funds (excluding the IFRS 16 lease liabilities) at 30 September 2019 were £22.5m (31 March 2019: £25.1m) following the payment of the 2019 final dividend (£5.5m). Operating cash flow for the period before working capital movements was £8.3m (2018: £13.9m). Net working capital decreased by £2.2m in the period and, excluding advance payments, period-end net working capital represented approximately three per cent of revenue (31 March 2019: five per cent), which is better than our well-established target range of four to six per cent.

Capital expenditure of £2.8m (2018: £2.4m) represents the continuation of the Group's capital investment programme. This predominantly comprised continued investment in the painting facilities at Ballinamallard, an extension to our Dalton production facility, including new equipment for our fabrication lines, and improvements to our site and office facilities. Depreciation in the period was £2.6m (2018: £1.9m), of which £0.7m relates to new right-of-use assets under IFRS 16.

The Group's net defined benefit pension liability at 30 September 2019 was £24.4m, an increase of £4.4m from the year-end position of £20.0m. The increase in the liability is primarily the result of a decrease in the assumption for corporate bond yields (used as the discount rate in the calculation of scheme liabilities) as well as an increase in the scheme's commutation factors. This has been offset to a lesser extent by better than assumed returns on the scheme's assets 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.

INTERIM STATEMENT 2019

On 1 October 2019, the Group completed the acquisition of 100 per cent of the share capital of Harry Peers & Co Limited ('Harry Peers') for an initial net cash consideration of £18m, on a cash-free, debt-free basis (see UK and Europe review section for further details). This was funded by a combination of cash reserves of £4m and a term loan of £14m, repayable over approximately four years. This new term loan was established as an amendment to the Group's existing revolving credit facility ('RCF') which was renewed on 31 October 2018 and which matures in October 2023. The RCF remains subject to two financial covenants, interest cover and net debt to EBITDA, and an additional financial covenant, debt service cover, which has been included following the drawdown of the new term loan.

Dividend

As part of the Group's commitment to a progressive dividend policy, the board has decided to increase the interim dividend by 10 per cent to 1.1p per share (2018: 1.0p per share).

UK and Europe 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 in the UK, the Republic of Ireland and continental Europe. These cover a wide range of sectors that the Group can service including commercial offices, industrial and distribution, data centres, and transport infrastructure. Major projects worked on during the period include the new commercial tower at 22 Bishopsgate, where our work is now complete, and the new Google Headquarters at King's Cross (both of which are based in London and have total project revenues in excess of £20m), together with other commercial office developments in London and the regions (including One Braham, 80 Fenchurch Street, Farringdon West, Nottingham Unity Square and Manchester 2 New Bailey). Other significant projects include a large UK industrial and distribution project, a large data centre in Finland, ongoing projects at Heathrow and Manchester airports and a scientific research facility in Sweden, which was the first order secured by our European business.

Although revenue for the first six months of the year was lower than in the prior period, the order book at 1 November of £323m (including £20m for Harry Peers), of which £313m is for delivery over the next 12 months, reflects an increase of 9 per cent from the level of six months ago. This will generate higher production, and therefore revenue, both in the second half of this year and into the next financial year. Significant orders reflected in this strong order book include a large industrial facility and a large data centre, both in the Republic of Ireland, the Google Headquarters at King's Cross and the redevelopment of Lords Cricket Ground (Compton and Edrich stands). Our teams have also been successful in securing a number of mid-sized commercial office developments, both in London and the UK regions. In terms of geographical spread, of the order book of £323m, 53 per cent represents projects in the UK, with the remaining 47 per cent representing projects for delivery in Europe and the Republic of Ireland (1 June: 63 per cent in the UK, 37 per cent in Europe and the Republic of Ireland).

Despite the ongoing political uncertainty, the UK market appears broadly stable; however, we continue to see evidence of some delayed decision-making by clients against a backdrop of a generally more cautious commercial investment climate. Market pricing generally remains competitive in the UK, particularly as greater than normal spare fabrication capacity now exists across the market, a position which is mitigated by the diverse range of market sectors in which the Group operates. The impact of these softer

UK market conditions is also being mitigated by a stronger market in the Republic of Ireland and certain other significant opportunities in continental Europe, where we have demonstrated our ability to win more work, supported by our European business.

Whilst a significant value of new work has been secured over the past six months, in general, our pipeline of potential future orders remains stable with a good balance of work across all key market sectors, in particular, the industrial and distribution and data centre sectors, which continue to be strong, both in the UK and Europe. The Group continues to drive its programme of efficiency improvements to enhance our market-leading position and to ensure that we remain competitive in a wide range of market sectors in the medium term, whilst continuing our focus on only bidding for projects where contract risks and rewards are appropriately balanced.

Furthermore, we continue to pursue a number of significant infrastructure opportunities, particularly in the transport sector. Although decision making on some of these potential projects continues to be delayed, HS2 (both stations and bridges) and the expansion of Heathrow airport, both of which have a large steelwork content, are expected to contribute to the UK government's investment in infrastructure commitment over the next few years. In addition, we also see future growth opportunities from the government's ongoing Network Rail and Highways England investment programmes.

The Group is working with industry bodies to identify and manage any challenges that might be caused by the UK's exit from the European Union. The Group has plans in place to mitigate, where possible, the impact of Brexit on the fulfilment of orders in the Republic of Ireland and continental Europe and on our supply chain. We are scenario-planning and working with our clients and others in the industry to ensure we are able to respond appropriately to any future changes in market conditions.

We continue to closely monitor events at British Steel, following its sale to Jingye Group ('Jingye'), China's third largest privately-owned steel producer, which has been agreed, subject to certain conditions, including regulatory approval. Encouragingly, Jingye has announced its intention to invest over £1bn in British Steel over the next decade and we envisage that a successful sale will assist in providing stability to the steel supply market in the UK. Notwithstanding this, we continue to keep our steel supply options under review and already have strong ongoing relationships with other steel supply chain partners, including those in continental Europe and local stockholders in the UK.

We have continued to drive improvements to our operational execution in the period. This includes the benefits from our programme of projects categorised under the banner of 'Smarter, Safer, more Sustainable' ('SSS'), and these initiatives continue to focus on improving many aspects of our internal operations, including the application of Lean manufacturing techniques, optimisation of factory processes and cost reduction programmes. 'SSS' is an enduring process for the Group and forms part of a continuous cycle of improvement, with an increased focus on manufacturing efficiency, rather than a one-off programme. We also believe that successful development and adoption of new technologies across the whole of the Group will be fundamental to both improved cost efficiency and quality, and also to our long-term strategic objectives.

INTERIM STATEMENT 2019

During the period, we have overseen further enhancements to our Group-wide production management system (StruMIS), which will help drive productivity improvements, and our contract management system (Workspace), including the use of the system on mobile devices. In addition, we have improved our approach to design, looking at new and innovative ways of working including the use of technology across a number of existing manual processes. We have also rolled out a new Group-wide supply chain accreditation process to ensure that our supply chain partners continue to match our expectations of quality, sustainability and commitment to client service.

We continue to invest in and streamline our factories, particularly at Dalton, which is increasingly operating as a fulfilment centre for the benefit of the Group as a whole. Actions taken to improve manufacturing cost efficiency include waste elimination initiatives and the upgrade and ongoing expansion of certain of our fabrication lines to improve the speed and efficiency of these operations, together with the further investment in our in-house paint facilities at Ballinamallard.

Our specialist cold rolled steel joint venture business, CMF, has performed well operationally despite facing softer UK market conditions, which have impacted production volumes in the first half of the year. 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 grow the business and expand its existing product ranges, which include metal decking and purlins, allowing the Group to continue integrating elements of its supply chain.

Harry Peers

On 1 October 2019, the Group completed the acquisition of 100 per cent of the share capital of Harry Peers & Co Limited ('Harry Peers'). Harry Peers is a leading full service structural steelwork business focusing on the nuclear, process industries and power generation sectors. The initial net cash consideration for the acquisition of £18m, on a cash-free, debt-free basis, was funded by a combination of a term loan of £14m and cash reserves of £4m. The total initial consideration was £30.4m, which included the cash and cash equivalents of Harry Peers of £12.4m. A performance-based contingent consideration is in place, which could increase the purchase price by up to £7m, payable in the 2021 financial year, if certain financial and operational targets are achieved for the period to 31 August 2020.

We believe that this acquisition will significantly expand and extend the Group's current capabilities into attractive complementary market sectors, broaden its market exposure and enhance its areas of expertise. We expect the acquisition to be earnings enhancing in its first full year of operation. Looking ahead, we believe there are substantial opportunities to grow Harry Peers through a number of combined operational initiatives including business development, European contract opportunities, and investment in technology-driven enhancements. In particular, the nuclear sector, including both the defence and commercial sectors, in which Harry Peers commands a niche, well-established and trusted position with blue chip customers, is forecasted to grow through the UK government's decommissioning investment programme. Harry Peers has also demonstrated capability in modular structural steel offerings, which the Group will look to develop across its wider product range. This acquisition is another step in the implementation of the Group's strategy and will enhance our position as the UK's broadest structural steel services group.

India

The Indian market for structural steel continues to expand, and we are seeing clear signs of the conversion of the market from concrete to steel which will drive the success and long term value of the business. This position is evident in JSSL's order book of £134m at 1 November (1 June: £134m), which contains a growing mix of higher margin commercial work. The expanding market position is also reflected in a pipeline which includes a growing number of commercial projects for key developers and clients with whom we are establishing strong relationships. We also have visibility over a strong pipeline of industrial opportunities, including those for our joint venture partner, JSW Steel.

JSSL has again performed strongly and its results for the period continue to reflect the step change in the market for structural steel in India. The business has continued to expand and has more than trebled its profit, of which the Group's after tax share was £1.3m (2018: £0.4m). This higher profitability reflects an increase in revenue to £56.3m, compared with £31.8m in the previous period, an increase in the operating margin to 8.5 per cent, compared with 7.0 per cent in the previous period, and good operational performance in the period. The improvement in the margin was anticipated and reflects an increased mix of commercial work compared to the higher levels of industrial work which was evidenced in the prior period.

The expansion of the Bellary facility, which will increase factory capacity from c.60,000 tonnes to c.90,000 tonnes, is now well-progressed and on course for completion towards the end of the current financial year.

Safety

Safety is central to everything that we do and is an integral part of the Group's strategy.

We recognise that our safety performance reflects how we do business and is a key differentiator in the market. High potential ('HiPo') incidents continue to be investigated and monitored by our Group health and safety director, chief operating officer and our managing directors. This process has been extremely successful in allowing us to identify trends and establish risk mitigation measures. Ensuring consistency when identifying and preventing future incidents makes the Group a safer place to work and helps to further drive improvements to our safety culture.

Engaging with employees is part of our continual strategy of safety improvement. By regularly engaging with the workforce, employees at all levels of the organisation are encouraged to contribute to ongoing safety initiatives and to raise any issues to management. This promotes a positive safety culture where employees are empowered to speak up. Alongside this, our behavioural safety programme continues to drive improvements to our safety culture and regular employee workshops are held to endorse our 'safety first' values. Conversations amongst employees around best practice and unsafe acts are ever-increasing, ensuring that safety remains integral to our day-to-day working practices.

As well as promoting physical health and safe working environments, the Group is committed to engaging with all employees on their mental health and well-being. All employees, together with their family members, have access to a 24 hour, 365 days a year employee assistance line. We recognise World Mental Health Day each year, focusing on 'hot topics' and issuing mental health information packs to employees.

INTERIM STATEMENT 2019

Following the awareness sessions offered to all employees last year, our next focus will be to train our management teams so that they can identify signs and symptoms and confidently signpost employees to the relevant support mechanisms.

The sustainability policy has been redeveloped during the period and rolled out to all employees and new starters. It encompasses health and safety, environment, our people and our economics. The policy sets out to all what we expect to achieve and what we aspire to as a business. We have made positive strides in this area during the period including the switch to 100 per cent green electricity at our two largest production facilities. A Group sustainability strategy that aligns with the overall safety, health and environmental strategy is currently under development and is expected to be rolled out in the new financial year. This will allow us to track sustainability targets and assist in reducing our carbon emissions and overall energy consumption.

Strategy

We are continuing to deliver on our strategic objectives including making good progress towards our current year (2020) strategic profit target. In the period, as part of the ongoing 'SSS' initiatives, we have implemented a number of factory and technological improvements and have improved our supply chain processes, as well as entering new UK markets through our post period-end acquisition of Harry Peers.

During the period, our Netherlands-based European business has continued to deliver its first significant contract, a research facility for the European Spallation Source ('ESS') situated in Lund, Sweden. The steel fabrication for this large contract is being provided from our Dalton facility, with Severfield (UK) also providing some on-site construction support. Significant work has not yet commenced on the other, smaller contract which was secured by the business in the previous financial year. The locally-based commercial and project team has continued to grow during the period under the leadership of our European business development director. The business continues to build on its first two contract wins and is tendering for a number of projects, predominantly in Northern Europe and Scandinavia, and is developing its growing pipeline of opportunities in a range of sectors, which includes many potentially interesting and high-profile projects. The European team's market knowledge and experience continues to be of benefit to our UK business when tendering for and delivering an increased pipeline of European work, providing us with a commercial advantage and the ability to enhance our reputation through the delivery of excellent client service.

In recent years, we have also been targeting two other new areas of organic growth, namely Severfield (Products & Processing) ('SPP') and medium to high-rise residential construction.

Firstly, SPP, our new business venture at the Sherburn facility, commenced trading in the previous financial year. This business allows us to address smaller scale projects and provides a one-stop-shop for smaller fabricators to source high-quality processed steel and ancillary products, albeit at lower margins. Notwithstanding the softer UK market conditions, the business has secured and successfully delivered a number of orders to its expanding customer base, together with providing lower-cost sub-contract packages (including general fabrication, bracing and stairs) to other Group companies to assist them in the delivery of larger projects. During the period, we have continued to gain better competitor and

customer intelligence, have improved factory efficiencies, quality assurance and health and safety processes. We have also maintained our focus on developing the pipeline of potential future orders to enable us to grow the business and increase our market share.

Secondly, we have continued to focus on the market for medium to high-rise residential construction, where we have developed a steel solution in what has traditionally been a concrete-dominated sector. We continue to see potential opportunities in an attractive market and, despite making slower progress than originally anticipated due to a longer than expected client gestation period, discussions with a number of interested parties remain ongoing as we look to secure our first order.

Summary and outlook

We have made further strategic and operational progress during the first six months of the year. Our cash position remains strong, allowing us to make the right long-term decisions for the Group, we have continued to drive our 'SSS' initiatives with an increased focus on manufacturing efficiency, and have entered new UK markets through the acquisition of Harry Peers.

In India, we are excited about the long-term development potential of the business, especially considering the expanding market position, the step-up in profitability and the strong order book, which includes an improving mix of commercial work. We expect that value will continue to build in JSSL as it continues to expand and develop.

Whilst we retain an element of caution given the ongoing uncertain UK market conditions, with an increased UK and Europe order book, which provides good visibility of earnings, and a broadly stable pipeline of opportunities, the outlook for the Group remains good. Our current trading levels remain good and in line with our expectations and we expect a number of large ongoing contracts to deliver stronger profits in the second half of the year. Accordingly, we remain confident that the Group's results for the full year will be in line with expectations.

Alan Dunsmore
Chief executive officer
26 November 2019

Condensed consolidated interim financial information

CONSOLIDATED INCOME STATEMENT

	Six months ended 30 September 2019 (unaudited)		
	Underlying £000	Non-underlying £000	Total £000
Revenue	131,749	–	131,749
Operating costs	(124,747)	–	(124,747)
Operating profit before share of results of JVs and associates	7,002	–	7,002
Share of results of JVs and associates	1,466	–	1,466
Operating profit	8,468	–	8,468
Finance expense	(278)	–	(278)
Profit before tax	8,190	–	8,190
Taxation	(1,278)	–	(1,278)
Profit for the period	6,912	–	6,912
Earnings per share:			
Basic	2.27p	–	2.27p
Diluted	2.27p	–	2.27p

Six months ended 30 September 2018 (unaudited)			Year ended 31 March 2019 (audited)		
Underlying £000	Non-underlying £000	Total £000	Underlying £000	Non-underlying £000	Total £000
149,089	–	149,089	274,917	–	274,917
(136,610)	–	(136,610)	(251,661)	–	(251,661)
12,479	–	12,479	23,256	–	23,256
738	–	738	1,650	–	1,650
13,217	–	13,217	24,906	–	24,906
(109)	–	(109)	(195)	–	(195)
13,108	–	13,108	24,711	–	24,711
(2,351)	–	(2,351)	(4,549)	–	(4,549)
10,757	–	10,757	20,162	–	20,162
3.54p	–	3.54p	6.65p	–	6.65p
3.54p	–	3.54p	6.58p	–	6.58p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 September 2019 (unaudited) £000	Six months ended 30 September 2018 (unaudited) £000	Year ended 31 March 2019 (audited) £000
Actuarial (loss)/gain on defined benefit pension scheme*	**(4,958)**	113	(3,702)
(Losses)/profits taken to equity on cash flow hedges	**(1,446)**	(265)	540
Reclassification adjustments on cash flow hedges	**206**	176	129
Exchange difference on foreign operations	**(22)**	–	16
Tax relating to components of other comprehensive income*	**843**	(19)	624
Other comprehensive income for the period	**(5,377)**	5	(2,393)
Profit for the period from continuing operations	**6,912**	10,757	20,162
Total comprehensive income for the period attributable to equity shareholders of the parent	**1,535**	10,762	17,769

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

CONSOLIDATED BALANCE SHEET

	At 30 September 2019 (unaudited) £000	At 30 September 2018 (unaudited) £000	At 31 March 2019 (audited) £000
ASSETS			
Non-current assets			
Goodwill	**54,712**	54,712	54,712
Other intangible assets	**–**	34	–
Property, plant and equipment	**84,821**	81,553	83,986
Right-of-use assets	**10,781**	–	–
Interests in JVs and associates	**25,800**	19,194	24,335
	176,114	155,493	163,033
Current assets			
Inventories	**8,108**	8,122	8,915
Trade and other receivables	**55,853**	64,389	57,117
Derivative financial instruments	**–**	12	762
Current tax asset	**891**	–	–
Cash and cash equivalents	**22,327**	25,409	24,979
	87,179	97,932	91,773
Total assets	**263,293**	253,425	254,806
LIABILITIES			
Current liabilities			
Trade and other payables	**(57,256)**	(61,096)	(57,661)
Financial liabilities – finance leases	**–**	(139)	(49)
Financial liabilities – short-term lease liabilities	**(1,838)**	–	–
Financial liabilities – derivative financial instruments	**(282)**	–	–
Current tax liabilities	**–**	(2,981)	(928)
	(59,376)	(64,216)	(58,638)
Non-current liabilities			
Retirement benefit obligations	**(24,420)**	(16,692)	(19,972)
Financial liabilities - long-term lease liabilities	**(10,016)**	–	–
Deferred tax liabilities	**(344)**	(1,381)	(1,189)
	(34,780)	(18,073)	(21,161)
Total liabilities	**(94,156)**	(82,289)	(79,799)
NET ASSETS	**169,137**	171,136	175,007
EQUITY			
Share capital	**7,648**	7,599	7,600
Share premium	**87,254**	87,254	87,254
Other reserves	**1,448**	3,162	3,819
Retained earnings	**72,787**	73,121	76,334
TOTAL EQUITY	**169,137**	171,136	175,007

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital £000	Share premium £000	Other reserves £000	Retained earnings £000	Total equity £000
At 1 April 2019	**7,600**	**87,254**	**3,819**	**76,334**	**175,007**
Changes in accounting policy	**–**	**–**	**–**	**(1,110)**	**(1,110)**
Restated total equity at 1 April 2019	**7,600**	**87,254**	**3,819**	**75,224**	**173,897**
Total comprehensive income for the period	**–**	**–**	**(1,262)**	**2,797**	**1,535**
Ordinary shares issued*	**48**	**–**	**–**	**–**	**48**
Equity settled share-based payments	**–**	**–**	**(1,109)**	**259**	**(850)**
Dividends paid	**–**	**–**	**–**	**(5,493)**	**(5,493)**
At 30 September 2019 (unaudited)	**7,648**	**87,254**	**1,448**	**72,787**	**169,137**

* The issue of shares represents shares allotted to satisfy the 2016 Performance Share Plan award, which vested in June 2019.

	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 2018	7,492	85,702	4,749	71,054	168,997
Total comprehensive income for the year	–	–	685	17,084	17,769
Ordinary shares issued*	108	1,552	–	–	1,660
Equity settled share-based payments	–	–	(1,615)	1,549	(66)
Dividends paid	–	–	–	(13,353)	(13,353)
At 31 March 2019 (audited)	7,600	87,254	3,819	76,334	175,007

* 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 year.

CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 September 2019 (unaudited) £000	Six months ended 30 September 2018 (unaudited) £000	Year ended 31 March 2019 (audited) £000
Net cash flow from operating activities	**6,626**	3,198	14,616
Cash flows from investing activities			
Proceeds on disposal of property, plant and equipment	**128**	342	734
Purchases of land and buildings	**–**	(82)	(485)
Purchases of other property, plant and equipment	**(2,796)**	(2,350)	(6,516)
Investment in JVs and associates	**–**	–	(4,229)
Net cash used in investing activities	**(2,668)**	(2,090)	(10,496)
Cash flows from financing activities			
Proceeds from shares issued	**–**	1,659	1,660
Interest paid	**(251)**	(65)	(382)
Dividends paid	**(5,493)**	(10,317)	(13,353)
Repayment of obligations under finance leases	**(49)**	(90)	(180)
Payment of lease liabilities	**(817)**	–	–
Net cash used in financing activities	**(6,610)**	(8,813)	(12,255)
Net decrease in cash and cash equivalents	**(2,652)**	(7,705)	(8,135)
Cash and cash equivalents at beginning of period	**24,979**	33,114	33,114
Cash and cash equivalents at end of period	**22,327**	25,409	24,979

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 2019 were approved by the board of directors on 19 June 2019 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 2019 has been reviewed, not audited, and was approved for issue by the board of directors on 25 November 2019.

2) Basis of preparation

The condensed consolidated interim financial information for the six months ended 30 September 2019 has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union. The condensed consolidated interim financial information should be read in conjunction with the statutory financial statements for year ended 31 March 2019 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 2019.

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).

IFRS 16: 'Leases'
The Group has adopted IFRS 16 from 1 April 2019 using the modified retrospective approach with the cumulative transition impact recognised in equity on 1 April 2019 and no restatement of the financial statements for the prior year, as permitted under the specific transitional provisions in the standard.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17 'Leases'. These liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as of 1 April 2019. The weighted average incremental borrowing rate applied to the lease liabilities on 1 April 2019 was 2.6 per cent. The Group has elected to apply the exemptions available for short-term leases with a lease term of 12 months or less and leases of low value items. The leases to which these exemptions apply will be accounted for in the same way as current operating leases, with no lease assets or liabilities recognised. The Group also applies the practical expedient to combine lease and non-lease components.

On transition, the Group recognised right-of-use assets of £11.2m and associated lease liabilities of £12.3m. The net impact on retained earnings on 1 April 2019 was a decrease of £1.1m.

The recognised right-of-use assets relate to the following types of assets:

	At 30 September 2019 £000	At 1 April 2019 £000
Property	**9,004**	9,416
Plant and machinery	**249**	251
Vehicles	**1,528**	1,528
	10,781	11,195

The profit before tax impact of IFRS 16 in the first half of the year was not material to the Group and represented a credit of £0.2m to underlying operating profit and a finance expense of £0.2m on lease liabilities. The Group's total rental expense for the year ended 31 March 2019 under existing reporting requirements was £2.6m.

The standard does not impact net cash flow, but cash flows from most lease payments are reclassified from cash flows from operating activities to cash flows from financing activities, as the payments represent the repayment of lease liabilities.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

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 2020, other than as disclosed below, have not changed significantly from those disclosed on pages 68 to 74 of the strategic report included in the annual report for the year ended 31 March 2019. 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
- The commercial and market environment within which the Group operates (including Brexit)
- Information technology resilience
- Mispricing a contract (at tender)
- Failure to mitigate onerous contract terms
- Supply chain
- The Indian joint venture
- People

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.

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) 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 2020.

8) Dividends

	Six months ended 30 September 2019 £000	Six months ended 30 September 2018 £000	Year ended 31 March 2019 £000
2018 final – 1.7p per share	–	5,158	5,158
2018 special – 1.7p per share	–	5,158	5,158
2019 interim – 1.0p per share	–	–	3,036
2019 final – 1.8p per share	5,493	–	–
	5,493	10,317	13,353

The directors have declared an interim dividend in respect of the six months ended 30 September 2019 of 1.1p per share (2018: 1.0p per share) which will amount to an estimated dividend payment of £3,365,000 (2018: £3,036,000). This dividend is not reflected in the balance sheet as it will be paid after the balance sheet date.

9) Earnings per share

Earnings per share is calculated as follows:

	Six months ended 30 September 2019 £000	Six months ended 30 September 2018 £000	Year ended 31 March 2019 £000
Earnings for the purposes of basic earnings per share being net profit attributable to equity holders of the parent company	6,912	10,757	20,162
Earnings for the purposes of underlying basic earnings per share being underlying net profit attributable to equity holders of the parent company	6,912	10,757	20,162

Number of shares	Number	Number	Number
Weighted average number of ordinary shares for the purposes of basic earnings per share	304,920,295	303,951,597	303,092,067
Effect of dilutive potential ordinary shares and under share plans	–	–	3,170,237
Weighted average number of ordinary shares for the purposes of diluted earnings per share	304,920,295	303,951,597	306,262,304
Basic earnings per share	2.27p	3.54p	6.65p
Underlying basic earnings per share	2.27p	3.54p	6.65p
Diluted earnings per share	2.27p	3.54p	6.58p
Underlying diluted earnings per share	2.27p	3.54p	6.58p

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

10) Property, plant and equipment

During the period, the Group acquired land and buildings of £nil (2018: £82,000) and other property, plant and equipment of £2,796,000 (2018: £2,350,000). The Group also disposed of other property, plant and equipment for £128,000 (2018: £342,000) resulting in a profit on disposal of £31,000 (2018: £88,000).

11) Net funds

The Group's net funds are as follows:

	At 30 September 2019 £000	At 30 September 2018 £000	At 31 March 2019 £000
Cash and cash equivalents	**22,327**	25,409	24,979
Unamortised debt arrangement costs	**202**	51	226
Financial liabilities - finance leases	**–**	(139)	(49)
Net funds	**22,529**	25,321	25,156

The Group excludes IFRS 16 lease liabilities from its measure of net funds / debt as they are excluded from the definition of net debt as set out in the Group's borrowing facilities.

12) 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 2019 £000	At 30 September 2018 £000	At 31 March 2019 £000
(Liabilities)/assets			
Foreign exchange contracts	**(282)**	12	762

13) Net cash flow from operating activities

	Six months ended 30 September 2019 £000	Six months ended 30 September 2018 £000	Year ended 31 March 2019 £000
Operating profit from continuing operations	**8,468**	13,217	24,906
Adjustments:			
Depreciation of property, plant and equipment	**2,626**	1,864	3,649
Gain on disposal of other property, plant and equipment	**(31)**	(88)	(129)
Amortisation of intangible assets	**–**	69	103
Movements in pension scheme liabilities	**(510)**	(443)	(978)
Share of results of JVs and associates	**(1,466)**	(738)	(1,650)
Share-based payments	**(802)**	35	(66)
Operating cash flows before movements in working capital	**8,285**	13,916	25,835
Decrease in inventories	**807**	1,524	731
Decrease/(increase) in receivables	**1,240**	(8,151)	(1,969)
Increase/(decrease) in payables	**119**	(3,075)	(6,625)
Cash generated from operations	**10,451**	4,214	17,972
Tax paid	**(3,825)**	(1,016)	(3,356)
Net cash flow from operating activities	**6,626**	3,198	14,616

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

14) Related party transactions

There have been no changes in the nature of related party transactions as described in note 29 on page 168 of the annual report for year ended 31 March 2019 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 2019.

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, Construction Metal Forming Limited ('CMF'). The Group's share of the retained profit in JVs and associates of £1,466,000 for the period reflects a profit from JSSL of £1,297,000 and from CMF of £169,000.

15) 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 legal or contractual claim has been made and it is not possible to reliably estimate the potential obligation.

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 2019 this amounted to £nil (2018: £nil). The Group has also given performance bonds in the normal course of trade.

16) Subsequent events

On 1 October 2019, the Group completed the acquisition of 100 per cent of the share capital of Harry Peers & Co Limited ('Harry Peers'). The initial net cash consideration for the acquisition of £18.0m, on a cash-free, debt-free basis, was funded by a combination of a term loan of £14.0m and cash reserves of £4.0m. The total initial consideration was £30.4m which included the cash and cash equivalents of Harry Peers of £12.4m. A performance-based contingent consideration is in place, which could increase the purchase price by up to £7.0m, payable in the year ending 31 March 2021, if certain financial and operational targets are achieved for the period to 31 August 2020.

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.

During the six months ended 30 September 2019, Louise Hardy was appointed as a non-executive director with effect from 4 September 2019. There have been no other changes in directors of Severfield plc as listed in the annual report for the year ended 31 March 2019.

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
26 November 2019

Adam Semple
Group finance director
26 November 2019

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 2019 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 2019 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.

The impact of uncertainties due to the UK exiting the European Union on our review

Uncertainties related to the effects of Brexit are relevant to understanding our review of the condensed financial statements. Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. An interim review cannot be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

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
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26 November 2019

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