2021

Stock Code HILS

Annual Report for the year ended 31 December 2021

HILL & SMITH

Creating sustainable infrastructure and safe transport through innovation.

Read more on our website
www.hsholdings.co.uk

INVESTMENT CASE

Structural tailwinds in attractive markets

Opportunity to grow market share in meaningful high return markets that are backed by infrastructure investment and long-term growth drivers.

Solid execution record

Hill & Smith's autonomous model has delivered solid performance over the long term. This inherently agile model was key in mitigating recent challenges around supply chain, labour and COVID.

The model has recently been enhanced to make it scalable and supported by an ambitious management team.

Focus on high value add niche applications

Our increasing focus on high value, fast growing niche markets fuels organic growth and generates higher gross margins, permitting investment to improve the quality of our operating companies and increase our pricing power.

Portfolio improvement

Our structured and disciplined approach to acquisitions and disposals means we are increasing the quality of the operating companies that make up the Group and ensuring that they are each aligned to long-term growth drivers.

Active product management within our operating companies drives gross margin improvement and allows sensible reinvestment in our operating companies in talent and innovation.

Purpose and sustainability

We have a clear and well-understood purpose. Our products are focused on increasing the sustainability of infrastructure and making transport safer.

Strong balance sheet and cash generation

High and improving returns convert into strong cash generation, allowing investment to further grow the business and deliver a sustainable, progressive dividend policy.

CONTENTS

OUR PURPOSE AND STRATEGY

WHY?

Creating sustainable infrastructure and safe transport through innovation

Read more on fulfilling **Our purpose** in our **Case Studies** on pages 12, 17 and 25

WHERE?

01 MACRO DRIVERS

- Increasing population
- Urbanisation
- Climate change
- Increasing health and safety regulations

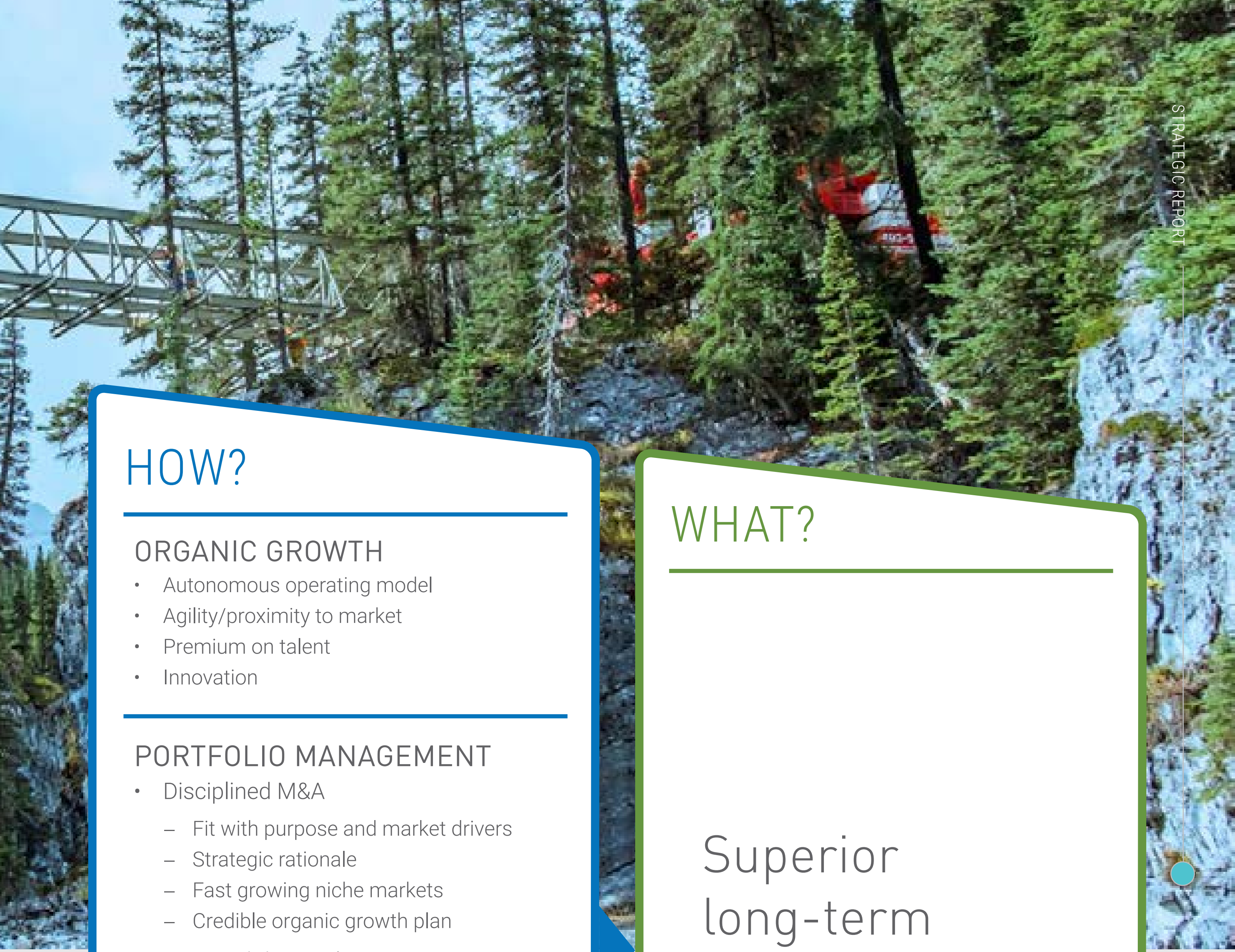
02 MARKET DRIVERS

- Sustainable materials
- Decarbonisation
- Infrastructure safety
- Enabling technology
- Vision Zero

03 APPLICATIONS AND NICHES

- Systematic process
- Faster growing niche opportunities
- Critical applications

Read more on **Our Markets** on pages 8 to 9



HOW?

ORGANIC GROWTH

- Autonomous operating model
- Agility/proximity to market
- Premium on talent
- Innovation

PORTFOLIO MANAGEMENT

- Disciplined M&A
  - Fit with purpose and market drivers
  - Strategic rationale
  - Fast growing niche markets
  - Credible organic growth plan
- Targeted disposals

ESG

- Protecting the world
- Saving and enhancing lives
- Sustainable governance

FINANCIAL MODEL

- Organic profit growth/strong cash conversion
- Conservative financial leverage
- Allocate capital to high growth/return opportunities (M&A and organic)
- 2.5x underlying earnings dividend policy

Read more on **Our Strategy** on pages 6 to 7

WHAT?

Superior long-term stakeholder value

Read more on **Our Investment Case** on page 1

Read more on **Our Business Model** on pages 10 to 11

Read more on **Our Approach to Sustainability** on pages 32 to 53

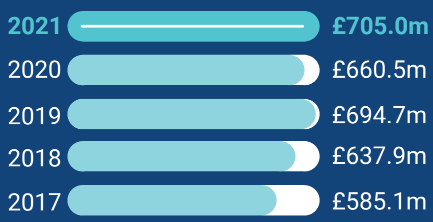
GROUP HIGHLIGHTS

FINANCIAL HIGHLIGHTS

Revenue

£705.0m

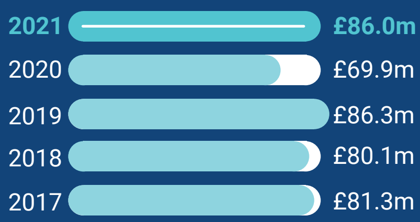
Up 7%



***Underlying operating profit**

£86.0m

Up 23%



***Underlying earnings per share**

77.9p

Up 23%

Dividend per share

31.0p

Up 16%

			Change	
	31 December 2021	31 December 2020	Reported %	Organic Constant Currency (OCC)** %
Revenue	**£705.0m**	£660.5m	**+7**	**+10**
Underlying*:				
Operating profit	**£86.0m**	£69.9m	**+23**	**+29**
Operating margin	**12.2%**	10.6%	**+160bps**	**+190bps**
Profit before taxation	**£79.9m**	£62.6m	**+28**	
Earnings per share	**77.9p**	63.2p	**+23**	
Statutory:				
Operating profit	**£57.0m**	£42.8m	**+33**	
Operating margin	**8.1%**	6.5%	**+160bps**	
Profit before taxation	**£50.9m**	£35.5m	**+43**	
Basic Earnings per share	**43.0p**	30.2p	**+42**	
Dividend per share	**31.0p**	26.7p	**+16**	
Net debt	**£144.7m**	£146.2m		

- Record constant currency revenue and underlying operating profit:
  - Strong recovery in all divisions with margin improvement and trading significantly ahead of COVID-impacted 2020
  - Performance ahead of 2019 levels: organic constant currency growth +4% revenue and +3% underlying operating profit
  - Successful management of supply chain headwinds and input cost inflation
- ESG strategy developed with seven key priority areas and commitment to Scope 1 and 2 carbon net zero by 2040
- Progress made on improving the quality of the portfolio, in line with refreshed strategy
- Group remains highly cash generative, with a strong balance sheet to support future organic and inorganic growth opportunities
- Medium term outlook remains positive; expect to make good progress in 2022 despite ongoing industry-wide supply chain and inflationary challenges
- FY21 dividend 31.0p, an increase of 16%

* All underlying measures exclude certain non-underlying items, which are as detailed in note 5 to the Financial Statements and described in the Financial Review. References to an underlying profit measure throughout this announcement are made on this basis. Non-underlying items are presented separately in the Consolidated Income Statement where, in the Directors' judgement, the quantum, nature or volatility of such items gives further information to obtain a proper understanding of the underlying performance of the business. Underlying measures are deemed alternative performance measures ('APMs') under the European Securities and Markets Authority guidelines and a reconciliation to the closest IFRS equivalent measure is detailed in note 4 to the Financial Statements. They are presented on a consistent basis over time to assist in comparison of performance.

** Where we make reference to organic constant currency movements, these exclude the impact of currency translation effects and acquisitions, disposals and closures of subsidiary businesses. In respect of acquisitions, the amounts referred to represent the amounts for the period in the current year that the business was not held in the prior year. In respect of disposals and closures of subsidiary businesses, the amounts referred to represent the amounts for the period in the prior year that the business was not held in the current year. Constant currency amounts are prepared using exchange rates which prevailed in the current year.

GROUP AT A GLANCE

OUR DIVISIONS

Roads & Security

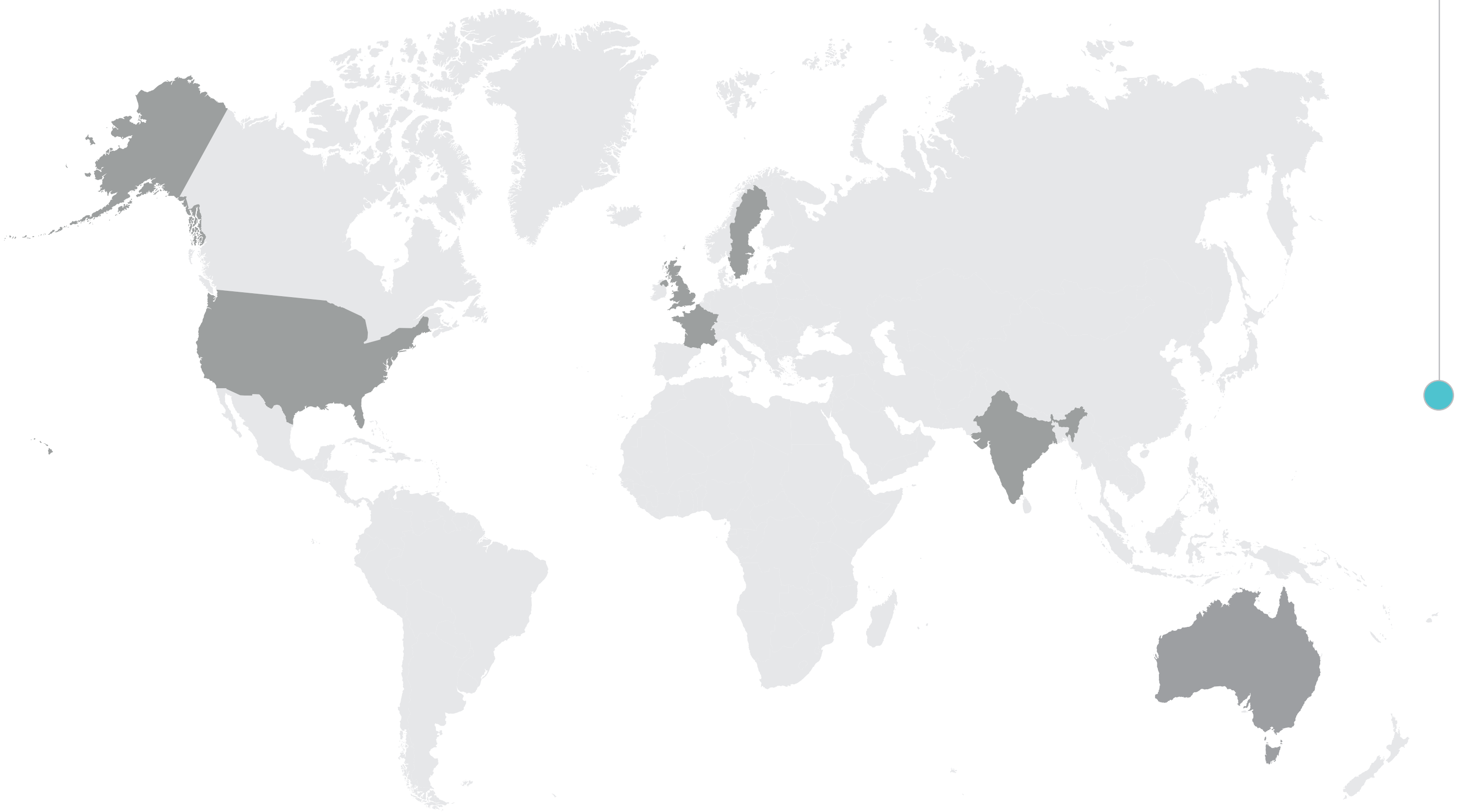
Supplying products and services to support road and highway infrastructure including temporary and permanent road safety barriers, renewable energy lighting and power solutions, Intelligent Traffic Solutions, street lighting columns and bridge parapets. The security portfolio includes hostile vehicle mitigation solutions, high security fencing and automated gate solutions.

Utilities

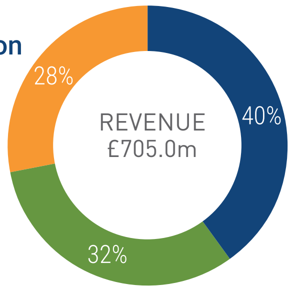
Supplying engineered steel and composite solutions with low embodied energy for a wide range of infrastructure markets including energy generation and distribution, marine, rail and housing. The division also supplies engineered pipe supports for the water, power and liquid natural gas markets and seismic protection solutions.

Galvanizing Services

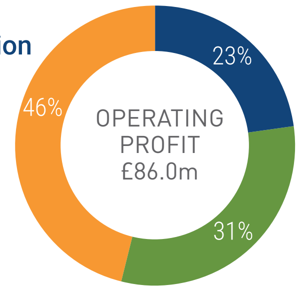
Supplying a service that dramatically increases the sustainability and maintenance free life of steel products. This includes structural steel work, lighting columns, bridges, agricultural equipment and other products for the industrial and infrastructure markets.



Revenue by division

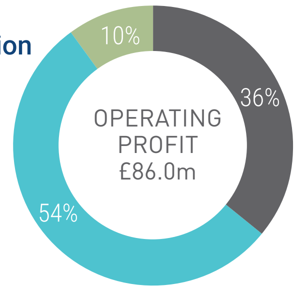


Profit by division



Galvanizing Services · Utilities · Roads & Security

Profit by plant location



UK · US · RoW

OUR STRATEGY

STRATEGIC FRAMEWORK

Guided by our purpose, we aim to deliver high levels of organic growth and strong cash conversion through our existing operating companies. We reinvest this cash in improving our businesses and in acquiring new high growth businesses, alongside our progressive dividend policy. We take a disciplined approach to portfolio management both in acquiring and disposing of businesses, improving the quality of the Group with each iteration. Our purpose also ensures that sustainability is at the forefront of what we do.

PORTFOLIO MANAGEMENT

The first criterion that any Hill & Smith operating company needs to meet is that it must contribute to our purpose. We then rate our current businesses and potential acquisitions against 13 criteria to determine whether they deserve a place in our portfolio. If existing businesses fall short, we assess whether we can make the necessary improvements in reasonable timescales or whether we should dispose of them. Our businesses need to be capable of delivering sustainable organic profit growth, generating good margins from high value, niche applications and be led by ambitious, entrepreneurial management teams. We instigated multiple initiatives to successfully rebuild our M&A pipeline following the change in our target criteria in late 2020. We now have a strong pipeline of high-quality targets.

In 2021 we acquired Prolectric Services Ltd, a provider of solar-powered lighting solutions that supports our customers in their decarbonisation efforts.

We also disposed of our loss-making security covers business, closed our variable message signs business and carried out the internal re-organisation of several businesses to accelerate their organic growth.

STRATEGIC OVERVIEW

DIVISIONAL STRATEGIES

Our existing operating companies are split across the Group's three divisions of Roads & Security, Utilities and Galvanizing Services.

Roads & Security

Utilities

Galvanizing Services

FINANCIAL FRAMEWORK

Our financial model is based on strong cash generation. This allows us to allocate capital to accelerate organic growth, to make high quality acquisitions and to maintain a sustainable, progressive dividend policy.

SUPPORTING INITIATIVES

The small central team are responsible for supporting our decentralised operating companies in their growth. We offer support and leadership in several areas including culture, capital allocation, health & safety, talent development, diversity, mentorship, oversight, and sustainability.

DIVISIONAL STRATEGIES

Roads & Security

Our portfolio of roads and security operating companies are based in the UK, the US, France, Sweden and Australia. Our products ensure the safe movement of both people and vehicles on national road networks, at pedestrian-based events and other places where the movements of people and vehicles are combined such as construction sites and airports.

Our significant domain knowledge allows us to expand our offering into adjacent, high growth applications without undue risk. This is through both innovation at our operating companies, and through acquisition. Our recent acquisition of Prolectric Services Ltd is an example of this strategy in action.

The US, backed by the Investment in Infrastructure and Jobs Act, provides multiple opportunities to increase our geographical footprint. A recent example is the 2021 expansion of our facility in Texas alongside investment in our rental barrier fleet.

Utilities

Our Utilities operating companies are based in the UK, the US and India. They manufacture products that make infrastructure more sustainable, be that seismic control supports, fire doors, composite structures with low embodied carbon, or engineered supports for water treatment plants.

Our strategy is to grow market share organically in our core businesses through operational excellence, innovation and service, to organically expand our breadth of high value applications in our composite business and to increase our footprint in our seismic restraints business.

We plan to further strengthen our Utilities portfolio through acquisitions that have strong financials, a clear path to growth, and a strong strategic fit.

Galvanizing Services

We increase the useful life of steel products through our galvanizing facilities that are based in the UK, the US and France. We will increase our market share in this attractive, growing space through increased throughput in our plants, building new plants and acquiring existing facilities.

More information on how these divisions have performed during 2021 can be found in the **Operational and Financial Review** on pages 22 to 31.

FINANCIAL FRAMEWORK

Cash generation and conservative leverage

Our objective is to deliver annual cash conversion in excess of 90%, targeting a net debt to EBITDA ratio of 1.5 to 2.0 times.

Reinvesting for organic growth

We allocate capital to support organic growth, with the focus on higher-return niches and growth markets, while at the same time investing in talent and innovation.

Targeted acquisitions to enhance growth

Acquisitions must fit our purpose and strategy. The strength of the returns and the opportunities for growth form the basis of all investment decisions.

Progressive earnings and dividend growth

The emphasis on growth and return targets delivers progressive earnings and our focus on converting these returns into cash supports sustainable dividend growth.

More information can be found in the **Operational and Financial Review** on pages 22 to 31 and **Measuring our Performance** on pages 18 to 19.

SUPPORTING INITIATIVES

Health & Safety

The health, safety and wellbeing of our employees is a key focus across all operating companies. All sites are committed to minimising the risks that our people and visitors face daily, ensuring that their policies, procedures and risk assessments are followed.

Increasingly, the Group adopts measures to maintain a safe working environment and to ensure work related risks are effectively identified and controlled. Our monitoring programmes help to spot issues at the earliest opportunity and lessons are learned from any events that occur.

Talent and diversity

Talented people are fundamental to the success of our decentralised operating model. Over 99% of our employees are employed by our operating companies.

We place great importance on attracting, developing, and retaining exceptional people from across the whole community. We seek to create an environment in which individual difference is respected and everyone can give their best.

We have a small Group HR team who advise on culture and policy, create development programmes, and manage the career and capability development of high potential talent. Our operating companies are supported by a community of HR professionals who enable the key employment strategies, programmes, and processes, to ensure that the business attracts and retains the skills and capabilities required to deliver the strategy.

Sustainability

For decades, most of our revenue has been derived from products and services that make infrastructure more sustainable or keep people safe. For example, our composite products, due to their low weight and high strength, have lower embodied energy than traditional materials. Similarly, our galvanizing services extend the life of the steel products by decades and ensure that at the end of the product's life, the steel is fit for recycling. Our purpose ensures that sustainability is a natural part of everything that we do.

Within this report we are pleased to commit to our target to achieve net zero emissions by 2040 for Scopes 1 & 2 and to commit to introduce a Scope 3 target no later than 2023. Our detailed, costed plan gives us confidence that we can achieve the 2040 target and deliver strong financial returns. We have committed to the Science-Based Targets initiative business ambition for 1.5°C.

To deliver these initiatives we have strengthened our leadership resource in 2021 with the appointment of a Group Head of Health & Safety, based in the US, and a Chief People Officer. Our Group Head of Sustainability joined us in February 2022.

More information on the **Group's Sustainability Plan** an be found on pages 32 to 53.

OUR MARKETS

NICHE MARKETS

We focus on fast growing niche markets that have high barriers to entry and deliver high margins.

Our operating companies and M&A activities target fast growing niches within the broad, long-term supportive markets of sustainable infrastructure and transport safety. We prefer applications that are of critical importance to our customers and where our offering is a small part of a larger system. Being niche, these applications are less likely to attract competitors who rely on economies of scale to compete. The combination of critical importance to our customers and moderate competition helps us achieve higher margins. Our decentralised model of multiple small to medium sized businesses allows us to care about these smaller opportunities.

Read more on fulfilling **Our purpose** in our Case Studies on pages 12, 17 and 25.

Why we focus on these markets

Roads & Security

The Roads market is one in which we have operated and invested over many years and there is a clear fit with our purpose. Our products make the road networks safer for all users, with our permanent vehicle restraint products providing safe road containment solutions for all drivers and passengers. Our temporary vehicle restraint products are designed and rigorously tested to protect road workers and the travelling public. Other products in the portfolio include smart solar lighting systems, road and rail signs and intelligent traffic management systems.

In the short to medium term, we see growth opportunities as both the US Government, through the Investment in Infrastructure and Jobs Act ('IIJA'), and the UK Government, through Road Investment Strategy 2 ('RIS2'), have committed to increased highways investment. Alongside the higher investment, the sophistication of road networks is increasing and the safety requirements are becoming more stringent.

The Security market is recovering from the impact of the COVID pandemic as large-scale events are starting to take place. We see future growth linked to industrial critical national infrastructure (such as data centres and power infrastructure markets) and urban regeneration projects.

Utilities

Our Utilities businesses span several growing markets:

Our US composites business provides bespoke solutions into industrial applications and projects to increase environmental resilience. The combination of high strength and low weight make composites a low embodied carbon solution compared with traditional materials. These qualities mean that they also have a role to play in modular construction.

The three engineered supports businesses serve critical applications in water treatment, power generation and chemical processing. One of them specialises in high value seismic applications.

The US electrical transmission and distribution network is set for significant growth due to historical underfunding and the increased demand for low carbon electricity. Our recently expanded US sub-station frame business is now well placed to play its part. We expect that the IIJA funding will benefit all our US Utilities businesses in the short to medium term.

Our two UK businesses predominantly produce steel products that serve growing construction industries including residential construction and data centres.

Galvanizing Services

Hot-dip galvanizing ensures that steel products last for decades, without the need for retreatment, and that the steel is fit for recycling when the product eventually reaches the end of its life. It has strong sustainability credentials. We take great care to ensure that the process does not adversely impact the environment. See the case study on page 39.

The end markets that galvanized products serve are many and varied including growth industries such as road and rail infrastructure, water treatment, construction, and electrical transmission and distribution. We would expect the galvanizing industry to grow at GDP in France and the UK and above GDP in the US due to the IIJA. Our operating companies target above industry growth rates through thoughtful investment and superior service.

MACRO DRIVERS

Increasing population

By the mid-2030s, the world's population is forecast to be c.8.6bn (2020: 7.8bn). This increase in population, a growing proportion of whom are aged, will drive an increase in the need for safe, sustainable infrastructure.

How this trend affects our markets:

As the population grows, the need for infrastructure investment increases accordingly to ensure congestion does not increase pollution or erode economic productivity or quality of life.

Urbanisation

The population of people living in towns and cities is increasing, with more than half of the world's population now living in urban areas. The UN believes that by 2050, this proportion will increase to two-thirds.

How this trend affects our markets:

Increasing population density creates the risk of insufficient infrastructure, and increased pollution due to industrial activities. Government and private funding will be needed to address these concerns.

Climate change

The world is experiencing the drastic effects of climate changes. Greenhouse gas emissions are more than 50% higher than 20 years ago. Global warming is causing long-lasting changes to the Earth's climate system.

How this trend affects our markets:

To keep global warming to a minimum of 1.5°C, infrastructure needs to be transitioned to clean energy sources. To mitigate against the extreme weather events caused by global warming, infrastructure needs to become more resilient.

Health & safety legislation

Health & safety requirements are increasing across the globe as people and governments demand higher standards of safety and personal health.

How this trend affects our markets:

The impacts of more demanding standards are seen across our markets from the implementation of new requirements for crash barriers to the requirement for transmission poles to be resistant to wildfires.

MARKET DRIVERS

Sustainable materials

Materials that do not deplete non-renewable resources and help the construction industry achieve net zero carbon emissions are becoming increasingly required.

How this trend affects our markets:

The drive towards sustainability will impact the choice of materials placing a premium on low embodied carbon materials, and materials that are suitable for the circular economy.

Vision Zero

Vision Zero is a strategy to eliminate all traffic fatalities and severe injuries, while increasing safe, healthy, equitable mobility for all. First implemented in Sweden in the 1990s, Vision Zero has proved successful across Europe and has recently been adopted by the US Government in their National Roadway Safety Strategy to reduce the 40,000 p.a. US road deaths.

How this trend affects our markets:

Road systems are being designed to eliminate deaths, acknowledging that human error is inevitable. This places a greater onus on the road infrastructure and will drive the implementation of new technology and higher standards.

Enabling technology

As sensing and data become less expensive and more prevalent they can lead to breakthroughs in how systems function.

How this trend affects our markets:

Within Hill & Smith's markets, the Roads market is an early adopter. Connected technology is used to increase the safety of road workers and reduce congestion through road works to minimise the economic impact. The effect of enabling technology will be felt across all markets in the medium term.

Infrastructure safety

High profile incidents such as bridge failures, wildfires caused by poor infrastructure resilience and rail accidents are leading to an increased focus on infrastructure safety.

How this trend affects our markets:

The public is understandably intolerant of infrastructure failures. This has led to increased funding to address issues.

Decarbonisation

The US, UK and French governments have all agreed to meet the carbon reduction goals of the Paris Agreement.

How this trend affects our markets:

Governments are requiring organisations to make a net zero commitment and start to take appropriate action. The impacts of this are widespread and present an opportunity to play a meaningful part in the transition and place a requirement on businesses, including Hill & Smith, to reduce their own carbon production.

OUR BUSINESS MODEL

PORTFOLIO MANAGEMENT

Niche markets

We are attracted to fast growing niche opportunities that provide significant value to our customers in their critical applications, preferably in markets with high barriers to entry such as regulation. We look to capitalise on the extensive domain knowledge we hold within our current markets, to minimise risk as we continue to evolve our portfolio through organic developments, thoughtful acquisitions, and targeted disposals.

Sustainability

Our products and services help transport become safer and infrastructure become more sustainable, with both the environment and our customers benefitting through the value that our diverse offerings provide.

Read more on pages 6 to 7 and pages 32 to 53.

ENHANCED ORGANIC GROWTH

Corporate scalability

We are organised for growth and scalability. Our Executive Board includes our Group Presidents who are responsible for companies across our portfolio and will be accountable for accelerating growth within their market portfolio and supporting the business overall.

- David George – Roads businesses
- Denise Beachy – Composites, engineered supports and construction businesses
- Hooman Javvi – Galvanizing, electrical transmission and security businesses

Read more on **Group Presidents** on pages 68 to 69.

COMPETITIVE ADVANTAGES

Operating company agility

We operate a decentralised autonomous operating model, which benefits from a highly accountable management, agility and customer intimacy, with the ability to attract talented people who want to make a difference. Our individual operating companies are encouraged and incentivised to exercise agility and entrepreneurialism, and we allow them room to do so. This approach ensures that decisions are made close to the market and that our businesses can respond rapidly both to opportunities and to changes in their competitive environment.

Innovation

Innovation is instrumental in supporting our long-term organic profit growth targets and is a new area of focus. We are committed to innovating products in the medium term that meet evolving customer and market needs. In the short term, we are building the capability to accelerate our rate of innovation through skills development, recruitment and Group-wide workshops.

VALUE FOR STAKEHOLDERS

Employees
Talented people are fundamental to the success of our decentralised model, and with this in mind we recruited a Chief People Officer in June 2021, who is leading on career and talent development across the Group. We aim to provide safe, high-quality jobs for our employees worldwide providing the potential for career development and socio-economic mobility. We are committed, wherever possible, to ensuring that we provide stable, inclusive employment for all members of the community in successful and sustainable businesses.

Communities
Our devolved business model of operating companies being led by their own independent management teams means they can work directly with their local communities in supporting not only their economic aspirations, but also local charitable initiatives.

Portfolio companies
In order to achieve sustainable profitable organic growth, our operating companies seek to create and provide products that our customers need. They are supported by the resources of a larger group giving them access to cash for capital investment, for product innovation, plant and equipment and development. In return they must operate within a disciplined framework of clear strategic and financial priorities, whilst at the same time applying the appropriate level of corporate governance and reporting.

Shareholders
For our investors, we aim to deliver superior shareholder returns through our strategy and scalable business model. We operate in six different geographies and therefore are not dependent on one economy for our success. We are focused on territories where there are existing high levels of investment, driven by the need to upgrade or replace existing ageing infrastructure. This drives high cash generation that we are able to redistribute to our shareholders through our progressive dividend policy.

CASE STUDY

PROLECTRIC PROPOWER DELIVERS SIGNIFICANT REDUCTION IN DIESEL USAGE AND CO2e EMISSIONS.

"A market leading solar/hybrid generator that reduces fuel usage, emissions, overnight noise and maintenance requirements."

By deploying Prolectric's ProPower solar hybrid generator at the A63 Improvement Scheme, Balfour Beatty achieved huge environmental savings, including a 2,527 litre reduction in diesel usage, and a 7,000kg reduction in CO_2 output.

Prolectric's client, Balfour Beatty, was awarded a £75 million contract as part of a £355 million National Highways major improvement scheme in Hull.

Balfour Beatty deployed the industry's first electric mini excavators as a trial to reduce noise and emissions from equipment on site. However, the excavators needed to be charged each day, and with no mains power on site, this was a challenge. Previously a diesel generator would have run 24/7 to provide on-site power, but this would eliminate the environmental benefits of deploying electric equipment.

So, Prolectric's ProPower was deployed – a market leading solar/hybrid generator that reduces fuel usage, emissions, overnight noise and maintenance requirements. The ProPower packs the latest solar and battery storage technology into a compact trailer, making it powerful, clean, and easy to deploy.

The project demonstrates how solar power and battery storage technology can help deliver cleaner, more sustainable worksites by reducing the amount of fuel used on major projects.

Find out more about the company at
www.prolectric.co.uk

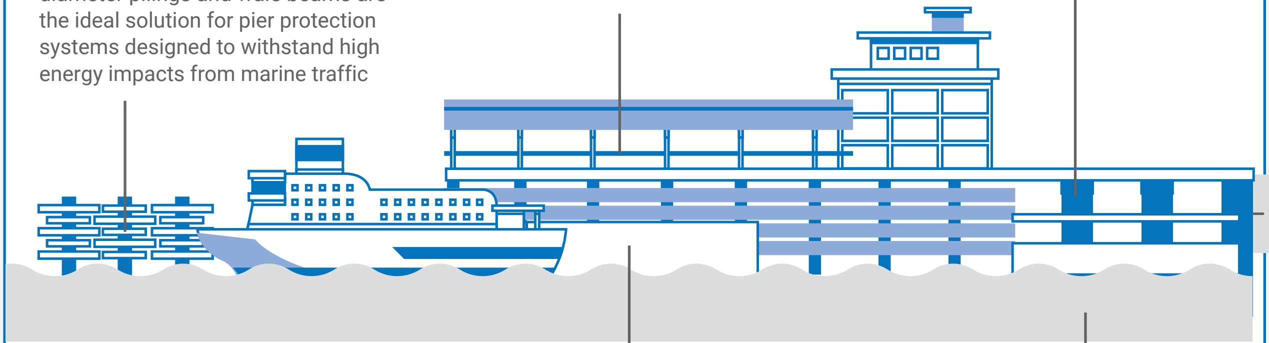
OUR PRODUCTS

WATERWAYS AND DOCKLANDS

Pier protection
Fiber Reinforced Polymer ('FRP') large diameter pilings and wale beams are the ideal solution for pier protection systems designed to withstand high energy impacts from marine traffic

Dockside camels
An attractive option to protect both vessels and piers from damage, FRP composite material's ability to resist corrosion in a harsh saltwater environment makes it an environmentally friendly solution

Piers & walkways
FRP composite material does not leach, flake or rot into water systems and can replace wood in marine applications



Maritime guide walls
FRP flexible fender system that bends under vessel contact but then recovers without breaking

Flood defences
FRP flood protection. Movable dams that can be raised and lowered during changing water levels

RURAL

Flood doors
Specialist composite flood doors that significantly reduce the volumes of water entering a property in the event of a flood

Wetlands boardwalks
Composite low embodied energy planks for lightweight environmentally friendly walkway solutions

Agriculture
Galvanized farm buildings

Green bridges
BEBO Arch System is a standardised patented precast concrete arch system for the design and construction of grass covered bridges, tunnels, culverts and other underground structures

Trail bridges
Lightweight, strong, portable and longlasting low embodied energy FRP bridges for parks and trails

Roads and security | Utilities | Galvanizing

SUBURBAN

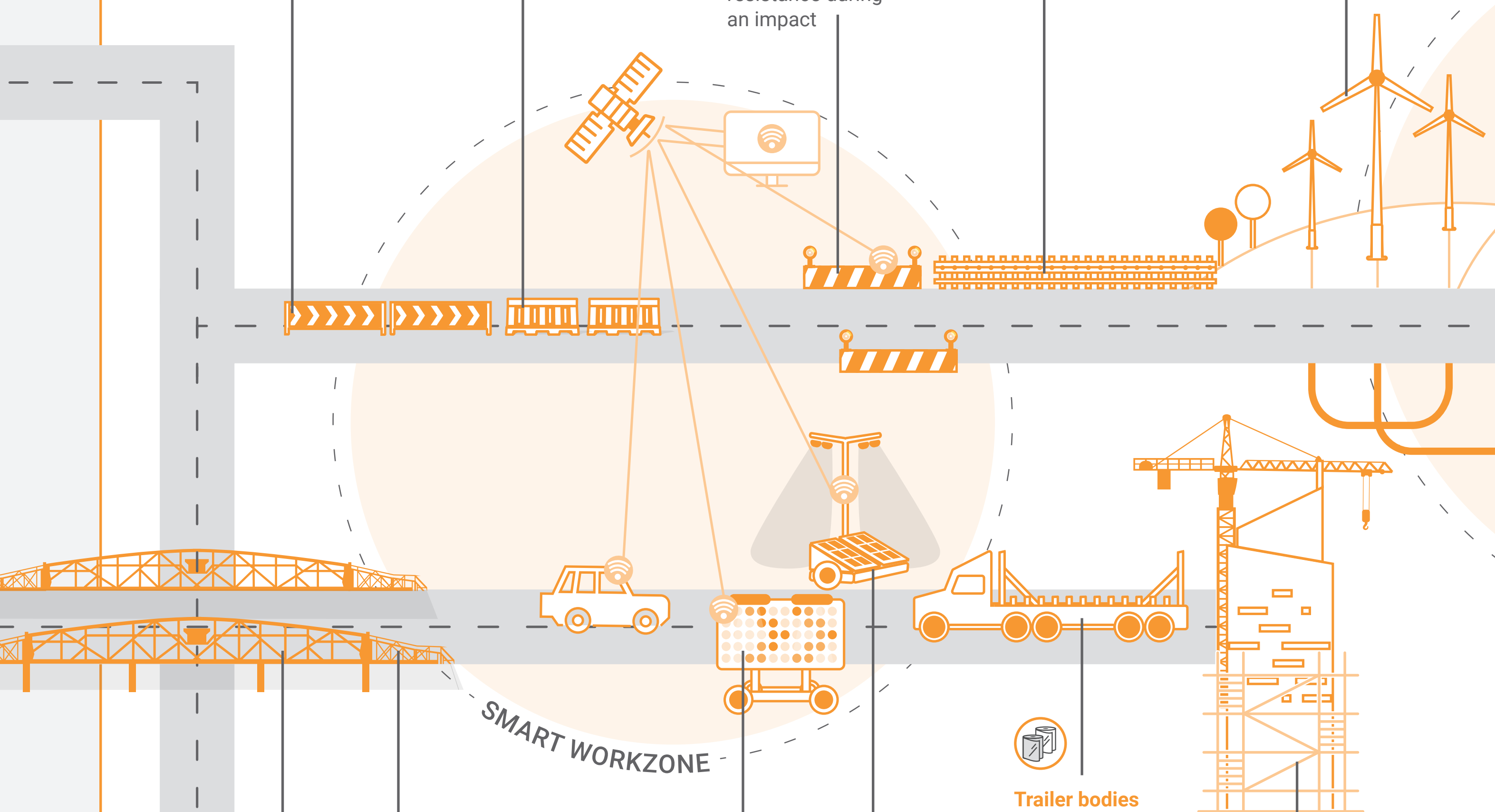
Temporary safety barrier
Metal and concrete work zone protection for roadworks and traffic management

Zoneguard temporary barrier
Protects road work employees, whilst allowing continued safe traffic flow

Crash cushions
The Smart Cushion® crash attenuator, with remote monitoring, is a revolutionary, speed-dependent product that varies stopping resistance during an impact

Roadside barrier
Metal roadside crash protection

Windfarms
Composite blade refurbishment and steel platforms



Trailer bodies
Galvanized metal chassis

Work zone solar powered lighting
Sustainable solar powered lighting backed up by innovative technology and industry-leading remote monitoring and control

Bridge parapets
Bridge-side crash protection

Road message boards
Integrated Traffic Solutions enhance transportation and improve safety and mobility in and around work zones. Includes internet connectivity with motor vehicles

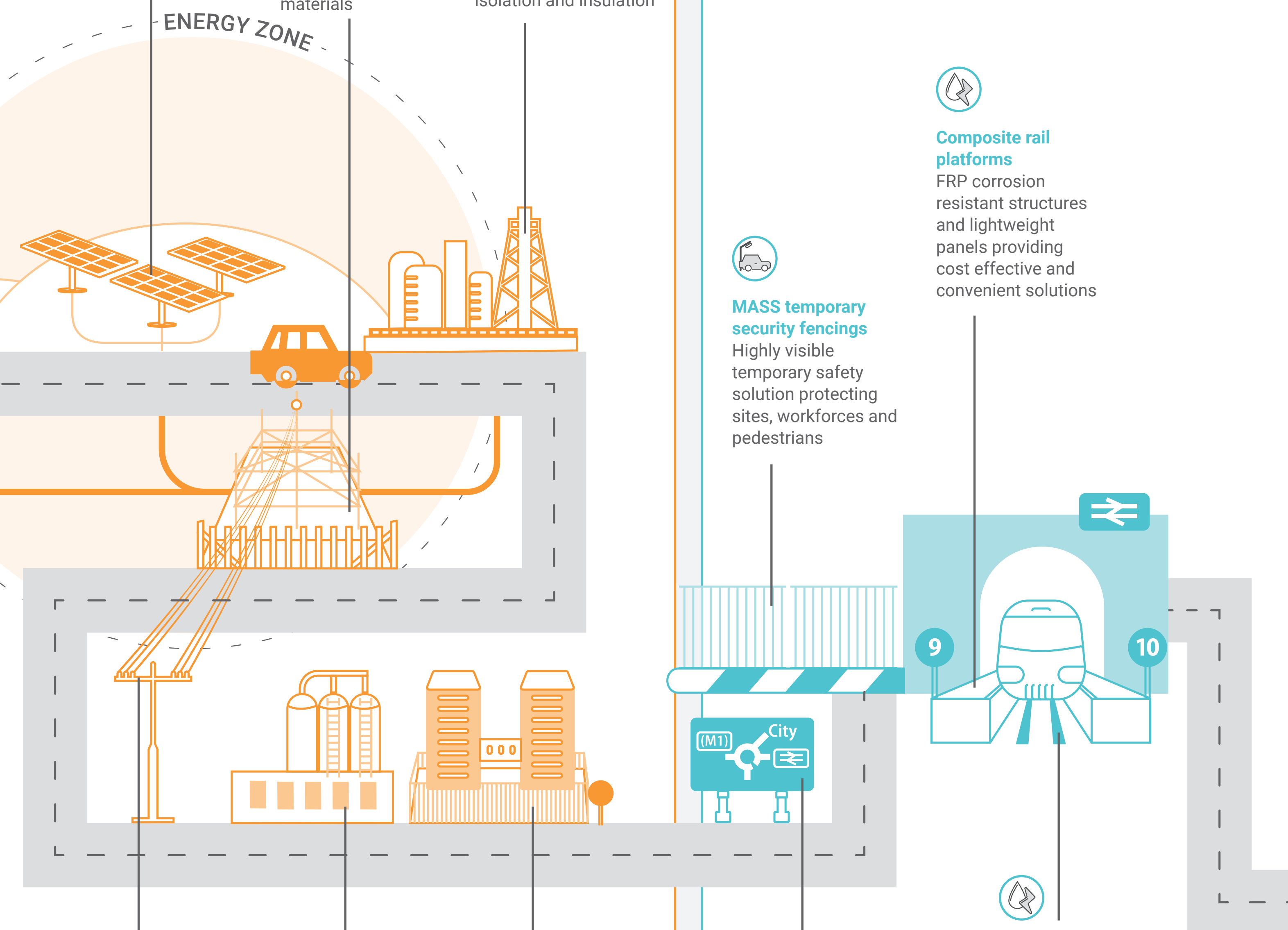
Construction
Galvanized structural steel

Bridges
Galvanized road bridges

Solar fields
Galvanized steel frames for solar panels

Electrical substation
Electric transmission solutions using steel and composite materials

LNG Plant
Metal grating and flooring and engineered support products, including cryogenic pipe supports that provide isolation and insulation



Electrical transmission poles
Steel transmission poles and anti-wildfire composite poles that do not biodegrade

Paper mills
FRP products that have the durability and abrasion resistance to outperform conventional materials in harsh and acidic environments

Data centre security systems
Palisade perimeter security fencing, hostile vehicle and entry protection

TOWN

MASS temporary security fencings
Highly visible temporary safety solution protecting sites, workforces and pedestrians

Composite rail platforms
FRP corrosion resistant structures and lightweight panels providing cost effective and convenient solutions

Street signs
Street sign materials

Composite railcar chassis
FRP lightweight highly energy efficient floor panels and door jambs for refrigerated freight cars

Hotels (A/C)
Modular cooling tower design delivering low lifecycle costs, durability and sustainability

Apartments (Fire doors)
Fully tested, accredited apartment entrance doors for use in internal and external applications

Solar powered street lights
Solar lighting for streets, car parks and footpaths offering powerful and reliable year-round lighting without noise or emissions

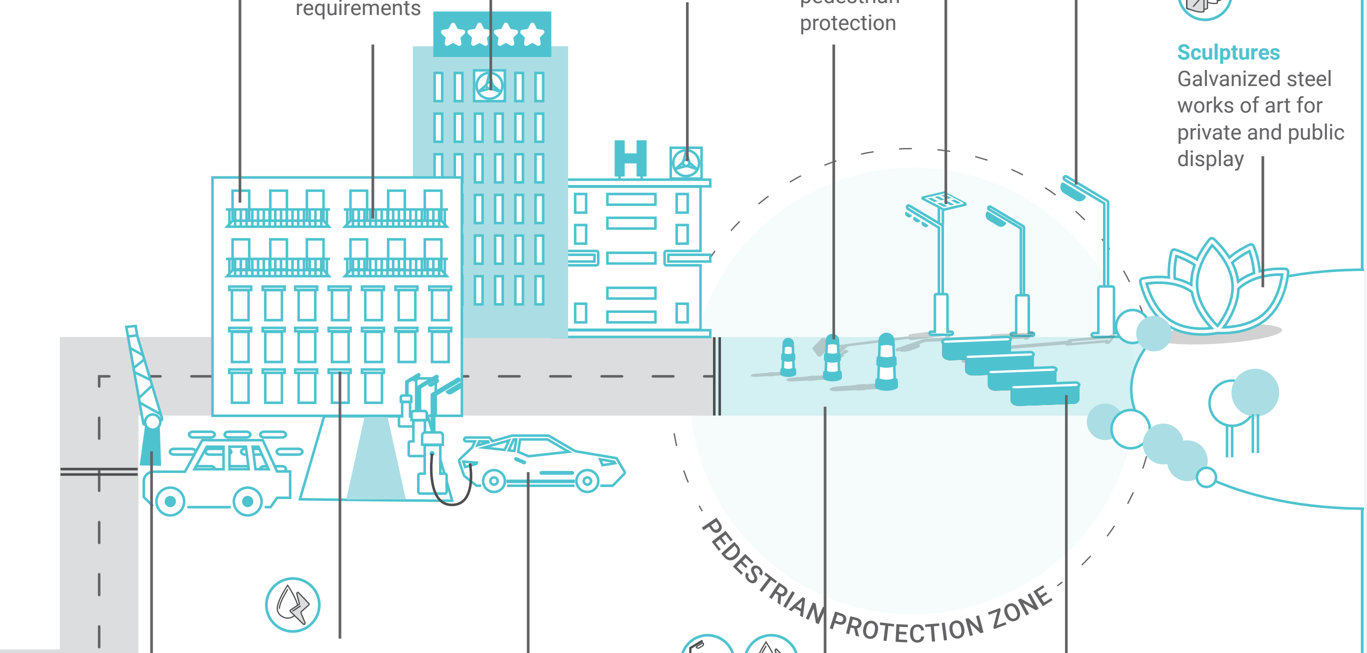
Hospital (A/C)
Seismic and anti-vibration cooling towers for critical rooftop applications, that bridge the gap between sustainability and energy efficiency

Pedestrian safety bollards
Impact tested security bollards providing pedestrian protection

Apartments (Balconies)
Structural shapes for both residential and commercial applications, with minimum maintenance requirements

Street lights
Manufacture and distribution of steel and aluminium lighting columns

Sculptures
Galvanized steel works of art for private and public display



Masonry supports and wind posts
Providing steel support systems for buildings

Composite pedestrian walkways
Low maintenance lightweight FRP recreational and public access elevated boardwalks and sidewalks

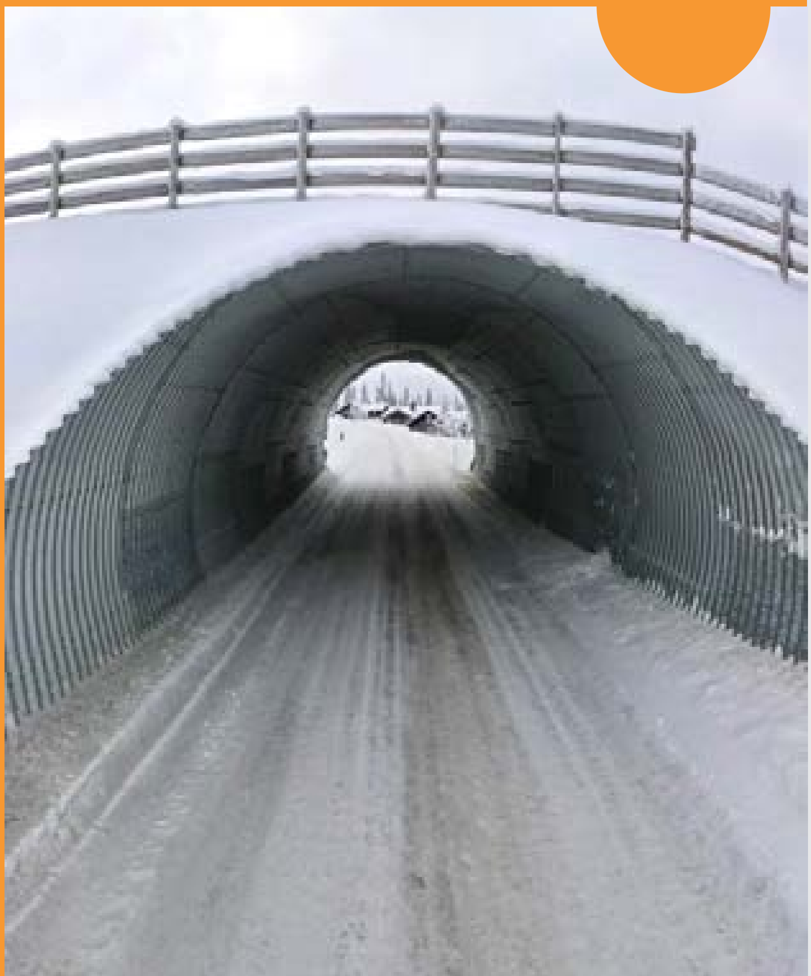
Hostile Vehicle Mitigation
Hostile Vehicle Mitigation solutions ranging from small single gate installations to large state events requiring a full secure island site

Parking and security gates
Manufacturers of parking control equipment

Electric charging points
Charge points incorporated into our street lighting columns

CASE STUDY

KVITFJELL SKI RESORT
MP200 MULTIPLATE™ SYSTEM



"Illustrating our design and supply of structures that embed themselves into the environment whilst considering the holistic approach of construction integration and environmental preservation."

Located north of Oslo, Norway, the Kvitfjell Ski Resort team wanted to maximise safety in their resort, allowing skiers to cross over access roads in and around the resort during the peak snow season. They wanted to improve the skier experience without impacting the environment and surrounding landscape and were looking for a suitable sustainable material with which to construct the structures.

Aesthetic integration, minimising embodied carbon and maximising safety were the key drivers to the project and Asset International Structures (a division of Hill & Smith) in collaboration with Brodrene Dahl AS in Norway supplied a robust design/manufactured solution in our MP200 Multiplate™ system.

The versatility of Asset Multiplate™ in structural shapes and sizes offered our client the broadest choice to the designer. With its off-site modular construction and lightweight design, we were able to overcome challenges around the resort such as difficult terrain and poor access to various sites, by introducing an efficient, easy to install design that allowed the team to plan the installation during the autumn months with low impact to the environment prior to the first snowfall in November.

Find out more about the company at
www.assetint.co.uk/

MEASURING OUR PERFORMANCE

HEALTH & SAFETY

Link to strategy

The health & safety performance of each subsidiary is key to our management of the Group as a responsible employer and to our reputation in the markets in which we operate.

KPI definition

Lost time injury rate (No. of injuries divided by hours worked x 100,000).

Performance

2021 **1.7**

2020 1.5

Comment

The Executive Board has significantly increased the focus on Health & Safety in 2021. Any operating company that suffers a lost time injury is required to report the root cause analysis and corrective actions to the Executive Board. There has also been an initiative to educate employees on the need to report both accidents and near misses. See targets on page 41.

ORGANIC REVENUE GROWTH

Link to strategy

Our autonomous operating model, focus on growth drivers and the premium placed on talent and innovation are designed to drive organic growth across all of the Group's businesses.

KPI definition

Percentage change in annual revenue excluding the effects of acquisitions, disposals and currency translation.

Performance

2021 **10%**

2020 (7)%

Comment

The organic growth in revenue of 10% reflects a strong recovery in trading across all three divisions following the COVID-related disruption in 2020. The Group targets annual organic revenue growth in excess of 3%.

UNDERLYING CASH CONVERSION

Link to strategy

Our ability to fund growth investments, both organic and inorganic, and progressive returns to shareholders is dependent on us operating a cash-generative model.

KPI definition

Adjusted operating cash flow as a percentage of underlying operating profit. The calculation of adjusted operating cash flow is explained in note 4 to the Financial Statements.

Performance

2021 **78%**

2020 139%

Comment

The underlying cash conversion of 78% in 2021 reflects strategic investment in capital that will drive future growth, particularly in our US roads business where we invested £12.2m in its temporary barrier rental fleet. Cash conversion excluding strategic investments in rental assets was 97%. We target conversion in excess of 90%.

LEVERAGE

Link to strategy

We seek to maintain conservative leverage that minimises liquidity risk without compromising our ability to invest in both organic and inorganic growth opportunities.

KPI definition

The ratio of net debt to EBITDA, as defined in the covenant requirements of the Group's borrowing facility agreements. A calculation is provided in note 4 of the Financial Statements.

Performance

2021 **1.0x**

2020 1.3x

Comment

Group net debt at 31 December 2021 was £144.7m, representing 1.0 times EBITDA on a covenant basis, well below the Group's covenant limit of 3 times. Whilst this is below our target range of 1.5 to 2.0 times, it creates the capacity for the Group to invest in organic and acquisitive growth.

UNDERLYING OPERATING PROFIT MARGIN

Link to strategy

We focus on investing in higher return markets and continually examine our portfolio of businesses, with the aim of increasing quality at each iteration.

KPI definition

Underlying operating profit as a percentage of revenue.

Performance

2021	**12.2%**
2020	10.6%

Comment

The operating margin improved by 160 basis points to 12.2% in 2021, back within the Group's target range of 12% to 15%. Margins improved across all three divisions, reflecting successful management of the supply chain, labour and inflation challenges that we experienced during the year.

RETURN ON INVESTED CAPITAL ('ROIC')

Link to strategy

We have a disciplined M&A strategy that targets businesses with strong growth and return metrics, alongside a capital investment programme centred on our higher growth, higher return end markets.

KPI definition

Underlying operating profit divided by average invested capital. Invested capital is defined as the sum of intangible assets, property, plant and equipment, right-of-use assets, assets and liabilities held for sale, inventories, trade and other receivables, and trade and other payables.

Performance

2021	**16.8%**
2020	12.6%

Comment

Group ROIC improved significantly to 16.8% (2020: 12.6%), close to the Group's target of 17%. The improvement reflects a combination of the strong trading performance and our continued disciplined approach to working capital management and capital allocation.

GREENHOUSE GAS EMISSIONS

Link to strategy

Cost reductions and greater efficiency, improve not only our operating margins but also the sustainability of our operations.

KPI definition

CO_2 emissions, year on year, from Scope 1 and Scope 2 on a market-based usage basis.

Intensity ratio calculated as tonnes of CO_2 per £000s of Revenue.

Performance

CO_2

2021	**64,597**
2020	67,402

Intensity ratio

2021	**0.09**
2020	0.10

Comment

Understanding the source of the Group's Scope 1 and Scope 2 emissions has helped the Executive Board to understand the route to net zero. In August 2021, we signed up to the SBTi's business commitment to limit global warming to 1.5°C. The Company continues to see its Intensity Ratio fall. See pages 36 to 37 and pages 52 to 53 or more details.

EMPLOYEE ENGAGEMENT

Link to strategy

We need a highly engaged and talented workforce working within our operating companies to deliver our purpose and growth ambitions.

KPI definition

The percentage of our worldwide workforce who feel positively engaged with our Group, as determined by independent employee engagement surveys.

Performance

2021	**55%**
2019	48%

Comment

The results of our 2021 survey have shown a very positive increase in employee engagement, increasing by seven percentage points from our first survey in 2019. We did not run a survey in 2020, but we intend to conduct these surveys on an annual basis from 2022 onwards.

CHAIR'S LETTER

Alan Giddins
Chair

DEAR SHAREHOLDER

In a year when we have continued to face challenges presented by COVID, our strong operational and financial performance demonstrates the commitment of our people and the strength of our business model. On behalf of the Board, I would like to thank all of the Group's employees for their individual and collective contributions over the last 12 months.

Performance Highlights

Revenue for the year was £705.0m (2020: £660.5m) and underlying operating profit was £86.0m (2020: £69.9m). Underlying operating margin was 12.2% (2020: 10.6%), while underlying profit before taxation was £79.9m (2020 £62.6m). Reported profit before taxation was £50.9m (2020: £35.5m), and is shown after taking account of certain non-underlying items.

The Group continued to be highly cash generative with cash generated from operations of £103.1m (2020: £118.3m) reflecting both the cash-generative nature of our business model, and the effective management of both working capital and capital expenditure. As at 31 December 2021, total net debt was £144.7m (2020: £146.2m), leaving financing headroom of £234.4m on the Group's borrowing facilities. Return on capital invested was 16.8% (2020: 12.6%).

Management has remained active in managing our portfolio of businesses, with the disposal of Technocover, the closure of our loss-making Variable Message Signs business and the acquisition of Prolectric Services. In addition, we have rebuilt our M&A pipeline, ensuring that each potential opportunity is closely aligned with our purpose.

Strategy

In June, the Board and Executive Board met off-site to undertake a detailed strategy review. The quality of thought that had gone into the five-year strategy plan presented by management was extremely impressive. Pages 6 to 7 provide further detail on our strategy.

People

As reported last year, the Group modified its organisational structure with the introduction of the Group President role, reporting to the Chief Executive. This model provides for far greater agility and focus, while bringing increased scalability to the organisation. In January 2022, we announced two new Group President appointments, Hooman Javvi and David George, who along with Denise Beachy will now have all of the Group companies reporting into them. Hooman and David were

> *"The concept of long-term sustainability sits at the heart of our purpose. In 2021, we undertook a full materiality assessment, reflecting on our opportunity to impact ESG outcomes, taking into account not just our own views but those of all of our stakeholders."*

The result of this review can be found on pages 32 to 53.

the two outstanding candidates to come through the recruitment process and I am very positive about the impact their joining will have on Hill & Smith.

In June 2021, Andrew Park joined the Group as Chief People Officer, a new role for Hill & Smith. I have been hugely impressed by the impact Andrew has had across the organisation. He has set out a new approach to talent management within the organisation and I believe that this will help ensure that we are able to identify and develop our most able future leaders. Andrew has also given considerable thought to how we can improve diversity within Hill & Smith, something which your Board is fully committed to.

Listening to and understanding the views of our employees is critical, particularly when operating within a decentralised model. We ran an all-employee Engagement Survey again this year and were due to hold the second set of Workforce Advisory Panel meetings in the fourth quarter of 2021. Unfortunately, the occurrence of the Omicron variant of coronavirus meant that these had to be cancelled at the last minute. These meetings bring together employees from all of our businesses to talk through matters of importance to them and to explain the Group's strategy in more detail. We are currently aiming to hold these rearranged meetings in May and November 2022.

Governance

The Board continues to be committed to the highest standards of governance, and stakeholder considerations remain central to the Board's decision-making. Our full Corporate Governance Report, including details of our compliance with the UK Corporate Governance Code, is set out on pages 70 to 81.

Board

As part of the Nomination Committee role in reviewing Board composition and succession, the Committee identified that it would be beneficial to bring additional operational and international experience to the Board, and in particular to add a US based Non-executive Director.

Leigh-Ann Russell joined the Board on 1 April 2021. Leigh-Ann is BP PLC ('bp') EVP Innovation and Engineering and a member of its leadership team. On 31 January 2022, the Group announced that Farrokh Batliwala would be joining the Board effective from 1 April 2022. Farrokh was formerly President of Connect and Control Technologies, ITT Inc, prior to which he held senior management roles at both Eaton Corporation and Pratt & Whitney. Farrokh lives on the East Coast of the US. I feel very fortunate that we have been able to attract two individuals of Leigh-Ann's and Farrokh's calibre to the Board.

Health & Safety

The safety and wellbeing of our employees is of the utmost importance to the Board and is discussed at every Board meeting. At all times, and against the background of the COVID pandemic, the Board has sought to ensure that health & safety is prioritised at each of our operational sites. It is, however, with great sadness that I have to report that two of our employees in the US died in 2021 due to COVID and our thoughts are with their families.

In September 2021, we announced the appointment of Diana Hart as Group Head of Health & Safety. Diana presented at the December Board, and I am in no doubt about the positive impact she is going to have on our business. During 2021, we have witnessed increased levels of near miss reporting and we have started to see an improvement in lost time injury rates, in a number of our operating companies. However, there remains more to do, and this will continue to be an area of key focus for the Board.

Sustainability

The concept of long-term sustainability sits at the heart of our purpose. At the start of 2021, we undertook a full materiality assessment, reflecting on our opportunity to impact Environment, Social and Governance ('ESG') outcomes, taking into account not just our own views but those of our stakeholders. We engaged with stakeholders from across our supply chain, customers, suppliers, banks and investors. This assessment has featured strongly in the development of a new sustainability framework, which is covered in more detail in the Sustainability Report on pages 32 to 53.

We have established an ESG committee within the business, comprising representatives from across the Group to drive forward our sustainability agenda. Lucinda Farrington-Parker joined us in February 2022 as Group Head of Sustainability.

Your Board is fully committed to ensuring that Hill & Smith contributes to a more sustainable world through its operations, culture and how it engages and works with its third party stakeholders.

Dividend and Annual General Meeting

The Board recognises that dividends are an important part of shareholder returns. The Board has proposed a final dividend of 19.0p (2020: 17.5p) which, if approved, would result in a full year dividend of 31.0p (2020: (26.7p), keeping dividend cover of around 2.5 times underlying earnings.

Due to restrictions in place at the time, the 2021 Annual General Meeting was held virtually via an online platform, which meant that shareholders could not interact with the Board in the usual way.

The 2022 Annual General Meeting is to be held at The Village Hotel, Shirley, B90 4GW on 24 May 2022, and with the relaxation of restrictions, we anticipate being able to welcome shareholders in person. The meeting is an ideal forum for raising any questions you may have of your Board and I hope many of you will take advantage of this opportunity. I very much look forward to meeting you there.

Looking Ahead

In the short term it is hard not to reflect on the significant geo-political uncertainties, inflationary and supply chain issues which are impacting businesses around the world. The risk of further disruption from COVID also remains. Exactly how these factors will impact Hill & Smith is hard to judge, but what is certain is that global economies are seeing a slowdown in growth against the levels being forecast only a few months ago.

I remain confident, however, about the medium term outlook for Hill & Smith as we have an excellent management team, a clear strategy, a strong balance sheet and a highly committed group of employees. Government commitments to infrastructure spend, particularly in our core UK and US markets, are also strong and will underpin a number of the end markets we serve. So while we may face some short term disruption, I believe that the Group's medium and longer terms prospects remain very positive.

Alan Giddins
Chair

9 March 2022

Chief Executive's Review

Paul Simmons
Group Chief Executive

Hannah Nichols
Group Chief Financial Officer

REVIEW OF 2021

2021 saw the Group deliver record constant currency revenue and underlying operating profit despite the industry-wide headwinds that we faced. Our strong performance is, once again, due to a combination of the talent and motivation of our global team, our choice of long-term favourable markets and our agile autonomous operating model. I would like to thank our employees and business partners for their excellent contribution.

We have seen a good recovery in trading in 2021, with all three divisions delivering strong revenue and profit growth compared to 2020 which was more severely impacted by COVID-related disruption. I am also pleased to report that the Group delivered 4% revenue and 3% profit growth on an organic constant currency basis compared to 2019, our previous record year, highlighting the resilience and continued progress of our business.

The trading highlight was in our Utilities division, which saw strong profit growth and margin progression despite a robust comparator, supported by high levels of demand for US engineered composite solutions and good progress in our engineered supports (formerly "pipe supports") and UK utility businesses. Our Galvanizing division continued to deliver superior operating profit margins at 20%, an improvement on the prior year, despite a less favourable country mix, driven by a strong recovery in the UK and France and solid performance in the US. The Roads & Security division also delivered a robust performance with margin improvement reflecting portfolio management actions and an encouraging, albeit partial, recovery in demand in our security sub-division.

During the year, our operating companies took swift and appropriate action to manage supply chain headwinds. Actions taken included implementing price increases to offset significant input cost inflation, securing supply of raw materials and ensuring the continuity of operations against a backdrop of labour shortages in certain businesses. As we enter 2022, we believe we are well positioned to continue to manage these headwinds. The Group remains highly cash generative and maintains a strong balance sheet, positioning us well for the future as we focus on developing and funding both organic and inorganic growth opportunities.

Alongside the strong financial performance, we have made good progress on the key elements of our strategy particularly around talent and organisational development, portfolio management and ESG.

In January 2021, we established our Executive Board and introduced the Group President role, enabling us to scale the Group without compromising our decentralised model, providing mentorship for our operating company leaders and increased oversight. The Group Presidents are responsible for growing their portfolio of operating companies both organically, in partnership with the operating company Managing Directors, and inorganically, in partnership with our Corporate Development team. In 2022, we have further strengthened our Group President team and expect to add a US-based M&A Corporate Development executive. Our intent is to maintain a small, but effective, central function supporting the operating companies, bringing high quality businesses into the Group via acquisition and ensuring good governance.

> *"Alongside the strong financial performance, we have made good progress on the key elements of our strategy; particularly around talent and organisational development, portfolio management, and ESG."*

Our autonomous model places a disproportionate premium on talent with over 99% of our people employed by our operating companies and therefore close to our customers. During the year, we recruited a Chief People Officer to help us further develop our current employees and attract additional highly talented people into the Group. We also added a US-based Group Head of Health & Safety role and in the first quarter of 2022 we appointed a Head of Sustainability to help us deliver our ESG commitments, building on the work of the ESG steering group.

We have rebuilt our M&A pipeline consistent with our purpose, and against a more demanding set of financial criteria; the ability of acquired businesses to deliver long-term organic profit growth with strong gross margins is key. We also reviewed our current portfolio against those same criteria which highlighted the need for targeted disposals. Our intent is to continually improve the quality of our portfolio. A second element of our M&A approach involves systematically reviewing new to Hill & Smith niche markets to identify those aligned with our chosen market drivers and specific M&A criteria, For niche markets that meet our criteria, we initiate searches for potential acquisition targets.

In line with our refreshed strategy, we have taken actions to enhance the quality of the portfolio. In March, we were delighted to acquire solar energy experts, Prolectric Services Ltd ("Prolectric"). Prolectric has already made a positive contribution to the Group and we continue to see excellent long term growth prospects for the business. During 2021, we also disposed of our loss-making security access cover business, and we closed our small, loss-making UK variable message sign business. Following a strategic review of our Swedish road business in the second half of the year, we are currently in advanced negotiations to dispose of its rental division and are assessing the options for the remaining parts of the business.

Innovation has an increasingly important role to play in the Group's longer term organic profit growth ambitions. Higher value, more innovative products drive higher gross margins, which in turn allow sensible reinvestment by our operating companies. To teach and share best practice, we successfully ran our first innovation workshop in October 2021, with a second operating company cohort planned for early 2022.

To support the delivery of long-term organic growth, we changed the operating company Managing Directors' annual bonus scheme to reward organic profit growth and introduced a new LTIP scheme which replaces a previous ESOS scheme and enables them to share in the Group's long-term success.

OUR ESG STRATEGY AND COMMITMENTS

The growth of our business is naturally aligned to ESG: our products and services make infrastructure more sustainable and increase transport safety. In last year's annual report, I flagged that we would be developing an environmental, social and governance (ESG) strategy in 2021. With this in mind, we established an ESG steering group to work with our operating companies to create common sense, actionable plans with measurable targets. The ESG team includes myself, our Chief Financial Officer, our Company Secretary and our Chief People Officer, alongside a number of Group employees who are passionate about our ESG focus areas. I am pleased with the progress that the team has made; however, I recognise that we have more to do to improve our sustainability performance and related disclosures, and we are committed to making further progress in 2022 and beyond.

We have taken a materiality-based approach to ESG, using interviews with 38 of our key stakeholders, alongside the relevant SASB materiality maps, to identify our seven priority areas. For each of the priorities, we have developed a clear action plan and key metrics against which we can be held accountable.

Greenhouse gas emissions and energy efficiency

Greenhouse gases are a major contributor to global warming, with CO_2 emissions being the most significant for our Group. In recognition of the Group's commitment to CO_2 reduction, earlier this year we signed up to the Science Based Targets initiative (SBTi) to limit global warming to 1.5 degrees Celsius.

We have developed a carbon reduction plan which includes clear steps that we will take in the coming years to achieve net zero Scope 1 and 2 CO_2 emissions. These steps include conversion of natural gas burners used in galvanizing to an alternative technology and transition away from the use of diesel vehicles. Alongside this, we have developed a detailed costed plan which includes an assessment of the incremental capital, energy, carbon taxes and other operating costs which will support decarbonisation. I am delighted that the outcome of this process has provided the Group with the confidence to commit to achieving a carbon net zero target by 2040. Our current expectations are that the financial impact of achieving this will not have a material effect on the growth prospects for the Group, with modest levels of incremental capex required to achieve it. During 2022, we will continue to develop the plan, including starting an assessment of our supply chain Scope 3 emissions which will enable us to determine our SBTi targets by August 2023.

Sustainable products

In line with our purpose, we are our committed to ensuring that our products and services support a sustainable future. At the end of 2020, we reset our portfolio management criteria to ensure that all decision making is guided by our purpose of creating sustainable infrastructure and safe transport through innovation.

In addition, during 2021, we have worked alongside representatives from our operating companies and a third-party expert to complete an assessment of three of our key products and services, to measure their sustainability and value to society. In 2022, we will validate our use of the model before rolling the methodology out to a broader range of our products. We will then be able to develop an improvement plan and introduce key metrics.

Health and safety

The health, safety and wellbeing of our employees continues to be a key focus across all operating companies. Health and safety is a key agenda item for the Executive Board, which I chair, and our recently appointed Chief People Officer is accountable for Group-wide health and safety improvement. In addition, we have recruited a Group Head of Health and Safety, who has set a clear strategy to support our operating companies with practical advice, training and increasing awareness.

We have set short and medium-term targets to improve health and safety across our organisation, using Lost Time Injury Rate (LTIR) as the key indicator to track and monitor our progress. By 2025, we are targeting to reduce our LTIR to 0.75, with a further reduction to 0.25 by 2030.

Talent development and engagement

Talented people are fundamental to the success of our autonomous operating model. We need a highly engaged and capable workforce within our operating companies, and this can only be achieved by attracting, developing, supporting, and retaining the right people.

We are using employee engagement scores to measure our progress in this area. I am pleased that the result of our recent survey showed that employee engagement has improved to 55% compared to 48% in 2019, however there is more work to do. Going forward, we will be measuring employee engagement annually, with a target to improve to 66% engagement by 2025 and to 75% by 2030.

Diversity and Inclusion

As an organisation we want to employ the best people for the job and help them thrive. We know that we can only do this by considering talented people from the whole community. Our Chief People Officer is working with our local HR communities to develop a series of initiatives to further foster diversity and inclusion across the Group.

To support this ambition, we have set Group targets for both gender and ethnic diversity at a PLC Board, Executive Board and Senior Leader level. In 2022, we expect further progress to be made at the Executive and Senior Leader level.

Climate risks

During the year, we have made good progress in assessing the financial risks and opportunities to our business due to climate change. As a result, we are pleased to issue our first report in response to the Task Force on Climate-related Financial Disclosures ('TCFD'). The assessment suggests that, while physical climate change presents a relatively low risk to our future business operations, it may present opportunities for the Group. Given our focus on sustainable infrastructure, some of our operating companies already provide products and solutions to address extreme weather conditions, and we see this as an opportunity for future growth.

Ethical conduct

As a Group, we are committed to conducting our business activities responsibly and ethically, and in accordance with local laws and regulations. We support this commitment by providing training and educational programmes for employees, together with a Group Code of Business Conduct which underpins all our activities.

Further details of our new sustainability plan, targets and TCFD disclosures can be found on pages 32 to 53 of this Annual Report.

BOARD UPDATES

In the period, we announced the appointment of Leigh-Ann Russell as a Non-executive Director, who joined the Board on 1 April 2021. In January 2022, we were also pleased to announce the appointment of Farrokh Batliwala as a US based Non-executive Director, with effect from 1 April 2022. Both appointments reflect the Group's careful succession planning to recruit Non-executive Directors with the necessary skills, experience and diversity to support the Group's higher quality growth agenda.

2021 Headline Results

			Change %	
	2021	2020	Reported	OCC
Revenue	**£705.0m**	£660.5m	+7	+10
Underlying[(1)]:				
Operating profit	**£86.0m**	£69.9m	+23	+29
Operating margin	**12.2%**	10.6%	+160bps	+190bps
Profit before tax	**£79.9m**	£62.6m	+28	
Earnings per share	**77.9p**	63.2p	+23	
Reported:				
Operating profit	**£57.0m**	£42.8m	+33	
Operating margin	**8.1%**	6.5%	+160bps	
Profit before tax	**£50.9m**	£35.5m	+43	
Basic earnings per share	**43.0p**	30.2p	+42	

(1) Underlying measures are set out in note 4 to the Financial Statements and exclude certain non-underlying items, which are detailed in note 5 to the Financial Statements.

The Group has seen a strong trading performance compared to 2020 which was impacted by COVID-related business closures and reduced levels of demand from the middle of March. Revenue for the period was £705.0m (2020: £660.5m), an increase of 7% on a reported basis. Organic constant currency revenue growth was 10%. Underlying operating profit was £86.0m (2020: £69.9m) and underlying operating margin recovered strongly to 12.2% compared to 10.6% in 2020. Underlying profit before taxation was £79.9m (2020: £62.6m). Reported operating profit was £57.0m (2020: £42.8m) and reported profit before tax was £50.9m (2020: £35.5m).

Underlying earnings per share increased to 77.9p (2020: 63.2p). The diluted underlying earnings per share was 77.1p (2020: 62.9p). Reported earnings per share was 43.0p (2020: 30.2p). The weighted average number of shares in issue was 79.6m (2020: 79.5m) with the diluted number of shares at 80.6m (2020: 79.9m) adjusted for the outstanding number of dilutive share options.

The principal reconciling items between underlying and reported operating profit are non-cash charges including the impairment of goodwill and intangibles relating to our security businesses of £16.0m and the amortisation of acquisition intangibles of £6.1m, together with costs associated with the closure of the UK variable message signs business of £4.5m. Note 5 of the Financial Statements provides further details on the Group's non-underlying items.

DIVIDEND

Based on the strong trading performance and cash generation during the year, the Board is recommending a final dividend of 19.0p per share, making a total dividend for the year of 31.0p per share (2020: 26.7p). Looking forward, we aim to provide sustainable and progressive dividend growth, targeting a dividend cover of around 2.5 times underlying earnings. The final dividend, if approved, will be paid on 8 July 2022 to shareholders on the register on 6 June 2022.

OUTLOOK

We expect to make good progress in 2022, despite the ongoing supply chain and inflationary headwinds which we continue to actively manage.

At this stage the consequences for the global economy of the tragic events in Ukraine are uncertain. While the Group has no operations in this part of the world and no direct and negligible indirect exposure to customers and suppliers in the region, we are carefully monitoring the situation.

In the medium to longer term, the positive outlook is supported by strong market growth drivers for both sustainable infrastructure and safe transport. In the US, all our businesses are well placed to benefit from the increased spend approved under the Infrastructure Investment and Jobs Act. In the UK, the Government remains committed to the increased levels of funding for Road Investment Strategy 2 and we expect this to support medium-term growth.

CASE STUDY

COMPOSITE FIRE POLES MITIGATING WILDFIRE DISASTERS

"Fire-retardant engineered composite FireSleeves incorporate a fire resistant sleeve which shields the base FRP pole from the excessive heat generated by typical brush and grass fires."

In response to wild fires in California, which will become increasingly more likely as global temperatures increase, Creative Composites Group have developed a technology that protects the Fiberglass Reinforced Polymer (FRP) Poles used to carry electricity, from fire damage. A unique, patented feature allows the utility companies to determine what the condition of the pole is after a fire event, thereby keeping the pole in situ longer and reducing cost and disruption.

Standard FRP is often used as a sustainable alternative material for utility poles. While these offer some degree of inherent fire-retardant properties that protect the pole from fire damage, fire-retardant engineered composite FireSleeves incorporates a fire resistant sleeve which shields the base FRP pole from the excessive heat generated by typical brush and grass fires.

FRP utility poles are sustainably engineered to last up to and exceed 80 years in some of the harshest environments with little to no maintenance. Adding FireSleeves further increases their durability and longevity in fire-prone areas. A temperature monitoring system is included within the FireSleeve and this is engineered to continuously monitor the temperature experienced from forest fires, which can reach up to 2,100˚F. The pole is shielded from these extreme temperatures and the Firesleeve will record whether there has been any permanent loss of strength.

The key benefit of increased durability and longevity is cost savings. When a fire occurs, utility poles protected by FRP pole covers will be less likely to experience a permanent loss of strength. As a result, they will not need to be removed and replaced, meaning utility companies will not need to invest time and money into performing these operations, and end-users will not need to suffer through a grid failure.

Operating Review

GALVANIZING SERVICES

	£m		+/-	OCC
	2021	2020	%	%
Revenue	**198.3**	185.9	+7	+11
Underlying operating profit [1]	**39.5**	35.8	+10	+18
Underlying operating margin % [1]	**19.9%**	19.3%		
Reported operating profit	**36.4**	17.1		

[1] Underlying measures are set out in note 4 to the Financial Statements and exclude certain non-underlying items, which are detailed in note 5 to the Financial Statements.

The Galvanizing Services division offers hot-dip galvanizing and powder coating services with multi-plant facilities in the USA, France and the UK. Hot-dip galvanizing is a proven steel corrosion protection solution which significantly extends the service life of steel structures and products. The division benefits from a wide sectoral spread of customers who operate in resilient end markets including road infrastructure, commercial construction, transportation, agriculture, and energy transmission and distribution.

The division delivered a good performance, particularly in the first half, with a strong recovery in demand compared to H1 2020, which was impacted by COVID-related disruption in the UK and the complete closure of our French operations for six weeks from the end of March 2020. Demand returned to more normalised levels in the second half of the year, despite the US still facing challenges around customer project delays and labour shortages. As a result, revenue increased by 11% on an organic constant currency basis to £198.3m, with volumes 3% higher than 2020. Underlying operating profit increased significantly to £39.5m (2020: £35.8m), representing 18% organic constant currency growth compared to 2020. The division continued to deliver superior margins, with underlying operating margin increasing to 19.9% (2020: 19.3%).

UK

The business experienced a strong recovery in demand, particularly in the first half of 2021, due to the release of security, construction and housing projects which had previously been deferred. UK galvanizing delivered 17% organic constant currency revenue growth and record operating profits in the year. This reflects our strategy of focusing on higher margin, lower volume business and pricing actions taken to address input cost inflation. The outlook for 2022 remains positive, despite inflationary and labour related headwinds, with robust demand for galvanizing services to support sustainable infrastructure.

USA

Predominantly located in the north east of the country, the US galvanizing business delivered a solid performance with 3% organic constant currency revenue growth and maintained strong margins, reflecting the benefits of pricing actions, product mix and good demand for value added coating services. During the year, the business experienced lower production volumes than 2020 due to customer project delays related to component shortages and elevated steel costs. In addition, labour shortages also limited production capacity in some plants. The outlook for 2022 is encouraging, with labour availability improving and increased customer project activity.

In the medium to longer term, the outlook is positive, with investment levels expected to grow ahead of GDP in a range of US galvanizing end markets, supported by the Infrastructure Investment and Jobs Act. The Group continues to seek both organic and inorganic growth opportunities in the attractive US market.

France

French galvanizing services delivered a strong performance in 2021, particularly in the first half, supported by buoyant levels of customer demand compared to 2020, which was impacted by COVID-related closures in the first half. As a result, revenue was 15% ahead of last year on an organic constant currency basis. The outlook for 2022 is encouraging, with the team working hard to manage energy cost inflation.

UTILITIES

	£m		+/-	OCC
	2021	2020	%	%
Revenue	**223.7**	211.2	+6	+12
Underlying operating profit [1]	**26.8**	20.9	+28	+38
Underlying operating margin % [1]	**12.0%**	9.9%		
Reported operating profit	**26.3**	20.1		

[1] Underlying measures are set out in note 4 to the Financial Statements and exclude certain non-underlying items, which are detailed in note 5 to the Financial Statements.

Our Utilities division provides steel and composite solutions with low embodied energy for a wide range of infrastructure markets including energy generation and distribution, marine, rail and housing. The division also supplies engineered supports for the water, power and liquid natural gas markets and seismic protection solutions for commercial construction.

The division delivered an impressive performance in 2021, with 12% revenue growth and 38% profit growth on an organic constant currency basis against robust 2020 comparators. Reported operating profit was £26.3m (2020: £20.1m). The strong performance was underpinned by a record performance in the US composite business and a good recovery in UK utilities and engineered supports, which were disrupted by COVID last year. We are pleased with the continued progress made on margins across the Utilities portfolio, with underlying operating margin increasing to 12.0% (2020: 9.9%).

US

Revenue was 6% ahead of a strong 2020 comparator on an organic constant currency basis. The composite business delivered a record performance, with high demand for engineered composite solutions including fire resistant utility poles for use in wildfire areas, waterfront protection and mass transit infrastructure. During the year, the electricity distribution substation business faced challenges due to rising steel prices and customers delaying non-essential projects, however demand is starting to recover as steel prices stabilise. Prospects for future growth in the US remain encouraging, supported by market demand for innovative solutions to protect against extreme weather and investment to upgrade ageing electricity infrastructure.

UK

Our UK businesses experienced a strong recovery, with 20% revenue growth compared to a COVID-impacted 2020. The building products business, supplying steel lintels, builders' metal work and composite residential doors, benefitted from buoyant market demand during the year. The industrial flooring business delivered a good recovery, with a particular focus on data and distribution centre markets. Both businesses successfully managed the impact of high steel input costs with improved margins in the year and enter 2022 with a positive outlook.

Engineered Supports

Engineered Supports delivered a healthy recovery in 2021, with revenue 10% ahead of 2020 on an organic constant currency basis. The US business delivered a good performance, supported by a strong rebound in the commercial construction market. The expansion of our seismic protection device manufacturing capability completed in the second half and the prospects for future growth are encouraging. Our engineered pipe support business in India delivered a solid performance, with continued demand for products and engineering services to support key liquified natural gas developments across the globe.

ROADS & SECURITY

	£m		+/-	OCC
	2021	2020	%	%
Revenue	**283.0**	263.4	+7	+8
Underlying operating profit [1]	**19.7**	13.2	+49	+43
Underlying operating margin % [1]	**7.0%**	5.0%		
Reported operating (loss)/profit	**(5.7)**	5.6		

(1) Underlying measures are set out in note 4 to the Financial Statements and exclude certain non-underlying items, which are detailed in note 5 to the Financial Statements.

The Roads & Security division supplies products and services to support the delivery of safe road and highway infrastructure alongside a range of security products to protect people, buildings and infrastructure from attack.

The trading performance was ahead of last year with 8% organic constant currency revenue growth and underlying operating profit increasing to £19.7m (2020: £13.2m), a 43% increase on an organic constant currency basis. Underlying operating margins improved to 7.0% (2020: 5.0%). The performance reflects a solid recovery in the UK and good levels of demand in the US. In the second half, we started to see a recovery in our UK security businesses as COVID-related restrictions on public gatherings eased, which contributed to the improved H2 2021 margin of 7.4%. The reported loss of £5.7m included a goodwill and intangible asset impairment charge of £16.0m in respect of our UK security businesses, £4.5m of closure costs relating to the variable message sign business and a £0.4m loss on the disposal of the security access cover business. Further details are set out in note 5 to the Financial Statements.

UK Roads

Revenue was 8% ahead of 2020 on an organic constant currency basis. During the year, we provided a range of certified products and services to support the upgrade of the strategic road network under Road Investment Strategy 2 (RIS2) including rental of temporary safety barrier, permanent safety barriers, bridge parapets and road safe support structures. In addition, the division benefitted from buoyant levels of demand from local authorities for products to enhance non-strategic and local road networks.

Investment in the roll-out of smart motorways represents £4.5bn of the overall RIS2 committed spend of £27.4bn from 2020 to 2025. During the year, our UK business was awarded primary provider status for the provision of temporary barrier within the Smart Motorway Alliance (SMA) and the first RIS2 smart motorway scheme commenced in June 2021. In January 2022, the UK Government issued its response to the Transport Committee review on the roll-out and safety of smart motorways, which set out recommendations including pausing the roll-out of further all lane running schemes until sufficient safety data is available (expected end of 2024) and the retrofit of additional emergency refuge areas (ERAs). While we await further scheme details, the recommendations are broadly in line with our expectations, with 2022 demand for the rental fleet to be driven by the retrofit of ERAs, central reservation upgrade schemes, including smart motorways, and upgrades to the wider strategic network.

During the year, we took steps to enhance the quality of the UK Roads portfolio. In March 2021, we acquired Prolectric, a UK market leader in off-grid solar energy solutions, for a net cash consideration of £11.8m. Prolectric made a positive contribution to the Group in 2021 and we are excited by the prospects for future growth. As previously announced, in March 2021 we made the decision to close our small, loss-making variable message sign business.

US Roads

US Roads delivered 6% revenue growth on an organic constant currency basis, supported by strong demand for roadside safety products including tested Zoneguard temporary safety barrier and SmartCushion crash attenuators. During the year, margins were impacted by the steep increase in steel raw materials and freight costs, however we expect margin improvement in 2022 as the impact of pricing actions takes full effect and an increased focus on rental and higher margin roadside safety products comes through.

In recent years, we have seen a growing demand for our tested roadside safety products, with the introduction of new safety standards and increased levels of state and federal investment to upgrade US road infrastructure. During the year, we expanded our geographical footprint in support of our growth strategy, with the creation of a new manufacturing and distribution facility in Garland, Texas. In addition, in the second half of the year we invested £12.2m in the expansion of our temporary barrier fleet, including £4.3m of assets in the course of construction relating to further planned fleet expansion in 2022.

In November 2021, we were encouraged by the approval of the Infrastructure Investment and Jobs Act, which includes a five-year reauthorisation of the US federal highway programme and investment of c.$348 billion in highway and bridge improvements through to 2026.

Other International Roads

Despite the efforts of the strengthened local team, the Swedish business continued to underperform in 2021 due to challenging market conditions. As a result, we undertook a further review of the business in the second half of 2021 and took the decision to dispose of its rental division, which we expect to complete in the first half of 2022. We continue to assess the options for the remaining parts of the business.

In contrast, the lighting column business in France delivered a robust performance, underpinned by a solid order book, and our Australian road business benefitted from the development of the traffic safety equipment rental business.

Security

Our Security businesses are based in the UK and provide a range of perimeter security solutions including hostile vehicle mitigation ('HVM') to both UK and international markets. 2021 revenue was 26% ahead of a COVID-impacted 2020 on an organic constant currency basis. During the year, demand for perimeter security solutions in data centres remained strong and, as COVID restrictions eased, we saw some recovery in the key markets for HVM solutions including crowded place protection, stadiums, airports and shopping centres. In addition, demand for UK security barrier rental returned in the second half with the resumption of high-profile events including the COP26 Summit in Glasgow. As a result, second half margins continued to show improvement and full year underlying operating profits and margins were ahead of 2020.

In June 2021, we sold Technocover, our loss-making security access cover business, for a consideration of £2.2m. The loss recognised on disposal was £0.4m. In addition, given the challenging market outlook, the Group reassessed the value of acquisition goodwill and intangibles relating to both ATG Access and Parking Facilities, and concluded that a total impairment charge of £16.0m was required across the two businesses. Further details are set out in notes 5 and 12 to the Financial Statements.

Financial Review

CAPITAL ALLOCATION PRIORITIES AND ROIC

The Group follows a disciplined approach to capital allocation. Firstly, we look to allocate capital to support organic growth, with the focus on higher return niches and growth markets. We require our operating companies to maintain an appropriate level of working capital that is reflective of growth rates in their respective businesses. In addition, we invest in capital projects, innovation and talent to support future organic growth, with around £24.8m of FY2021 capex allocated to growth investments.

Secondly, we seek to allocate capital to make high quality acquisitions, with a focus on clear alignment with our purpose, higher gross margins and long term growth potential. We are following a structured approach to acquisitions based on a clear set of financial criteria and we expect acquisitions to achieve returns above our Group WACC within a three-year time frame. This disciplined approach has resulted in the creation of a higher quality pipeline of opportunities during the year.

We also aim to provide sustainable and progressive dividend growth, with a target dividend cover of 2.5 times underlying earnings. We understand the importance of providing consistent and growing returns to our shareholders as part of our overall capital allocation framework, and the Group's strong levels of cash generation allow us to invest in organic and inorganic growth while paying a dividend.

We use return on invested capital (ROIC) to measure our overall capital efficiency, with a target of achieving returns in excess of 17%, comfortably above the Group's cost of capital, through the cycle. The Group's ROIC in 2021 was close to our target at 16.8% (2020: 12.6%), the improvement reflecting the recovery in trading, our disciplined approach to capital investment, and the steps we are taking to improve the overall quality of the portfolio.

CASH GENERATION AND FINANCING

The Group continued to be highly cash generative, with cash generated by operations of £103.1m (2020: £118.3m). This included a working capital outflow in the period of £6.8m, reflecting the increased trading activity in the year. The Group continues to focus on maximising working capital efficiency, with debtor days at 31 December 2021 at 55 days (31 December 2020: 54 days).

Capital expenditure in the year was £35.9m (2020: £20.4m), as expected, representing a multiple of depreciation and amortisation (excluding amortisation from acquisition intangibles and right of use asset depreciation) of 1.6 times (2020: 0.9 times) as detailed in note 4 to the Financial Statements. During the year, we allocated capital to support future growth opportunities, with £12.2m spend on the expansion of our US temporary barrier fleet, including £4.3m of assets in the course of construction relating to 2022 fleet expansion. In addition, we spent £2.8m on the expansion of our manufacturing and distribution facilities across our US operating companies and a further £3.6m on the expansion of our off grid solar lighting and power rental fleet in the UK. The Group invested £1.2m on capitalised development spend during the year, and while we expect this to increase in 2022, we are still in the early stages of our innovation initiative.

Net financing costs for the period were £6.1m (2020: £7.3m). The cash element of financing costs was lower than the prior year at £5.1m (2020: £6.2m), reflecting lower levels of average net debt during the period due to the strong cash generation. The net cost of pension fund financing under IAS 19 was £0.2m (2020: £0.3m) and the amortisation of costs relating to refinancing activities was £0.8m (2020: £0.8m).

The Group generated £51.6m (2020: £82.5m) of free cash flow in the year, providing us with funds to support our acquisition strategy and dividend policy. Underlying cash conversion was 78% (2020: 139%), reflecting the capital investment in growth opportunities during the year. Excluding strategic investment in rental fleet, the underlying cash conversion was 97%. The calculation of our underlying cash conversation ratio is set out in note 4 to the Financial Statements.

"The Group generated £51.6m of free cash flow in the year, providing us with funds to support our acquisition strategy and dividend policy."

NET DEBT AND FACILITIES HEADROOM

Net debt at the end of the year amounted to £144.7m (31 December 2020: £146.2m). Cash outflows during the year included £21.2m for the 2020 interim and final dividends and £11.8m on the Prolectric acquisition. Net debt at the year end includes lease liabilities under IFRS 16 of £40.6m (2020: £32.4m), the increase being primarily due to the expansion of our US roads facility in Texas and the renewal of the lease on our UK temporary barrier distribution centre.

The Group's principal financing facilities are a headline £280m multi-currency revolving credit agreement, which expires in December 2023, and $70m senior unsecured notes with maturities in June 2026 and June 2029, together with a further £13.4m of on-demand local overdraft arrangements. Throughout the year, the Group has operated well within these facilities and at 31 December 2021, the Group had £234.4m of headroom (£221.2m committed, £13.2m on demand). In 2022, we will take steps to assess and extend the maturity profile of the revolving credit element of the Group's financing facilities.

The principal borrowing facilities are subject to covenants that are measured biannually in June and December, being net debt to EBITDA of a maximum of 3.0 times and interest cover of a minimum of 4.0 times. The ratio of covenant net debt to EBITDA at 31 December 2021 was 1.0 times (31 December 2020: 1.3 times) and interest cover was 25.4 times (31 December 2020: 17.0 times).

The Board considers that the ratio of covenant net debt to EBITDA is a key metric from a capital management perspective and targets a ratio of 1.5 to 2.0 times. The Board would be prepared to see leverage above the target range for short periods of time if strategically appropriate.

TAX

The tax charge for the period was £16.7m (2020: £11.5m) and included a £1.1m credit (2020: £0.9m) in respect of non-underlying items, principally relating to the amortisation of acquisition intangibles. Cash tax paid in the year was £15.2m (2020: £16.5m). The Group remains committed to the timely and correct payment of taxes to authorities in all jurisdictions in which we operate.

The underlying effective tax rate for the Group was 22.3% (2020: 19.8%), which is lower than the weighted average mix of tax rates in the jurisdictions in which the Group operates due to the successful conclusion of tax uncertainties related to prior years. Assuming no changes to headline corporate tax rates in the UK or US, we expect the Group's underlying effective rate to be around 23% in 2022. The reported effective tax rate was 32.8% (2020: 32.4%).

The Group's net deferred tax liability is £11.4m (2020: £7.6m), which includes £9.3m (2020: £8.4m) of liabilities in respect of brand names, customer relationships and other contractual arrangements arising on acquisitions. These liabilities do not represent future cash tax payments and will unwind as the brand names, customer relationships and contractual arrangements are amortised.

EXCHANGE RATES

The Group is exposed to movements in exchange rates when translating the results of its overseas operations into Sterling. Retranslating 2020 revenue and underlying operating profit using average exchange rates for 2021 would have reduced revenue by £22.0m and underlying operating profit by £4.0m, mainly due to Sterling's appreciation against the US Dollar. A one cent movement in the average US Dollar rate currently results in an adjustment of approximately £1.9m to the Group's annual revenues and £0.4m to annual underlying operating profit, while the equivalent impacts for a one cent movement in the Euro are £0.7m and £0.1m, respectively.

NON-UNDERLYING ITEMS

The total non-underlying items charged to operating profit in the Consolidated Income Statement amounted to £29.0m (2020: £27.1m) and comprised the following:

- Impairment charges of £16.0m in respect of goodwill and intangibles relating to two of our security businesses, ATG Access and Parking Facilities;
- Amortisation of acquired intangible assets of £6.1m;
- Costs associated with the closure of the UK variable message signs business of £4.5m;
- A loss on disposal of Technocover Ltd, our small UK security access cover business of £0.4m; and
- Expenses related to acquisitions and disposals of £2.0m.

The non-cash element of these charges was £23.2m. Further details are set out in note 5 of the Financial Statements.

PENSIONS

The Group operates defined benefit pension plans in the UK, France and the USA. The IAS 19 deficit of these plans at 31 December 2021 was £12.3m, a reduction of £7.3m from 31 December 2020 (£19.6m). The deficit of the UK scheme, the largest employee benefit obligation in the Group, was lower than the prior year end at £7.7m (31 December 2020: £14.0m) due to the Group's deficit recovery payments and an increase of 60 basis points in the discount rate during the period, in line with increases in bond yields, being partly offset by slightly lower asset returns. The deficit of the French scheme was £4.1m (2020: £4.9m) and the US scheme deficit was £0.5m (2020: £0.7m).

The Group continues to be actively engaged in dialogue with the UK schemes' Trustees with regards to management, funding and investment strategies. The next triennial valuation for the UK scheme will be as at April 2022.

GOING CONCERN

After making enquiries, the Directors have reasonable expectations that the Company and its subsidiaries have adequate resources to continue in operational existence for the foreseeable future and for the period to 30 June 2023. Accordingly, they continue to adopt the going concern principle.

When making this assessment, the Group considers whether it will be able to maintain adequate liquidity headroom above the level of its borrowing facilities and to operate within the financial covenants on those facilities. The Group has carefully modelled its cash flow outlook for the period to June 2023, considering the ongoing uncertainties in global economic conditions. In this "base case" scenario, the forecasts indicate significant liquidity headroom will be maintained above the Group's borrowing facilities and financial covenants will be met throughout the period, including the covenant tests at 30 June 2022, 31 December 2022 and 30 June 2023. The Group has also carried out "reverse stress tests" to assess the performance levels at which either liquidity headroom would fall below zero or covenants would be breached in the period to 30 June 2023. The Directors do not consider the resulting performance levels to be plausible given the Group's strong trading performance in 2021 and the positive outlook across the infrastructure markets in which it operates.

Paul Simmons
Group Chief Executive Officer

Hannah Nichols
Group Chief Financial Officer

9 March 2022

OUR APPROACH TO SUSTAINABILITY

Our purpose to create sustainable infrastructure and safe transport through innovation guides our strategic and tactical decisions, ensuring that improving sustainability is woven into our daily working lives.

Dimension	Category	SASB matrix		H&S materiality study	ESG Focus
		Engineering & construction	Road transport		
Environment	Ecological impacts	●			
	Waste and hazardous materials management				
	Waste and wastewater management				
	Air quality			●	
	Energy management		●		
	GHG emissions		●	●	●
Social Capital	Selling practices and product labelling				
	Customer welfare				
	Product quality and safety	●			
	Access and affordability				
	Data security				
	Customer privacy				
	Human rights and community relations				
Human Capital	Employee engagement, diversity and inclusion			●	●
	Talent development/employment practices			●	●
	Employee health and safety	●	●	●	●
	Labour practices				
Business model and innovation	Physical impacts on climate change				●
	Sustainable products				●
	Materials sourcing and efficiency				
	Supply chain management				
	Business model resilience				
	Product design and lifecycle management	●			
Leadership and governance	Systemic risk management				
	Critical incident risk management		●		
	Management of the legal and regulatory environment				
	Competitive behaviour				
	Business ethics	●		●	●

Paul Simmons, our CEO has Board responsibility for ESG and as a member of the ESG Committee is responsible for translating our ESG strategy into focused initiatives, near and medium-term targets and actions.

We determined our ESG focus areas by taking a materiality-based approach to ESG. The first step was to commission an independent materiality study, which involved a selection of senior managers identifying from a longlist of possible subject areas, 15 specific ESG topics that the Group should consider. We then approached 38 stakeholders from across our supply chain. We consulted a diverse range of our employees, major customers and suppliers, a major bank, and several significant investors. We then ensured that each stakeholder group's key thoughts were recognised by carrying forward their top three areas of interest into our analysis.

The next step involved comparing our stakeholders' input to the relevant Sustainability Accounting Standards Board ('SASB') materiality maps. In Hill & Smith's case, the two that are most relevant are Engineering & Construction services and Road transportation.

This two-stage materiality process identified the following seven sustainability priorities for Hill & Smith, having combined energy management with Greenhouse Gas emissions:

PROTECTING THE WORLD

01 Greenhouse Gas ('GHG') emissions and energy management

02 Sustainable products – infrastructure

SAVING AND ENHANCING LIVES

02 Sustainable products – safe transport

03 Health & safety

04 Talent development and engagement

05 Diversity and inclusion

SUSTAINABLE GOVERNANCE

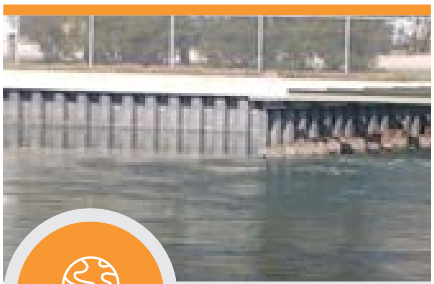
06 Climate risks

07 Ethical conduct

In addition to the above priority areas, we will continue to monitor and assess other important areas of the ESG agenda, e.g. water usage and waste management.

HILL AND SMITH'S ROLE IN SUSTAINABILITY

Hill & Smith has an important role in contributing to a sustainable society:



PROTECTING THE WORLD

We have a key role in protecting the world through both the provision of our sustainable infrastructure products and services and through how we minimise our environmental impact as we deliver those products and services.

ESG focus areas

- Greenhouse Gas (GHG) emissions and energy efficiency
- Sustainable products – infrastructure

UN SDGs

SAVING AND ENHANCING LIVES

Our role in saving and enhancing lives has two elements: 1. We have an important role in ensuring that the public are safe when they travel. 2. We have an opportunity and a responsibility to enhance the welfare of our employees, their families and their local communities through our employment practices, people development and community support. We want to be inclusive of all members of society.

ESG focus areas

- Sustainable products – safe transport
- Health and safety
- Talent and engagement
- Inclusion and diversity

UN SDGs

SUSTAINABLE GOVERNANCE

Sustainable governance ensures that our plans are credible and that we have appropriate metrics in place to ensure that we deliver on our promises over the long term.

ESG focus areas

- Climate risks
- Ethical conduct

UN SDGs

PROTECTING THE WORLD

GREENHOUSE GAS EMISSIONS AND ENERGY EFFICIENCY

Why does it matter?

We recognise that greenhouse gases ('GHG') are a major contributor to global warming and with CO_2 being the most significant of these. We are committed to managing and reducing the Group's carbon emissions to support the Paris Agreement and wider world objective to limit global warming.

What have we done?

In 2021, we committed to the Science Based Targets initiative (SBTi) to limit global warming to 1.5 degrees Celsius.

The Group has been monitoring its energy usage and Scope 1 and 2 CO_2 emissions since 2008, and first reported its consumption data in 2013. From a Scope 3 perspective, the Group measures its water consumption and monitors the disposal of its waste products (refer to data table on pages 52 to 53 for more details).

At the end of 2020, we took steps to reduce our carbon emissions by entering into a two-year contract to buy all the Group's UK electricity requirements from renewable sources. As a result, in 2021 the Group's total Scope 1 emissions were 53,712 tonnes (2020: 52,066 tonnes) and Scope 2 emissions, on a market-based basis, were 10,885 tonnes (2020: 15,335 tonnes). A further breakdown of the Group's emissions is set out opposite:

Scope 1 % Total CO_2 emissions	Scope 2 % Total CO_2 emissions (Market-based)
83%	17%
Scope 1 by fuel type	**Scope 2 by geography**
Natural Gas: 75%	UK: 3%
Diesel: 15%	US: 81%
Gas Oil, LPG and Petrol: 10%	Other: 16%

Consumption of natural gas for use in heating in the galvanizing process contributes to 82% of the Group's Scope 1 emissions and therefore this has been a key focus area for the carbon reduction plan that we have developed in 2021. The carbon reduction plan includes clear steps that we will take to achieve net zero carbon, including conversion of galvanizing natural gas burners to an alternative technology and transition from the use of diesel vehicles. Alongside this, we have developed a detailed costed plan which includes an assessment of the incremental capital, energy, carbon taxes and other operating costs to support our carbon reduction plan. The result of this has provided us with the confidence to commit to achieving a carbon net zero target for Scope 1 and 2 by 2040. Our current expectations are that the financial impact of achieving this is not expected to have a material impact on the growth prospects for the Group, with modest levels of incremental capex required.

Our carbon reduction ambition is also supported by our Carbon Reduction forum that organises local energy savings projects on a site-by-site basis, based on the findings of the UK Energy Savings Opportunities Scheme phase 3 initiative.

In addition, during the year we engaged an independent third party, Trident Utilities, to verify our emissions data using BEIS conversion factors. The validated Scope 1 and Scope 2 emissions data has been used to prepare our carbon reduction plan. We have also conducted a limited audit of our supply chain of the products considered in the Sustainable Products section of this report on page 38 to identify a Scope 3 start point.

What will we achieve?

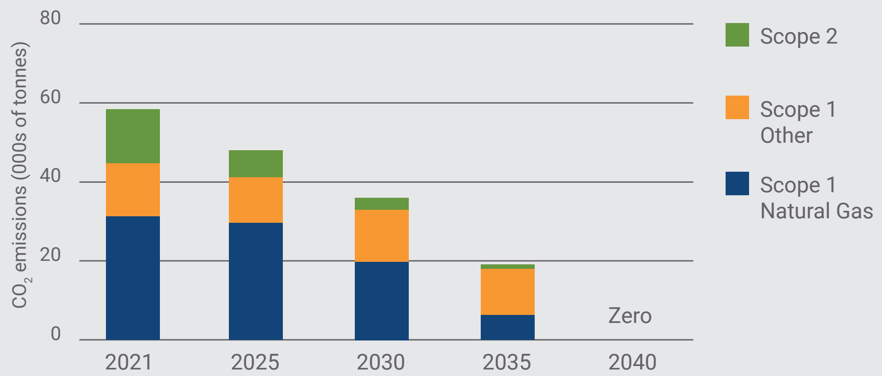
Based on our 2020 CO_2 emissions, we have committed to achieving net zero by 2040 and this means removing an average of c.3,500 tonnes per year from our manufacturing processes. The high-level steps we will take to achieve this commitment are outlined opposite.

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

11 SUSTAINABLE CITIES AND COMMUNITIES

13 CLIMATE ACTION

Net Zero scope 1 and 2 emissions by 2040



2020-2025	2025-2030	2030-2035	2035-2040
5 galvanizing plants to alternative technology Replace forklift truck fuel with renewables UK to renewable electricity	10 galvanizing plants to alternative technology Replace forklift truck fuel with renewables Non-UK businesses start to move to renewable electricity	10 galvanizing plants to alternative technology Businesses to renewable electricity	Remaining galvanizing plants to alternative technology Replace diesel in commercial vehicles with renewables

During 2022, we will also undertake a more detailed audit of our Group supply chain Scope 3 emissions and we shall use this data and the data from our carbon reduction plan to determine SBTi targets by August 2023.

How will we measure progress?

While our longer term commitment is to achieve net zero by 2040, we will measure our near term progress through both reduction in our carbon intensity ratio and the number of tonnes of CO_2 removed. Our near term targets are set out opposite:

TARGETS

INTENSITY RATIO (MARKET-BASED)

2022
0.09

2025
0.08

2030
0.06

NO. OF TONNES OF CO_2 REMOVED (VS. 2020 – THE BASE YEAR)

2022
4,000

2025
11,000

2030
30,000

PROTECTING THE WORLD
CONTINUED

SUSTAINABLE PRODUCTS

Why does it matter?

Our products and services help infrastructure become more sustainable and protect people as they travel or work in the transport industries. We have an important role to play in sustainability. We are focused on ensuring that we maximise our value to society through our activities.

What have we done?

At the end of 2020, we reset our portfolio management criteria to ensure that our decision making is guided by our purpose. We formed a working group from across our operating companies and, supported by a third party, Route 2, we have assessed the sustainability and value to society of three of the Group's products and services. We used a Six Capitals framework to assess Hill & Smith's value to society within our supplier base, in our own manufacturing plants and finally, downstream when our products are in use. The Six Capitals are financial, human, intellectual, manufactured, natural and social and are used to understand how we create value for customers, investors, employees and other stakeholders. The three products and services selected for the initial study were UK Galvanizing Services, Zoneguard temporary road safety barrier and fire-retardant composite poles.

What will we achieve?

During 2022, we will verify the outcomes of our initial study and roll out the assessment across more of our products and services.

We will develop our key Sustainable Products metric and develop an action plan to drive improvement of the metric. This metric will be an input into future capital allocation decisions, including acquisitions.

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

11 SUSTAINABLE CITIES AND COMMUNITIES

13 CLIMATE ACTION

CASE STUDY

GALVANIZING – REDUCING CARBON THROUGH THE AVOIDANCE OF MAINTENANCE

Galvanizing's ability to optimise the durability of steel structures and components has important environmental, economic and social advantages.

There are high economic and environmental costs associated with the repeated painting of steel structures. These burdens can be significantly reduced by an initial investment in long-term protection. The long-term durability provided by galvanizing is achieved with a low environmental burden, especially when compared to the energy value of the steel it is protecting, meaning that galvanizing reduces the embodied carbon of construction.

A recent environmental lifetime study highlighted marked differences between two established corrosion prevention systems for steel structures. The hot dip galvanizing system had a lower environmental impact for a steel structure with a long service life, than a traditional paint system. Long service life and freedom from maintenance, the well known advantages of hot dip galvanizing, are the basis for these environmental benefits. In this example, as shown in the table, a saving of 57,100 tonnes of CO_2 was achieved over the 60-year life of the car park.

Service Life (years)	Hot Dip Galvanized Steel Structure (kg CO_2 equivalent)	Painted Steel Structure (kg CO_2 equivalent)	Saving by hot dip galvanizing (kg CO_2 equivalent)
60	41,500	98,600	57,100
40	41,500	71,600	30,100
20	41,500	60,500	19,000

Extracted from Galvanized Steel and Sustainable Construction: Solutions for a Circular Economy, publ. EGGA (2021) and reproduced with permission of EGGA Galvanizers Association. For further information: www.galvanizing.org.uk/circular-economy

SAVING AND ENHANCING LIVES

We protect and enhance lives by supplying products that enable people to travel safely, and by providing good jobs with the potential for career development in a safe environment. We support the communities in which we operate. We are committed to investing in and promoting our people, attracting, and retaining a diverse workforce, while fostering social mobility, and ensuring that our supply chain partners treat their employees correctly.

HEALTH & SAFETY

Why does it matter?

Keeping our employees, customers, and suppliers safe is our number one priority. The ongoing COVID-19 pandemic has continued to provide challenges around health and safety. During 2021, our operating companies had established plans and procedures in place and adhered to all local guidelines to ensure that our facilities are COVID secure, and our employees are safe.

What have we done?

The health, safety and wellbeing of our workers continues to be a key focus across all operating companies. Our recently appointed Chief People Officer ('CPO') is now accountable for health and safety and this is a key agenda item for the Executive Board. In addition, we have also recruited a Group Head of Health and Safety, who reports into the CPO, and who has set a clear strategy and is supporting our operating companies with practical advice, training and increasing awareness. Our external UK and US based health & safety consultants now report directly into the Group Head of Health & Safety and continue to work alongside the safety specialists in each of our operating companies to assist the Group in achieving its health and safety objectives. Specific actions include reviewing the detail of every Lost Time Accident at the monthly Executive Board meetings and enhancing our safety audit programme. We have implemented Safety Behaviour Audits across the Group, and we have rolled out a new campaign focused on Near Miss Reporting.

Our Safety and HR teams have continued to work closely together to ensure local sites have been able to maintain their operations while keeping everyone COVID safe. In response to local restrictions, sites have been taking all reasonable steps to help people work from home where appropriate to do so. Actions at site level have focused on maintaining the safety measures previously put in place including cleaning and hygiene procedures, implementing social distancing, provision of face masks and as necessary, procedures for testing and contact tracing.

With the COVID pandemic continuing into 2022, employees have been reminded about the arrangements the Group offers to assist with mental wellbeing during this difficult time. Additionally, during 2021, the Group continued to partner with third party organisations including healthcare providers, occupational health advisors and Employee Assistance Programmes. In the UK, Lifeworks has been providing 24/7/365 support for several years to employees, giving access to advice on a range of life topics including physical health, childcare, and managing finances, including counselling sessions; unlimited critical & significant incident support, via telephone, phone apps and support for dependants. In 2021, this service was rolled out to Australia and India. In the US, healthcare arrangements offer a similar service. We will continue to monitor and support the mental health of our employees through day-to-day engagement and the assistance of third-party expertise where appropriate.

What will we achieve?

Our aim is to significantly reduce the number of lost time incidents we have across the organisation. We will increase our near miss reporting activity, believing that a near miss event is often a precursor to a serious injury. Following various near miss awareness raising initiatives, in 2021, we saw a doubling of near miss reports compared to 2020. For 2022, taking this initiative further and making better use of safety observations, we will achieve our desire to keep everyone safe while at work. We will improve the identification of key risk areas as well as our culture and approach to health & safety in our operating companies. We will drive a series of campaigns focusing on major risk areas for us in the coming months/years, with the first two already planned: Near Miss Reporting & Forklift Truck User Safety Standards.

How will we measure progress?

We will be using Lost Time Injury Rate ('LTIR') as the key indicator to track and monitor our progress in Health & Safety. Our targets are set out opposite.

5 GENDER EQUALITY

8 DECENT WORK AND ECONOMIC GROWTH

11 SUSTAINABLE CITIES AND COMMUNITIES

CASE STUDY

ZONEGUARD BARRIER – KEEPING ROAD WORKERS SAFE

The public unintentionally driving into road works areas is one of the most deadly risks facing road workers. In the UK, 250 incursions per month are regularly reported between operations and major projects on the strategic road network, although the true figure could be much higher. The consequences of vehicles entering works and colliding with people and works vehicles can be devastating to everyone involved.

The Hill & Smith VSG Group supply Zoneguard steel barriers to these work areas. These barriers can contain vehicles up to 10,000Kg and, with ten workers per workzone area, prevent around 25,000 injuries and fatalities per year based on reported incidents only.

TARGETS

LOST TIME INJURY RATE

2022

1.5

2025

0.75

2030

0.25

SAVING AND ENHANCING LIVES
CONTINUED

TALENT, DEVELOPMENT AND ENGAGEMENT

Why does it matter?
Hill & Smith is a global organisation with a strategy focused on sustainable growth. Talented people are fundamental to the success of our decentralised business model and help deliver our purpose and growth ambitions. We need a highly engaged and capable workforce working within our operating companies and this can only be done by sourcing, developing, supporting, and retaining the right people. Our operating companies are supported by a community of HR professionals who enable the key employment strategies, programmes and processes to ensure that the Group attracts and retains the skills and capabilities required to deliver its strategy.

Attracting, retaining and developing talent is key to the future success of the organisation. Developing and enhancing our employer brand will also improve our relationships with our customers, and as a UK listed business, it is important that we meet (and exceed) all governance standards for our employees.

Positive employee engagement, a healthy level of attrition and great careers for talented people will all increase our productivity, enhance our reputation, and deliver our growth plans.

What have we done?
We conducted our second Employee Engagement Survey in 2021, enabling us to track and focus on the issues that are important to our people. Having done our first survey in 2019, we intend to repeat this on an annual basis from now on.

The results of our 2021 engagement survey have shown a very positive increase in employee engagement, increasing by seven percentage points from 2019. Our most positive areas include Health & Safety and the Working Environment. We have had very clear direction on areas we need to focus improvement on, including Employer Branding, Talent and Career Development.

In recent years, we have developed and implemented a management development programme, providing employees with relevant specialist/technical and personal development appropriate to their roles and aspirations and in line with the organisational strategy. Since 2016, 20 senior leaders have attended the Institute of Directors leadership programme and 118 employees attended our management development programmes.

The Succession Planning and Talent Management ('SPTM') programme for managers continued with a review of the succession plans in many subsidiaries and particularly in the UK, with the continuation of the learning programmes, initially face to face and then virtually. The SPTM learning programmes provide managers within the Group who have the potential to become senior executives, as well as other talented individuals who have the potential for progression, with the necessary skills to prepare them for future roles. These programmes bring together delegates from across the subsidiaries to collaborate in a learning setting. We have also continued to invest materially in our Apprenticeship Schemes. The greatest impact is through Business Improvement Techniques launched across numerous companies last summer. Through 5S Lean Development and Kaizen projects, businesses are looking to see major improvements in their manufacturing processes as well as taking on apprentices across a variety of areas: Business Administration, Electrical Engineering, Design/Draughtsperson, Health & Safety, Welding, Warehousing, Sales and Accounting.

As we increase the focus on talent in the business, our new CPO will build on some of the work that has been done recently on succession planning, and improve how we recruit, retain and develop the talent needed for the future.

What will we achieve?
We will implement a new Global Talent Framework. To do this, we will identify what capability and resources we need for the future, and we will identify "what good looks like" across the business. We will map where our talent currently is, and we will design comprehensive development programmes. We will also build a full succession plan, which will in turn enable us to design a resource plan.

We will ensure that we are legally compliant across all markets in the way we treat our people. Our employee practices will be "fit for purpose" and will ensure we are a fair and respected organisation.

How will we measure progress?
Progress will be measured by improvement in employee engagement scores based on annual survey results. Our targets for improvement are set out opposite.

5 GENDER EQUALITY

8 DECENT WORK AND ECONOMIC GROWTH

11 SUSTAINABLE CITIES AND COMMUNITIES

TARGETS

GENDER DIVERSITY

PLC BOARD	EXECUTIVE BOARD	SENIOR LEADERS
2022 33%	2022 33%	2022 10%
2025 40-60%	2025 40-60%	2025 20-30%
2030 40-60%	2030 40-60%	2030 40-60%

ETHNIC DIVERSITY

PLC BOARD	EXECUTIVE BOARD	SENIOR LEADERS
2022 10-15%	2022 10-15%	2022 5-10%
2025 10-15%	2025 10-15%	2025 10-15%
2030 10-15%	2030 20-25%	2030 10-15%

EMPLOYEE ENGAGEMENT

ENGAGEMENT SCORE	IMPROVEMENT IN SCORE
2022 58%	2022 +3pts
2025 66%	2025 +8pts
2030 75%	2030 +9pts

INCLUSION AND DIVERSITY

Why does it matter?

As an organisation, we want to employ the best people for the job and help them thrive. We know that we can only do this by considering talented people from the whole community, making our business attractive for them to join and by providing an environment where they can be themselves and give their best. If we can provide decent work for all of our people and ensure we have a workforce that is truly diverse, our business will perform to its absolute potential and achieve our ambitious economic growth plans, as well as deliver individual success. Our aim is for our workforce to be representative of the communities in which we operate and for every employee to be respected and able to give of their best. We are committed to ensuring that everyone can contribute and reach their full potential, and that they have the opportunity to share their perspective.

As an employer working across a range of cultures and countries, we seek to replicate the diversity of the communities where our companies are based, in the profile of our own workforce. All employees are encouraged to immerse themselves in the work of their sites and subsidiaries, to collaborate across the operating companies through communications initiatives, and to engage in Group news and announcements through the Group's intranet. Everyone is actively encouraged to communicate and share information with colleagues.

What have we done?

Improvement in how we approach inclusion and diversity must start with our leaders. In the last year, we have started the change in profile of our PLC and Executive Board to represent broader society. We have seen an increase in visible, diverse role models and improvement in our Gender Pay gap. Gender pay reporting legislation in the UK requires employers with 250 or more employees to publish information every year indicating the pay gap between their male and female employees. This legislation currently affects three of our UK subsidiaries: Birtley Group Ltd, a galvanizing and construction business; Joseph Ash Ltd, a galvanizing business; and Hill & Smith Ltd, a road barrier manufacturer.

We now insist that all recruitment short lists must be representative of the communities we work within, and where possible, we ask for a 50/50 gender split. However, our principle in recruitment remains "the best person for the job".

In furtherance of the UK Corporate Governance Code, the Group has established Workforce Advisory Panels both in Europe and the US where a selected group of employees have the opportunity to meet with the Group's Executive and Non-executive Directors and other members of the Exec Board, and the Group Company Secretary and we have developed our Terms of Reference for this programme of work. During 2020, these meetings were held virtually and the feedback from participants was that they would have preferred to have them face to face. Unfortunately, due to the arrival of the Delta and Omicron variants of COVID and the cancellation of travel between countries this was unable to happen during 2021. Consequently, these were postponed until May and November 2022.

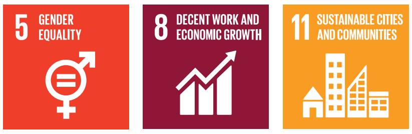
What will we achieve?

Based on the results of this year's employee engagement survey, we will develop action plans with priorities. We will set targets to improve our scores in specific areas.

We will review and republish our Equal Opportunities Policy. We will establish a working group to understand further our needs and actions as we become more focused on building a truly inclusive and diverse culture.

How will we measure progress?

Improvement in gender and ethnic diversity. See page 43 for our targets.



CASE STUDY

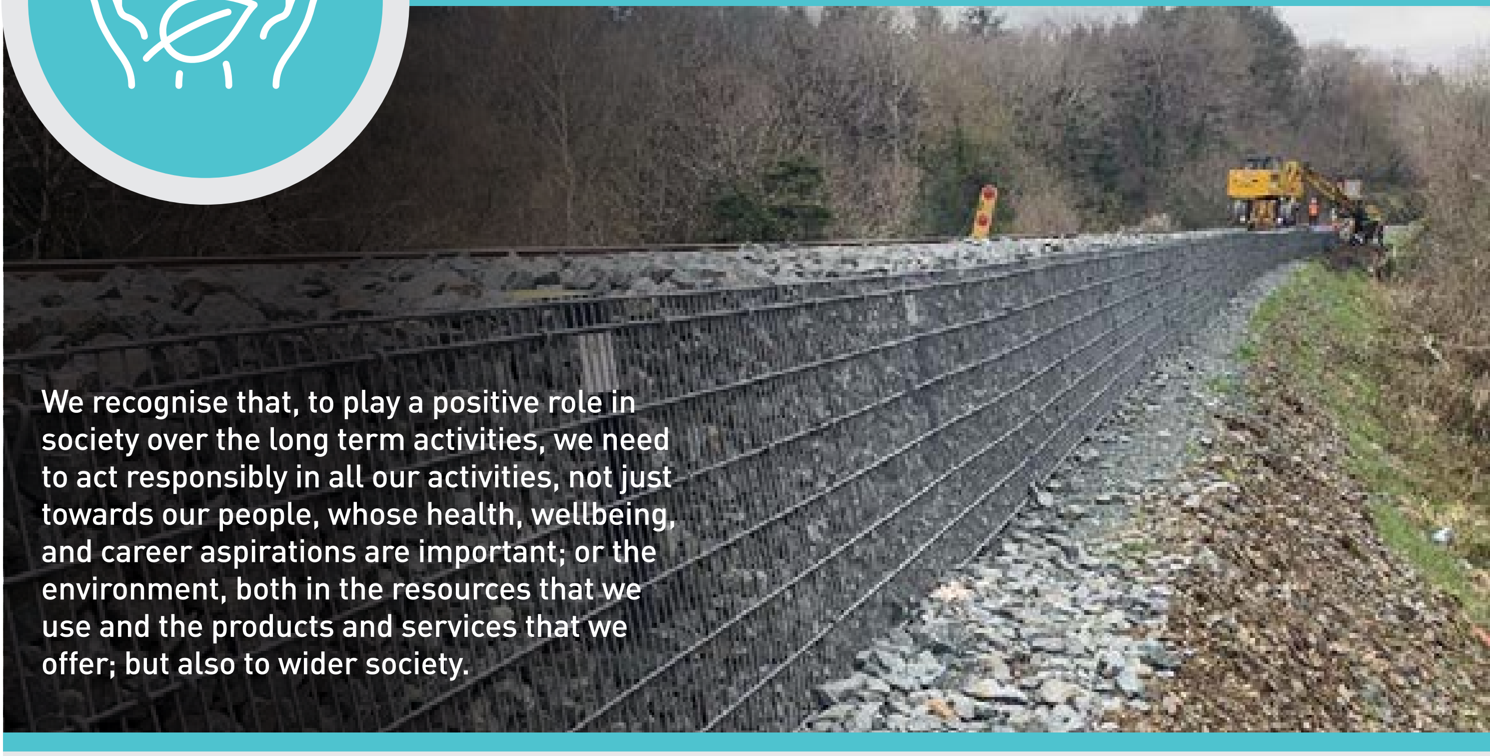
WOMEN IN LEADERSHIP

Lesley Culkin – Sales & Marketing – The Paterson Group, USA

Lesley has been with the Group since 2009, when she joined Bergen Pipe Supports as an entry level trainee. Over the last 13 years, she has demonstrated herself to be a conscientious colleague and has worked her way up through the organisation to fill an important Sales & Marketing role as well as managing the Group's Woburn, MA facility. This involves Lesley overseeing the day-to-day operations, including purchasing, inventory management, sales pricing, inside and outside sales as well as any branch HR requirements.

Lesley says: "I have enjoyed the room to grow throughout my career, with supportive mentoring and knowledge transfer that has allowed me to be successful in the field." Lesley forms part of The Paterson Group's "Empowerment Group" a women led leadership initiative to encourage other women to be successful in the workplace by sharing experiences and addressing challenges they are faced with. Lesley encourages them all to "work hard and don't be afraid to ask questions".

SUSTAINABLE GOVERNANCE



We recognise that, to play a positive role in society over the long term activities, we need to act responsibly in all our activities, not just towards our people, whose health, wellbeing, and career aspirations are important; or the environment, both in the resources that we use and the products and services that we offer; but also to wider society.

CLIMATE RISKS TO OUR BUSINESS: TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES ('TCFD')

Why does it matter?

We recognise that climate change is a pressing global issue and as a company we are committed to promoting a sustainable environment and providing updates on our progress in doing so. To that end, we are pleased to issue our first report in response to the Task Force on Climate-related Financial Disclosures.

What have we done?

The TCFD recommendations encourage companies to disclose information on their financial risks and opportunities due to climate change, and how they are being managed. During 2021, we developed and implemented an approach to assess the impact of climate change on our business operations, strategy, and financial planning.

How do we ensure good governance?

The Board views oversight and effective management of environmental, social and governance related risks as essential to the Group's ability to execute its strategy and achieve long term sustainable growth. The PLC Board receives quarterly updates on progress around ESG focus areas including climate related risks and opportunities. The Audit Committee is responsible for overseeing the management of climate related risks and opportunities and associated metrics and targets. In addition, the Risk Committee is responsible for identifying and assessing climate related risks and opportunities and during the year we developed and implemented an approach to support this assessment.

PLC Board

- Responsible for approving and overseeing the Group's ESG targets
- Receives quarterly updates on ESG progress from the ESG Committee
- Has oversight of TCFD reporting and disclosures (through the Audit Committee & Risk Committee)

ESG Committee

- Responsible for defining and delivering the Group's ESG approach and 2040 goals
- Formed in 2021, meeting every six weeks to review and oversee progress against ESG targets
- Use of 3rd party specialists to provide additional insight and training (including climate change issues)
- Members include Group CEO, Group CFO, Group CPO, Group Company Secretary, Group Head of Sustainability (started February 2022) & other senior management

Risk Committee

- Responsible for the methodology to identify and assess climate related risks and opportunities
- Agrees TCFD metrics and targets with ESG Committee
- Reports significant climate related risks & opportunities and corresponding mitigation plans to the Audit Committee for consideration
- Further details about the Risk Committee can be found on pages 56 to 57

WHAT IS THE IMPACT OF CLIMATE RELATED RISKS AND OPPORTUNITIES ON OUR STRATEGY?

To understand the impact that climate could have on our business, we performed a high-level assessment based on a range of climate change scenarios. The selected scenarios represent a range of government policy interventions from very low (4°C) to significant (2°C), to aggressive (1.5°C). The timeframes were selected after consideration of the likely timing of transition risks, such as carbon pricing, and when significant physical climate changes are expected to materialise:

Scenario	"Global Net Zero by 2050"	Announced pledges	Higher warming
Overview	Global warming is limited to 1.5˚C as the world reaches global net zero emissions by 2050. Transition risks more prevalent.	Forecasts to what extent announced ambitions & targets are on path to deliver global net zero.	High-emissions scenario, consistent with a future with no policy changes to reduce emissions. Physical risks more prevalent.
Temperature increase	~1.5˚C	~2˚C	~4˚C
Timeframes	2025 & 2030		2030 & 2040

A risk assessment workshop was held with PwC to determine which risks could have a material impact after considering both potential financial impact and likelihood. The assessment of climate-related transition risks and opportunities was completed on a sub-divisional and geographic basis, with physical climate risk vulnerability analysis completed for 67 operational sites. The assessment of transitional risk considered emerging regulatory requirements, such as carbon pricing.

The output of this assessment has enabled us to identify the material impacts on our business arising from each of these selected scenarios. The impacts were assessed without considering any actions that we might take to mitigate or adapt to these future climate change scenarios. The main impacts of the scenarios are outlined below and on the following page:

Transition Risk (TCFD, 2017):
Transitioning to a lower-carbon economy may entail extensive policy, legal, technology, and market changes to address mitigation and adaptation requirements related to climate change. Depending on the nature, speed, and focus of these changes, transition risks may pose varying levels of financial and reputational risk to organisations.

Physical Risk (TCFD, 2017):
Physical risks resulting from climate change can be event driven (acute) or longer-term shifts (chronic) in climate patterns. Physical risks may have financial implications for organisations, such as direct damage to assets and indirect impacts from supply chain disruption.

Global warming scenario: 1.5˚C and 2˚C

Risk

As the global economy transitions to a low carbon state, we have identified a number of potential risks and opportunities for the Group:

- The introduction of carbon pricing across our key geographies increases both our manufacturing costs and the costs of raw materials
- Increased demand for renewable energy may lead to reduced supply of renewable energy or an increase in the cost of purchasing renewable energy
- Potential opportunities for the Group given the existing focus on sustainable infrastructure products, for example galvanizing and certain composite applications. Further innovation in new products and services, in line with our purpose, will present further growth opportunities. See case studies on page 49.

Other risks identified, but not considered material, include the availability of greener technology to adapt to lower emissions and the reputational damage to the Group's brand due to climate inaction or negative climate impact from production/supply chain.

Impact analysis

Under both scenarios operating costs, particularly relating to carbon pricing, could increase if they are not proactively mitigated. We have therefore assessed the potential financial impact of carbon pricing relating to our current Scope 1 and Scope 2 emissions.

Carbon Pricing* Gross Risk Impact (Scope 1 & 2)		
Annual Impact by 2025	**1.5°C**	**2.0°C**
Average annual operating cost increase assuming no proactive carbon reduction plans are undertaken based on 2021 emissions	£6.1m Based on $130 per tonne	£5.6m Based on $120 per tonne
Annual Impact by 2030	**1.5°C**	**2.0°C**
Average annual operating cost increase assuming no proactive carbon reduction plans are undertaken based on 2021 emissions	£9.6m Based on $205 per tonne	£8m Based on $170 per tonne

* Carbon pricing assumptions based on PwC's estimates for advanced economies in 1.5°C and 2°C scenarios.

The Group is committed to reducing greenhouse gases as demonstrated by our 2040 net zero ambition, which will substantially mitigate the gross risk exposure to carbon pricing. The financial impact of carbon pricing has been considered as part of the costed plan relating to our net zero ambition. The impact of a potential increase in the cost of renewable energy is not considered material based on the Group's current renewable energy consumption. As the Group's adoption of renewable energy increases, future exposure to renewable energy pricing will be partly offset by self-generated energy.

We will start to assess our Scope 3 emissions during 2022 with a view to disclosing them in our 2023 Annual Report in accordance with the SBTi target.

WHAT IS THE IMPACT OF CLIMATE RELATED RISKS AND OPPORTUNITIES ON OUR STRATEGY?
CONTINUED

Global warming scenario: 4°C

Risk

Under this scenario, we expect to see an increase in the frequency and magnitude of extreme weather events across our global operations. This could present multiple challenges for the Group including:

- Damage to operations from extreme weather events
- Operational downtime due to severe weather conditions
- Difficult working conditions, e.g. extreme temperature could have the potential to lead to an increase in absenteeism
- Potential for an increase in the number of injuries or accidents when conducting operations

There are also potential growth opportunities relating to Group products and services, which provide solutions for extreme weather. See case studies opposite for more details.

Impact analysis

This scenario may include costs relating to increased volatility, business discontinuity and needed resilience investments for addressing more severe and frequent natural disasters that would occur under a warming of 4°C. Working alongside PwC, we have analysed the Group's exposure to climate hazards at our 67 sites. A summary of the results is as follows:

Hazard	Sites at higher risk**			
	2021 No of sites	2021 % total sites	2040 No of sites	2040 % total sites
Flood	3	4%	5	7%
Precipitation	5	7%	6	9%
Wind	3	4%	3	4%
Heat	6	9%	9	13%
Hail/Thunderstorms	4	6%	4	6%
Drought	3	4%	7	10%
Wildfire	2	3%	2	3%
Total unique sites with one or more high risk hazards	**13**	**19%**	**23**	**34%**

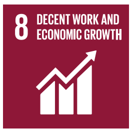
** PwC's climate analysis tool assigned each site, for each hazard, an absolute hazard score from 1 to 100. Sites with hazard scores greater than 75 were deemed high risk.

Based on the above analysis, by 2040, heat is the most significant threat to the Group (13% of sites), with drought seeing the most significant increase in risk from 2021 to 2040 (4% of sites increasing to 10% of sites). A smaller proportion of sites could be exposed to extreme precipitation (9% of sites) or flood (7% of sites) by 2040. Overall, 34% of sites have been identified to be at higher risk from one or more climate hazards by 2040, which represents c.24% of Group revenues. During 2022 we will work with the relevant operating companies to further understand their specific exposure relating to these risks to ensure that robust business continuity measures are in place to mitigate these climate related risks and that the necessary insurance cover is in place. These risks will also be added to their local risk registers as per our established risk management process.

The results of this analysis indicate the importance of taking action to reduce greenhouse gas emissions to minimise transition related risks. It also suggests that, while physical climate change presents a relatively low risk to our future business operations, it may present opportunities for the Group. Given our focus on sustainable infrastructure, some of our operating companies already provide products and solutions to address extreme weather conditions, and we see this as an opportunity for future growth.

How do we manage risk?

The Risk Committee is responsible for identifying, assessing, and managing Climate related risks and opportunities and reporting significant risks to the Board. This includes consideration of emerging regulatory requirements, such as carbon pricing.



Based on the scenario analysis and impact assessment outlined above, the Board do not currently consider the impact sufficiently material over the next five years to be deemed a Group Principal risk, however we are considering climate change as an emerging risk and will monitor accordingly.

The impact assessment has however identified that some of our operating companies may be more severely impacted by future climate change scenarios. The Risk Committee is responsible for actively working with our operating companies to ensure that appropriate mitigation strategies are in place using our established risk management process (refer to pages 56 to 59 for further details).

How will we measure progress? – Group metrics and targets

The Group has set the following metrics and targets to assess and manage climate related risks and opportunities:

- We have signed up to the Science Based Targets initiative and our goal is to reduce our Scope 1 and Scope 2 CO_2 emissions to achieve net zero by 2040. In the near term, we are measuring progress through reduction in our CO_2 intensity ratio. Refer to page 37 for further details of progress to date.
- In 2022, we will be undertaking an initiative to establish our baseline Scope 3 CO_2 emissions. The result of this will help inform the reduction targets. In addition, we currently measure water usage, waste management and we are continuing to look at ways of minimising the environmental impact.

TCFD Elements	TCFD Recommended Disclosures	Compliant	Next Steps
Governance	a. Board oversight	🟢	Continue
	b. Management's role	🟢	Continue
Strategy	c. Climate related risks & opportunities	🟢	Develop
	d. Impact of climate related risks & opportunities	🟢	Develop
	e. Resilience of the organisation's strategy in climate scenarios	🟢	Develop
Risk Management	f. Risk identification & assessment	🟢	Develop
	g. Managing climate related risks	🟢	Develop
	h. Integration into overall risk management process	🔴	Commence
Metrics & Targets	i. Metrics for climate related risks & opportunities	🟢	Continue
	j1. Scope 1 & 2 GHG metrics	🟢	Continue
	j2. Scope 3 GHG metrics	🔴	Commence
	k1. Climate related targets – Scope 1 & 2	🟢	Continue
	k2. Climate related targets – Scope 3	🔴	Commence

CASE STUDIES

Utility Pole Storm Resilience – Creative Composite Group, US

StormStrong fiber reinforced polymer (FRP) poles enhance infrastructure reliability and can absorb 10 times the energy of a steel pole. The properties of FRP are such that it can return to its original size and shape following deformation. Unlike legacy utility poles that are susceptible to rust, rot and the damaging effects of extreme weather, StormStrong poles are designed and engineered to withstand Category 5 hurricane winds of 130 mph.

Seawall Erosion Protection – Creative Composite Group, US

The SuperPile, SuperLoc and SuperWale FRP products offer a range of sea wall erosion protection solutions to shield against the impact of severe weather. The decay-proof alternative to traditional retaining walls delivers a high strength-to-weight ratio and a more resilient system. The lightweight composite material allows for quick installation, has zero maintenance and a life of up to 75 years.

Rail Track Flood Resilience – Asset International Structures, UK

The "Asset BaFix" track ballast shoulder retention system adds stability to rail tracks and provides flood resilience to ensure remote areas of rail networks are not cut off during flooding and extreme weather.

HVAC vibration isolation systems – Novia, US

Novia's vibration isolation roof curbs are designed to withstand significant weather events, such as hurricanes, to protect Heating, Ventilation, and Air Conditioning ('HVAC') systems and ensure life and safety critical facilities remain open and operational. Such facilities include hospitals, police and fire stations, data centres and educational centres.

ETHICAL CONDUCT

Why does it matter?

As an international Group, we recognise that acting ethically towards our employees and other stakeholders shows our commitment to doing business in a responsible manner. Protecting ourselves and our employees, creating a sense of pride in our employees that we always "do the right thing", ensuring transparency when dealing with customers and suppliers; supporting the communities in which we work with fair and equitable employment policies and opportunities, and maintaining our reputation with all our stakeholders.

The Group is committed to treating all people, whether employed directly by the Group or its subsidiaries or employed in its supply chain, fairly and equitably and we are committed to upholding their human rights. The Group recognises all individuals' basic human rights and is committed to respecting the Universal Declaration for Human Rights. The Group and all its worldwide subsidiaries respect the human rights of all those working for or with us, and of the people in the communities where we operate. We will not knowingly do business with companies, organisations, or individuals that we believe are not working to at least basic human rights standards.

Our operating companies will also comply with all applicable wage and working-time laws and other laws or regulations affecting the employer/employee relationship and the workplace. We oppose the exploitation of all workers, children and young people and we will not tolerate forced labour, or labour which involves physical, verbal, or psychological harassment or intimidation of any kind. We will not employ child labour in any of our operations, nor or will we permit the exploitation of, or discrimination against, any vulnerable group.

We aim to make a positive impact on society from our operations. The Group's business activities incur a substantial amount of different taxes, and the Group is committed to complying with tax laws in the geographies in which it operates and works closely with tax authorities in those countries. The Group does not operate in countries considered as partially compliant or non-compliant, according to the OECD Tax Transparency report or blacklisted or grey-listed by the EU, except for Australia, where the Group has a roads business with strategic intentions to mirror the success of its UK roads business.

What have we done?

The Group is committed to conducting its business activities responsibly and ethically and in accordance with the laws and regulations applicable to the jurisdictions, we which we operate, and has a series of policies that support this objective. These are supported by training and educational programmes for employees, together with a Group Code of Business Conduct ('CoBC') which underpins all our activities and presides over areas such as health & safety, fair, honest and ethical business practice, gifts and entertainment, conducting international business, protection of individuals, resources and assets and at a high level summarises the Group's legal and compliance responsibilities in areas such as anti-bribery and corruption, export laws and regulations, and international fair and open competition. For employees who wish to raise concerns without fear of reprisal or victimisation, we provide an external, confidential, independent compliance hotline and email facility, which is available in local languages, or they can contact senior managers within their business, the Group Company Secretary, a Group President or the Chair of the Audit Committee, without fear of reproach. During 2021, two such issues were reported and investigated (2020: 3).

Specific policies have been developed and the following are available on the website www.hsholdings.com:

- Supply Chain
- Code of Business Conduct
- Anti-Bribery & Corruption Policy
- Modern Slavery Policy
- Whistleblowing Policy
- Tax Strategy Policy

What will we achieve?

We will regularly review subsidiaries' standard terms and conditions of purchase, and standard long-term supply agreements across the Group. Ensuring the terms and agreements include a number of requirements concerning ethical operations, including provisions addressing a supplier's obligation to comply with the UK Modern Slavery Act or similar local legal obligations.

We will act in accordance with our CoBC, upholding a zero-tolerance approach to bribery and corruption. There were Zero incidents of bribery and corruption reported in 2021 (2020: nil).

We will conduct annual audits to ensure that we fulfil our obligations under the UK Modern Slavery Act.

We will monitor and investigate all Whistleblowing reports as well as learning the lessons from such incidents in order to manage such reports to an acceptable level.

How do we ensure that we are compliant?

Annual Modern Slavery audits

Board oversight of all Whistleblowing Reports

Annual approval of all ethical policies by the PLC Board or Executive Board

Online training to ensure compliance with relevant legislation

Annual certification by Group operating companies that they have complied with policies issued by the Group, and in particular with the CoBC.

CASE STUDY

MODERN SLAVERY AUDIT

During 2020, we undertook a review of the Modern Slavery risks associated with the supply of flexible labour force agency workers ('Suppliers') to our operating units and, as we reported in 2020, in 2021, we focused our attention on those agencies providing temporary labour to our galvanizing plants. Management arranged for Suppliers in the UK and US to be selected for a questionnaire-based interview, conducted by our Group Head of Legal and a local representative of the relevant operating companies. Due to the ongoing effects of the COVID pandemic, these interviews were conducted on a virtual basis. Consequently, the audit consisted of a questionnaire-based interview together with observations made during the interview and the historic dealings of the Suppliers with the operating companies concerned.

The review concluded that there were no concerns with any of the Suppliers. They did not recruit outside their country of jurisdiction; conducted at least one face to face interview with each worker as part of the recruitment process; obtained proof of identity and right to work documentation in accordance with jurisdiction specific law; and only paid monies into an account, cheque or pay card in the name of the individual. None of the Suppliers engaged anyone under the age of 16 and demonstrated a high awareness of relevant procedures, legislation, and requirements.

Only the UK based Suppliers had a "Modern Slavery Policy/Statement" given the Modern Slavery Act 2015 is a UK specific requirement, but the USA based Suppliers confirmed they would be happy to sign a Hill & Smith Holdings PLC Worker Supply Agency Charter to demonstrate commitment to anti-slavery and anti-exploitation of temporary workers.

Sustainability Data

	2021	2020	2019	2018	2017
Sustainable Products					
Spend on R&D	£1.9m	£2.0m	£1.4m	£1.2m	£1.6m
Percentage of revenue	0.3%	0.3%	0.2%	0.2%	0.3%
GHG Emissions					
Environmental penalties	£nil	£nil	£nil	£nil	£nil
Location-based consumption (kWh)					
Scope 1 Gross	276,349,609	268,190,068	274,754,321	264,798,827	244,052,313
Scope 2 Gross	53,097,574	50,337,266	55,287,447	63,315,669	57,325,439
Market-based consumption (kWh)					
Scope 1	276,349,609	268,190,068	274,754,321	264,798,827	244,052,313
Scope 2*	36,624,147	47,646,715	55,287,447	63,315,669	57,325,439
Location-based consumption (tCO_2e)					
Scope 1	53,712	52,066	53,478	56,469	57,183
Scope 2	14,383	15,335	19,803	24,449	22,599
Market-based consumption (tCO_2e)					
Scope 1	53,712	52,066	53,478	56,469	57,183
Scope 2*	10,885	14,708	19,803	24,449	22,599
Intensity Ratio**	0.09	0.10	0.11	0.13	0.14
Health & Safety					
No. of workplace fatalities	0	0	0	0	0
No. of COVID cases	632	130	n/a	n/a	n/a
COVID cases as a percentage of workforce	14%	2.9%	n/a	n/a	n/a
No. of lost time injuries	142	109	119	119	123
Lost time injury rate ('LTIR') (The number of lost time injuries divided by total hours worked multiplied by 100,000)	1.7	1.5	1.6	1.6	1.8
No. of Near Miss Reports	2,126	955	n/a	n/a	n/a
Percentage of sites with access to online H&S reporting systems	97%	95%	n/a	n/a	n/a
Percentage of sites covered by ISO 45001	45%	46%	n/a	n/a	n/a
Talent & employment practices					
No. of Group employees (as at 31 Dec)	4,402	4,398	4,591	4,094	3,884
Voluntary (Regrettable) attrition rate	14%	6%	n/a	n/a	n/a
Internal recruitment	9%	18%	n/a	n/a	n/a
Percentage of employees with access to a recognisable Trade Union	18%	18%	n/a	n/a	n/a
UK Gender Pay Gap	2.8%	8.4%	12.7%	12.5%	10.2%
Training spend	£0.6m	£0.4m	n/a	n/a	n/a
Training budget	£0.5m	n/a	n/a	n/a	n/a
No. of training days	4,119	4,000	n/a	n/a	n/a
No. of training hours	32,952	32,000	n/a	n/a	n/a
UK Apprenticeships	49	34	n/a	n/a	n/a
Employees participating in training & development	156	111	n/a	n/a	n/a

* In November 2020, the Group entered into a two-year contract to buy all its UK electricity requirements from renewable sources. This was backed by Renewable Energy Guarantee of Origin ('REGO'). The Scope 2 nett data excludes data relating to this source of electricity.

** Intensity Ratio is defined as total scope 1 & 2 tCO_2e expressed as a ratio to £000's of revenue.

	2021	2020	2019	2018	2017
Percentage of women employees participating in training & development	17%	10%	n/a	n/a	n/a
Percentage of UK sites utilising the Apprenticeship Levy	57%	49%	n/a	n/a	n/a
Engagement, inclusion and diversity					
Engagement Survey participation	64%	n/a	56%	n/a	n/a
Engagement Score	55%	n/a	48%	n/a	n/a
Inclusion Engagement Score	63%	n/a	58%	n/a	n/a

Gender diversity

	2021		2020		2019		2018		2017	
	M	F	M	F	M	F	M	F	M	F
PLC Directors	5	3	5	2	5	2	5	1	5	1
Executive Board	4	2	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
No. of Subsidiary Directors	49	3	66	5	79	3	59	2	71	3
No. of Senior Managers	201	38	174	39	221	40	167	19	182	19
Percentage of PLC Directors	62%	38%	71%	29%	71%	29%	83%	17%	83%	17%
Percentage of Executive Board	60%	40%	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Percentage of Subsidiary Directors	94%	6%	93%	7%	96%	4%	97%	3%	96%	4%
Percentage of Senior Managers	84%	16%	82%	18%	85%	15%	90%	10%	91%	9%
Total percentage of Group employees	90%	10%	90%	10%	91%	9%	91%	9%	91%	9%

	2021	2020	2019	2018	2017
Climate risks to our business					
Carbon Disclosure Project ('CPD') Rating	D	C	D	D	D
Environmental fines incurred	£nil	£nil	£nil	£nil	£nil
Group Water Usage (m3)	104,795	95,093	91,152	87,485	91,476
Solid waste to landfill (Tonnes)	3,600	5,165	4,678	5,038	4,404
Recycled waste (Tonnes)	13,755	19,145	22,514	33,817	25,140
Percentage of recycled waste	79%	79%	83%	85%	82%
Scope 3 (tCO_2e) – from water and waste	2,040	2,735	521	529	472
Other GHG emissions – CH_4 (tCO_2e)	87	81	n/a	n/a	n/a
Other GHG emissions – N_2O (tCO_2e)	213	194	n/a	n/a	n/a
Ethical conduct					
Charitable donations	£39,000	£21,000	£39,000	£30,000	£34,000
Whistleblowing reports made by employees	2	3	19	11	n/a
Modern Slavery audits carried out	Yes	Yes	Yes	n/a	n/a

* BEIS conversion factor quadrupled in 2020. On the same basis 2019's Scope 3 emissions would have been 2,410

Sustainability Policies

The Group has a number of policies that support its Sustainability Plan. These can be found at www.hsholdings.co.uk/about-us/corporate-governance/policies.

- Product Responsibility Policy
- Conflicts Minerals Policy
- Supply Chain Policy
- Energy Policy
- Environment Policy
- Health & Safety Policy
- Equal Opportunity & Diversity Policy
- Training & Development Policy
- Tax Strategy Policy

STAKEHOLDER ENGAGEMENT

Our People	What matters to our people	What we did in 2021
As an employer committed to providing the right environment in which to work, we insist that people connected with the Group can work safely, are trained correctly, behave in the right way, and comply with all local legal and regulatory requirements, thus ensuring the sustainability of the business.	• Health & Safety • Brand • Safe working environment • Remuneration • Wellbeing • Job security • Career development	• Carried out our second All-employee engagement survey • Appointed a Chief People Officer • Appointed a Group Head of Health & Safety • Commenced a search for Group Head of Sustainability • Developed plans for talent development and inclusion & diversity as part of our ESG response (see page 42 to 45 for details).

Our Companies	What matters to our companies	What we did in 2021
Our decentralised autonomous model places our companies close to their end markets and under the management of their own board of directors, providing agility, customer intimacy and entrepreneurial activities. Our companies are able to respond rapidly to opportunities and to changes in their competitive environment and are responsible for the delivery our organic growth and the success of our Group strategy.	• Health & Safety • Operational and financial performance • Cash allocation • Product Innovation • Talent and development	• Modified our organisational structure with the introduction of the Group President role. • Increased agility, focus and scalability across the Group. • Monitored operating company performance • Regular site visits by Directors • Provided cash to facilitate capital projects • Introduced Innovation Forum • Developed plans for talent development as part of our ESG response (see page 42 to 45 for details).

Customers	What matters to our customers	What we did in 2021
Our operating companies engage with their customers on an individual business unit basis. Most businesses are accredited with number of ISO quality standards to provide comfort to our customers that we are able to deliver solutions which meet their exacting requirements.	• Quality products delivered on time and to the correct specification • ESG • A strong health & safety culture • Being treated with respect • Working as a partnership	• Invested in product development • Piloted a CSR accreditation scheme across three Group operating companies, resulting in: – One Gold award: Hill & Smith Limited; and – Two Silver awards: Mallatite Ltd and Novia Corporation Inc. • Conducted health & safety audits across 80% of our sites • Acquired Prolectric Services Ltd, a provider of environmentally friendly lighting solutions.

Suppliers	What matters to suppliers	What we did in 2021
We actively engage with our suppliers working closely to ensure that they provide the right quality of raw materials and services to support our commitment to quality products and to maintaining fair cashflow requirements.	• Mutual beneficial arrangements • Long-term relationships • Quality	• Operating companies regularly met with existing and potential suppliers to continuity and quality of supply. • Maintained the Group's payment terms at 64 days (2020: 60)

Governments & Industry	What matters to governments and industry	What we did in 2021
We engage with the Government and our peers by participating in industry bodies and meetings to discuss emerging policy, regulation, innovation and threats in relation to infrastructure markets.	• Development of road infrastructure • Development of utilities infrastructure • Tested products • Sustainable products • Environmentally friendly solutions	• Tested Road products to Manual for Assessing Safety Hardware ('MASH') in the US and Australia and Standard EN1317 in the UK. • Represented the Group on Government and Industry safety and product committees, including the British Standards Institute ('BSI'); the Vehicle Restraint Manufacturers Association; Perimeter Security Suppliers Association; and the Transport Research Board in the USA. • Discussed the use of composite materials with US Government officials.

Local Communities	What matters to our local communities	What we did in 2021
Subsidiaries engage with their local communities on a business-by-business basis supporting local charities as well as engaging with local authorities when seeking to develop their businesses.	• ESG • Employment • Health & Safety	• Provided advice to our operating companies to help develop local ESG initiatives. • Operating companies engaged with their local communities, supporting local charities on a business-by-business basis.

Investors	What matters to our investors	What we did in 2021
Our Chairman, CEO & CFO engage with our investors through a series of meetings, site visits and presentations, ensuring that they set out our strategy for delivering long-term sustainable profit growth. Investors also feedback their views on the major corporate governance issues of the day.	• Progressive dividend performance and long-term share price growth; and long-term sustainable profit growth • Operational efficiency • Robust corporate governance and business ethics	• Reinstated our dividend policy, following the cancellation in 2020 of the 2019 final dividend. • Developed our ESG Sustainability Plan • Appointed a Group Head of Sustainability • The CEO and CFO met regularly with investors and analysts • Held an Investor site visit at our Hill & Smith Ltd/Joseph Ash galvanizing joint site in Bilston, West Midlands.

RISK MANAGEMENT

The Group has an established Enterprise Risk Management Framework that identifies, evaluates, manages, and monitors risk. Several enhancements have been implemented during 2021 to further improve and embed the risk management process.

Risk Management

Effective risk management is critical to the achievement of our strategic drivers of organic growth, portfolio management, strong cash generation, and sustainability. The Group benefits from an Enterprise Risk Management Framework that is integrated into the ongoing business activities of our operating companies.

Responsibilities

Whilst the Board has delegated the ongoing discussion of risk and risk management to the Audit Committee and the Executive Management, the Board is responsible for the overall stewardship of our system of risk management and internal control. It has established the level of risk that is acceptable to our businesses in the pursuit of our strategic objectives. It has also set delegated authority levels to provide the framework for assessing risks and ensuring that they are escalated to the appropriate levels of management, including up to the Group Board where appropriate, for consideration and approval.

Enterprise Risk Management Framework

The Group operates an Enterprise Risk Management Framework that ensures a consistent and proportionate approach is used to identify, evaluate, manage, and monitor risks across all our operating companies. The Framework integrates with the Group's internal controls and compliance policies and is supported by the internal and external audit programmes. It uses a tiered approach to risk management, with risk registers at operating companies linked to the appropriate Group Principal Risks, with flows of information and assurance (see Figure 1). In keeping with the Group's entrepreneurial approach, individual operating companies can record and manage unique risks outside of the Group's Principal Risks as they see fit. This ensures risk management is effectively embedded in a way that fits each specific operating environment and risk horizon.

Within the Framework, the following roles and responsibilities exist:

The PLC Board

- retains overall ownership and accountability for risk management;
- ensures the Directors have the appropriate skills, knowledge and experience to effectively assess the Group Principal Risks and carry out their duties effectively;
- evaluates the Group Principal Risks and oversees their management;
- establishes the Group risk appetite; and
- directs the external reporting of risk and viability.

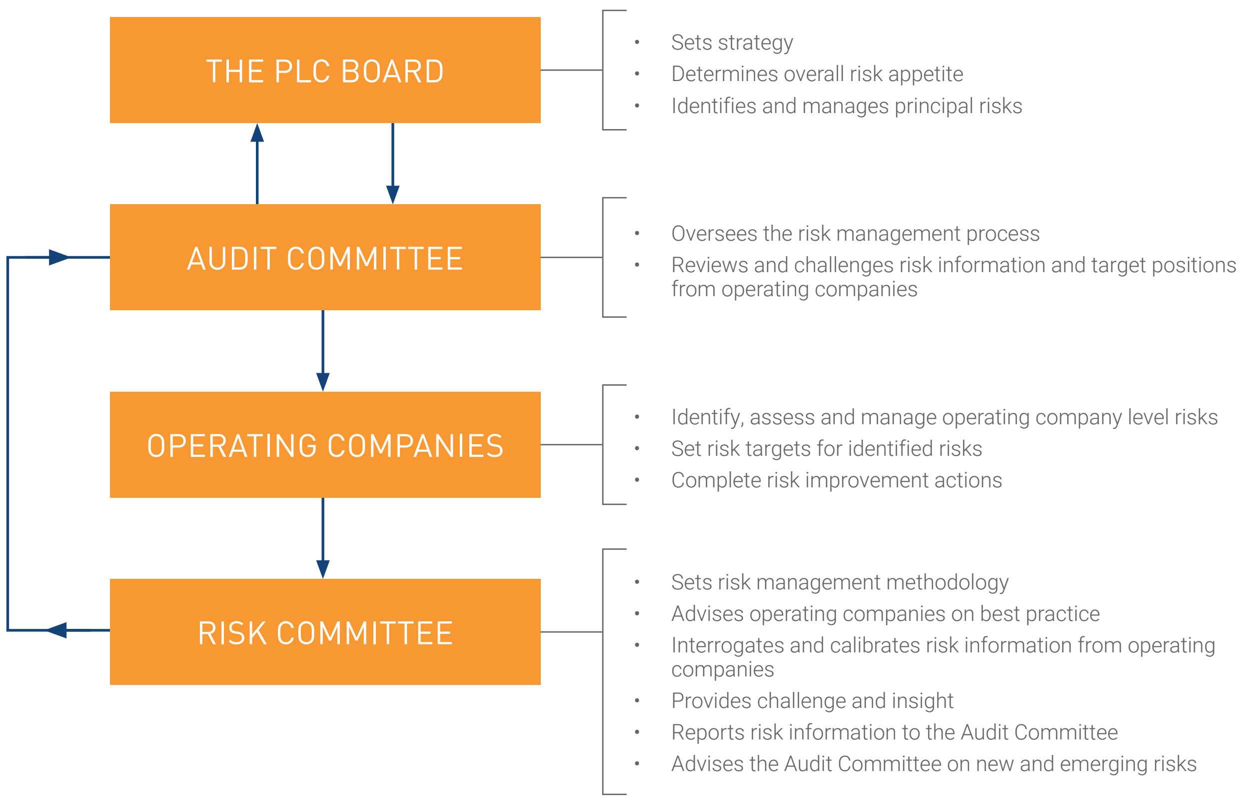


Figure 1 Risk Management Process

The Audit Committee

Supports the Group Board by:

- monitoring and directing the testing of the Risk Management Framework, appetite and associated internal controls, including the influencing factors of culture and reward;
- ensuring there is a link between the Group Principal Risks and the Group's internal and external audit programmes;
- reviewing sufficient internal and external sources of assurance and information to enable it to recommend to the Group Board where changes may be needed to the Risk Management Framework and/or Group Principal Risks; and
- reviewing the detail of external reporting.

The Risk Committee

Supports the Group Board by:

- acting as a conduit between the Group and our operating business, supporting the dissemination of the Enterprise Risk Management Framework and risk appetite down from the Board and flow of information and assurance back up to the Board;
- helping the Executive team to embed the Enterprise Risk Management Framework by designing and implementing supporting systems, procedures, tools and training;
- proactively analysing and challenging the assessment, management and monitoring of operating business risk registers and day-to-day risk management; and
- ensuring the Group Board and Audit Committee are provided with sufficient information to discharge their responsibilities effectively.

The Executive Board

Supports the Audit Committee and PLC Board by:

- ensuring operating companies are effectively embedding the Group's Enterprise Risk Management Framework and are maintaining live risk registers that are actively managed;
- overseeing completion of all required Group reporting of risk with escalation of any significant matters to the Risk Committee in a timely manner; and
- advising the Risk Committee on appropriate levels of target risk and on actions that may be required to ensure effective identification and mitigation of risk.

RISK APPETITE

The Enterprise Risk Management Framework clarifies how risk is to be managed in a way that satisfies the decentralised operating model of the Group (see Figure 2 on page 58). The approach has allowed the Board to consider its appetite in the light of the Group's business model and carry out a robust assessment during 2021 of the Principal Risks and Uncertainties that might threaten the Group's business model, future performance, solvency and liquidity (see pages 60 to 65 for the Group's Principal Risks and Uncertainties).

In common with every successful company, the Board accepts a level of risk in pursuit of its strategic objectives. Hill & Smith Holdings PLC assesses the risk of action (or inaction) as part of every decision and does not allow the Company to take risks that would harm the long-term interests of its strategy, shareholders and stakeholders, including the environment. For example, this might mean:

- pursuing or not pursuing an acquisition, or requiring greater assurance and comfort before proceeding through our robust due diligence process;
- not entering geographic locations where bribery and corruption are accepted or tolerated; or
- not using certain chemicals or treatments (or changing existing treatments) that are harmful to the environment.

A single statement signifying the risk appetite of the Group is difficult to articulate due to its diverse nature, multiple geographic locations, markets and products. However, the Board believes that it effectively demonstrates its risk appetite by the decisions it has taken (and not taken) during the year. Top-down assessment of risk appetite by the Board is now possible with the introduction of Target Risk scoring and the ability for the Board to challenge operating companies on specific risk targets.

RISK IN 2021

Risk Committee

The Committee met formally five times during the year and comprises the Group Chief Financial Officer, Group Head of Risk & Internal Audit, Group Company Secretary, Group Director of Corporate Development, Chief People Officer, Group Financial Controller and the Group Presidents plus representatives of the Group's three business segments and by invitation the Group Chief Executive. The Committee reviews and validates the risk reports from the operating companies, before presenting a Group-wide report to the Audit Committee for discussion on both operating company level risks and Group risks. Challenging feedback is provided by the Audit Committee to further question the validity and mitigations of the risks presented and to identify others not already considered. This process ensures that risks are not just the product of a bottom-up approach but are also examined from the top down.

Risk Analysis

The Board reviewed in depth feedback from the operating companies and the Risk Committee on the Group's Principal Risks. Following detailed debate, the Board concluded that the Group's Principal Risk Register continued to reflect the Principal Risks the Group faced. An increase to the exposure from four of our Principal Risks has been highlighted: Supply chain failure, IT failure, Changes in global outlook and geopolitical environment and Talent, development, diversity, recruitment and retention of key employees. The remaining Principal Risks have remained stable. For further details see pages 60 to 65. During the year, the Risk Committee and Board have discussed at length the effect of COVID-19 on the Group and our Principal Risks. Where applicable further details have been provided against individual Principal Risks on pages 60 to 65.

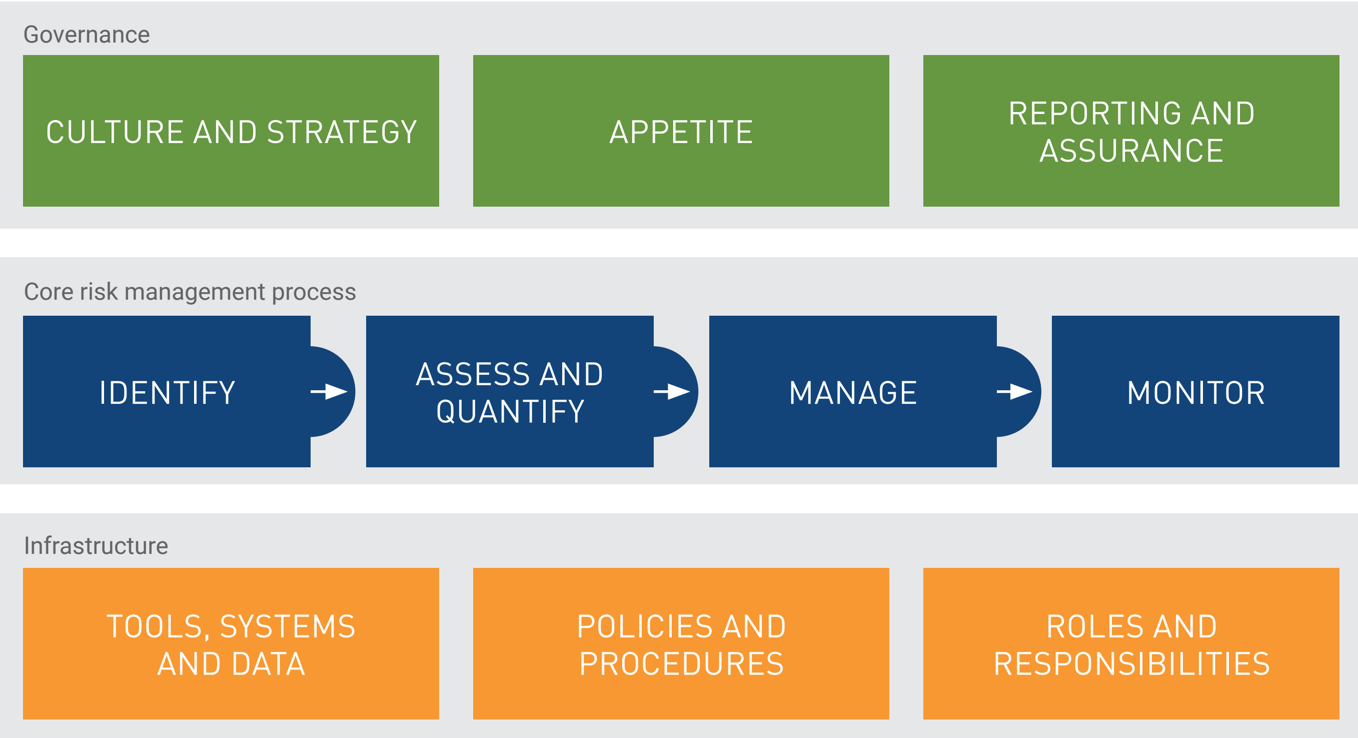


Figure 2 Risk Management Framework

Risk Activities

Activities undertaken to enhance the Group's approach to risk in 2021 included:

- introduction of key risk indicators (KRIs) to provide an early signal of increasing risk exposures and to better evidence risk scoring assessments;
- integration of the Group IT Controls Manual into the assessment of the IT Systems Failure Principal Risk;
- splitting out the assessment of the Talent, Development, Diversity, Recruitment and Retention of key employees Principal Risk into separate risks at operating company level for recruitment and retention of management and indirect labour, recruitment and retention of direct labour and recruitment and retention of a diverse workforce;
- revision of the "Risk Playbook" to reflect the above. The Playbook provides a guide to operating companies on best practice preventative (to reduce likelihood of risks occurring) and reactive (to reduce impact if risks do occur) mitigating controls; and
- virtual seminars and one to one sessions to introduce the methodology revisions and to provide ongoing training on risk management and using our risk management software.

TCFD

During the year, we developed a risk management approach to understand our exposure from physical and transitional risks due to climate change. The details of this can be found on pages 46 to 49.

During 2022, we will work with the operating companies to further understand their specific exposure relating to these risks to ensure these are reflected at operating company risk register level and that robust business continuity measures are in place.

Emerging Risks

As part of our commitment to continuously evaluate our strategy and product offering, the Risk Committee thoroughly considers emerging risks in the context of future opportunities and threats to the Group's business model. During 2021, the Risk Committee established a more formalised methodology to identify, assess and monitor emerging risks. An initial list of potential emerging risks the Group could face, devised from risk and audit thought papers and reports, industry papers and internal input, was compiled. A materiality exercise was then completed with input from the Risk Committee, Executive Board and the Chair of the Audit Committee to produce a group of prioritised threats and opportunities from the initial list. Analysis was then completed to determine which threats and opportunities are already being managed through existing strategic initiatives and which require action now to mitigate/maximise future impacts. The results from the emerging risks analysis were presented at the March 2022 Audit Committee and the prioritised emerging risks will be monitored throughout 2022. Going forwards, this will be an annual cycle, with a revised list and materiality assessment completed to refresh the prioritised list.

Emerging Risk	Timescale
Global economic recession (COVID after-effects, asset bubble collapse, economic cycle etc.)	Medium (3-10yrs)
Climate Change Policy (including carbon taxes, renewable incentives etc.) and increasing stakeholder expectation to achieve net zero on an ever-decreasing timescale	Medium (3-10yrs)
Increasing customer expectations on technological enhancements in our products and operations	Medium (3-10yrs)
Decarbonisation of the economy and the cost/technology to achieve this	Medium (3-10yrs)
Talent management, retention, and engagement in the virtual/hybrid working era	Medium (3-10yrs)
Increasing environmental regulations, with increased fines, zero tolerance & public scrutiny	Medium (3-10yrs)
Future pandemics	Medium (3-10yrs)
Physical climate risks to our businesses – acute, e.g. extreme weather events: hurricanes, floods, heat waves etc.	Medium (3-10yrs)
Physical climate risks to our businesses – chronic, e.g. rising sea levels, increased average temperatures etc.	Long (10yrs+)
Natural resources scarcity	Long (10yrs+)

RISK IN 2022 AND BEYOND

The key focus during 2022 will include:

- further work to mature the risk management methodology used across the Group;
- integration of our climate change risk assessment process, as developed for TCFD reporting, into the existing Enterprise Risk Management Framework;
- in-depth review of mitigating controls and the levels of assurance available at operating business to ascertain their effectiveness;
- continued assessment of the Principal Risks facing the Group and operating companies including those that might threaten the Group's business model, future performance, solvency and liquidity;
- continued evaluation and identification of emerging risks that might disrupt the business models and strategies of our operating companies;
- further development of our risk management software to continually improve the efficiency of reporting to the Group from our operating businesses; and
- further alignment of health & safety and IT audits with the control effectiveness assessments performed by operating companies.

PRINCIPAL RISKS

Risk	Description & Potential Impact	Mitigation
Reduction in Government spending plans	Demand for sustainable infrastructure and transport is underpinned by Government spending plans. Changes to these plans could have a detrimental impact on Group revenues. In November 2021, the Infrastructures Investment and Jobs Act was agreed, confirming substantial US Government infrastructure spending with the associated demand for our products and services in the US. Despite the announced delay to some SMART motorway schemes, the UK Government's confirmed commitment to the next phase of road investment spend (RIS2) remains, presenting great opportunity for our UK businesses.	• Our existing entity portfolio contains diverse products, markets and territories and we will continue with this approach. • Market and product development initiatives. • Co-operation between Group businesses, leveraging the Group's size/international footprint and exploiting synergies. • Exposure to the benefits from longer term infrastructure investment programmes.
Changes in global outlook and geopolitical environment	The Group operates in a range of end-user markets around the world and may be affected by political, economic or regulatory developments in any of these countries. Material adverse changes in the political and economic environments in the countries in which we operate, have the potential to put at risk our ability to execute our strategy. The COVID-19 pandemic continues to create uncertainty in the global economic outlook. The diverse portfolio of Group businesses with exposure to a range of markets and geographies, continues to help mitigate this exposure. The conflict in Ukraine has created significant uncertainty. The direct exposure from international sanctions for the Group is limited, due to no current direct Russian customers or suppliers. There could however be consequences on the global economic outlook as well as supply chains and utility prices. As a result, an increase in the risk has been recognised.	• The Group has a diverse portfolio of operating companies with exposure to a range of markets and geographies, limiting exposure to any one country or market sector. • Current and future financial performance is continuously monitored, facilitating rapid response to changes in market conditions.
Increase in competitive pressure	Increased volatility, uncertainty and slowdown in our markets could result in increased prices and the emergence of new technologies, leading to a loss of customers and/or pricing pressure and as a consequence a loss of sales and reduced profits.	• The holding of leading positions in niche markets of sustainable infrastructure and transport safety with high barriers to entry. • In line with our entrepreneurial model, our decisions are made close to our markets and our businesses are agile and responsive to changes in their competitive landscape. • Regular operating company Board meetings that review market and customer activity. • Our operating companies aim to provide superior products and high service levels to customers, whilst aiming to ensure there is no dependency on any one particular customer.

No change Increase Decrease

Risk	Description & Potential Impact	Mitigation
Product failure	The Group operates in infrastructure markets where it is critical that its products meet customer and legislative requirements and where the consequences of product failure are potentially significant. Product failure arising from component defects or warranty issues may require remediation including the replacement of defective components or complete products, resulting in direct financial costs to the Group and/or wider reputational risk.	• Products tested, approved and accredited by regulatory bodies. • Quality control protocols fully implemented and continuously monitored. • Contractual controls in place to minimise economic impacts. • Insurance cover maintained globally with insurance partners. • Litigation supported/managed by external legal specialists. • Thematic Internal Audit review completed across the Group during 2019 with recommendations implemented in 2019 and 2020.
Contractual failure	The Group delivers its commitments to its customers through a variety of contractual arrangements of both a short and medium term nature. Weaknesses in the contract tendering process, inappropriate pricing, misalignment of contract terms, ineffective contract management or failure to comply with contractual conditions could result in loss of revenues, pressure on operating margins and wider reputational damage to the Group. The potential for credit default risk due to the ongoing COVID-19 pandemic has been identified, although this has not yet materialised. The Group continues to closely monitor the position.	• Group material contract review process ensures specialist central oversight of key contractual arrangements. • Contracts training for key staff. • Dedicated quantity surveyors and contract managers in operating companies to control contracts and mitigate risk. • Litigation supported/managed by external legal specialists. • Insurance cover maintained globally with insurance partners. • Trade credit insurance policies in place in the UK, France and India to mitigate exposure. • Thematic Internal Audit review completed across the Group during 2021 with further recommendations to be implemented during 2022.
Supply chain failure	The Group's businesses depend on the availability and timely delivery of raw materials and components, which could be affected by disruption in its supply chain. Supply chain failures as a result of performance, inflation cost, quality and/or insolvency may have an adverse impact on the Group's production capacity and lead to an inability to meet customer requirements, resulting in a reduction in revenues, potential loss of market share and possible reputational damage. During the year, our operating companies took swift and appropriate action to manage supply chain headwinds. Actions taken included implementing price increases to offset significant input cost inflation, securing supply of raw materials and ensuring the continuity of operations with a backdrop of labour shortages in certain businesses. Whilst we continue to closely monitor and manage these headwinds as we enter 2022, we do recognise a net increase in the risk due to current inflation pressures. The conflict in Ukraine and potential impact on global supply chains and utilities prices is likely to add further inflationary pressure.	• Group procurement standards in place, including robust due diligence of supply chain partners and the requirement for dual sourcing where available. • Maintenance of relationships with key suppliers through regular interaction and assessment of performance/financial status. • Group oversight of material procurement contracts ensuring robust contractual protections. • Goods inwards and stock management processes in place to reduce the likelihood of defects or a shortage of raw materials. • Contingency plans in place throughout the supply chain to mitigate these risks, such as purchasing additional stock of key raw materials and securing additional supply chain capacity. • Supply chain resilience has been a focus of the Risk Committee during 2021 with ongoing monitoring of operating companies' ability to respond to the continued challenges. • Internal Audit to complete a thematic review on Supply Chain Resilience during 2022.

Risk	Description & Potential Impact	Mitigation
IT systems failure	The Group relies on the information technology systems used in the daily operations of its operating companies. A failure or impairment of those systems or any inability to effectively implement new systems could cause a loss of business and/or damage to the reputation of the Group, together with significant remedial costs. Poor security controls and procedures could lead to our operating companies being susceptible to cyber-attack, potentially resulting in significant IT failure and associated disruption. During the year, the global cyber threat has continued to evolve, with increasing numbers of organised criminal groups carrying out sophisticated ransomware attacks, for example. As a result of the conflict in Ukraine, the UK's National Cyber Security Centre (NCSC) has warned of heightened cyber risk across UK, US and European businesses. Whilst there has been enhancement of the Group's IT security controls during the year to improve mitigation against cyber-attacks, we recognise at a net level there has been an increase in the risk.	• Group CISO recruited in 2021. • Revised IT controls manual launched during the year setting out a robust set of IT/information security controls covering basic cyber hygiene, system back-up procedures and hardware/software protection. The Group CISO and Internal Audit monitor compliance against the controls and work with the operating companies on remediation plans. • Ongoing project for significant investment in the enhancement of IT security controls and maturity across the Group covering areas such as IT asset management, backup, endpoint protection, incident response and vulnerability management. • The Board maintains a watching brief on IT risks, particularly cyber risk which is a focus area for improvement. • Group wide monthly IT Operations meeting established to communicate issues and initiatives to operating companies. • Quarterly updates established to brief operating company leadership teams on their responsibilities relating to IT management and information security. • Group IT Steering established to set and approve IT strategy and improvement plans. • Segregated business processing systems within each operating company means that any disruption due to illegal external activity is unlikely to jeopardise the Group as a whole.
Portfolio Management	The Group's growth strategies include the acquisition of businesses around the world that complement or supplement its existing activities. Failure to execute an effective acquisition and integration programme would have a significant impact on the Group's ability to generate sustainable profitable growth for shareholders. Targeted disposals are also required to ensure the strategic objectives of the Group can be achieved.	• Board approval required for Group acquisitions, in line with the Group Board's Schedule of Matters Reserved. • Due diligence protocols deployed in relation to assessment of target businesses, including financial, commercial and legal etc. • Contractual protections and assurances sought from sellers to mitigate subsequent identification of risks. • Post-acquisition integration plans established for all acquisitions with regular performance monitoring and reporting to the Board. • Successful integration of Prolectric Services during 2021. • Targeted disposals of operating companies that fail to meet our financial criteria.

No change Increase Decrease

Risk	Description & Potential Impact	Mitigation
Lack of investment in product development and innovation	The Group operates in global infrastructure markets where continuous innovation is integral to the Group's product offering and where a failure to innovate could result in product obsolescence, the entry of new competitors and/or loss of market share. The development of new products and technologies carries risk including the failure to develop a commercially viable offering within an acceptable timeframe.	• Group wide Innovation Framework launched during 2021 to: encourage and stimulate more innovation across the Group, integrate innovation into Strategic Plans, improve the tax efficiency of innovation investment and monitor "innovation health" across the Group. • Entrepreneurial culture established through a decentralised management structure, ensuring that Group businesses are agile and responsive to changes in their competitive environments. • Executive Board approval of product development proposals within the Group's capital spend approval policies. • Active Intellectual Property management within individual operating companies overseen by Group. • Dedicated quality compliance resources in place across operating companies, ensuring responsiveness to regulator and/or customer approval requirements. • Board monitoring of emerging risks alongside external specialist support, where both the risks identified and the potential opportunities arising are considered.
Talent, development, diversity, recruitment & retention of key employees	The changing nature of the demographics from which we source our employees and the ways in which they like to work can make it difficult to attract and retain both skilled and unskilled labour. We need to ensure effective recruitment channels and make the necessary investment to develop and retain high-quality individuals in key positions to guarantee the long-term success of the business. We need to ensure the diversity of our workforce reflects the communities in which we work. Without talented employees we will be unable to deliver our strategic aims. During the year some of our operating companies have continued to find it challenging to attract and retain direct labour due to very competitive labour local markets impacted by COVID and hence an increase in the risk has been recognised.	• Two of our ESG focus areas (Talent development and engagement & Diversity, and inclusion) directly address the risk, with improvement initiatives and metrics overseen by the ESG Steering Team. • Recruitment of Chief People Officer during 2021. • Refreshed People Strategy with a greater focus on internal talent. • Review of base hourly rates, which increased in many locations during 2021. • Contractual protections and retentions in employment contracts of senior management and other key employees. • Training and development of employees, which includes a programme of IOD and ILM courses for senior management and identified potential successors, and apprenticeship and other vocational courses for specialist and technical roles. • Appropriate remuneration and benefits, together with bonus opportunities and incentive plans offered to employees. • Recruitment process developed to include competency requirements and skills gap analysis.

PRINCIPAL RISKS CONTINUED

Risk	Description & Potential Impact	Mitigation
Prevention of harm or injury to people	The Group is committed to preventing all health and safety incidents and ensuring the health, safety and wellbeing of all employees and third parties. The Group operates a number of manufacturing facilities around the world, a failure in the Group's health & safety procedures could lead to injury or to the death of employees or third parties. During the year, the Group has followed all local guidelines to ensure that our facilities are COVID secure and our employees are safe. Measures first introduced during 2020 were continued, such as enhanced cleaning and hygiene procedures, social distancing, track and trace procedures, provision of face masks and taking all reasonable steps to help people work from home where appropriate to do so. In addition, we are mindful of the mental wellbeing of our employees during this difficult time and have offered appropriate support and assistance.	• Health and safety is one of our ESG focus areas, with improvement initiatives overseen by the ESG Steering Team. • Group Head of Health & Safety recruited during 2021. • Monthly health & safety reporting for all operating companies via online tools. • Regular audits of UK, US, Sweden and India including assessment of our COVID secure arrangements. • Local audits completed in France, periodically overseen by Group. • Health & Safety Forums to monitor performance and share best practice. • Culture of zero tolerance in respect of health & safety violations promoted by the Board and disseminated throughout Group businesses. • External health & safety accreditations and relationships maintained with regulatory bodies. • Health & Safety is a priority area of focus for new acquisitions. • Monitoring and review of LTI rates by Group. • Any LTI event is followed up and investigated thoroughly and improvement recommendations are implemented to minimise any reoccurrence. • Reduction of the Group's LTI rates is a key focus for Management and the Board, with improvement metrics now established through the ESG Steering Team.
Violation of applicable laws and regulations	The Group's global operations must comply with a range of national and international laws and regulations including those related to anti-bribery and corruption, human rights and employment, GDPR, trade/export compliance and competition/anti-trust. A failure to comply with any applicable laws and regulations could result in civil or criminal liabilities and/or individual or corporate fines and could also result in debarment from Government-related contracts, restrictions on ability to trade or rejection by financial counterparties as well as reputational damage. Our exposure to breaching sanctions placed on Russia is low due to no current direct Russian customers and suppliers. Our export compliance software performs daily screening of our customer and supplier databases against global sanctioned and denied party lists with any changes in status flagged.	• Group Code of Conduct sets out required approach for all staff. • Staff training provided on Anti-Bribery and Corruption and Competition Compliance. • Programme of audits undertaken on a cyclical basis to review operating companies' compliance with regulatory requirements, including for example, simulated "dawn raids". • Software solutions implemented globally to ensure compliance with trade and export legislation. • Externally hosted whistleblowing hotline available to all employees to allow them to raise concerns in confidence or anonymously, if preferred. • Modern Slavery compliance programme continued through 2021. • Toolkits issued to all UK operating companies to aid compliance with GDPR.

No change Increase Decrease

NON-FINANCIAL INFORMATION STATEMENT

We aim to comply with the Non-financial Reporting requirements contained in S414CA and S415CB of the Companies Act 2006 and the table below, and the information it refers to, is intended to help readers understand our position on key non-financial matters.

Those policies marked with an asterisk can be found on the Company's website at www.hsholdings.co.uk/about-us/corporate-governance/policies.

Reporting requirement	Policies and standards which govern our approach	Additional information	See Page No.
Environmental matters	• Environment policy* • Energy policy*	• Sustainability Plan including: – Our Approach – Protecting the World – Saving and enhancing lives – Sustainable Governance • Risk: TCFD • Non-financial KPIs	32 to 53
Employees	• Group Code of Business Conduct* • Training & development policy* • Senior management salary policy • Health & Safety policy*	• Sustainability Plan including: – Health & Safety – Succession planning and talent management – Group learning and development – Wellbeing • Risk: Talent, diversity, recruitment and retention of key employees • Non-financial KPis	32 to 53
Human rights	• Recruitment of employees policy • Employment references policy • Equal opportunities & diversity policy* • Board diversity statement* • Data protection policy* • Modern slavery policy*	• Sustainability Plan including: – Diversity & inclusion – Gender Pay – Human rights	32 to 53
Community	• Individual operating company approach	• Non-financial KPIs	18 to 19
Anti-bribery and corruption	• Anti-bribery & corruption policy* • International competition law policy • Gifts & Entertainment policy • Whistleblowing policy*	• Sustainability Plan including: – Sustainable Governance • Risk: Violation of applicable laws and regulations	32 to 53
Description of the business model	• Our Purpose and Business Model • Our Strategy • Our Markets	–	2 to 11
Description of the principal risk and uncertainties and impact of business activities	• Our Business Model • Our markets • Risk Framework • Principal Risks & Uncertainties	–	2 to 11
Non-financial key performance indicators	• Employee Engagement • Diversity • Lost time injury rate • Greenhouse gas emissions • Water & waste	–	52 to 53

BOARD OF DIRECTORS

Alan Giddins
Chair
N R

Appointed to the Board
3 October 2017

Alan was formerly a Managing Partner and Global Head of Private Equity at 3i Group plc, and a member of its Executive Committee. He has extensive experience sitting on the boards of international businesses. Prior to joining 3i, he spent 13 years in investment banking advising a broad range of quoted companies. He qualified as a Chartered Accountant at KPMG in 1990 and has a degree in Economics. Alan is Chair of Watkin Jones plc and a Non-executive Director of Big Society Capital, a leading social impact-led investor.

Paul Simmons
Group Chief Executive
N

Appointed to the Board
1 September 2020

Paul joined the Group in September 2020 and was formally appointed Group Chief Executive on 12 November 2020. Prior to joining, Paul was with Halma plc for 10 years, most recently as Chief Executive of the Infrastructure Safety and Process Safety sectors. Prior to Halma, he spent eight years at 3M leading businesses in the UK and USA. Paul has a degree in Manufacturing Engineering.

Annette Kelleher
Independent Non-executive
A N R

Appointed to the Board
1 December 2014

Annette has broad senior management experience in the international industrials sector and is currently Chief Human Resources Officer of Johnson Matthey PLC. Prior to joining Johnson Matthey, she held a number of senior human resource roles in Pilkington Glass and NSG Group. Previously, Annette was a Non-executive Director of Tribunal Services, part of the UK's Ministry of Justice. Annette has a degree in Business Studies and a Master's degree in Human Resource Management.

Mark Reckitt
Independent Non-executive
A N R

Appointed to the Board
1 June 2016

Mark is a Chartered Accountant and was Group Strategy Director of Smiths Group plc from February 2011 to April 2014, Divisional President of Smiths Interconnect from October 2012 to April 2014 and Non-executive Director of JD Wetherspoon plc from May 2012 to May 2016. Prior to joining Smiths, Mark was interim Managing Director of Green & Black's Chocolate and before that he held a number of finance and strategy roles at Cadbury plc before being appointed its Chief Strategy Officer from 2004 to 2010. He is Senior Independent Non-executive Director and Chairman of the Audit Committee at Cranswick plc, where he is also a member of the Nomination and Remuneration Committees. Mark was also a Non-executive Director of Mitie Group PLC until July 2018.

Hannah Nichols
Group Chief
Financial Officer

Appointed to the Board
16 September 2019

Hannah joined the Group in September 2019. Prior to joining, Hannah had a 14-year career in BT Group plc, most recently as Chief Financial Officer, Asia Middle East and Africa for BT Global Services based in Singapore. Hannah also held a number of commercial roles at Cable & Wireless prior to joining BT. She qualified as a Chartered Accountant at Arthur Andersen in 1999 and has a Classics degree.

Tony Quinlan
Senior Independent
Non-executive

A N R

Appointed to the Board
2 December 2019

Tony has had a successful international career as a plc Director in major technology, industrial, energy and retail companies. He was most recently CEO of Laird plc, where he led a successful turnaround and then took it from listed to private ownership under Advent International. He has been retained by Advent International as a Non-executive Director and advisor. In addition, Tony is a Senior Independent Director and Audit Chair of Costain Group PLC, Non-executive Director of Associated British Ports and has served as Deputy Chair for the Port of London Authority, where he also Chaired the Audit Committee. Tony qualified as a Chartered Accountant in 1991 and has a degree in Chemistry with Business Studies.

Pete Raby
Independent
Non-executive

A N R

Appointed to the Board
2 December 2019

Pete has been the Chief Executive of Morgan Advanced Materials plc since August 2015. Prior to that, he was the President of the Communications and Connectivity sector within Cobham plc, following a nine-year career with Cobham, where he held a number of senior leadership roles covering strategy, technology, business transformation, and business leadership. Prior to Cobham, Pete was a partner at McKinsey & Company in London specialising in strategy and operations in the aerospace, defence, and power and gas sectors. He has a PhD in satellite navigation and a M.Eng in Electronic and Electrical Engineering.

Leigh-Ann Russell
Independent
Non-executive

A N R

Appointed to the Board
1 April 2021

Leigh-Ann joined bp's executive leadership team as EVP Innovation and Engineering in March 2022. In this role she leads bp's global scientists and engineers to deliver technical innovation, providing assurance through the Safety and Operational Risk and Digital Security teams and leads digital innovation through the IT&S and Digital disciplines. She was previously bp's Chief Procurement Officer, accountable for a safe, ethical, and competitive supply chain of £30bn global annual spend. Her main career has been leading large operational, safety and engineering global teams and she was formerly Vice President of Technical Functions. Leigh-Ann holds a degree in Mechanical Engineering, is a chartered engineer and Fellow of the Royal Academy of Engineering and Energy Institute.

A Audit Committee N Nomination Committee R Remuneration Committee Chair

EXECUTIVE BOARD

Paul Simmons
Group Chief Executive

Joel Whitehouse
Corporate Development Director

Andrew Park
Chief People Officer

Hooman Javvi
Group President

Hannah Nichols
Group Chief Financial Officer

Joel joined the Group in October 2006. He has held a number of roles in the Group and is currently responsible for M&A. Prior to joining Hill & Smith, Joel was a Senior Finance Manager for HSBC's Global Commercial Banking division based in London and Hong Kong and spent four years in Corporate Finance at Old Mutual Securities. Joel qualified as a Chartered Accountant with Deloitte, is a Fellow of the Chartered Institute of Securities & Investments and has a degree in Pure Mathematics.

Andrew joined the Group in June 2021. Andrew has over 25 years' experience in Human Resources, focused in the utilities, manufacturing, oil & gas and automotive industries. Andrew has led HR functions in the US, UK and globally, and has lived and worked extensively overseas. Andrew is a Fellow of the Chartered Institute of Personnel & Development.

Hooman joined the Group in March 2022. Prior to joining, Hooman spent more than 10 years with ABB and Hitachi Energy, most recently as Senior Vice President for the Transformer Insulation & Components business in Europe, and Managing Director for Pucaro. Hooman has also held several management positions at ABB in Sweden and Germany. He has a degree in Engineering and an Executive MBA.

Denise Beachy
Group President

Denise joined the Group in January 2021 as Group President. Prior to joining, Denise was with DowDuPont for 3 years as Vice President of the Performance Solutions Business. Prior to DowDuPont, she spent 3 years as President and Chairman of Hemlock Semiconductor and 26 years in various roles within Dow Corning Corporation. Denise has a degree in Biochemistry and further executive studies from London Business School and IMD.

David George
Group President

David joined the Group in February 2022. Prior to joining, he spent three and a half years leading the EMEA and APAC regions for Sitetracker, a leading Silicon Valley based SaaS solution for deploying and operating critical infrastructure. David also spent several years in general management and commercial leadership roles at Trimble and Ericsson across multiple countries in Europe and Asia. He holds a Bachelor's degree in Engineering from Stevens Institute of Technology and a Master's degree from Santa Clara University.

INTRODUCTION TO GOVERNANCE

Alan Giddins
Chair

DEAR STAKEHOLDER

I am pleased to introduce the Group's Governance Report, setting out how the business has discharged its responsibilities during 2021 and complied with the UK Corporate Governance Code 2018 (the 'Code'). Governance is the third strand of ESG and plays a crucial role in the evolution of any business. At its best, good governance enables better, more agile decision-making, adds value to the business, manages informed risk taking within appropriate parameters and, ultimately, protects shareholder interests.

The full Governance report can be found on pages 72 to 81.

Basis of Report

We have used the UK Corporate Governance Code 2018 (the 'Code') to assess our governance arrangements during 2021. As a premium listed issuer on the London Stock Exchange and in accordance with the listing rules, Hill & Smith Holdings PLC has assessed its application of the Code under the headings of:

- Board leadership and company purpose;
- Division of Responsibilities;
- Composition, Succession & Evaluation;
- Audit, Risk & Internal Control; and
- Remuneration.

In doing so, the Board can confirm that for the financial year ended 31 December 2021, the Company complied fully with the requirements of the Code.

Board dynamics

The Board is fully engaged, has open and constructive interactions with the Executive team, and has the skills and experience to oversee strategy, governance and risk. The main facets of this responsibility comprise: consideration of the long-term direction and strategy of the Group; the values and standards within the business; subsidiary company management performance; resources; health and safety; risk management; and internal controls.

Despite the effects of the pandemic, the Board was able to continue to maintain close oversight of the business. While five of our Board meetings were conducted virtually, by giving careful attention to the agendas and a clear focus on the key issues, we continued to have very productive meetings.

"In terms of key priorities for 2022, the Board will be focused on supporting M&A activity aligned with our strategy, embedding sustainability into our Board decision-making, evaluating ways to improve inclusion and diversity across the Group, and continuing to focus on the health and wellbeing of our c. 4,400 employees."

At 31 December 2021, the Board comprised six Non-executive Directors, including myself, as Chair, and two Executive Directors. More information can be found on the Board's effectiveness in the Governance Report on page 78.

Board Committees

As we have strengthened the Board over the last two years, we have also increased the number of Non-executive Board members. In order to ensure diversity of thought and challenge on our Committees, all Non-executive Directors sit on each Committee.

Board activities

During the year, the Board allocated significant time to reviewing our health & safety performance. This has included updating the strategic KPIs reported to the Board and placing significant emphasis on health & safety as part of the Board agenda when we have visited subsidiary companies. In September 2021, Diana Hart joined the group as Group Head of Health & Safety, based in the US. Diana join the December Board meeting at which she shared her initial assessment of the Group.

In June 2021, Andrew Park joined the Group as Chief People Officer. This is a new role within Hill & Smith and reflects the importance placed by the Board on talent development and succession planning. Andrew has put forward a new People Strategy for the Group, which the Board is fully supportive of. This has specifically included actions to improve diversity across the business.

In June 2021, the Board had an off-site strategy day, at which it was joined by each of the Executive Board members. The key focus of the strategy discussions was around driving organic growth through prioritising those subsidiaries which face into the highest growth markets, rebuilding our M&A pipeline and evaluating those parts of the Group which were considered to be non-core.

The Board has also continued to focus on the Group's risk management processes and reporting. We have started to take important steps towards improving our IT systems and cyber security defences. This has included appointing a Chief Information Security Officer during the year. I have also been impressed by the continuing improvement in the quality of both our internal audit team and the reports coming to the Audit Committee, for which Mark Reckitt, Chair of the Audit Committee, gives more insight in his report on pages 84 to 90.

The Board has continued its robust consideration of Executive remuneration, ensuring that it is fully aligned with the Group's long term strategic development. Annette Kelleher, Chair of the Remuneration Committee explains more in her report on pages 92 to 104.

Looking ahead

The Group has a very strong senior leadership team that is capable of driving the Group forward and allowing it to maximise its full potential. The Board will be fully focused on supporting management, while also providing appropriate challenge. In terms of key priorities for 2022, the Board will be focused on supporting M&A activity aligned with our strategy, embedding sustainability into our Board decision-making, evaluating ways to improve inclusion and diversity across the Group, and continuing to focus on the health and wellbeing of our c. 4,400 employees, many of whom have worked throughout the pandemic.

Alan Giddins
Chair

9 March 2022

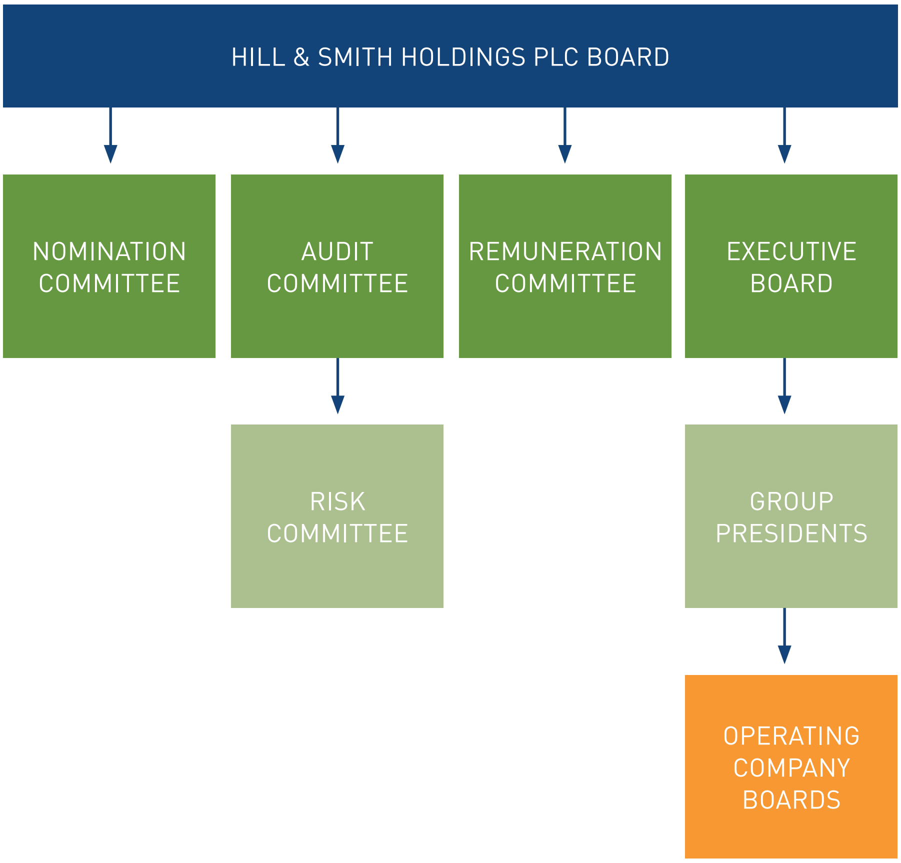
GOVERNANCE REPORT

Hill & Smith Holdings PLC is a company with a premium listing on the London Stock Exchange. During the course of 2021, the Company fully complied with the provisions of the UK Corporate Governance Code 2018. This report sets out how the Company fulfilled those requirements.

ABOUT THE BOARD AND COMPANY

The Board sets the entrepreneurial culture within which our operating companies operate and is collectively responsible for the long-term success of the Company. The Hill & Smith Holdings PLC Group consists of the holding Company and its principal subsidiary companies, listed on pages 188 to 191. The Group's businesses are directly supervised by local operating boards. There are clear lines of delegated authority and businesses are given a high degree of autonomy to promote their activities in an entrepreneurial fashion. The Managing Directors of the operating companies report through one of three Group Presidents. The Group Presidents are members of the Executive Board alongside the Executive Directors. The Executive Directors are accountable to the Board for the performance of the Group. Details of the Group's business model can be found on pages 10 to 11.

The Executive Directors regularly receive reports on the performance of the operating companies, and the Group Presidents are responsible for ensuring a consistent application of governance, operational procedures and Group policies and practices.



Board framework

The Board operates within a framework of Board meetings, discussions and site visits. The Board is supported by the following three committees: Nomination; Audit; and Remuneration. Membership of these committees is set out on pages 82, 85 and 94 respectively.

The scope of Board decisions

The Board manages the Group with reference to a formal schedule of matters reserved for the Board for decision, which is applied across three key pillars:

STRATEGY

- Group strategy and operating plans
- Business development including acquisitions and targeted disposals
- Major capital investments

INTERNAL CONTROL

- Risk management, financial reporting and audit
- Financing, treasury and taxation
- Pension benefits and liabilities
- Compliance with laws and regulations
- Cyber security

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

- Corporate governance
- Ethical standards
- Health & safety
- Environmental matters
- Succession planning
- Compliance with the Company's Code of Business Conduct

Our Section 172 Statement

All Board members are aware of their obligations under s.172 of the Companies Act 2006 and their decisions and considerations that have s.172 implications are accurately reflected in Board minutes. The Board's 2021 s.172 statement can be found on page 76 of this report.

Where other businesses within the Group are required to make a s.172 Statement, these reports can be found within the Annual Report and Accounts for those entities. Directors of these subsidiaries have received additional support from the Group to ensure that their decisions are fully recorded in Board minutes.

Engagement with shareholders

The Board manages the Group on behalf of its shareholders and it undertakes this responsibility in such a way as to maximise shareholder value over the long-term and to advance the interests of all of the Group's stakeholders. In this respect, during the year, the Chief Executive Officer and Chief Financial Officer met with institutional shareholder representatives both in the UK and USA. Feedback from these meetings is included within the materials shared with the Board. The Board also receives reports from the Company's brokers and financial public relations agency on feedback from institutional shareholders following the Group's interim and full year results announcements.

Feedback and dialogue

All Board Directors are available to meet with shareholders to discuss matters and can be contacted through the Group Company Secretary. The Chair and Tony Quinlan, Senior Independent Director, are available to meet with shareholders concerning corporate governance issues, if so required. No concerns regarding the running of the company or any proposed action were received or recorded from shareholders in the year under review or to the date of this report.

The Group Company Secretary also engages with shareholders and the investor community as and when required. Copies of all trading updates and Interim and Annual Reports are posted on the Company's website, together with details of key financial and shareholder information, governance statements, Group policies and corporate and organisational structure.

Hill & Smith Holdings PLC Annual General Meeting ('AGM')

In light of the continued challenges posed by the COVID pandemic, Government guidance meant we took the decision to hold our 2021 AGM virtually and shareholders were invited to listen to proceedings, including a presentation from the Chief Executive, via an online platform. While we appreciate that this arrangement meant that shareholders could not interact with the Board in the usual way, it was felt to be appropriate in light of the ongoing restrictions set out by the Government to help restrict transmission of COVID. Due to a relaxation on restrictions, we anticipate being able to welcome shareholders in person for the 2022 AGM.

The Company's Annual Report and Notice of AGM are published as soon as the time required for their printing allows, in order to provide the maximum time in advance of the AGM for feedback to be received from shareholders. Proxy votes of shareholders for the AGM are tabulated independently by the Company's registrars, provided at the AGM and published on the website shortly after the conclusion of that meeting.

DIVISION OF RESPONSIBILITIES

Summary

There is a clear division of responsibilities between the Chair and the Chief Executive which is set out in writing and available at www.hsholdings.com.

2021 Key Points

- Developed a scalable management structure using newly created 'Group Presidents', each with their own portfolio of businesses;
- Created an Executive Board, to better facilitate communication and decision-making within the Group;
- Reviewed the Terms of Reference for our Committees, and the Matters Reserved for the Board.

Role of Chair

Alan Giddins, as Chair, is responsible for the leadership and effective working of the Board. The size of the Board ensures all Directors contribute fully to discussions and decision-making. The Chair sets the Board agenda and determines how the Board should use the time available to it during Board meetings, promoting a culture of openness and debate; facilitating constructive board relations and effective contribution of Board members; ensuring directors receive accurate, timely and clear information; and providing an opportunity for the Non-executive Directors to meet without the Executive Directors present. The Chair seeks engagement with major shareholders to understand views on governance and performance against strategy.

Role of Chief Executive

Paul Simmons, as Chief Executive, is responsible for the management of the Company, executing the Group's strategy and development, meeting financial objectives, implementing policies and maintaining controls. Along with the Chief Financial Officer, the Chief Executive provides information to the Board via written reports and presentations at Board meetings.

Supporting the Chief Executive is the Executive Board, comprising the Chief Financial Officer, Chief People Officer, Corporate Development Director and three Group Presidents. This model allows the managerial structure to scale as the business grows and ensures that our businesses operate in a cohesive and joined up way.

Role of Non-executive Directors

The Non-executive Directors take an active role in challenging strategy and monitoring the performance of the Company, have no managerial responsibility and are there to provide challenge, strategic guidance and specialist support to the Executive Directors. There exists an appropriate combination of Executive and Non-executive Directors, all of whom have sufficient time to meet their board responsibilities. There are clear divisions of responsibilities between the leadership of the Board and the Executive leadership of the company's business, and these have been approved by the Board.

The Non-executive Directors, led by our Senior Independent Director, meet independently without the Chair present and also meet with the Chair, independent of management.

Executive Board

The Executive Board, which is not a committee of the PLC board, is chaired by and takes its authority from the Chief Executive.

This Board, which meets monthly and more often as may be required, is the senior management body for the Group and monitors and manages the performance of the business, reviews progress against the strategic objectives and formulates budgets and proposals on strategy and resource allocation, receiving regular reports on human resources, health & safety, internal audit, compliance, legal, investor relations and corporate affairs.

Board Committees

PLC BOARD

Nomination Committee

Comprises the Chair, five Non-executive Directors and the Chief Executive.

The Committee leads the process of Board appointments and supports the Board in succession planning for the Board and senior management, making recommendations to the Board. The terms of reference of the Nomination Committee can be found at www.hsholdings.com and more information on the work of the Committee can be found in the Committee Chair's report at pages 82 to 83.

Audit Committee

Comprises of five Non-executive Directors. While the Chair of the Board is invited to attend meetings, that individual is not a formal member of the Audit Committee.

Has responsibility for planning and reviewing the Company's audit processes, interim and full year results, internal controls and risk management systems. (See pages 56 to 59 for more information).

The Audit Committee is additionally supported by the Risk Committee, comprising employees from across the Group and representatives from some of our subsidiary businesses, including the USA.

The terms of reference of the Audit Committee can be found at www.hsholdings.com and more information on the work of the Committee can be found in the Committee Chair's report at pages 84 to 90.

Remuneration Committee

Comprises of six Non-executive Directors.

Has responsibility for the creation, approval and implementation of the Company's Remuneration Policy in respect of Executive Directors, Group Company Secretary and members of the Executive Board.

The terms of reference of the Remuneration Committee can be found at www.hsholdings.com and more information on the work of the Committee can be found in the Committee Chair's report at pages 92 to 104.

Frequency of meetings

During 2021, the Board met on 10 occasions, the Audit Committee on four occasions, the Nomination Committee met three times and the Remuneration Committee met on six occasions. All directors were in attendance at all meetings of the Board to which they were entitled.

	Board	Audit Committee	Nominations Committee	Remuneration Committee
Alan Giddins	10/10	–	3/3	6/6
Tony Quinlan	10/10	4/4	3/3	6/6
Pete Raby	10/10	4/4	3/3	6/6
Mark Reckitt	10/10	4/4	3/3	6/6
Annette Kelleher	10/10	4/4	3/3	6/6
Leigh-Ann Russell*	8/10	2/3	2/3	4/6
Paul Simmons	10/10	–	3/3	–
Hannah Nichols	10/10	–	–	–

*Leigh-Ann Russell was appointed to the Board on 1 April 2021 and attended all the meetings she was entitled to.

Board visits to operations

Site visits are an important, regular feature of the Board calendar. They provide an excellent opportunity for the Board to engage with a wide group of employees and they also facilitate the Non-executive Directors' understanding of the businesses.

During the year, the Non-executive Directors visited Birtley Group Ltd, Hill & Smith Ltd, Joseph Ash Ltd and Lionweld Kennedy Group in the UK. The Board also had three virtual meetings with The Paterson Group, Hill & Smith Inc., and V&S Utilities, recognising that in the short term, visits to these US operations were unlikely to take place.

Board decision making (S.172)

The Board's interaction with key stakeholders is set out on pages 54 to 55. The principal decisions taken by the Board during the year, along with how the Directors considered stakeholder interests when discharging their duties under section 172 of the Companies Act, is set out below.

Principal decision and stakeholders considered	Board's decision making process	Longer term considerations
Dividend Shareholders, potential investors and lenders.	Consideration of the financial resources required to execute our strategy, including organic investment and acquisition opportunities; the Group's medium-term rate of organic constant currency growth; and borrowing covenants.	Ensuring that the Company's progressive Dividend Policy is consistent with the Company's financial performance without detriment to the strength of the balance sheet and future sustainability.
Capital allocation Shareholders, potential investors, lenders, employees, customers, operating companies.	The Group's budget, approved by the Board, sets the allocation of capital to deliver our growth strategy through product innovation, capital expenditure, acquisitions, targeted disposals and sustainability.	Balancing investment for future growth and improving the quality of the Group against the longer term interests of operating companies and their employees and shareholders.
Portfolio management Shareholders, potential investors, lenders, operating companies, customers and future employees.	The Board received detailed acquisition proposals from the Group Chief Executive and Corporate Development Director on the long-term implications of disposals and acquisitions and their effect on the Group's stakeholders. The Board balances the financial commitment required against the risks and anticipated return, together with the management and control requirements, while considering the strategic fit with our purpose, and the opportunities for geographic or market extension.	The Group's new portfolio management criteria both for existing operating companies and potential acquisition targets requires a structured discipline in considering targeted disposals and making acquisitions which are aligned to our purpose, and which are in niche markets with long-term growth drivers ensuring that we can continue to grow sustainable profits for the benefit of all our stakeholders.
Greenhouse Gas Emissions Targets Shareholders, lenders, employees, operating companies, customers, suppliers, government, society.	The Board recognised the importance of a low carbon economy and the role that the Group has to play in achieving this and were mindful that this is a high priority for multiple stakeholder groups. Accordingly, the Board focused on areas where the Group could make most impact and took the decision to sign up to the Science Based Target initiative and develop a Group wide carbon reduction plan that targets the Group to be net zero for Scope 1 and 2 emissions by 2040.	The Board recognises the effect that climate change is having on the natural and business world and in keeping with regulation committed to TCFD scenario analysis. This analysis presents both risks and strategic opportunities for the Group. The Board also considered the value to society as a whole of the Group's operations and products, recognising that it must act to minimise the negative impact from its operations, to ensure a sustainable future for all, whilst being mindful of the effect on the Group's cost base.

Board conflicts

The Board has agreed an approach and adopted guidelines for dealing with conflicts. The Board confirms that it was not aware of any situations that conflicted with the interests of the Company, other than those that may arise from Directors' other appointments, as disclosed in their biographies on pages 66 and 67. In accordance with the Articles, the Board authorised the Group Company Secretary to receive notifications of conflicts of interest on behalf of the Board and to make recommendations as to whether the relevant matters should be authorised by the Board. The Company has complied with these procedures.

Support available to the Board

The Board is supported by the Group Company Secretary who, under the direction of the Chair, ensures that communication and information flows between Board members. The Group Company Secretary is also responsible for assisting the Chair in all matters relating to corporate governance, including the Board evaluation process.

At the invitation of the Board, other members of the management team attend Board meetings to present annual budgets, updates and proposals relating to their areas of responsibility and reporting on regulatory compliance, risk management and internal controls. The Directors and management of the Group businesses are also supported by the central function which includes compliance, risk management, internal audit, treasury, taxation, acquisitions and corporate development.

All directors have access to the advice and services of the Group Company Secretary and are able to take independent professional advice, when necessary, at the Company's expense, although no Director felt it necessary to seek such advice in the year ended 31 December 2021.

COMPOSITION, SUCCESSION AND EVALUATION

Summary

To ensure that the skills and experience of the PLC Board and Executive Board are appropriate to the delivery of the Group's strategic plan. Likewise ensuring that an appropriate succession plan is in place.

2021 Key Points

- Appointment of Leigh-Ann Russell to the PLC Board;
- Reviewed succession plans at both the Board and Executive Board level;
- Reviewed the structure of our Board committees; and
- Invited Edge Square Partners to meet with the Board to follow up on recommendations from the 2020 Board Effectiveness Review.

The individual biographies of the Board members can be found on pages 66 and 67. Three quarters of the Board consists of independent Non-executive Directors.

In compliance with the Code and the Company's Articles of Association, Directors retire at every AGM and, if deemed appropriate by the Board, Directors are proposed for re-appointment by shareholders at the forthcoming AGM. Following the evaluation of the performance of the Board, and on the recommendation of the Nomination Committee, the Board is proposing that all Directors on the Board on 31 December 2021 should stand for re-election at the Group's forthcoming Annual General Meeting ('AGM').

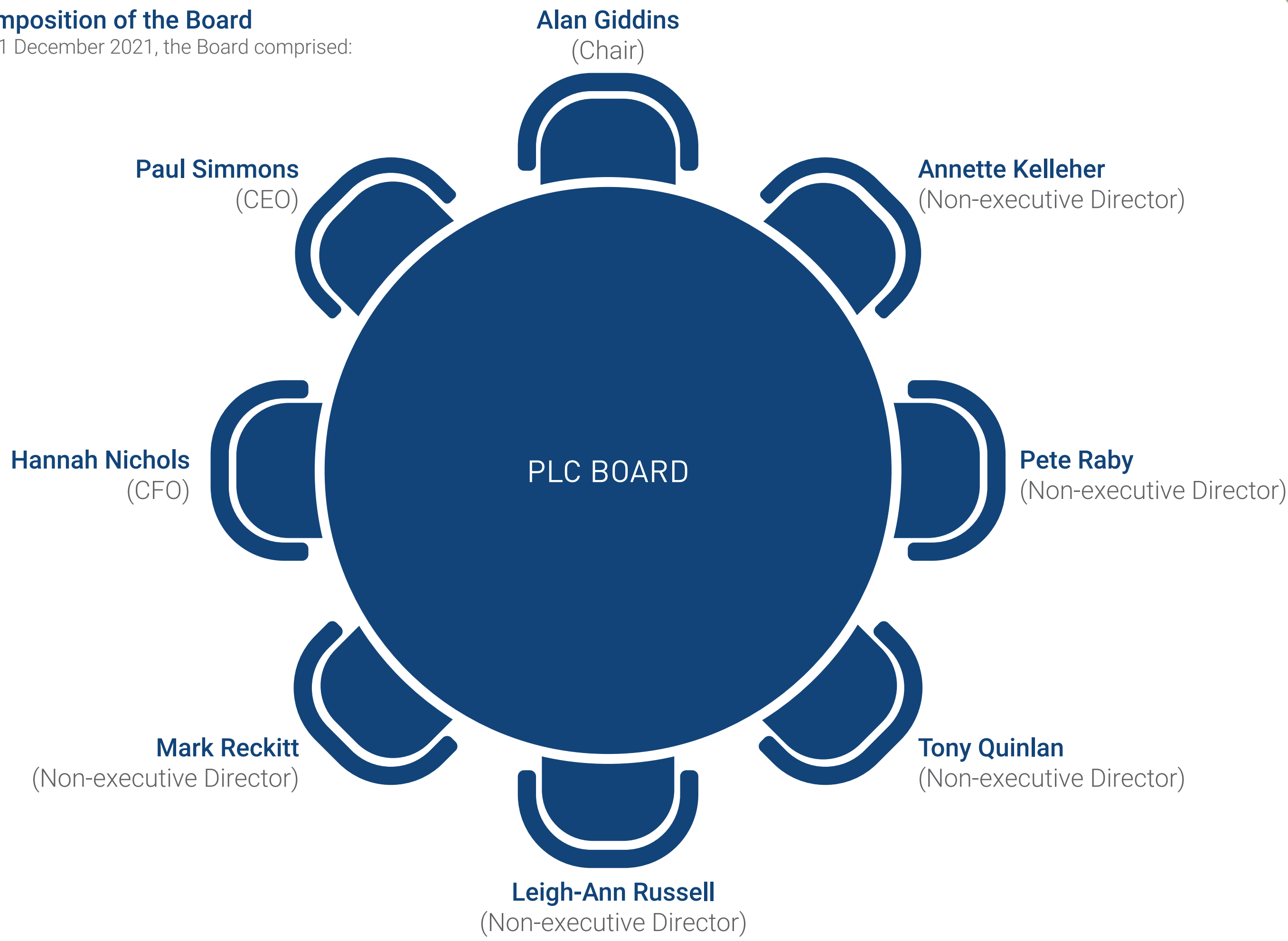
Board profile

Our Directors come from a broad range of backgrounds across industry, investment management and professional services. Their diverse and balanced mix of skills and business experience (see page 78), are key elements to the effective functioning of the Board and its Committees, ensuring matters are fully and effectively debated and challenged and no individual or group dominates the Board's decision-making processes.

Taking into account the provisions of the Code, the Board has determined that during the year under review, none of the Non-executive Directors had any relationship or circumstance which would affect their performance and the Board considers all of the Non-executive Directors to be independent in character and judgement. Conflicts of interest are dealt with by the Board as they arise.

Composition of the Board

At 31 December 2021, the Board comprised:



Succession planning

The Nominations Committee has responsibility for evaluating medium and long term Board and Executive Board succession, and for making recommendations to the Board.

A review of the top 115 managers within the Group is also undertaken, focused on both succession planning and talent development. This process is led by the Chief People Officer and presented to the Board.

At a local level, each subsidiary is required to have its own succession plan in place, and these are reviewed on a regular basis by each operating company Board and fed through to the Chief Executive via the Group Presidents.

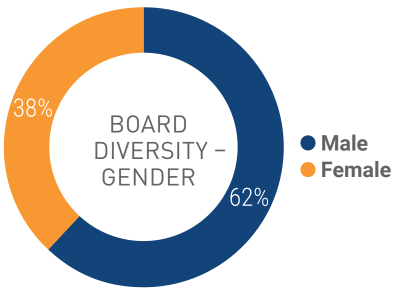
Group diversity

The Board is committed to ensuring that recruitment into the Group is undertaken based on merit, regardless of age, disability, marital or civil partner status, pregnancy and maternity, race, colour, nationality, ethnic or national origin, religion or belief, gender or sexual orientation. The Board places significant emphasis on ensuring that greater diversity is brought into the workforce, something which the Chief People Office is prioritising.

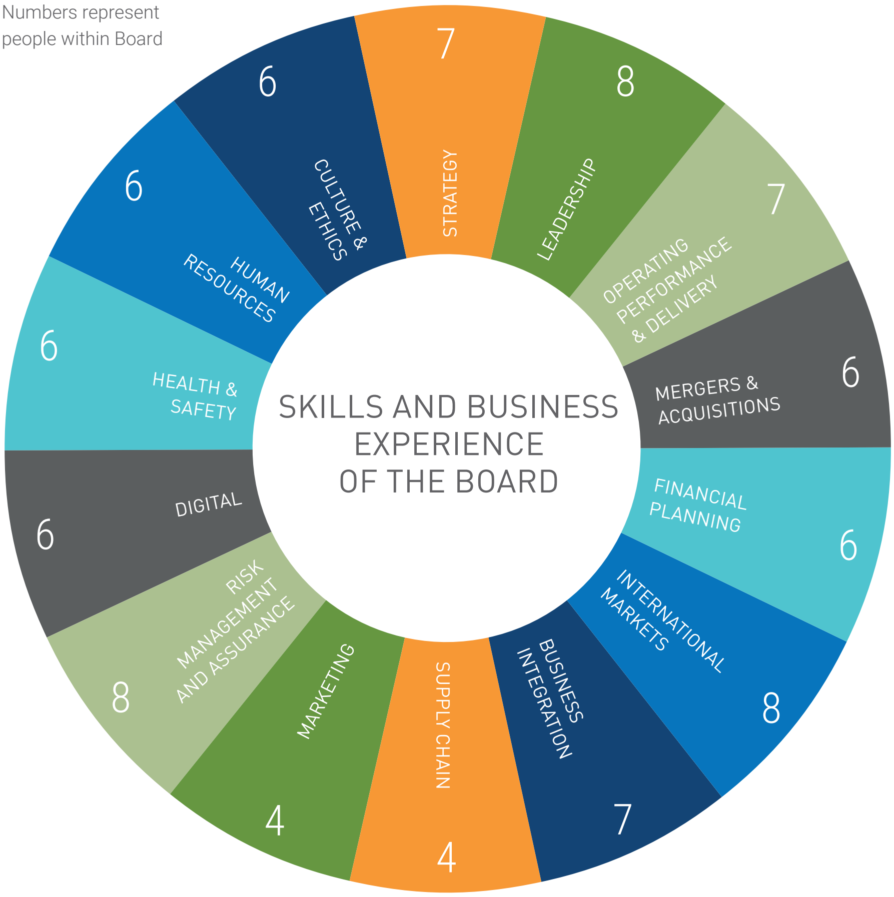
As part of this commitment, the Company includes in the Annual Report, details of the numbers of men and women at board level; the number of men and women who are "managers" (i.e., those employees with authority and responsibility for planning, directing and controlling the activities of the central function or the operating companies); and the number of men and women across the organisation as a whole. See page53 for more details.

Board diversity

The Board is committed to ensuring that it has the right balance of skills, views and experience. The Board is cognisant of the Hampton Alexander Review and the Parker Review regarding gender and ethnic diversity within the Board. On 31 December 2021, the Board membership comprises 38% female and 62% male.



Numbers represent people within Board



Director training and development

All Directors are provided with the opportunity and are encouraged to attend regular training to ensure they are kept up to date on relevant legal developments or changes, best practice and changes to commercial and financial risks. Typical training experiences for directors include attendance at seminars, forums, conferences and working groups, as well as the provision of information from the Group Company Secretary. During the year, the Board received presentations on capital structure and TCFD, and the Executive Directors received the benefits of a mentoring programme.

Evaluating the Board's performance

An evaluation of the Board's effectiveness is undertaken each year. Following on from an external board effectiveness review undertaken by Verena Kugi, Edge Square Partners (an independent assessor with no association with the Company) in 2020, the Board invited Edge Square Partners to re-engage with each Board member during the year in order to follow up on the key observations and actions from the previous review. Ms Kugi presented her 2020 findings at the January 2021 Board meeting and attended, as an observer, the September 2021 Board meeting facilitating an open discussion amongst Board members. Key actions coming out of these discussions focused on:

i. how to further prioritise strategic discussions within both the formal Board agenda and in less formal Board environments;

ii. ensuring that time is set aside to allow the Non-executive Directors to visit more of the operational sites;

iii. spending further Board time in considering the Group's risk appetite, while keeping risk reporting within the Audit Committee remit; and

iv. ensuring that the structure of the current Board delegated authorities does not in any way hinder swift and agile decision making.

AUDIT, RISK AND INTERNAL CONTROL

Summary

A strong audit and internal control framework, with robust risk management, which gives confidence to the Board that Hill & Smith Holdings PLC is a well-run company.

2021 Key Points

- On-site audits with clear reporting and proportionate measures;
- Continued development of our risk management processes; and
- Clear and accurate Board reports, detailing the financial performance of the business.

Internal Audit

As work restrictions eased during 2021, our Internal Audit team were able to conduct more on-site audits than in 2020. Where this has not been possible due to travel restrictions, the Group has engaged third party accounting firms to undertake certain internal audit reviews. Audits of compliance with the Group Financial Controls Manual and Group IT Controls Manual were also completed across multiple sites and reports and recommendations were presented to the Audit Committee.

Additionally, the Audit Committee reviewed and approved the annual audit plans for 2022, as prepared by the Head of Risk and Internal Audit.

Risk management

The Board has overall responsibility for ensuring that there is a process to identify, evaluate and manage any significant risks that may affect the achievement of the Group's strategic objectives and for internal control, and reviewing the effectiveness of these processes.

The risk management and internal control system is designed to manage, rather than eliminate, the risk of failing to achieve business objectives and can provide only reasonable, and not absolute, assurance against material misstatement or loss. The assessment and control of risk are considered by the Board to be fundamental to achieving the Group's strategic objectives. An ongoing process for identifying, evaluating and managing the significant risks faced by the Group and assessing the effectiveness of related controls has been established by the Board to ensure an acceptable risk/reward profile across the Group. This routinely identifies areas for improvement. The Board has neither identified nor been advised of any failings or weaknesses during the year which it has determined to be material or significant.

This process has been in place throughout 2021, and up to the date of approving the Annual Report and Financial Statements. The key elements of this process are:

- a comprehensive system of monthly reporting from key Executives, identifying performance against budgets and forecasts;
- analysis of variances, major business issues, key performance indicators and regular forecasting;
- well-defined policies governing appraisal and approval of capital expenditure and treasury operations;
- six-monthly submissions from all operating companies detailing the risks they have identified and what controls and assurances they have in place to mitigate these risks;
- regular meetings to identify and discuss key risks and mitigations with a broad sample of the senior management team and the Executive Directors;
- review of the corporate risk register in terms of completeness and accuracy with the senior management team and the Executive Directors;
- the use of a Risk Committee to monitor, validate and report on the Group-wide risk assessment process;
- Audit Committee discussion of the corporate risk register and the risk management system with subsequent reports to the Board; and
- the embedding of a senior management top-down approach to complement the work of the Risk Committee; and
- review of the risks and opportunities identified by the TCFD workstream.

More information on the Group's key risks and uncertainties is shown on pages 60 to 64.

Internal controls

The Board maintains overall responsibility for embedding key controls within the Group. Together with the Audit Committee, the Board reviewed the effectiveness of the Group's risk management and internal control systems in accordance with the UK Governance Code for the year ended 31 December 2021, and up to the date of approving the Annual Report and Financial Statements.

Additionally, the Board:

- ensured maintenance of a sound system of internal control and risk management;
- reviewed the adequacy and security of the Company's arrangements for its employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Board continues to ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action;
- considered and approved the half-yearly report, any other interim management statements and any preliminary announcement of results;
- approved the dividend policy;
- declared the interim dividend and recommended the final dividend;
- approved any significant changes in accounting policies or practices; and
- approved treasury policies including foreign currency exposure and the use of financial derivatives.

Going Concern

The Board has considered the Group's status as a going concern and the Directors have assessed the future funding requirements of the Group and the Company and compared them to the level of committed available borrowing facilities. The assessment included a review of both divisional and Group financial forecasts, financial instruments and hedging arrangements, for a period of 18 months from the Balance Sheet date. Major assumptions have been compared to external reference points such as infrastructure spend forecasts across our chosen market sectors, government spending plans on road infrastructure, zinc and steel prices and economic growth forecasts. This assessment showed that the Group will have sufficient headroom in the foreseeable future and the likelihood of breaching borrowing covenants in this period is considered to be remote. Having undertaken this work, the Directors are of the opinion that the Group has adequate committed resources to fund its operations for the foreseeable future and so determine that it is appropriate for the Financial Statements to be prepared on a going concern basis. See page 31 for more details.

Longer term outlook

The Directors have considered the prospects of the Group over the four-year period immediately following the 2021 financial year. This longer-term assessment process supports the Board's statements on both viability, as set out below, and going concern, as set out on page 79. A four-year period was determined as the most appropriate as it is the remaining period covered by the Group's annual strategic planning process, which sets the long term direction of the Group and is reviewed at least annually by the Directors. Strategic plans are prepared mid-year and encompass the current year and the following four years. The Board concluded that a period of longer than four years would not be meaningful for the purpose of concluding on longer-term viability. The strategic planning process considered metrics which enable assessment of the Group's key performance indicators (see pages 18 to 19) in addition to net debt, liquidity and financing requirements. In conducting the review of the Group's prospects, the Directors assessed the four-year plan alongside the Group's current financial position, the Group's strategy and the principal risks facing the Group's strategy and the principal risks facing the Group (all of which are detailed in the Strategic Report on pages 1 to 65). This robust assessment considered the impact of the principal risks on the business model and on future performance, liquidity and solvency. Stress tests were applied to the Group's four-year plan, whereby factors associated with the economic risks faced by the Group were applied to the plan in a number of diverging scenarios. The developed scenarios were designed to be plausible, yet severe:

- a decrease in the UK Government's Road infrastructure spend;
- a fall in galvanizing volumes across all geographies; and
- a reduction in revenues in the Group's Utilities businesses in the UK and USA.

In making this viability statement, the Directors considered the mitigating actions that would be taken by the Group in the event that the principal risks of the Company become realised. The Directors also took into consideration the Group's financial position at 31 December 2021 with a borrowing facility headroom of £234.4m and a history of strong cash generation. The Directors noted that whilst the Company's principal bank borrowing facilities mature in December 2023, before the end of the review period, the Group intended to renegotiate these facilities in 2022 and based on past experience, they have a reasonable expectation that such a refinancing would be completed in that time frame. The Directors have assessed the viability of the Group and, based on the procedures outlined above in addition to activities undertaken by the Board in its normal course of business, confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to 31 December 2025.

Fair, balanced and understandable financial reporting

The Board received a recommendation from the Audit Committee that the Group's position and prospects had been assessed and reported on in the Annual Report in a way that was fair, balanced and understandable. Prior to making the recommendation to the Board, the Committee reviewed a report received from the management responsible for the preparation of the Annual Report detailing how the report had been compiled. The Committee considered the information laid out in the Annual Report and concluded:

- that the process by which the allocation of responsibility for the preparation of certain sections of the Annual Report to individuals in the central function and their review by external advisors was fit for purpose;
- that the information given represented the whole story of the business' performance in 2021 and did not mislead the reader by excluding appropriate bad news. That the disclosures of the Group's business segments, and key messages are consistently delivered throughout the document, KPIs are clear and appropriate and linked to both the Group's strategy and remuneration incentives;
- that it was a suitable document to inform both existing and prospective shareholders about the financial and non-financial performance of the business, with the messages delivered in the Directors' Report, including the Operating and Financial Review and the Financial Statements being balanced and consistent and that the report set out a detailed and fair representation of the Group's activities and performance and that certain matters have been identified and discussed between management, the Audit Committee and Ernst & Young LLP ('EY') in order to correctly disclose the performance, controls and prospects of the Group; and
- that the document allowed shareholders to follow the whole story of the Group's financial and non-financial performance in 2021, giving them a clear and understandable picture of the Group's business model, key drivers and commercial operations.

The respective responsibilities of the Directors and External Auditor in connection with the Financial Statements are explained in the Statement of Directors' Responsibilities on page 112 and the Independent Auditor's Report on pages 114 to 122.

REMUNERATION

Summary

A remuneration structure which is designed to attract and retain talent, to motivate our leaders and reward their success.

2021 Key Points

- Appointed a Reward specialist to ensure that our compensation and benefits packages are fair and in line with the market norm; and
- Replaced awards under the Group's Executive Share Option Scheme with awards under the Long Term Incentive Plan ('LTIP') scheme for senior managers aligned with the Executive Directors.

EXECUTIVE PAY

- SALARY
- THREE-YEAR LONGER-TERM INCENTIVE ARRANGEMENT
- SHORT-TERM ANNUAL BONUS, INCLUDING A 50% DEFERRED BONUS

About our Remuneration Policy

The current Director's Remuneration Policy was last approved by shareholders at the 2020 AGM. The purpose of this policy is to be able to recruit and retain Executive Directors of sufficient calibre to develop and deliver our business strategy and create shareholder value; to ensure remuneration arrangements are in the best interests of the Group, in line with the wider workforce and do not pay more than is appropriate; and does not pay for failure. More information on the Group's Remuneration Policy is available in the Policy Table on pages 105 to 109 of the Group's Remuneration Report.

Our Executive Director salary package

Our Executive Directors' pay arrangements are made up of three fundamental elements as indicated by the graphic above.

The Group's Remuneration Report on pages 92 to 104 and sets out the remuneration of the Executive Directors for 2021.

Share options

Alongside the pay of our Executive Directors, the Remuneration Committee has also reviewed the types of share options available to senior management, to bring them into line with the Executive Directors. This move aligns the benefits of senior management to those of the Executive Directors, and therefore retains talent in the organisation.

Pay increases

In deciding on the annual increase of 3% for the Executive Directors, the Remuneration Committee received information on the average increases being given across the Group's 29 subsidiaries. More information is available on page 102 of the Group's Remuneration Report.

NOMINATION COMMITTEE REPORT

Alan Giddins
Chair

DEAR STAKEHOLDER

It is my pleasure to make my report as Chair of the Nomination Committee. This report is intended to give an account of the Committee and its activity. The core responsibilities of the Committee are succession planning and appointments at Board level, oversight of appointments and succession planning to the Executive Board and making recommendations to the Board on the composition of the Board's committees. The full terms of reference of the Committee can be found on the Company's website www.hsholdings.com.

Committee membership

Throughout the year, the Committee comprised myself as the Group's Chair, and Non-executive Directors Annette Kelleher, Tony Quinlan, Pete Raby and Mark Reckitt, and our CEO, Paul Simmons. Leigh-Ann Russell joined the Committee on her appointment on 1 April 2021. The Committee met three times in the financial period under review with all eligible members of the Committee being present on each occasion.

Non-executive Directors

Following an initial three-year term, the terms of Non-executive Directors are reviewed annually, in line with their annual retirement at the AGM. The letters of appointment for the Non-executive Directors are available for inspection at the Company's registered office and the AGM. All Non-executive Directors are independent, as was I on appointment.

	Date of appointment	Length of service	Expected end date
Alan Giddins	3 October 2017	4 years 3 months	30 September 2026
Annette Kelleher	1 December 2014	7 years 1 month	30 November 2023
Leigh-Ann Russell	1 April 2021	9 months	31 March 2030
Mark Reckitt	1 June 2016	5 years 7 months	31 May 2025
Pete Raby	1 December 2019	2 years 1 month	30 November 2028
Tony Quinlan	1 December 2019	2 years 1 month	30 November 2028

"During the year, the Committee has spent time evaluating medium and long term Board composition and succession."

Board composition and succession

During the year, the Committee has spent time evaluating medium and long term Board composition and succession. The Committee has specifically looked at the current skills and experience of the Board against delivery of the Group's Strategic Plan. A key recommendation from this review was that it would be beneficial to bring additional operational and international experience to the Board, and in particular to add a US based non-executive to the Board. On the committee's recommendation, the Board made two appointments during the year and in the period to the date of this report:

- Leigh-Ann Russell joined the Board effective from 1 April 2021. Leigh-Ann is bp's EVP Innovation and Engineering. She has significant international operational and leadership experience, and in 2019, was awarded a fellowship of the Royal Academy of Engineering.
- On 31 January 2022, the Company announced the appointment of Farrokh Batliwala effective from 1 April 2022. Farrokh was formerly President, Connect and Control Technologies, ITT Inc, prior to which he held senior management roles at Eaton Corporation and Pratt & Whitney. Farrokh now lives on the East Coast of the US. Farrokh holds an MBA from Kellogg School of Management, Northwestern University.

Executive Board appointments and succession planning

The Committee has worked with the Chief Executive to evaluate potential new Executive Board appointments. This included the appointment of a Chief People Officer and two new Group Presidents. These were well run processes leading to the appointment in June 2021 of Andrew Park as Chief People Officer and the announcement in January 2022 of David George and Hooman Javvi's appointments as Group Presidents effective from February 2022 and March 2022, respectively.

The Committee also undertook a review of succession planning within the Executive Board. This showed that while there was good cover for a number of roles, it also highlighted the importance of developing the next generation of senior leaders within the business.

Diversity and inclusion

The Committee is committed to ensuring that the Board, Executive Board and senior management team have the right diverse mix of skills, experience, knowledge and background. In considering diversity, gender plays an important role but the Board also takes into account social and ethnic background, and other cognitive and personal strengths. New appointments are made on merit, and take into account what is required from a diversity and inclusion perspective to ensure a balanced Board composition and considering the diversity benefit each candidate can bring.

From 1 April 2022, being the date when Farrokh Batliwala joins the Group, the Board will comprise three female directors (33%) and six male directors (67%), with one Board director from a minority background (11%).

Plans for the year ahead

Through a number of external appointments over the last two years, I believe that we have a highly capable Board and Executive Board with the appropriate skills and experience to deliver on the Group's ambitions. While the Committee will continue to remain focused on medium and long term succession planning within this group, the success of Hill & Smith is reliant on the Company's ability to identify and develop the next generation of business leaders from within the organisation, and this will be a particular area of focus for the Committee during 2022.

Alan Giddins
Chair

9 March 2022

AUDIT COMMITTEE REPORT

Mark Reckitt
Chair

DEAR STAKEHOLDER

It is a pleasure to make my report as Chair of the Audit Committee of Hill & Smith Holdings PLC and to explain how your Audit Committee and the Group's senior management team have managed and continued to develop and enhance our risk management processes and internal audit programmes through the prolonged pandemic.

The business model of Hill & Smith delegates substantial authority to the business units, which enables an entrepreneurial approach that allows the business to respond rapidly to unexpected events, such as COVID. Each operating company is responsible for ensuring that it has an effective set of internal controls and control environment, which places responsibility on the Managing Director and Finance Director of each operating company. The Group Financial Controls Manual was launched in 2020 and provides detailed guidance on the nature and frequency of the internal controls required at each business unit. This was supplemented in 2021 with the launch of the Group IT Controls Manual which sets out the minimum level of IT controls required at each business unit to ensure IT resilience and cyber security. The level of challenge from the Audit Committee and Board has enhanced awareness of the need for improvement in the IT infrastructure and related controls. This has resulted in a plan for investment in IT and cyber security and ensured the availability of sufficient resource to enable swift implementation.

Regular visits from Internal Audit, supplemented by External Audit work, are important for the Audit Committee to gain assurance that the internal controls are operating as intended, and the Committee receives regular reports on this matter.

The work of Internal Audit during 2021 was a mixture of remote self-assessments and onsite fieldwork for UK operating companies, with remote preparation and sample selection to minimise time spent on site. Unfortunately, international travel restrictions hampered our ability to visit our overseas sites and the Committee approved the use of third parties to undertake internal audits of some of our overseas entities. In December 2021, the Committee approved an internal audit plan for 2022 which includes a Supply Chain thematic review and fraud risk assessment, whilst continuing the primary work of monitoring our operating companies compliance with our Group policies and controls.

"In 2021, in response to potential cyber risk exposure, we launched the Group IT Controls Manual, providing detailed guidance to our operating companies on the nature and frequency of the internal controls required."

The Risk Committee, as requested by the Audit Committee, has continued to build upon the risk assessment methodology using the online risk management and reporting tool which was implemented across the Group in 2020, such that each business units' mitigation actions are collated and evidenced. The Committee is building a clear picture of the risks being considered by the operating companies as well as the actions to mitigate risk, which is facilitating risk appetite discussion. More information on the risk management process adopted by the Company can be found on pages 56 to 59. In March 2022, the Audit Committee considered the impact of the Ukrainian crisis on the Group's Principal Risks, as assessed by the operating companies, the Risk Committee and the Executive Board. It was agreed that, although difficult to assess, it was possible that it might have an adverse effect on the Principal Risks of Changes in global outlook and geopolitical environment, Supply chain failure, IT systems failure and Violation of applicable laws and regulations. More information can be found on pages 60 to 64.

Following Ernst & Young LLP ('EY') completing their first audit of the Group's financial statements in relation to the year-ended 31 December 2020, the Committee met EY's lead partner to assess the lessons learned and the improvements that might be implemented for this year's audit. In August 2021, we discussed and agreed the plan for their year-end audit procedures and in December 2021, approved the fee for their work in 2021. The audit of our 2021 Financial Statements is the second audit that EY have conducted, and the Committee remain pleased with their levels of independence, objectivity and professional judgement and the oversight they give to our financial statements.

During 2021, the Financial Reporting Council ('FRC') completed a thematic review on viability and going concern disclosures. The Group was included in their sample of 30 companies with an accounting period end between December 2020 and March 2021. The FRC had no questions or queries in relation to the Group's disclosures and in their published report they highlighted the Group's disclosures on reliance on facilities and reverse stress testing as examples of good practice.

This Audit Committee Report explains how the Committee has discharged its responsibilities during 2021, and considers the specific topics of:

- Primary areas of judgement considered by the Committee in relation to the 2021 Financial Statements;
- Internal controls;
- Risk assessment, management, and mitigation; and
- Assessment of effectiveness of external audit.

I trust you will find this report a helpful insight into the activities undertaken on your behalf. I should be delighted to answer any questions you might have and hope to see you at our AGM in May 2022.

Mark Reckitt
Chair

9 March 2022

Committee membership and purpose

During the year, and to the date of this report, the Audit Committee comprised:

Mark Reckitt;
Annette Kelleher;
Pete Raby;
Tony Quinlan; and
Leigh-Ann Russell (appointed 1 April 2021).

Attendees at each of the meetings included by invitation, the Chair of the Board; the Group Chief Executive; the Group Chief Financial Officer; the Group Financial Controller; the Group Head of Risk & Internal Audit; the External Auditor, EY and, where appropriate, other advisors. Time is also allowed for the Committee to speak with the External Auditor and the Group Head of Risk & Internal Audit without the presence of the Executive management.

The overall purpose of the Audit Committee is one of oversight and monitoring of the entire financial reporting and control process, to ensure the integrity of the Group's Financial Statements and assurance over them. The Committee fulfils this remit by undertaking the following roles and responsibilities:

- monitoring the integrity of the Financial Statements of the Company and reviewing significant financial reporting judgements contained in them;
- reviewing areas of the financial statements that require particular judgement;
- providing advice (where requested by the Board) on whether the Financial Statements and Annual Report, taken as a whole, is fair, balanced, and understandable, and provides the information necessary for shareholders to assess the Company's financial position, performance, business model and strategy;
- reviewing the Company's internal financial controls and internal control and risk management systems;
- monitoring and reviewing the effectiveness of the Company's internal audit function and making recommendations to the Board;
- approving the Internal Audit Charter and audit plan;
- reviewing outputs from the Group's risk management process, ensuring that operating companies are correctly identifying, articulating and measuring their risks and mitigating controls;
- making recommendations to the Board about the appointment, re-appointment, and removal of the External Auditor, and approving the remuneration and terms of engagement of the External Auditor;
- reviewing and monitoring the External Auditor's independence and objectivity;
- reviewing the effectiveness of the external audit process, taking into consideration relevant UK professional and regulatory requirements;
- developing and implementing policy on the engagement of the External Auditor to supply non-audit services, ensuring there is prior approval of non-audit services, considering the impact this may have on independence; and
- reporting to the Board on how it has discharged its responsibilities.

Governance

During the year, the Committee fully complied with the provisions of the UK Corporate Governance Code 2018 (the 'Code'), in which Mark Reckitt is specifically identified, in keeping with the provisions of the Code, as the Committee member having recent and relevant financial experience. He is a qualified Chartered Accountant and has previously held the positions of Group Strategy Director at Smiths Group plc from February 2011 to April 2014 and Chief Strategy Officer at Cadbury plc from 2004 to 2010. He is currently the Audit Committee Chair and Senior Independent Director at Cranswick plc.

As Chair of the Audit Committee, Mark Reckitt has maintained regular contact with the external audit partners at EY as well as the Group Head of Risk & Internal Audit outside Committee meetings and without the management of the business present. In these meetings a wide range of matters are discussed, including specific issues encountered in their work across the Group as well as changes in financial reporting and governance landscape, the Company's readiness to accommodate these developments, the effect of the pandemic on the auditing activities undertaken by EY and the internal audit function and our approach to managing risk and assurance generally.

During the year, the Committee met on four occasions according to the requirements of the Company's financial calendar, covering the following agenda items:

March

- Key risks and judgements relating to the 2020 Financial Statements
- Report from External Auditors on the Financial Statements for the year ended 31 December 2020
- Financial Statements and Annual Report for year ended 31 December 2020, including the statements on Going Concern, Viability and Fair, Balanced and Understandable
- Internal Audit update and review of the Group's Principal Risks

August

- Key Issues and Judgements relating to the Interim Results
- External Audit planning report including results of early audit procedures
- External Auditor quality and independence
- Interim Results for the six months ended 30 June 2021
- Internal Audit and Risk Management update

September

- External Auditor's corporate governance update
- Internal Audit update
- IT Controls Framework
- Group Risk and Principal Risks review

December

- Internal Audit update, including contract management thematic review and 2022 Internal Audit plan
- Internal Audit Charter
- Goodwill impairment
- External Auditor report on interim audit procedures
- Update on TCFD work completed with assistance from PwC

Primary areas of judgement considered by the Committee in relation to the 2021 accounts

In order to discharge its responsibility to consider accounting and financial reporting integrity, the Committee carefully considers key judgements applied in the preparation of the Consolidated Financial Statements, which are set out on pages 125 to 173. The Committee's review included consideration of the following key accounting judgements:

Valuation of goodwill and indefinite life assets

The value of goodwill and indefinite life assets amounted to £134.4m at 31 December 2021. The review of such assets is based on a calculation of value in use, using cash flow projections based on financial budgets and strategic plans prepared by senior management and approved by the Board of Directors. The current uncertain economic conditions around the world increase the risk of impairment and the Committee addresses this by performing half-yearly and annual impairment testing on the carrying value of goodwill and other capital intangible assets across the relevant cash generating units. In 2021, the Committee reviewed the results of these calculations and in particular, considered and challenged management's assessment of the sensitivities to these assumptions and the impact that those sensitivities may have. Business plans are signed off by the Board and assessment models are reviewed and challenged as part of the audit, for which the External Auditor, EY, provides reporting to the Committee. As part of this review, the Committee considered the assessments made in respect of ATG Access Ltd, France Galva SA and Parking Facilities Ltd.

- ATG Access – when preparing the Group's interim results, management concluded that the pace of ATG's post-pandemic recovery was likely to be slower than had previously been anticipated, mainly due to the expectation of prolonged inactivity in several of its key sectors and also reflecting increased competition in the market. As a result, an impairment charge of £10.8m was recognised in the interim results. Whilst trading improved in the second half of the year, management noted that results continued to be below previous expectations and that notwithstanding the relaxation of restrictions on public gatherings, the pace of post-pandemic recovery remained uncertain. Management concluded that there had been no significant change in the market outlook since it made its assessment at the half year and therefore that no further impairment was recommended at 31 December 2021. After challenging management on aspects of the business plan and related sensitivities, the Committee supported management's recommendation.
- France Galva – in 2020, the Group recognised an impairment charge of £17.5m in respect of goodwill relating to France Galva and made further disclosure of the sensitivities that could lead to additional future impairment. In 2021, France Galva's performance improved on 2020 due principally to a recovery in demand and successful pricing actions taken to offset cost inflation. After taking this improvement into account and reassessing the longer term outlook for the business with reference to both internal forecasts and external economic data, management determined that there were no indications of deterioration in the outlook and therefore that no further impairment was required at 31 December 2021. Management did, however, note that there remained sensitivities that could lead to future impairment. The Committee challenged management on its forecasts and the disclosure of sensitivities in the Annual Report, concluding that management's judgements were appropriate.

- Parking Facilities – following a trading period in 2020 that was impacted by COVID disruption in security markets, the business's performance in 2021 has improved but not to the levels that were anticipated at the time of its acquisition. Management's impairment assessment identified supply chain and raw material price inflation pressures as being likely to continue to impact demand and margins in the short term, while new market entrants in 2021 were noted as being likely to lead to an increase in competition in the medium to longer term. Management's assessment concluded that an impairment charge of £5.2m in respect of the goodwill and other acquired intangible assets relating to the acquisition was required. After reviewing management's forecasts for future performance and challenging the assumptions adopted, the Committee agreed with management's conclusions.

Additional disclosures made in respect of the sensitivities around impairment calculations can be found in note 12 to the Financial Statements on pages 147 to 152.

Defined benefit pension scheme valuation
Net defined benefit pension obligations under IAS19 amounted to £12.3m at 31 December 2021. The Committee reviews benchmarks and assumptions that are provided by the Group's actuaries and used to value the pension liabilities for the Group's defined benefit schemes. The underlying assumptions based on market conditions and the characteristics of the schemes are reviewed by management and the External Auditor and reported on to the Committee.

Taxation
The Group makes judgements in relation to uncertain tax positions, regarding the outcome of negotiations with and enquiries from HM Revenue & Customs and other tax authorities in other jurisdictions. Judgements have been made by management following discussion with the Group's tax advisors and internal review. The Committee has reviewed the analysis behind these judgements and confirms its agreement that the Group's tax provisions are appropriate.

Going Concern
The Committee advises the Board on whether it believes it appropriate to adopt the going concern principle in preparing the Group's Financial Statements. In making this assessment, the Committee received and reviewed management forecasts for the Group's future cash flow performance, challenging the assumptions on which those forecasts are based. In 2021, the Committee continued to receive forecasts based on various scenarios and in particular, considered what would be required for the Group to breach its borrowing covenants or extinguish its borrowing facilities in the period to 30 June 2023. Following a robust assessment of the forecasts, the Committee concluded that adoption of the going concern principle was appropriate for both the interim and full year results. The Committee also reviewed and approved the going concern disclosures that are included in the financial statements

Whilst not considered to be primary areas of judgement, the Committee's discussions in relation to the 2021 accounts also included the following:

- Noting that the External Auditor, EY, had identified inventory valuation as a Key Audit Matter in their audit opinion, members of the Committee discussed this with the audit engagement partner in the context of the Group's view that this was not a primary area of judgement for the Group. Following discussion and noting the effective operation of controls in this area and the dispersed nature of inventory across the Group due to its decentralised structure, it was concluded that inventory valuation should not be considered a primary area of judgement for the Group.
- Given the significant value of non-underlying items in 2021, the Committee challenged management on the presentation of those items. The discussion focused largely on the costs of the Group's activity on actual or potential acquisitions and disposals, and costs relating to closure of the variable message signs business. The Committee concurred with management's view, noting that the work of the External Auditor in this area also supported that view.
- The Committee challenged management on the treatment of the rental business of ATA as a disposal group held for sale. It noted the confidence of management in the likelihood of a sale being achieved in 2022 given the existence of an identified purchaser and the advanced status of negotiations.

Internal audit

Internal audit function
The internal audit function is overseen by the Group Head of Risk & Internal Audit. The Audit Committee annually reviews and approves the Internal Audit Charter that sets out:

- the function's purpose: to evaluate the effectiveness of internal controls, risk management and governance processes independently and objectively; and
- how the function will discharge its responsibility, primarily by preparing and executing a risk-based audit plan, identifying opportunities to improve internal control, risk management and governance processes and by verifying that improvements agreed with management are implemented within a reasonable time frame.

In accordance with the Internal Audit Charter, the Audit Committee and Executive management ensure that the internal audit function has free and unrestricted access to the Group's records, physical properties and personnel pertinent to conducting its activities and remains free from inappropriate management influence or other restrictions on its ability to perform its work in an objective and effective manner.

Internal control
The Audit Committee is responsible for ensuring that the Group's system of internal control is embedded within all operating companies. The Committee monitors the adequacy and effectiveness of the Group's internal control processes through review and discussion of:

- the proposed internal audit plan ensuring that it was aligned to the Principal Risks of the business, adjusted to respond to unexpected events, and received regular progress updates on the delivery of the objectives of the plan;
- the 11 internal audit reports and findings presented throughout the year together with the progress by management in addressing the issues identified on a timely basis;
- Executive management reports and presentations including updates on specific areas provided at the request of the Committee. In the period covered by this report, this included a review of the Group's IT Controls and Cyber Risk mitigation activities;
- accounting judgements including the carrying value of goodwill and intangible assets of ATG Access Ltd, France Galva SA and Parking Facilities Ltd; and
- external audit reports, including the results of early audit procedures, a review of the effectiveness of internal controls and the audit findings in relation to the year end audit.

The 2021, Internal Audit Plan balanced the focus of the function between Group-wide Principal Risks and operating company-level risks. It included a Group-wide thematic review of contract management, recognising the increasing variety and complexity of projects which are now undertaken by the Group, and multiple operating company-level reviews, focusing on the operating companies' financial, commercial and operational baseline internal controls. Due to the impact of the COVID pandemic on the internal audit function's ability to be on site at the Group's operating companies, a number of operating company-level reviews were completed remotely, and one was outsourced to BDO, USA.

The contract management thematic review took place within those operating companies where contracting makes up a significant amount of their revenues and resulted in six businesses being reviewed. It focused on the inception and acceptance of contracts, their execution, and post completion activities. In its report to the Audit Committee, Internal Audit identified the sales focus of contract management as being a potential barrier to the successful inclusion of protective terms within the contract, and that the Group's Delegated Authorities should be revised to provide better clarity around approval requirements. Its work highlighted areas of good practice which would, if applied to all relevant companies, improve the quality and consistency of contract execution. Finally, the report noted that contract completion procedures would benefit from formalisation. During 2022, Internal Audit will be working with the Group's internal support functions to educate colleagues on compliance with the Group's Delegated Authorities and standard terms, and with the Group Presidents to identify where improvements in process and capability can be made.

Operating company-level reviews, focusing on baseline internal controls, were conducted at nine business units during the year. Where internal audit work found instances of control weakness, or non-compliance with Group Policy, the findings were discussed at the Audit Committee. Such control weaknesses are taken seriously by management and the Audit Committee seek to ensure that their cause is understood, and mitigating actions are taken to limit the potential for recurrence. Plans are discussed and timelines agreed with the relevant businesses, and these are monitored by the Internal Audit function to ensure compliance. In view of the work of internal audit, external audit and Group management, it is considered unlikely that a weakness at an individual operating company would have a material impact when taken in the context of the Group as a whole.

Where operating companies fail to implement internal control corrective actions within a reasonable period as agreed, the Audit Committee is informed, and further escalation measures are taken. In 2021, Mark Reckitt, Chair of the Committee, visited three businesses to see for himself the issues that confronted these businesses and noted that most of the outstanding actions would be resolved by imminent IT enhancements.

Risk management

The risk management process is continually kept under review to ensure that outcomes from the operating companies' risk submissions provide the necessary information for the Audit Committee to conduct a robust assessment of the risks affecting the Group as a whole. A risk management and reporting tool has helped to provide the Committee with more information on how operating companies perceive their risks and how they relate to the Group's Principal Risks. Through these reports, operating company management are continually monitored and supported to ensure their risk management policies and risk mitigations are suitable to meet the Board's appetite for the risks identified.

Risk management process

Every year, the Committee seeks to improve the Group's risk management processes to ensure that the Group's Principal Risks are correctly identified by virtue of a top-down/bottom-up approach using the experiences of the Audit Committee and the Group's operating companies. In this, the Audit Committee is supported by the Group's Risk Committee, whose membership can be found on page 57.

The Risk Committee oversees the risk management process, which is one of continual improvement. The risk management and reporting tool, launched in 2020, was further developed during the year supported by a programme of training that was delivered to all management teams across the Group, via online webinars and training manuals. The developments included the introduction of Key Risk Indicators, to assist with the risk assessment process, and alignment with the Group IT Controls Manual.

The Risk Committee reviews, discusses and validates the risk submission data received from the operating companies. Any risks submitted by operating companies that do not align with the Group's Principal Risks are individually reviewed and considered in current and subsequent reviews of the Group Principal Risks. The Audit Committee has monitored the resultant key risks on the corporate risk register and during the year received reports and minutes from the Risk Committee, detailing the Group-wide risk assessment process and the movements in major risks, and updates on operating companies' risk mitigation activity, together with their attitude to risk as measured by a "target" risk score. The Committee uses this information to determine the risk appetite within the Group's operating companies and help inform the Board's overall risk appetite.

During 2021, the Committee directed that particular attention be paid to the Principal Risks around Health & Safety, IT failure and Talent, Development, Diversity, Recruitment and Retention of key employees. The Committee noted that the prevention of harm or injury to employees was a major area of focus across the Group and that it was a regular topic of discussion within the recently formed Executive Board as well as the Board itself. In reviewing the operating companies' submissions in relation to this risk, the high number of mitigating actions that were implemented at business unit level were discussed and a strong appetite to improve was observed. The appointment of a Group Head of Health & Safety in September 2021 will support this.

During the year, the Committee received regular updates regarding IT resilience and cyber security from the Group IT Director and the Chief Information Security Officer (a role appointed in March 2021). The Group IT Controls Manual was launched during the year and the Committee has received updates regarding compliance from Internal Audit.

In the area of Human Resources, the Committee acknowledged that the risk of Talent, Development, Diversity, Recruitment and Retention of key employees was a wide-ranging risk and requested that at an operating company level the risk be considered separately as: recruitment and retention of management and indirect labour; recruitment and retention of direct labour; and recruitment and retention of a diverse workforce. The appointment of a Group Chief People Officer in June 2021 has already helped the continued mitigation of these risks. It was therefore agreed that the risk management and reporting tool would be aligned to these separate issues, but that the Group Principal Risk Register would continue to report on the combined risk.

More information on the activities of the Risk Committee and the Group's Principal Risks can be found on pages 56 to 64.

TCFD

The TCFD (Taskforce for Climate-related Financial Disclosures) recommendations, published in 2017, encourage companies to disclose information on their financial risks and opportunities because of climate change, and how these are being managed.

The Group engaged PwC to perform analysis to enable a better understanding of our climate related risks, by identifying transitional and physical risks and opportunities in future climate scenarios. The results from PwC's work were reviewed and discussed at the December 2021 Audit Committee and the Committee approved the disclosures relating to TCFD, which can be found in the Group's Sustainability Plan on pages 46 to 49.

Effectiveness of Internal Audit
The Audit Committee is responsible for monitoring and reviewing the effectiveness of the Group's internal audit function.

As noted above, the Audit Committee reviewed and approved the risk-based audit plan and monitored progress with its completion. Changes to the plan arising in the year, including the completion of additional work, were discussed and approved by the Audit Committee.

Throughout the year, the Audit Committee discussed the internal audit function's outputs with the Group Head of Risk & Internal Audit and Executive management. The Audit Committee was satisfied that the Internal Audit function is operating effectively and that the level of experience within the department was appropriate to meet the Group's needs during the year.

Whistleblowing
The Group has a written policy which states that if any employee in the Group has reasonable grounds to believe that the Group's Code of Business Conduct is being breached by any person or group of people, they are able to report such incidents through an externally hosted internet reporting system and/or a telephone-based whistleblowing hotline or if necessary, to the Group Company Secretary or a Group President or the Chair of the Audit Committee. This policy can be found on the Group's website.

Any incidents reported, whether through the whistleblowing hotline or direct to the Company Secretary or any other member of Group-level management, are investigated under the supervision of the Group Company Secretary and resolved appropriately. Reports raised by the Group Company Secretary on these cases, on the investigative process, the conclusions, and any lessons to be learned from these events are shared with the whole Board.

Assessment of effectiveness of external audit

There are a number of areas that the Committee considers in relation to the External Auditor: performance in discharging the audit and interim review of the Financial Statements; independence and objectivity; and reappointment and remuneration.

External Auditor performance
The External Auditor, EY, provided the Committee with their plan for undertaking the 2021 year-end audit during the Committee meeting in August 2021. This highlighted the proposed approach and scope of the audit and identified the key issues in detail, being the valuation of goodwill in relation to ATG Access Ltd and France Galva SA; the risk of fraud in revenue recognition; inventory valuation; and UK post-retirement benefits obligations. The Committee debated, and appropriately challenged, the basis for these areas before agreeing the proposed approach and scope of the external audit. As events evolved through the year, the audit risks have accordingly been re-visited by EY. This led to the inclusion of an additional key audit risk regarding the valuation of goodwill in relation to Parking Facilities Ltd being reported on.

The External Auditor prepared a detailed report of its findings in respect of the 2022 audit. The Committee discussed the issues raised in the report, particularly in relation to the areas highlighted, at their meeting in March 2022. The Committee questioned and challenged the work undertaken, the findings and the key assumptions made, with particular attention to the areas of audit risk identified.

Auditor independence and rotation
The External Auditor confirmed its policies on ensuring auditor independence and provided the Committee with a report on their own audit and quality procedures. This report was reviewed during the period under review and the Committee were satisfied of the auditor's independence. To maintain auditor independence, the Group has a policy whereby, before any former employee of the External Auditor may be employed by the Group, careful consideration is given to whether the independence of the auditor will be adversely affected, and approval of the Audit Committee is required. There were no such instances during the year.

EY were appointed as the Group's auditors in June 2020, and they have confirmed to us, that as the partner in charge Helen McLeod-Jones, subject to unforeseen changes, will be the lead partner up to and including the audit for 2024 before being compelled to rotate off the audit to ensure continued independence.

Audit and Non-audit fees
At the December 2021 meeting, the Committee discussed and approved the proposed audit fee for 2021. The Committee noted that the c.8% increase in the fee was predominantly reflective of the inflationary cost increases observed across the professional services industry in the past 12 months.

The Committee maintained the approach of minimising the non-audit work carried out by the External Auditor. The Committee reviewed its Non-Audit services policy in December to ensure compliance with the FRC's Ethical and Auditing Standards in respect of the scope of services permissible and maximum permitted level of fees incurred for non-audit services provided by EY.

For any non-audit/additional services set out in section 5.40 of the FRC's ethical standard 2019, the policy provides for approval, by the Group Chief Financial Officer, of expenditure below £50,000, and above that level by the Audit Committee. A report is also submitted to the Audit Committee of any non-audit services carried out by the External Auditor, irrespective of value to ensure that the aggregated spend with the External Auditor will not exceed 70% of the audit fee.

During 2021, there were fees of £4,000 (2020: £3,000) paid to the auditor for non-audit services relating to other assurance services. In 2021, non audit fees represented 0.2% of audit fees of £1.5m (2020: 0.2%). Further details of these amounts are included in note 8 of the Financial Statements on page 144.

Summary
We aim to continue to develop responsibilities for financial reporting and the related governance and assurance and we will continue to make improvements to our risk management processes and approach to our internal control environment.

Mark Reckitt
Chair

9 March 2022

REMUNERATION COMMITTEE REPORT

Annette Kelleher
Chair

DEAR STAKEHOLDER

As Chair of the Remuneration Committee and on behalf of the Board, I am pleased to share with you our report on Directors' remuneration for 2021. The annual report on remuneration, describing how the Remuneration Policy has been applied for the year ended 31 December 2021 and how we intend to implement the policy for 2022, is provided on pages 94 to 104. Our Annual Remuneration Report 2020 was approved by shareholders at the 2021 AGM and received 95% of votes in favour. A summary of our Remuneration Policy, which was approved at our 2020 AGM, with 95% support, is provided on pages 105 to 109.

A copy of the complete **Remuneration Policy** can be found on our website at https://www.hsholdings.co.uk/about-us/corporate-governance/policies.

Linking Executive Directors' remuneration with our purpose and strategy

Our Remuneration Policy is designed to be transparent and straightforward and to promote effective stewardship that is key to the delivery of the Group's strategy.

The Group has a history of focusing on financial performance measures; however, to provide even more specific focus, we introduced personal objectives into the Executive Directors' annual bonus plans in 2020. In particular, these included developing the Group's ESG strategy and implementing the Group's IT and cyber risk strategy with milestones appropriate to 2021. The Committee were of the view that these objectives should form part of a non-financial series of activities that would support the Company's overall strategy. More information can be found on page 97 to 98. Progress against both the financial metrics and the relevant milestones is measured using our KPIs, which are largely embedded within the Executive remuneration framework as illustrated by the information on page 95.

"As ESG matters become more embedded within our organisation, the Committee will be looking at the inclusion of more specific non-financial metrics into the Group's incentive arrangements."

Performance outcomes in 2021

After what was a challenging year in 2020, due to the COVID pandemic, the Group has responded well to post-pandemic market conditions, reporting revenue of £705.0m and underlying operating profit of £86.0m. The 2021 annual bonus opportunities for the Executive Directors were based on financial measures (80% of the opportunity) and personal objectives (20% of the opportunity). Details of the outturns against the financial performance measures are set out on page 94. The Committee considered the outturn for these elements against the formulaic targets and agreed that these were appropriate having regard to overall performance. The Committee assessed achievements against personal objectives as set out on page 97 to 98 and used its judgement to determine the amount of the bonus earned. Half of the bonus earned by each Executive Director will be deferred into shares for two years, to ensure alignment over time with the interests of shareholders.

LTIP 2021

During the year, the Committee considered the two option plans operated by the Company, the Long-Term Incentive Plan ('LTIP') and the Executive Share Option Scheme ('ESOS'). The former had previously included only Executive Directors, whilst the latter included the Group's senior managers and options were only awarded every three years. Following the strategy review, in which the strategic direction of the Group was refined, the Committee determined that it was now appropriate to align the Senior Manger population with the Executive Directors. As a result, the Committee approved the granting of a total of c.283,000 LTIP awards to 65 participants in September 2021. Having considered the LTIP performance measures, the Committee decided to keep the current measures unchanged, these being 50% of the award based on relative TSR performance and 50% on underlying earnings per share, and that these would apply to all participants. More details of these performance measures can be found on page 100.

As reported in our 2020 Annual Report, due to the economic uncertainty caused by the pandemic in 2020, together with the continuing development of the Group's strategy, it was decided to defer the granting of the 2021 LTIP awards until after the Group's strategy review in June 2021 and, as described above, these awards were made in September 2021.

However, the Committee acknowledged that the usual date for granting of awards was March and noted the increase in the Company's share price between March and September 2021. Following discussion, the Committee concluded that this increase had been driven by the performance of the new management team and that consequently, in line with the Policy and LTIP rules, the share price used to determine the number of shares subject to the awards was based on the price in March 2021, as is the Company's usual approach. Additionally, the Committee concluded that for all future awards, irrespective of the actual date they are awarded, the share price in March of the year of the award should be that used to calculate the number of shares under award, other than in exceptional circumstances.

Looking forward to 2022

Our usual practice is to review Executive Directors' salaries on an annual basis. In December, the Committee considered their annual salary increases, effective January 2022. Aligning with the wider workforce, the Committee awarded a 3% pay increase for the Executive Directors. The new salaries are Paul Simmons £562,071 and Hannah Nichols £356,689.

The maximum opportunity for the variable elements of remuneration remains unchanged as:

- Annual Bonus: 150% of salary for Paul Simmons and 125% of salary for Hannah Nichols
- LTIP: 150% of salary for Paul Simmons and 125% of salary for Hannah Nichols
- The Non-executive Director base fees have been increased by 3% with effect from January 2022. See page 104 for more details.

I believe our approach to remuneration will help to enable long-term sustainable growth while ensuring a responsible approach to executive pay. As the Group continues to refine its strategy and ESG matters become more embedded within our organisation, the Committee will be looking at the Group's Remuneration Policy to ensure it remains aligned to the delivery of that strategy and this will include looking at the inclusion of more specific non-financial metrics into the Group's incentive arrangements. We shall report more on this work in our 2022 Annual Report.

Annette Kelleher
Chair

9 March 2022

Area of focus in 2021

During the year to 31 December 2021, the Remuneration Committee consisted of Annette Kelleher as Chair, Alan Giddins, Mark Reckitt, Pete Raby, Tony Quinlan and Leigh-Ann Russell, who was appointed from 1 April 2021. During the year, the Committee considered the following:

January and March

- Determination of variable pay outturns for the 2020 bonus and 2018 LTIP as reported in last year's Directors' Remuneration Report
- ESOS 2018 Award – measurement of performance conditions
- Executive Directors' bonus plan for 2021, including agreement of personal objectives. The bonus outturns are set out on page 94 and pages 97 to 98

August and September

- Expansion of the population that participates in the LTIP to below Board level managers, replacing the ESOS
- Consideration of appropriate LTIP targets
- Approval of LTIP 2021 award
- Approval of SAYE 2021 award

December

- 2022 salary review for Executive Directors and members of the Group's Executive Board
- Executive Directors' bonus plan for 2022, including agreement of personal objectives

Remuneration at a glance

To incentivise our employees to achieve our strategy, we provide market competitive remuneration which is aligned with our shareholders' experience.

Remuneration Policy and structure summary
More details can be found on pages 96 to 101.

Base Salary and benefits	Enables the Company to recruit and retain Executive Directors.
Pension	To provide post-retirement benefits for Executive Directors.
Annual Bonus	Performance measures and targets are reviewed and set annually by the Remuneration Committee. At least 50% of bonus will be based on financial measures. 50% of any bonus is deferred into shares for two years.
LTIP 50% relative TSR 50% growth in UEPS	Three-year performance period, with a further two-year holding period.
Shareholding guidelines	200% for all Executive Directors. Post-employment guidelines apply.

Reward linked to performance

Operating Profit – outcome against target 106%
(at budgeted foreign exchange rates)

Actual

£90m
Target £85m

Return on Invested Capital – outcome against target 108%
(At budgeted foreign exchange rates)

Actual

17.2%
Target 15.9%

Total annual bonus plan – outcome, including achievement of personal objectives, see pages 96 to 99.

Paul Simmons

88%
of maximum opportunity

Hannah Nichols

87%
of maximum opportunity

The following chart shows Hill & Smith's Total Shareholder Return during 2021.

Financial performance

Organic revenue growth

10.0%

Underlying operating profit margin

12.2%

Cash conversion

78%

Dividends paid to shareholders in respect of 2021

£24.7m

Alignment with shareholders

Proportion of annual bonus received in shares

50%

Shareholding guidelines

200%

Executive Board members have a 100% Shareholder guidelines

Proportion of Executive LTIP awards subject to a mandatory two-year holding period

100%

No. of Senior Managers now included in LTIP Award

65

Alignment with the wider workforce

Salary increase for Executive Directors

3.0%

Average salary increases for the wider workforce

Direct 5.7%

Indirect 3.8%

Pension contributions for Executive Directors

6.5%

Maximum available for UK employees

6.5%

The following parts of the Remuneration Report are subject to audit

HOW THE REMUNERATION POLICY WAS IMPLEMENTED IN 2021

Executive Directors

Single remuneration figure for 2021

	Base Salary (1)	Taxable Benefits (2)	Pension (3)	**Total Fixed Pay**	Annual Bonus (4)	**LTIP (vested in respect of the performance period ended 2021)(5)**	**Total Variable Pay**	**2021 Total "single figure"**
Paul Simmons	545,700	15,608	35,471	596,779	720,324	**463,766**	1,184,090	1,780,869
Hannah Nichols	346,300	12,608	22,509	381,417	376,601	**–**	376,601	758,018
Total	892,000	28,216	57,980	978,196	1,096,925	**463,766**	1,560,691	2,538,887

Single remuneration figure for 2020

	Base Salary (1)	Taxable Benefits (2)	Pension (3)	**Total Fixed Pay**	Annual Bonus (4)	LTIP (vested in respect of the performance period ended 2020	**Total Variable Pay**	**2020 Total "single figure"**
Paul Simmons	178,333	38,077	11,592	228,002	90,000	–	90,000	318,002
Hannah Nichols	339,570	12,000	22,100	373,670	67,914	–	67,914	441,584
Total	517,903	50,077	33,692	601,672	157,914	–	157,914	759,586

(1) The amount of base salary received in the year.

(2) The taxable value of benefits received in the year: membership of the Company's healthcare scheme, income protection scheme, personal accident insurance, car (or cash allowance), ill health and life assurance. A total of £Nil (2020: £nil) was paid to P Simmons in the form of subsistence, which is subject to PAYE and NIC deduction.

(3) Pension contributions for the Executive Directors represent 6.5% of their base salary.

(4) Annual Bonus is the value of the bonus earned in respect of the financial period under review, including the amount deferred into shares. A description of how the bonus pay out was determined can be found on page 94 and pages 97 to 98.

(5) The LTIP figure for Paul Simmons for 2021 reflects the vesting on 30 July 2021 of Buy-Out Award 1 granted to him over 28,557 shares in connection with an LTIP award forfeited when he joined Hill & Smith, as set out in the 2020 Directors' Remuneration Report. During 2021, it was confirmed that the award would vest in full. The value of £463,766 is the product of the number of vested shares and the share price of £16.24 on the date of vesting.

2021 annual bonus

Each Executive Director was eligible to earn a bonus for 2021, up to 150% of salary in the case of Paul Simmons and up to 125% of salary in the case of Hannah Nichols. 50% of any bonus is paid in cash and the remaining 50% is delivered in shares that are deferred for two years subject, ordinarily, to continued employment but to no additional performance conditions.

The extent to which the Executive Directors' bonuses were earned is summarised below:

Measure	**Weighting(1)**	**Target performance (2)**	**Stretch performance(3)**	**Actual performance (4)**	**Actual bonus earned (% of maximum)**
Underlying operating profit	50%	£85.0m	£92.0m	£89.5m	82
Return on invested capital	30%	15.9%	17.1%	17.2%	100
Personal objectives	20%	The bonus earned by reference to the satisfaction of personal objectives was determined by the Committee based on its assessment of the extent to which the objectives were achieved, as described below			

(1) In March 2021, the Remuneration Committee approved a different weighting in respect of the financial measures than the 50/50 that had been applied across financial measures in previous years.

(2) 50% of bonus opportunity is earned.

(3) 100% of bonus opportunity is earned.

(4) Underlying operating profit and Return on invested capital are calculated at budgeted rates of exchange for the purpose of the annual bonus calculation.

The personal objectives set for each Executive Director are summarised below, along with the key achievements.

Executive Director	Objectives	Key achievements
Paul Simmons	Set the appropriate tone within the organisation around health & safety leadership. Implement an accountability process for safety performance. Lead and drive the beginnings of a step change in safety performance.	Feedback from the business is that the focus on Health & Safety has increased, evidenced by the employee engagement survey in 2021 which recorded Safety and Wellbeing as having increased by 11%. Health & Safety has been defined as one of the seven focus areas in our ESG strategy developed in the year. The Board and Committee recognised Paul Simmons' strong personal leadership in this area, in particular following up on guarding concerns raised at the Workforce Advisory Panel meetings, ensuring safety is an area of focus on every factory visit, attending every UK & US Safety Managers' meeting and ensuring resources are available to run factory safety audits. During the year, a new accountability process for safety performance has been implemented, including action plans for those subsidiaries with higher than average safety incident levels. The importance of Health & Safety to the Group was recognised in the appointment of a new Group Head of Health & Safety during 2021. Her proposed strategy was well received by the Board and as part of the Group initiative there are plans to drive improvements in behavioural safety in line with best practice. In the near term, the seven businesses with the highest incidences of Lost Time Injury Rates have developed plans to improve safety incident levels. However, there is still much to do to improve the culture of health and safety across the group.
	Develop an updated long-term strategy, capable of targeting a 5% organic revenue CAGR across the plan period. Establish an effective and compelling communication of that strategy to investors and key stakeholders.	The articulation of the strategic framework was very well received by our analyst and investor community in March. The Board reviewed and approved the strategic planning process and noted the ambition shown by the operating businesses. The Executive Directors oversaw the framework being rolled out to the Managing Director community and beginning to penetrate to deeper levels within the businesses. Innovation is a key element of our organic growth strategy and during 2021 a Group-wide initiative was launched to accelerate our rate of innovation. In line with our refreshed strategy, a number of actions were taken in the year to enhance the quality of the portfolio, including the acquisition of Prolectric Services Ltd which operates in a market with strong long term growth potential.
	Implement and imbed the new organisation structure into the business.	We established the Executive Board in early 2021 and introduced Group Presidents responsible for accelerating organic growth within their market portfolio and acquiring high quality businesses, as we create a structure that will scale as the business continues to grow. The development of the Executive Board continued during the year with the appointments of Denise Beachy our first Group President in the USA and Andrew Park as our Chief People Officer. Two forums were held with the Group's Managing Directors during the year where the new organisation structure and strategy was cascaded to operating companies' Managing Directors.
	Establish a clear framework around how the organisation thinks about ESG and agree with the Board an updated set of KPIs against which the Group should report. Agree and publish a costed transition plan by the end of 2021.	In 2021, we established an ESG Committee to drive the development of the Group's ESG Plan and to translate those plans into practical initiatives, near-term targets and actions for operating businesses. An independent ESG materiality study was completed in June 2021, following a consultation with 38 diverse stakeholders including employees, customers, suppliers, investors and our major lending bank. We used the findings of this study to identify our seven key ESG focus areas: greenhouse gas emission and energy management; sustainable products; health and safety; talent development and employment practices; engagement, diversity and inclusion; physical and transitional climate risks; and ethical conduct. We have a clear plan and key measures for each of the seven areas. We have signed up for Science Based Targets initiatives and have complied with the Taskforce on Climate-related Financial Disclosure. The costed plan to achieve Net Zero by 2040 is largely complete. The Group ran a recruitment process for a Head of Sustainability during the year and our first choice candidate joined in early 2022.
Achievement		85%

Executive Director	Objectives	Key achievements
Hannah Nichols	Develop an updated long-term strategy, capable of targeting a 5% organic revenue CAGR across the plan period. Establish an effective and compelling communication of that strategy to investors and key stakeholders.	The articulation of the strategic framework was very well received by our analyst and investor community in March. The half-year strategic planning process was well received by the Board and satisfied the 5% long term organic growth target. The Board noted the ambition shown by the operating businesses. The Executive Directors oversaw the framework being rolled out to the Managing Director community and beginning to penetrate to deeper levels within the businesses. The Group Presidents continue to evolve and develop the existing sub-divisional strategies. Innovation is a key element of our organic growth strategy and during 2021, a Group-wide initiative was launched to accelerate our rate of innovation. In line with our refreshed strategy, a number of actions were taken in the year to enhance the quality of the portfolio, including the acquisition of Prolectric Services Ltd, which operates in a market with strong long term growth potential.
	Ensure the organisation demonstrates material progress towards delivery on the next stages of its IT and cyber security strategy, and specifically delivers on a successful Birtley ERP implementation.	During 2021, good progress has been made around IT strategy with a particular focus on information security and establishing baseline controls. A Group Chief Information Security Officer was recruited in March 2021 as part of our actions to develop our cyber security controls. Following this appointment, we have taken significant steps to understand and improve the Group's information security landscape. The workstreams are ongoing but good progress has been made to date (e.g. Endpoint management daily patches have reduced from 15k to 4k per day) with high levels of engagement from the operating companies. The Group's first IT Controls manual was created in H1 2021 and launched in July. In H2, the operating companies completed their first self-assessment against this framework and internal audit also completed three validation audits. Control weaknesses have been identified and remediation actions put in place. The baselines established as part of this process will be important in the implementation of future assessments and validations. During 2021, a strategic approach to ERP was agreed and an ERP playbook developed to support operating companies, with the first successful implementation based on this approach taking effect from 1st January 2022. The Birtley ERP implementation has been put on hold, in collaboration with the MD's view and in line with the playbook approach which requires sufficient dedicated resource to be in place prior to project commencement.
	Continue to demonstrate improvements in working capital management and financial forecasting at the subsidiary level. Agree with the Board an updated set of forward looking KPIs and implement reporting against these.	2020 to 2021 working capital outflow was £6.8m (at budgeted foreign exchange rates) which reflects the increased trading activity during the period. Group weighted average working capital as a % of annualised sales as at 31 December 2021 was 15.2% compared to 15.3% at 31 December 2020. Debtor days at 31 December 2021 were 55 compared to 54 days at the end of 2020 and 61 days at the end of 2019, reflecting the continued focus on cash collection. An updated set of forward-looking KPIs was agreed with the Board. Given the supply chain challenges in 2021, supply chain surveys/temperature checks were proactively run during the year with the output shared with the Board.
	Work with the Group Presidents to ensure we have sufficient resources and appropriate processes within the subsidiaries to ensure an acceptable environment for the maintenance of, and adherence to, key financial controls.	The effectiveness of the operating company financial control environment was improved during the year by various actions. These included: • Revisions to the Group Financial Reporting Control Framework to disaggregate certain key controls to emphasise their importance; • Group Financial Control specific focus and support provided to operating companies; and • Working to address specific resourcing challenges which were impacting control environment effectiveness and providing specific IT focus and support to address data disaster recovery arrangements. Overall control effectiveness percentage has remained consistent, but there has been an underlying improvement in the rigour in which local finance teams have performed against the Group Finance Controls manual.
Achievement		80%

In assessing the key achievements set out above in relation to personal objectives, the Committee determined that Paul Simmons should receive 17% of this part of the bonus, being 85% of his maximum opportunity and that Hannah Nichols should receive 16% of this part of the bonus, being 80% of her maximum opportunity.

The cash bonus and deferred bonus earned in respect of 2021 by each Executive Director is as follows:

Executive Director	Total bonus earned	Bonus paid in cash (£)	Bonus paid as an award of deferred shares (£)
Paul Simmons	720,324	360,162	360,162
Hannah Nichols	376,601	183,301	183,300

LTIP awards vesting in respect of 2021
Neither of the Executive Directors received an award vesting in respect of the performance period ending 31 December 2021. See page 100 for details of awards made to past Directors.

Executive Director shareholding guidelines
The Company's guidelines are that Executive Directors must hold 200% of their base salary in shares. In order to meet this requirement, Directors are required to build up such by retaining at least half of any shares earned through incentive arrangements until that shareholding requirement is met. Shares awarded as part of the deferred bonus arrangements also count towards this requirement.

	Paul Simmons	Hannah Nichols
Shareholding requirement	200%	200%
Current shareholding on 31 December 2021	4,999	1,478
Deferred shares on 31 December 2021 (amounts net of tax and social security)[1]	18,558	2,918
Total shares	23,557	4,396
Share value based on share price on 31 December 2021	£423,084	£78,952
Current % of salary (based on salary on 31 December 2021)	77.5%	22.8%

(1) This includes the shares subject to any deferred bonus awards and in the case of Paul Simmons the shares subject to his Buy-Out Award 1 granted to him in connection with an LTIP award forfeited when he joined Hill & Smith as detailed in the 2020 Annual Report. In each case, the number of shares is net of assumed tax.

These figures include those of their spouse or civil partner and infant children, or stepchildren.

Paul Simmons and Hannah Nichols will be required to retain at least 50% of any shares earned under the LTIP and the deferred bonus scheme until the shareholding guideline is achieved. There was no change in these beneficial interests between 31 December 2021 and 9 March 2022.

Share awards granted during the year
During the year to 31 December 2021 the Committee approved awards, under the rules of the LTIP, to the Executive Directors as follows:

	Date of Award	Type of Award	Number of Shares	Maximum face value of Award	Threshold Vesting	Performance Period end date[3]
Paul Simmons	16 September 2021	Nil cost option	58,762	818,555[1]	20%	31 December 2023
Hannah Nichols	16 September 2021	Nil cost option	31,075	432,875[2]	20%	31 December 2023

(1) Calculated by reference to a share price of £13.93, being the average of the mid-market prices for the three trading days prior to 16 March 2021, which were also the first three trading days following the preliminary announcement of the Group's 2020 results on 10 March 2021. This is the date on which the awards would have been granted but for the decision to defer the grants as discussed on page 93, and reflect an award of 150% of base salary.

(2) Calculated by reference to a share price of £13.93, being the average of the mid-market prices for the three trading days prior to 16 March 2021, which were also the first three trading days following the preliminary announcement of the Group's 2020 results on 10 March 2021. This is the date on which the awards would have been granted but for the decision to defer the grants as discussed on page 93. and reflect an award of 125% of base salary.

(3) After the end of the performance period, the LTIP awards will be subject to an additional two-year holding period before they are released.

The performance conditions for these awards are as follows:

Vesting amount	Absolute UEPS at the end of the performance period (50% of the award)	TSR (50% of the award) **
0% Vesting	Less than 82p	Below median
20 % Vesting*	82p	Median
Maximum Vesting*	102p	Upper quartile

* Straight line vesting will apply between these two points.

** Relative to the FTSE 250 (excluding investment trusts and financial services companies).

SAYE

The interests of Executive Directors, who served during 2021, in options for ordinary shares in the Company, granted under the Company's SAYE schemes are included in the following table:

							Period that option is exercisable	
	Grant Price	Awards held at 31 December 2020	Granted during the year	Exercised during the year	Lapsed during the year	**Awards held at 31 December 2021**	From	To
Paul Simmons	£9.60	3,125	–	–	–	**3,125**	1 Jan 2026	1 July 2026
Hannah Nichols	£9.40	3,191	–	–	–	**3,191**	1 Jan 2023	1 July 2023

Statement of Executive Directors' shareholding and interest in shares

				Unvested		
	Type	Owned Outright	Vested but not exercised	Subject to performance conditions	Not subject to performance conditions	**Total at 31 December 2021**
Paul Simmons	Shares	4,999	28,557	125,581	12,364	**171,801**
	Market value options(1)			2,497		**2,497**
	SAYE Options(2)				3,125	**3,125**
Hannah Nichols	Shares	1,478	5,505	66,410		**73,393**
	Market value options(1)			2,497		**2,497**
	SAYE Options(2)				3,191	**3,191**

(1) The Market Value options were granted under the tax-advantaged part of the ESOS as part of the LTIP award granted in 2020 to Paul Simmons and Hannah Nichols and are subject to the same performance conditions as that LTIP award.

(2) A breakdown of SAYE awards is shown above.

Loss of office payments and payments to former directors

There were no loss of office payments made to past Directors during the year ended 31 December 2021.

As disclosed in the 2020 Directors' Remuneration Report, Derek Muir retained the benefit of his LTIP award granted in March 2019 over 56,034 shares, which vested subject to performance to 31 December 2021. As set out below, 39% of the total award vested and this was then reduced pro-rata to reflect the proportion of the performance period for which Mr Muir remained an employee of the Group. Mr Muir will therefore receive 16,391 shares, plus a further 982 shares in respect of dividends paid over the performance period on the vested shares. The award will be released in March 2023 and dividend equivalents will continue to be earned over the period to release.

Performance Targets		Vesting	Actual Performance	Actual Vesting	Shares subject to Award	Vesting Shares (after time based reduction)
UEPS	Threshold: 15% growth	25%				
	Maximum: 30% growth	100%	UEPS growth of 0%	UEPS: 0% of maximum	28,017	0
TSR	Median	25%				
	Upper Quartile	100%	TSR ranked 44 (out of 134)	TSR: 78% of maximum	28,017	16,391

Non-executive Directors

Non-executive Director single figure comparison

Director	Role	Board Fees	Other Fees	Taxable Benefits	Annual Bonus	LTIP	Pension	**Total "Single Figure" 2021[1]**	Total "Single Figure" 2020
Alan Giddins	Chair	176,690	–	–	–	–	–	**176,690**	173,225
Annette Kelleher	Chair, Remuneration Committee	60,675	–	–	–	–	–	**60,675**	59,450
Leigh-Ann Russell[(2)]	Non-executive Director	39,206	–	–	–	–	–	**39,206**	–
Mark Reckitt	Chair, Audit Committee	60,675	–	–	–	–	–	**60,675**	59,450
Pete Raby	Non-executive Director	52,275	–	–	–	–	–	**52,275**	51,250
Tony Quinlan	Senior Independent Director	60,675	–	–	–	–	–	**60,675**	59,450
Total		450,196	–	–	–	–	–	**450,196**	402,825

(1) As the Non-executive Directors do not participate in any variable arrangements, separate sections for fixed and variable pay are not included.

(2) Leigh-Ann Russell was appointed on 1 April 2021.

The Non-executive Directors do not have service contracts, only letters of appointment. Fees for Non-executive Directors are determined by the Executive Directors in light of market best practice and with reference to the time commitment and responsibilities associated with the role. The Non-executive Directors do not participate in any decisions in relation to the determination of their fees and are not eligible for performance related bonuses or the grant of awards under any Group incentive scheme. No pension contributions are made on their behalf.

Non-executive Director shareholding

	2021	2020
Alan Giddins	**15,220**	9,375
Annette Kelleher	**3,948**	2,164
Leigh-Ann Russell [(1)]	**–**	–
Mark Reckitt	**4,000**	4,000
Pete Raby	**1,600**	1,600
Tony Quinlan	**1,200**	1,200

(1) Leigh-Ann Russell was appointed to the Board on 1 April 2021.

These figures include those of their spouses, civil partners and minor children and stepchildren. There was no change in these beneficial interests between 31 December 2021 and 9 March 2022. The Non-executive Directors do not hold any share awards or share options.

Non-executive Directors do not have a shareholding guideline, but they are encouraged to buy shares in the Company.

The following parts of the Remuneration Report are not subject to audit

Annual percentage change in remuneration of Directors and employees

The table below shows the annual percentage change in each Director's salary/fees, benefits and bonus between the year ended 31 December 2020 and the year ended 31 December 2021, and the average percentage change in the same remuneration over the same period in respect of the employees of the Company on a full-time equivalent basis. Although the regulations require us only to show the average percentage change for the employees of the Company, we have provided additional disclosure showing the average change for the wider workforce.

The average employee change has been calculated by reference to the mean of employee pay. Leigh-Ann Russell was appointed to the Board during the year ended 31 December 2021 and, accordingly, has been excluded from the table below.

		Average employee	Wider workforce	Paul Simmons	Hannah Nichols	Alan Giddins	Annette Kelleher	Mark Reckitt	Pete Raby	Tony Quinlan
Salary/ fees	2020–2021	4.1%	2.0 - 9.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
	2019–2020	2.9%	2.9%	n/a	2.9%	2.5%	2.5%	2.5%	2.5%	2.5%
Taxable benefits	2020–2021	n/a	n/a	-59.0%	5.0%	n/a	n/a	n/a	n/a	n/a
	2019–2020	n/a	n/a	n/a	-6.4%	n/a	n/a	n/a	n/a	n/a
Annual bonus	2020–2021	n/a	340.3%	700.0%	454.5%	n/a	n/a	n/a	n/a	n/a
	2019–2020	n/a	4.3%	n/a	-51.8%	n/a	n/a	n/a	n/a	n/a

Single figure of the Chief Executive compared to the wider workforce

This is our third year of reporting the CEO pay ratio and the table below sets out our CEO pay ratio figures in respect of 2019, 2020 and 2021.

As in previous years, the Company has opted to use option B of the Pay Ratio regulations, and to use its most current gender pay gap information, which has recently been collated to meet our Gender Related Pay Gap ('GRPG') reporting requirements for 2021/22, to identify the three relevant employees. The rationale behind adopting this option is that data required to meet both BEIS and GRPG regulations has to be collected for our UK-based employees and this option allows both to be completed efficiently and effectively in the time allowed to make any relevant public statements.

Year	Method	25th percentile pay ratio	Median pay Ratio	75th percentile pay ratio
2021	Option B	68:1	63:1	41:1
2020	Option B	26:1	44:1	33:1
2019	Option B	43:1	39:1	38:1

Pay details for the individuals are set out below.

2021	CEO	25th percentile	Median	75th percentile
Salary	545,700	25,798	28,167	41,799
Total remuneration	1,780,869	25,798	28,167	42,549

A significant proportion of the CEO's total remuneration is performance related. Therefore, the ratios vary year on year depending upon the extent to which performance related remuneration is earned by reference to the satisfaction of the applicable conditions. The changes in the ratios between 2020 and 2021 also reflect the inclusion in the 2021 single total figure of remuneration for the CEO of the vesting value of "Buy-Out Award 1" as set out on page 96. The Committee considers that the median ratio for 2021 is consistent with the pay, reward and progression policies for employees as a whole.

Pay for performance

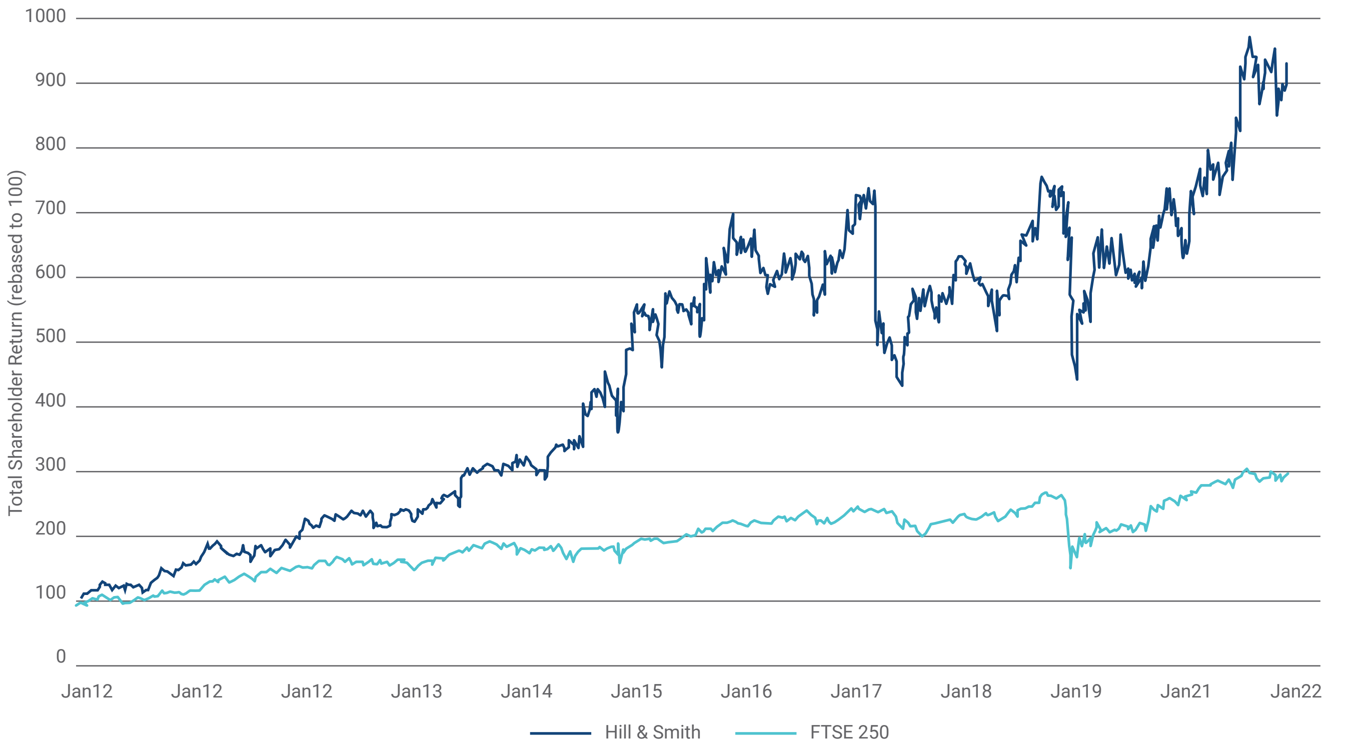
The ten-year graph opposite shows the Company's TSR performance over the ten years to 31 December 2021 as compared to the FTSE 250. In previous years, the Company's performance has been compared with the FTSE 250, FTSE Small Cap and the FTSE All-share indices. However, in June 2021, the Company had been a constituent of the FTSE 250 for five years and therefore it was decided that simply showing performance relative to the FTSE 250 was the most appropriate metric. It also reflects the Company's LTIP award TSR comparator group.

The table below details the CEO's single figure remuneration and actual variable pay outcomes over the same period.

	2012	2013	2014	2015	2016	2017	2018	2019	2020		2021
									Derek Muir	Paul Simmons	
CEO single figure (£000)	941	1,084	1,835	1,894	2,134	2,085	1,506	1,187	980	318	1,781
Annual bonus (% of max.)	85	16	100	100	100	94	19	43	19	19	88
LTIP Vesting (% of max)	–	50	93	98	100	100	100	31	36	N/A	100

(1) P Simmons joined the board on 1 September 2020 and took over as CEO with effect from 12 November 2020. The CEO single figure for 2020 for P Simmons reflects his remuneration earned from appointment, and not just for that part of the year for which he was CEO and the LTIP vesting in 2021 refers to his Buy-Out Award 1 as set out on page 96.

The following chart shows Hill & Smith's Total Shareholder Return during the ten years to 2021.



Relative importance of spend on pay

	2021	2020	% change
Dividends paid in respect of the financial year	**£24.7m**	£21.2m	+16.5%
Overall spend on pay [1]	**£183.2m**	£184.2m	-0.5%

(1) This includes a 2.5% reduction in the average number of people employed by the Group. See note 6 to the accounts on page 143.

Statement of shareholder voting

The following table shows the results of the vote on the Annual Remuneration Report at the 2021 AGM and the binding vote on the current Remuneration Policy at the 2020 AGM.

	For	Against	Withheld
Remuneration Policy (2020)			
% of votes cast	95.43%	4.57%	20,570 votes were withheld in relation to this resolution (0.03%)
Remuneration Report (2021)			
% of votes cast	95.24%	4.76%	7,413 votes were withheld in relation to this resolution (<0.01%)

Advisors

Deloitte LLP is retained to provide independent advice to the Remuneration Committee, as required. Deloitte is a member of the Remuneration Consultants Group and, as such, voluntarily operates that Group's Code of Conduct in relation to executive remuneration consulting in the UK.

Deloitte were appointed by the Committee and provided remuneration advice, share scheme advice, pension advice and corporation tax advice to the Group. Their fees for providing remuneration advice to the Committee amounted to £27,000 for the year ended 31 December 2021. The Committee assesses from time to time whether this appointment remains appropriate or should be put out to tender and takes into account the Remuneration Consultants' Group Code of Conduct when reviewing Deloitte's ongoing appointment. The Group Chief Executive Officer also attends Remuneration Committee meetings to provide advice and respond to specific questions but is not in attendance when his own remuneration is discussed. The Company Secretary acts as Secretary to the Remuneration Committee but is similarly not in attendance when his own remuneration is discussed.

How the Remuneration Policy will be implemented for 2022

Executive Directors

Salary

Base salaries were reviewed on 21 December 2021 and as from 1 January 2022 are:

Paul Simmons	£562,071
Hannah Nichols	£356,689

This represents an increase of 3% which is in line with the increase to other employees within the Group. Salaries will next be reviewed in December 2022 for the financial year 2023.

Pension and benefits

The pension contribution for Paul Simmons and Hannah Nichols will remain 6.5% of their base salary.

Annual Bonus

The annual bonus opportunity for 2022 will be in line with the policy approved by shareholders at the Company's AGM in June 2020. The CEO's maximum opportunity will be 150% of base salary, whilst the CFO's maximum opportunity will be 125%. 50% of the opportunity will be earned for achieving a stretching level of on-target performance and any bonus earned will be paid as 50% in cash and 50% in deferred shares.

For the 2022 financial year, the annual bonus metrics will be:

- Underlying operating profit; and
- Return on invested capital.

Together representing 80% of the maximum opportunity, and weighted 50% and 30% respectively; and

- 20% towards individual personal objectives linked to the Company's purpose and strategy and the individual Executive Director's key responsibilities.

Share plans

The grant of LTIP awards for 2022 will be in line with the policy approved by shareholders at the Company's AGM in June 2020. As such, the awards in 2022 will be 150% and 125% of base salary for the CEO and CFO, respectively. The awards will be subject to performance conditions based on relative TSR and UEPS growth as set out below.

Vesting amount	UEPS compound annual growth rate over three years (50% of the award)	TSR* (50% of the award)
0% vesting	Less than 3%	Below median
20% vesting	3%	Median
100% vesting	11%	Upper quartile

* Relative to the FTSE 250 (excluding investment trusts and financial services companies).

Non-executive Directors

The fees of the Non-executive Directors are reviewed regularly to ensure they are in line with the market and so the Company can attract and retain individuals of the highest calibre. Any change to the Chair's fees will be approved by the Remuneration Committee with other Non-executive Director fees being approved by the Board as a whole, following a recommendation from the Chief Executive. In December 2021, the Board approved a 3% increase in the basic fees for the Chair and Non-executive Directors.

	2022	2021
Chair	**£181,990**	£176,690
Non-executive Director	**£53,840**	£52,275
Senior Independent Director	**£9,000**	£8,400
Audit Committee Chair	**£9,000**	£8,400
Remuneration Committee Chair	**£9,000**	£8,400

Annette Kelleher
Chair

9 March 2022

DIRECTORS' REMUNERATION POLICY REPORT

The Company's Directors' Remuneration Policy was approved at the 2020 AGM and took effect from the close of that meeting. We have included below the extracts from that policy that we consider shareholders will find most useful, updated to reflect that certain aspects of the policy were relevant only to 2020. The full policy as approved by shareholders is included in the Company's 2019 Annual Report and Accounts which is available at https://www.hsholdings.co.uk/investors.

Policy table for Directors' base salary

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
To recruit and retain Executive Directors. Provides fixed remuneration for the Executive Directors, which reflects the individual's experience and the size and scope of the Executive's responsibilities.	Normally reviewed annually and fixed for 12 months. Salaries are determined by the Remuneration Committee taking into account a range of factors, which may include but are not limited to: • the size and scope of the role; • individual and Group performance; • the range of salary increases (in percentage terms) applied to the wider workforce; • total organisational salary budgets; and • pay levels for comparable roles in companies of a similar size and complexity. Any salary increases may be implemented over such time as the Remuneration Committee deems appropriate.	Ordinarily salary increases will not exceed the range of salary increases awarded to other employees in the Group (in percentage of salary terms). However, salary increases may be above this level in certain circumstances as required, for example to reflect: • increase in scope or responsibility; • performance in role; or • an Executive Director being moved to market positioning over time. No maximum salary opportunity has been set out in this policy report to avoid setting expectations for Executive Directors.	Not applicable.

Benefits

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
To recruit and retain Executive Directors. Ensures the overall package is competitive. Participation in the SAYE promotes staff alignment with the Group and a sense of ownership.	Executive Directors are entitled to various benefits including but not limited to, membership of the Group's healthcare scheme, personal accident insurance, ill health, life assurance and car (or equivalent cash allowance). Other benefits may be provided based on individual circumstances. Such benefits may include but are not limited to expatriate, housing, relocation allowances or overseas tax support. The SAYE is a tax qualifying monthly savings scheme facilitating the purchase of shares at a discount as permitted by the applicable legislation (currently up to a maximum discount of 20%). SAYE options may be exercised in the event of a change of control to the extent permitted by the rules of the scheme. Executive Directors may also participate in any other all-employee share plan adopted by the Company, on the same basis as other qualifying employees.	Whilst the Remuneration Committee has not set an absolute maximum on the level of benefits Executive Directors receive, the value of benefits is set at a level which the Remuneration Committee considers is appropriately positioned against companies of a similar size and complexity in the relevant market and at rates competitive in the area of life, accident and health insurance. SAYE scheme contribution as permitted in accordance with the relevant tax legislation. The maximum level of participation in any other all-employee share plan will be determined in accordance with the rules of that plan and will be the same for Executive Directors as for other qualifying employees.	Not applicable.

Pension

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
To recruit and retain Executive Directors and to provide post -retirement benefits.	The Group may make a payment either into a defined contribution plan or as a separate cash allowance. Group contributions or cash allowances are determined as a percentage of base salary.	An amount as a percentage of base salary not exceeding the maximum contribution paid in respect of the UK-based workforce (currently 6.5% of salary).	Not applicable.

Annual bonus			
Purpose and link to strategy	**Operation**	**Maximum opportunity**	**Performance metrics**
Rewards the achievement of annual financial targets and/or the delivery of strategic/ individual objectives.	Performance measures and targets are reviewed and set annually by the Remuneration Committee. Bonus pay out is determined by the Remuneration Committee after the year end, based on audited performance, where appropriate, against those targets. The Remuneration Committee has the discretion to amend the bonus pay out should any formulaic output not produce an appropriate result for either the Executive Directors or the Company, taking account of overall performance, or because the formulaic output is inappropriate in the context of circumstances that were unexpected or unforeseen at the start of the performance period. Where an annual bonus is earned, 50% of the amount earned will be delivered in the form of shares in the Company, deferred for a period of two years. Deferral of any bonus is subject to a de minimis limit of £5,000. At its discretion, the Remuneration Committee may award dividend equivalents to reflect dividends that would have been paid over the deferral period on shares subject to deferred bonuses. These dividend equivalents will ordinarily be paid in shares and may assume the reinvestment of dividends. Deferred bonus awards will vest in the event of a change of control. Malus and clawback provisions apply to the annual bonus as described below this table.	The maximum bonus opportunity is up to 150% of base salary for the CEO and up to 125% of base salary for any other Executive Director.	The bonus will be based on the achievement of targets related to key business objectives, with the performance measures and respective weightings each year dependent on the Group's strategic priorities. Financial performance measures may include, for example: • measures based on earnings per share; • budgeted profit; • operating margins; or • return on capital. At least 50% of bonus will be based on financial measures. The Remuneration Committee will determine an appropriate vesting schedule for each measure used. Subject to the Remuneration Committee's discretion to amend formulaic outputs, for target performance in respect of financial measures, up to 50% of the maximum opportunity will be earned for threshold performance and 100% will be earned for maximum performance. There is usually straight-line vesting between these performance points. For strategic and individual performance measures, bonus will be earned between 0% and 100% of the opportunity based on the Remuneration Committee's assessment of the extent to which the relevant measure has been achieved.

Long Term Incentive Plan ('LTIP')

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Incentivises Executive Directors to achieve higher returns for shareholders over a longer time frame. A clawback applies to unvested awards enabling the Company to mitigate risk. The post-vesting holding period aligns the interests of Executive Directors with those of the shareholders over a further period.	The Remuneration Committee may grant awards as conditional share awards, nil cost share options or forfeitable shares or such other form as has the same economic effect. Awards are typically granted annually and vesting is subject to achievement of performance measures, normally assessed over at least three years. The Remuneration Committee has the discretion to adjust the vesting outcome should any formulaic output not reflect overall performance, or because the formulaic output is inappropriate in the context of circumstances that were unexpected or unforeseen at the grant date, or if there exists any other reason why an adjustment is appropriate. Vested shares are subject to an additional two-year holding period before they are released to the Executive Directors (so that they can exercise the award and acquire them). Alternatively, the Remuneration Committee may grant an award on the basis that the Executive Director can acquire shares following vesting but that, other than as regards sales of shares to cover tax liabilities, the Executive Director is not permitted to dispose of shares until the end of the two-year holding period. Unvested LTIP awards will vest and be released early on a change of control (or other relevant events), taking into account the extent to which the performance conditions have been satisfied and pro-rating to reflect the proportion of the performance period that has elapsed, although the Remuneration Committee has discretion not to apply time pro-rating. Vested LTIP awards which are subject to a holding period are released, to the extent vested, in the event of a change of control. At its discretion the Remuneration Committee may award dividend equivalents to reflect dividends that would have been paid over the vesting period and holding period on shares that vest. These dividend equivalents will ordinarily be paid in shares and may assume the reinvestment of dividends. Malus and clawback provisions apply to the LTIP as described below this table. The Remuneration Committee may, at its discretion, structure awards as approved LTIP awards comprising both a tax qualifying option granted under the Executive Share Option Scheme ('ESOS') and an LTIP award. Approved LTIP awards enable the participant and the Company to benefit from tax qualifying option treatment in respect of part of the award, without increasing the pre-tax value delivered to the participant. The approved LTIP awards consist of a tax qualifying option and an LTIP award with the vesting of the LTIP award scaled back to take account of any gain made on exercise of the tax qualifying option. Other than to enable the grant of £30,000 in value of HMRC approved options as part of an approved LTIP award, the Company will not grant awards to Executive Directors under the ESOS. Malus and clawback provisions and the discretion to adjust the vesting outcome will apply to the tax qualifying option element of an approved LTIP award to the extent permitted by the relevant tax legislation.	The annual LTIP maximum in respect of any financial year is: • CEO: 175% of base salary; and • any other Executive Director: 150% of base salary. Shares subject to a tax qualifying option granted as part of an approved LTIP award are not taken into account for the purposes of this limit because, as referred to in the box under the heading "Operation", the unapproved LTIP option is scaled back to reflect the gain made on the exercise of the tax qualifying ESOS option.	Awards vest subject to the achievement of performance measures assessed over the performance period (normally three financial years). The performance measures are reviewed annually to ensure they remain relevant and aligned to the Group's strategy. Performance measures will be based on financial metrics, and/or share price growth related metrics, and/or strategic metrics. Subject to the Remuneration Committee's discretion to amend formulaic outputs, for achievement of the threshold level of performance (the minimum level of performance for vesting to occur): • up to 25% of the maximum opportunity will vest if the award granted is less than 125% of salary; and • up to 20% of the maximum opportunity will vest if the award granted is equal to or more than 125% of salary. For achievement of maximum performance, 100% of the maximum opportunity will vest; there is usually straight-line vesting between threshold and maximum performance. Where an option under the ESOS is granted as part of an Approved LTIP award, the same performance condition applies to the ESOS option as applies to the LTIP award, save as required by the applicable tax legislation.

Shareholding guidelines

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Promotes alignment to shareholders' interests and share ownership.	Each Executive Director is required to hold 50% of the shares acquired through the LTIP and any deferred bonus award (after sales to cover tax and any exercise price) until the value of their total shareholding is equal to 200% of their base salary. Shares subject to deferred bonus awards and vested shares subject to awards under the LTIP which are subject to a holding period count towards the shareholding requirement on a net of assumed tax basis. Shares subject to LTIP awards which are capable of exercise count towards the limit on a net of assumed tax basis.	Not applicable.	Not applicable.

Post-employment Shareholding Policy

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Maintains the alignment of Executive Directors' interests with shareholders' interests and the performance of the Company for a period after employment.	The Post-employment Shareholding Policy will apply only to shares acquired pursuant to LTIP and deferred bonus awards granted in respect of 2020 and future years, but will not apply to shares purchased or acquired pursuant to all employee share plans and will not apply to LTIP or deferred bonus awards granted in respect of earlier years. Post-employment, each Executive Director is expected to maintain such of their shares which are subject to the Post-employment Shareholding Policy as have a value equal to the in-service shareholding guideline (which requires the holding of shares during employment with a value equal to 200% of salary) for a period of one year after leaving, and such of those shares as have a value equal to 50% of the in-service guideline for a further year after leaving. In either case, the number of relevant shares held at leaving must be retained if this is less than the in-service guideline.	Not applicable.	Not applicable.

Chair and Non-executive fees

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Fees are set at a level that reflects market conditions and is sufficient to attract individuals with appropriate knowledge and experience.	Fees are reviewed periodically and are determined by the Board. The fee structure is as follows: • the Chair is paid a single consolidated fee; • the Non-executive Directors are paid a basic fee plus additional fees for Chairmanship of a Committee; • the Senior Independent Director also receives an additional fee in respect of this role; • fees may be paid wholly or partly in shares; and • additional fees may be paid for taking on additional roles or for additional time commitments. The Non-executive Directors do not participate in any of the Group's share incentive plans nor do they receive any pension contributions. Non-executive Directors may be eligible to benefits such as the use of secretarial support, travel costs or other benefits that may be appropriate. These benefits may include the reimbursement of any tax liability if they are reimbursed for expenses incurred in the performance of their duties and those expenses are considered taxable benefits.	Fees are subject to an overall cap as set out in the Company's Articles of Association from time to time. Fees are based on the time commitment and responsibilities of the role. Fees are appropriately positioned against comparable roles in companies of a similar size and complexity in the relevant market.	Not applicable.

Recovery provisions

Annual bonus and LTIP awards are subject to malus and clawback provisions as set out below. For up to two years following the determination of an annual bonus, the Remuneration Committee may require a participant to repay any cash bonus paid and/or may reduce or cancel any deferred bonus award granted in the event of:

i. a material misstatement in the Group's financial results for the bonus year;
ii. the Remuneration Committee reasonably determining that the participant has been guilty of gross misconduct;
iii. an error in assessing any applicable performance condition;
iv. reputational damage to the Group;
v. material corporate failure; or
vi. a failure of acceptable health & safety standards.

Before the vesting of an LTIP award, the Remuneration Committee may decide to reduce or cancel the award in the event of:

i. a material error in or misstatement of the Group's results;
ii. information coming to light which, had it been known, would have affected the award or vesting decision;
iii. reputational damage to the Group;
iv. material corporate failure; or
v. a failure of acceptable health & safety standards.

Explanation of chosen performance measures and how targets are set

Performance measures have been selected that reflect the Group's strategy. Stretching performance targets are set each year for the annual bonus and LTIP awards. In setting these stretching performance targets, the Remuneration Committee will take into account a number of different reference points such as the Group's business plans and strategy.

The Remuneration Committee considers that underlying EPS and profit before tax are closely aligned to the Group's key performance metrics and, in conjunction with the other annual bonus performance metrics, provides a balanced measurement of performance that encourages sustainable growth.

The EPS and TSR performance conditions attaching to the LTIP align management's objectives to those of shareholders and rewards for the delivery of year-on-year growth and delivery of value to shareholders.

The Remuneration Committee retains the discretion to adjust the performance targets and measures where it considers it appropriate to do so. For example, to reflect changes in the strategy or structure of the business or in prevailing market conditions and to assess performance on a fair and consistent basis from year to year.

Operation of share plans

The Remuneration Committee retains discretion to operate the Company's share plans in accordance with their rules, including the ability to adjust awards in the event of a variation of capital or other relevant corporate event, and settle awards, in whole or in part, in cash. The Remuneration Committee would only settle an Executive Director's award in cash in exceptional circumstances (such as where there was a regulatory restriction on the delivery of shares) or in connection with the settlement of tax liabilities arising in respect of the acquisition of shares.

Differences in the Group's policy for the remuneration of employees generally

The Group aims to provide a remuneration package that is market competitive in the employee's jurisdiction of employment and which:

- is appropriate to attract, retain, motivate and reward, without paying more than necessary;
- is fairly and consistently applied; and
- includes an element of incentive to share in the financial success of the Group through: annual bonuses, based upon the performance of individual business units; executive share options; and a UK SAYE scheme, all of which are aligned to the strategic objectives and performance of the Group.

DIRECTORS' REPORT
(other statutory information)

Principal activities and strategic report
The Company acts as a holding company to all the Group's subsidiaries.

During 2021, the principal activities of the Group comprised the manufacture and supply of:

- Infrastructure Products (Roads & Security and Utilities); and
- Galvanizing Services.

Pages 1 to 65 contain further details of these areas of the business and the principal subsidiaries operating within them are set out on pages 188 to 191.

The Chair's Letter and the Directors' Strategic Report include:

- Information on S172 CA 2006;
- An analysis of the development and performance of the Company's business during the financial year;
- Key performance indicators used to measure the Group's performance;
- The position of the Company's business at the end of the financial year;
- A description of the principal risks and uncertainties faced by the Group; and
- Main trends and factors likely to affect the future development, performance and position of the Company's business.

Future development
An indication of likely future developments in the Group is given in the Strategic Report on pages 1 to 65.

Statement on corporate governance
The Directors' Report for the year ended 31 December 2021 comprises sections of the Annual Report referred to under "Strategic Report", and "Governance Report", which are incorporated into the Directors' Report by reference.

Results
The Group profit before taxation for the year amounted to £50.9m (2020: £35.5m). Group revenue at £705.0m, 7% up on the COVID-impacted year of 2020. Operating profit at £57.0m, up 33% on an the COVID-impacted year of 2020, being £42.8m.

Share capital summary

Exchange trade	The Company's ordinary shares are listed on the Main Market of the London Stock Exchange
Class	Single class of ordinary shares of 25p each
Issued share capital 1 January 2020	79,480,855
Total new ordinary shares issued during the year	312,028
Issued share capital 31 December 2020	79,792,883
Rights and obligations	All issued shares rank equally. Rights and obligations attaching to the Company's shares are set out in the Company's Articles of Association

Further details can be found in note 24 on pages 166 and 167 of the Group Financial Statements.

Details of the results for the year are shown on the Consolidated Income Statement on page 123 and the business segment information is given on pages 136 to 138.

Dividends
The Directors recommend the payment of a final dividend of 19.0p per ordinary share (2020: 17.5p) which, together with the interim dividend of 12.0p per ordinary share (2020: 9.2p per ordinary share) paid on 7 January 2022, makes a total distribution for the year of 31p per ordinary share (2020: 26.7p per ordinary share). Subject to shareholders approving this recommendation at the AGM, the final dividend will be paid on 8 July 2022 to shareholders on the register at the close of business on 6 June 2022. The latest date for receipt of Dividend Re-investment Plan elections is 17 June 2022.

Share capital
There are no restrictions on the transfer of shares in the Company provided they are fully paid up and the Company does not hold any lien over them and as the shares rank equally none of them carry any special rights with regards to control of the Company. Such equal rights apply to shares acquired through any of the Company's employee share schemes and those shares so acquired carry no lesser or greater rights than shares acquired in the Company in any other way. Accordingly, there are no restrictions on voting rights attaching to any shares, whether relating to the level of shareholding or otherwise.

The Company is not aware of any arrangements between shareholders of the Company that may result in restrictions on the transfer of ordinary shares or voting rights.

Resolutions are sought at each AGM to permit the Company to allot, subject to shareholder approval, new shares under specific circumstances. They are a function of addressing funding or share scheme needs and not a tool for employing anti-takeover measures.

In relation to the purchase by the Company of its own shares, the rules relating thereto are set out in the Company's Articles of Association which state that the Directors' powers to authorise such purchase by the Company are subject to the provisions of the relevant statutes and also the UK Listing Authority requirements, as the Company's shares are listed on the London Stock Exchange. No shares were held in treasury.

Articles of Association
The rules relating to amendment of the Company's Articles of Association are that any change must be authorised by a special resolution of the Company in a general meeting.

Accordingly, the following resolutions are to be put to the members of the Company at the Company's AGM each year:

- The authority for making market purchases of shares greater than 5% of the Company's then issued share capital is limited by the resolution of the 2021 AGM and will be limited by the resolution to be put to the 2022 AGM. The prices to be paid for such purchases must be a minimum price of 25 pence per ordinary share (the nominal value) and a maximum price of 5% above the average of the middle market quotations for ordinary shares derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which any such purchase takes place.

- The Companies (Shareholders' Rights) Regulations 2009 provide that a company can reduce the notice period for calling meetings to the shorter period of 14 clear days on two conditions: firstly, that the company offers a facility for shareholders to vote by electronic means and secondly, that there is an annual resolution of shareholders approving such reduction in the required minimum notice period. Approval to the calling of general meetings other than AGM's on 14 clear days' notice was approved at the AGM on 25 May 2021 to assist the Company in conducting its business and subject to any necessary matters being put to shareholders promptly. This approval remains effective until the earlier of the Company's next following AGM or 23 August 2022.

Substantial shareholdings

As at 8 February 2022, the Company had been notified in accordance with Rule 5 of the Disclosure and Transparency Rules of the Financial Conduct Authority of the following voting rights of the Company:

Shareholder	Number of ordinary shares	% of issued share capital
abrdn	7,912,742	9.9%
BlackRock	3,901,112	4.9%
Invesco	3,878,183	4.9%
AXA Framlington Investment Managers	3,808,845	4.8%
Royal London Asset Management	3,731,541	4.7%
Vanguard Group	3,554,627	4.4%
Mondrian Investment Partners	2,911,964	3.6%
Charles Stanley	2,838,674	3.6%
JPMorgan Asset Management	2,371,896	3.0%
Legal & General Investment Management	2,266,286	2.8%

Directors

The names of the Directors of the Company who served throughout the year, including brief biographies, are set out on pages 66 and 67.

Directors' interests

The interests of the Directors in the share capital of Hill & Smith Holdings PLC as at 31 December 2021 are set out on page 99 and page 101.

Appointment and replacement of Directors

The appointment and replacement of Directors of the Company is governed by its Articles of Association, the UK Corporate Governance Code, the Companies Acts and related legislation. Directors can be appointed by ordinary resolution at a general meeting or by the Board. If a Director is appointed by the Board, such Director will hold office until the next AGM and shall then be eligible for election at that meeting.

Conflicts

Under the Companies Act 2006 and the provisions of the Company's Articles of Association, the Board is required to consider potential conflicts of interest. The Company has established formal procedures for the disclosure and review of any conflicts, or potential conflicts, of interest which the Directors may have and for the authorisation of such conflict matters by the Board. To this end, the Board considers and, if appropriate, authorises any conflicts, or potential conflicts, of interest as they arise and reviews any such authorisation annually. New Directors are required to declare any conflicts, or potential conflicts, of interest to the Board at the first Board meeting after his or her appointment. The Board believes that the procedures established to deal with conflicts of interests are operating effectively.

Directors' and officers' liability

The Company maintains an appropriate level of Directors' and Officers' insurance whereby Directors are indemnified against liabilities to third parties to the extent permitted by the Companies Act 2006.

Financial instruments

The financial risk management objectives and policies are detailed in note 23 on pages 161 and 166.

Research and development

During the year, the Group spent a total of £1.9m (2020: £2.0m) on research and development.

Political and charitable donations

Charitable donations amounting to £39,000 (2020: £21,000) were made in the year principally to local charities serving the communities in which the Group operates. There were no political contributions.

Employment policies

Details of the Group's employment policies are available on the Company's website.

Change of control/significant agreements

There are no agreements between the Group and its Directors or employees providing for compensation for loss of office or employment that occurs because of a change of control, other than revised notice periods and termination payments for P Simmons and H K Nichols.

The Group has a multi-currency revolving credit facility which includes a change of control provision. Under this provision, a change in ownership/control of the Company could result in withdrawal of these facilities.

All of the Company's share schemes contain provisions relating to a change in control. Outstanding options and awards normally vest and become exercisable on a change of control subject to the satisfaction of any performance conditions at that time.

The Directors consider that there are no contractual or other arrangements, such as those with major suppliers, which are likely to materially influence, directly or indirectly, the performance of the business and its values. Furthermore, there are no contracts of significance subsisting during the financial year between any Group undertaking and a controlling shareholder or in which a Director is or was materially interested.

Disclosure of information to auditor

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware: there is no relevant audit information of which the Company's auditor is unaware; each Director has taken all the steps that he ought to have taken as a Director to make themselves aware of any relevant audit information and has established that the Company's auditor is aware of that information.

Events since 31 December 2021

There were no post-Balance Sheet events.

Annual General Meeting

The Annual General Meeting of the Company will be held at 11.00 a.m. on Tuesday 24 May 2022 at The Village Hotel, The Green Business Park, Shirley, Solihull, B90 4GW. Notice is sent to shareholders separately with this Report, together with an explanation of the special business to be considered at the meeting and is also available on the Company's website at www.hsholdings.com.

Other important dates can be found in the Financial Calendar on page 186.

By order of the Board

Alex Henderson
Company Secretary

9 March 2022

STATEMENT OF DIRECTORS' RESPONSIBILITIES

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT, STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the Annual Report, Strategic Report, the Directors' Report and the Group and Parent Company Financial Statements in accordance with applicable law and regulations. Company law requires the Directors to prepare Group and Parent Company Financial Statements for each financial year. Under that law they are required to prepare the Group Financial Statements in accordance with UK adopted International Accounting Standards and applicable law and have elected to prepare parent Company financial statements in accordance with UK accounting standards, including FRS 102 Reduced Disclosure Framework. Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company Financial Statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, reliable and prudent;
- for the Group Financial Statements, state whether they have been prepared in accordance with UK adopted international accounting standards;
- for the Parent Company Financial Statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Parent Company Financial Statements; assess the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its Financial Statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities. Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

RESPONSIBILITY STATEMENT OF THE DIRECTORS IN RESPECT OF THE ANNUAL FINANCIAL REPORT

We confirm that to the best of our knowledge

- the Financial Statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

By order of the Board.

Alex Henderson
Group Company Secretary

9 March 2022

INDEPENDENT AUDITOR'S REPORT

OPINION

In our opinion:

- Hill & Smith Holdings PLC's Group Financial Statements and Parent Company Financial Statements (the "Financial Statements") give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2021 and of the Group's profit for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with UK adopted international accounting standards;
- the Parent Company Financial Statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the Financial Statements of Hill & Smith Holdings PLC (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2021 which comprise:

Group	Parent company
Consolidated Income Statement	Company Balance Sheet
Consolidated Statement of Comprehensive Income	Company Statement of Changes in Equity
Consolidated Statement of Financial Position	Related notes 1 to 15 to the Parent Company Financial Statements including the Company Principal Accounting Policies
Consolidated Statement of Changes in Equity	
Consolidated Statement of Cash Flows	
Related notes 1 to 27 to the Group Financial Statements, including the Group Accounting Policies	

The financial reporting framework that has been applied in the preparation of the Group Financial Statements is applicable law and UK adopted international accounting standards. The financial reporting framework that has been applied in the preparation of the Parent Company Financial Statements is applicable law and UK Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (UK Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the Financial Statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group and Parent Company in accordance with the ethical requirements that are relevant to our audit of the Financial Statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company and we remain independent of the Group and the Parent company in conducting the audit.

Conclusions relating to going concern

In auditing the Financial Statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the Financial Statements is appropriate. Our evaluation of the Directors' assessment of the Group and Parent Company's ability to continue to adopt the going concern basis of accounting included:

- We understood the process undertaken by management to perform the going concern assessment, including the evaluation of the ongoing impact of COVID and other current global macro-economic factors on the Group and the Group's access to available sources of liquidity;
- We obtained management's going concern assessment, including the cash flow forecasts and covenant calculations for the going concern period to 30 June 2023. We verified these forecasts were consistent with the Board approved forecasts ensuring the operating profit, working capital adjustments and resultant cashflows in the going concern assessment matched those in the forecasts. The Group has modelled a base case, which is consistent with the assumptions used in the Group's impairment assessments. Additionally, two reverse stress tests have been modelled, which determine a) the additional revenue downside which could be absorbed before the Group runs out of liquidity and b) the revenue downside which would be required for the Group to breach its financial covenants under its core borrowing facilities;
- We obtained the signed agreements for the Group's credit facilities and read these to confirm the terms of these, including the level of facilities and basis of covenants, were consistent with those considered in management's assessment;
- We assessed the reasonableness of the key assumptions underpinning the Group's forecasts in the context of other supporting evidence gained from our audit procedures on goodwill impairment reviews including trends in Group performance and other external market data, such as analyst and industry forecasts. In particular, we assessed the achievability of the revenue projections in management's base case and downside scenario to the Group's performance since the onset of the COVID pandemic and external industry forecasts;
- We assessed the historical accuracy of management's forecasting for the past four years, by comparing the Group's actual results to Board approved budgets and, for COVID impacted 2020 performance, re-forecasts to further challenge the prospective financial information included in the going concern assessment;
- We sensitised management's assessments using our own independently developed assumptions for a severe but plausible downside impact and confirmed these sensitivities did not give rise to any breach of covenants or the Group running out of liquidity;
- We scrutinised the results of management's reverse stress test scenario and assessed whether the changes to key assumptions which resulted in the Group either exhausting all of its liquidity or breaching covenants on the Group's borrowing facilities were plausible. This was achieved by considering the drop in revenues required for the Group to either run out of liquidity or breach covenants and comparing this reduction to the fall in the Group's actual results achieved through the course of the pandemic. We also considered mitigating actions, assessing whether they were within management's control and whether they were supported by the actual mitigation achieved in response to COVID, to date;

- We tested the clerical accuracy of the models used to prepare the Group's going concern assessment through re-computation of the models; and
- We ensured the appropriateness of the Group's disclosures concerning the going concern basis of preparation by verifying these met regulatory and legislative requirements.

Note 1 to the consolidated financial statements provides details of the Group's net debt position as at 31 December 2021, along with the level of committed borrowing facilities and the headroom on those facilities as at 31 December 2021.

Our independent procedures confirmed that for a breach of covenants to occur during the relevant period, the Group would need to experience a sustained revenue reduction of 20% compared with current expectations throughout the period from May 2022 to June 2023, while a reduction in headroom against borrowing facilities to nil would occur if the Group experience a reduction in revenue of 53% between May 2022 and June 2023.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and Parent Company's ability to continue as a going concern for the period to 30 June 2023.

In relation to the Group and Parent Company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the Financial Statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Overview of our audit approach

Audit scope	• We performed an audit of the complete financial information of 5 trading components and 1 non-trading components, and audit procedures on specific balances for a further 14 trading components. In addition, we performed specified procedures over 5 trading components and 23 non-trading components. • The components where we performed full or specific audit procedures accounted for 95% of adjusted operating profit (prior to consolidation adjustments), 93% of revenue and 72% of total assets.
Key audit matters	• Carrying value of goodwill in relation to France Galva, ATG Access and Parking Facilities • Revenue recognition – the risk of management override through inappropriate manual journals to revenue or inappropriate revenue cut-off • Risk of inappropriate inventory valuation
Materiality	• Overall Group materiality of £3.7m which represents 5% of adjusted operating profit.

AN OVERVIEW OF THE SCOPE OF THE PARENT COMPANY AND GROUP AUDITS

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each component within the Group. Taken together, this enables us to form an opinion on the Group Financial Statements. We take into account size, risk profile, the organisation of the Group and effectiveness of Group-wide controls, changes in the business environment and other factors such as recent Internal Audit results when assessing the level of work to be performed at each component.

In assessing the risk of material misstatement to the Group Financial Statements, and to ensure we had adequate quantitative coverage of significant accounts in the Group Financial Statements, we selected 20 components covering entities within the UK, USA, France, Sweden and India, which represent the principal business units within the Group.

Of the 20 components selected, we performed an audit of the complete financial information of 6 components ("full scope components") which were selected based on their size or risk characteristics. For the remaining 14 components ("specific scope components"), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the Group Financial Statements either because of the size of these accounts or their risk profile.

Specified procedures, determined by the primary audit team, and performed by local audit teams, were performed at 4 trading components in the USA and at the Group's trading component in Australia. As a minimum, these included procedures over revenue and cash at all 5 locations.

Consolidation adjustments, over which we have performed work at Group level, include entries to record goodwill and intangible assets arising from acquisitions.

The following table illustrates the coverage obtained from the work performed by our audit teams for the year ended 31 December 2021:

	Components	Adjusted operating profit	Revenue	Total assets
Full scope	6 (2020: 6)	79% (2020: 98%)	53% (2020: 53%)	43% (2020: 45%)
Specific scope	14 (2020: 14)	16% (2020: 10%)	40% (2020: 39%)	28% (2020: 28%)
Specified procedures over trading components	5 (2020: 5)	7% (2020: 2%)	10% (2020: 10%)	7% (2020: 10%)
Non-trading companies and consolidation adjustments	23 (2020: 22)	(3%) (2020: (8%))	(4%) (2020: (3%))	20% (2020: 16%)
Overall coverage		99% (2020: 102%)	99% (2020: 99%)	98% (2020: 99%)

The audit scope of the specific scope components included in the table above may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group.

The remaining 3 (2020: 2) trading components represent nil profit (2020: loss of 2%) of the Group's adjusted operating profit. For these components, we performed other procedures, including analytical review, testing intercompany eliminations and foreign currency translation recalculations to respond to any potential risks of material misstatement to the Group Financial Statements.

Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit team, or by component auditors from other EY global network firms operating under our instruction. Of the 6 full scope components, audit procedures were performed on 2 of these directly by the primary audit team. Of the 14 specific scope components, audit procedures were performed on 12 of these directly by the primary audit team.

For the remaining 4 full scope components and 2 specific scope components, where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

During the current audit cycle, our planned visits to component teams continued to be disrupted by travel and government restrictions arising from the COVID pandemic. However in January 2022, a visit was undertaken by the primary audit team to the component team in France (non EY component team). This visit involved discussing the audit approach with the component team and any issues arising from their work, meeting with local management, attending closing meetings and reviewing key audit working papers.

Where we were unable to visit the component teams due to restrictions, we replaced the visits with alternative procedures, including video conference call meetings and remote reviews of our local component audit teams' working papers. The primary audit team interacted regularly with the component teams during various stages of the audit, reviewed key working papers and were responsible for the scope and direction of the audit process. We determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole. The direction, supervision and review of the component teams, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group Financial Statements.

The Senior Statutory Auditor led the audit of the 2 full scope UK components, as well as 1 specific scope component within the UK businesses, in addition to the audit of the Group finance, treasury, pensions and consolidation functions.

We held virtual meetings, attended by the primary audit team and all full scope, specific scope and specified procedure scope component audit teams. This included discussion on Group audit strategy, key audit risks, deployment of technologies, division of responsibilities between teams for centralised audit procedures and our approach to ensuring consistent high audit quality.

Impact of the COVID pandemic on the execution of the audit

The COVID pandemic and lockdown restrictions imposed during 2020 continued through the Group's financial year. We worked proactively with management to agree, where possible, and safe to do so in accordance with relevant government guidelines, a revised audit plan to enable flexibility in our audit procedures to be performed via a combination of on-site and remote testing.

We continued to identify any areas of increased risk and complexity as a result of the COVID pandemic, to understand and evaluate any changes in the control environment and to appropriately design our audit procedures in response. Although COVID restrictions continued throughout 2021, we attended physical inventory counts at the 15 full and specific scope trading components where inventory was in scope.

The review of relevant audit workpapers was facilitated by the EY electronic audit platform. This allowed appropriate in person or virtual discussions with the component teams on audit strategy, risk identification and the results of audit procedures performed.

In addition to engaging with management on-site throughout the audit, we engaged using video conference calls, screen-sharing functionality, secure encrypted document exchanges and data downloads to avoid limitations on our ability to interact with management and obtain the audit evidence we required to execute and document our audit. Key meetings, such as the closing meetings and Audit Committee meetings, were performed via a combination of in person meetings and video conference calls.

Based upon the above approach we are satisfied that we have been able to perform sufficient and appropriate oversight of our component teams.

Climate change

There has been increasing interest from stakeholders as to how climate change will impact the Group. The Group has determined that the most significant future impacts from climate change on its operations will be from transitioning to a lower-carbon economy (transition risk) and the physical risk resulting from climate change, whether event driven or longer-term shifts in climate patterns (physical risk). These are explained on pages 46 to 49 in the required Task Force for Climate related Financial Disclosures and on pages 60 to 64 in the principal risks and uncertainties, which form part of the "Other information," rather than the audited financial statements. Our procedures on these disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated.

Governmental and societal responses to climate change risks are still developing, and are interdependent upon each other, and consequently financial statements cannot capture all possible future outcomes as these are not yet known. The degree of certainty of these changes may also mean that they cannot be taken into account when determining asset and liability valuations and the timing of future cash flows under the requirements of UK adopted international accounting standards.

As part of our audit, we made enquiries of management to understand the extent of transition and physical risks to the Group, including reviewing management's climate change risk assessment, which was prepared with support from external consultants. Our audit effort in considering climate change was focused on ensuring that the effects of material climate risks disclosed on pages 46 to 49 have been appropriately reflected in asset values and associated disclosures where values are determined through modelling future cash flows, as explained in the basis of preparation note. We considered in particular how climate change risks and the impact of climate change pledges made by the Group could impact the assumptions used in management's forecasts used in the goodwill impairment assessments. Our procedures did not identify any material impact on our key audit matters for the year ended 31 December 2021. We also challenged the Directors' considerations of climate change in their assessment of going concern and viability and associated disclosures.

The Group has stated its commitment to the aspirations of the Paris Agreement to achieve net zero emissions by 2040. Governmental and societal responses to climate change risks are still developing, and, as a result, the Group is currently unable to fully determine the future economic impact on their business model, operational plans and customers to achieve this. Therefore, as set out above, the potential future impacts cannot be fully incorporated in these financial statements.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Financial Statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the Financial Statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

In the prior year, our auditor's report included a key audit matter in relation to the accounting for uncertain tax positions. In the current year, the estimation uncertainty associated to uncertain tax positions has reduced and therefore this is no longer considered to be a key audit matter.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Carrying value of goodwill in relation to France Galva (£11.8m*, 2020: £12.3m), ATG Access (£4.7m, 2020: £15.5m) and Parking Facilities (£nil, 2020: £1.6m) * Movement since 2020 relates to changes in exchange rates only. In 2020, market conditions in France were challenging and as a result of their impairment testing, management recorded a £17.5m impairment of the goodwill related to the France Galva CGU. Given the market conditions for 2021continue to be challenging, a risk remains around the recoverability of the goodwill related to the France Galva CGU. The restrictions on public gatherings resulting from COVID has seen a substantial reduction in demand for ATG Access' security solutions and as a result of their impairment testing, management recorded a £10.8m impairment of the goodwill related to the ATG Access CGU. Parking Facilities manufactures and sells a range of perimeter access security products, which have been impacted by increased commercial competition and reduced gross margins. As a result of their impairment testing, management recorded a £1.6m impairment of the goodwill related to the Parking Facilities CGU. The estimated recoverable amount for CGUs is subjective due to the inherent uncertainty involved in forecasting future growth and profitability of the CGUs and the rate at which the cash flows generated by the CGUs should be discounted. A relatively small change in key assumptions could give rise to a material change in the estimated recoverable amount of goodwill. The effect of these matters is that, as part of our risk assessment, we determined that the value in use of goodwill has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the Financial Statements as a whole. The Financial Statements (note 12) disclose the sensitivity estimated by the Group. The level of risk associated to this key audit matter is unchanged from the prior year. Refer to the Audit Committee Report (page 86); Accounting policies (pages 129 to 130); and note 12 of the Consolidated Financial Statements (pages 148 to 152).	We examined management's methodology and the model used for assessing the valuation of the France Galva, ATG Access and Parking Facilities CGUs to understand the composition of future cash flow forecasts and the process undertaken to prepare them. We checked the underlying cash flows were consistent with the Board approved budgets. We also re-performed the calculations in the model to test the mathematical integrity. We performed detailed testing with support from our valuation specialists to critically assess and corroborate the key inputs of the forecast cash flows including: • independently constructing our own expectation of the discount rates for a market participant from first principles using input from our internal specialist valuations team; • analysing the historical accuracy of budgets versus actual results to determine the reliability of cash flow forecasting based on past experience; • assessing the achievability of the budget and strategic plan results by considering factors including historic results, the impact of COVID and performance since lockdowns, drivers of growth, reasonableness of margins, etc.; • challenging the medium and long-term forecast growth rates used by considering evidence available such as industry and country forecasts and inflation data; • for France Galva we calculated the degree to which the key assumptions would need to fluctuate before an impairment conclusion was triggered and considered the likelihood of this occurring; and • analysed available information to identify any contrary evidence, including consideration of competitor performance and views provided in analyst reports. We assessed the disclosures in respect of goodwill and intangibles with reference to the requirements of IAS 36 and confirmed their consistency with the audited impairment models. The audit procedures performed to address this risk have been performed by the primary audit team.	Our year end audit procedures did not identify evidence of material misstatement regarding the carrying value of goodwill in the Group. We consider the level of impairment recorded in respect of the ATG Access and Parking Facilities CGUs to be appropriate.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Revenue recognition – the risk of management override through inappropriate manual journals to revenue or inappropriate revenue cut-off (£705.0m, 2020: £660.5m)	Procedures to respond to this risk were performed by both the primary audit team and component teams.	
Cut-off There is a risk of inappropriate revenue recognition if deliveries or revenue from the provision of services are recorded in the wrong period. This includes any estimation of revenue recorded over time and completion of projects.	**Cut-off** We performed the following audit procedures at 5 full and 14 specific scope locations where revenue is in scope. Revenue at these locations represents 93% of the total revenue balance of £705.0m. These procedures were additionally performed at the 5 trading components at which we performed specified procedures, representing a further 10% of the total revenue balance before intra-group eliminations. We performed walkthroughs of the process by which revenue is recognised and recorded at the 5 full and 14 specific scope locations. For all but one trading component at which we performed specified procedures, data analytics procedures were performed over the correlation of sales and cash receipts to test the existence and occurrence of revenue being recorded in the correct period. For the component, representing 1% of total revenue, where we were unable to perform data analytical procedures, we performed tests of detail over revenue recognised in the year by agreeing a sample of sales transactions to supporting documentation including proof of delivery / evidence of service provided to ensure the revenue had been earned in the correct period. We performed cut-off testing procedures at each of the full and specific scope locations to confirm the transactions had been appropriately recorded in the income statement with reference to IFRS 15 and corroborated that control of the products had been transferred to the customer by: • analysing the contract and terms of the sale to determine that the Group had fulfilled the requirements of the contract and earned the right to revenue at the balance sheet date; • confirming revenue could be reliably measured by reference to underlying documentation; and • obtaining third party evidence such as delivery documentation and evidence of customer acceptance at the year-end date to verify the revenue had been recorded in the correct period. For utilities revenue earned on provision of installation services, for a sample of items we obtained evidence from the customer to confirm the stage of completion of the installation at the year-end to corroborate revenue was recognized in the correct period and reflective the level of installation that has taken place in the year. Where the Group recognises revenue over time on non-standard products we confirmed for a sample of transactions the Group's right to payment for these products by agreeing to the terms and conditions of the signed sales contract to ensure the requirements of IFRS 15 had been met to recognise revenue in the current period. We also enquired of manufacturing personnel and inspected inventory ledgers and bill of materials to confirm the products were non-standard and that significant re-work would be required for the product to be sold via other means. We examined post year end credit notes to assess any evidence of inappropriate revenue recognition cut-off for the year ended 31 December 2021. For all locations we performed analytical procedures to compare revenue recognised with our expectations, management's forecasts and, where possible, external market data.	Our audit procedures did not identify evidence of material misstatements related to revenue recognition and we found no evidence of management bias.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Management override As revenue is a key performance indicator for both external communication and a key input into management incentives, we also identified a risk of management override through inappropriate manual topside revenue journal entries being processed. The level of risk associated to this key audit matter is unchanged from the prior year. Refer to the Audit Committee Report (page 86); Accounting policies (page 133); and note 2 of the Consolidated Financial Statements (pages 137 to 138)	**Management override** At all in scope components we obtained and reviewed break downs of all manual journals and for all material revenue journals and a sample of non-material revenue journals we agreed the journal entries to underlying documentation to verify the appropriateness of the revenue being recognised. We assessed for evidence of management bias by testing all material manual journals either side of the year end and agreeing journal entries to appropriate supporting evidence. Revenue at these in scope components represents 93% of the total revenue balance. For all components we performed analytical procedures to compare revenue recognised with our expectations, management's forecasts and, where possible, external market data.	Our procedures performed did not identify any unsupported manual adjustments to revenue or any unexplained anomalies from our revenue analytics.
Risk of inappropriate inventory valuation (£108.1m, 2020: £96.3m) There is a risk of inappropriate revenue The valuation of inventory across the Group is dependent on establishing appropriate valuation processes. The establishment of standard costing bases and the assessment of how much excess and obsolete inventory exists requires judgement to be applied in finalising the inventory valuation and level of provisioning required. If these judgements are not appropriate then there is a risk that inventory is incorrectly valued. The level of risk associated to this key audit matter is unchanged from the prior year. Refer to the Audit Committee Report (page 86); Accounting policies (page 132); and note 17 of the Consolidated Financial Statements (page 157).	Procedures to respond to on this risk were performed by both the primary audit team and component team. We performed the following audit procedures at 5 full and 10 specific scope components where inventory is in scope. Inventory at these components represents 90% of the total inventory balance. We performed walkthroughs of inventory valuation methods at each of the 5 full and 10 specific scope components where inventory was in scope. We performed tests of detail for a sample of inventory items to check the accumulation of cost within inventory and to confirm the valuation reflected the products' stage of completion. We agreed our samples from the year-end inventory counts which we attended to the inventory subledger and performed rollforward procedures to year end. Of the components in scope for inventory, we were able to physically attend all counts. In addition, we attended a physical inventory count for one specified procedures trading component. We obtained evidence to support the standard costs used and performed procedures to assess whether only normal production variances had been capitalised in the year-end inventory balance and material abnormal inefficiencies had been appropriately expensed. This included comparing actual production rates to budget. We obtained evidence to support that inventory is held at the lower of cost and net realisable value by assessing the adequacy of excess and obsolete provisions held against inventory. This included comparing forecast product usage to customer orders, considering historical usage, historical accuracy of provisioning and understanding management's future plans to utilise the inventory. We performed clerical procedures on the formulaic calculations to evaluate the accuracy of the inventory provisioning. On occasion, management makes adjustments to the formulaic provision calculations. We evaluated the assumptions and judgements applied by management in determining the provision recorded in the Financial Statements.	The basis for the year-end inventory valuation and the assumptions used in assessing the adequacy of the excess and obsolete inventory provisions across the Group is considered appropriate. Our audit procedures confirmed variances between standard and actual costs and the overheads absorbed in the inventory valuation had been appropriately calculated and accounted for.

In the prior year, our auditor's report included a key audit matter in relation to the accounting for uncertain tax positions. In the current year, the estimation uncertainty associated to uncertain tax positions has reduced and therefore this is no longer considered to be a key audit matter.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £3.7 million (2020: £3.2 million), which is 5% (2020: 5%) of adjusted operating profit. We believe that adjusted operating profit provides us with the most relevant performance measure to the stakeholders of the Group as it excludes material non-recurring items and therefore have determined materiality based on this number.

We determined materiality for the Parent Company to be £5.0 million (2020: £4.7 million), which is 1.5% (2020: 1.5%) of equity.

STARTING BASIS	Operating profit – £57.0m
ADJUSTMENTS	Impairment charge recorded – £16.0m
MATERIALITY	Totals £73.0m adjusted operating profit (materiality basis) Materiality of £3.7m (5% of materiality basis)

During the course of our audit, we reassessed initial materiality which was calculated to be £3.8m and concluded that our revised materiality of £3.7m was appropriate.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% (2020: 50%) of our planning materiality, namely £2.8m (2020: £1.6m). We have set performance materiality at this percentage due to our expectation of misstatements being low. We set performance materiality at 50% for 2020 due to the audit being our initial audit of the Group and the unusual and unprecedented changes occurring in the year as a result of the COVID pandemic.

Audit work at component locations for the purpose of obtaining audit coverage over significant Financial Statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £0.2m to £1.8m (2020: £0.3m to £1.1m).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.19m (2020: £0.16m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the Annual Report set out on pages 1 to 103, other than the Financial Statements and our auditor's report thereon. The Directors are responsible for the other information contained within the Annual Report.

Our opinion on the Financial Statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the Financial Statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company Financial Statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Corporate Governance Statement

We have reviewed the Directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group and Parent Company's compliance with the provisions of the UK Corporate Governance Code specified for our review by the Listing Rules.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the Financial Statements or our knowledge obtained during the audit:

- Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 79;
- Directors' explanation as to its assessment of the Group's prospects, the period this assessment covers and why the period is appropriate set out on page 80;
- Director's statement on whether it has a reasonable expectation that the Group will be able to continue in operation and meets its liabilities set out on page 79;
- Directors' statement on fair, balanced and understandable set out on page 80;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on pages 56 to 64;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems set out on page 79; and;
- The section describing the work of the audit committee set out on page 86.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement set out on page 112, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, the Directors are responsible for assessing the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Group and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant frameworks which are directly relevant to specific assertions in the Financial Statements are those that relate to the reporting framework (IFRS, the Companies Act 2006 and the UK Corporate Governance Code). In addition, we concluded that there are certain significant laws and regulations which may have an effect on the determination of the amounts and disclosures in the Financial Statements being the Listing Rules of the UK Listing Authority, the US Foreign Corrupt Practices Act, Swedish, French and Indian Companies Act legislation, and those laws and regulations relating to health & safety and employee matters.

- We understood how Hill & Smith Holdings PLC is complying with those frameworks by making enquiries of management, Internal Audit, those responsible for legal and compliance procedures and the Company Secretary. We corroborated our enquiries through our review of Board minutes, papers provided to the Audit Committee and correspondence received from regulatory bodies.
- We assessed the susceptibility of the Group's Financial Statements to material misstatement, including how fraud might occur, by meeting with management from various parts of the business to understand where it considered there was susceptibility to fraud. We also considered performance targets and their influence on efforts made by management to manage earnings or influence the perceptions of analysts. We considered the programmes and controls that the Group has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programmes and controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing manual journals and were designed to provide reasonable assurance that the Financial Statements were free from fraud or error.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved journal entry testing, with a focus on manual consolidation journals and journals indicating large or unusual transactions based on our understanding of the business; enquiries of internal and external legal counsel, Group management, Internal Audit, full and specific scope component management; and focused testing, as referred to in the key audit matters section above.

Component teams reported any non-compliance with laws and regulations through their audit deliverables based on the procedures detailed in the previous paragraph. Further, the Group team communicated any instances of non-compliance with laws and regulations to component teams through regular interactions with local EY teams. There were no significant instances of non-compliance with laws and regulations.

A further description of our responsibilities for the audit of the Financial Statements is located on the

Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

- Following the recommendation from the audit committee we were appointed by the Group on 14 July 2020 to audit the Financial Statements for the year ending 31 December 2020 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments is 2 years, covering the years ending 31 December 2020 to 31 December 2021.
- The audit opinion is consistent with the additional report to the audit committee.

Use of our report

This report is made solely to the Parent Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Parent Company's members those matters we are required to state to them in an auditor's 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 Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Helen McLeod-Jones
(Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

Birmingham

9 March 2022

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2021

	Notes	2021 Underlying £m	2021 Non-underlying* £m	2021 Total £m	2020 Underlying £m	2020 Non-underlying* £m	2020 Total £m
Revenue	3	**705.0**	**–**	**705.0**	660.5	–	660.5
Cost of sales		**(442.7)**	**–**	**(442.7)**	(415.9)	–	(415.9)
Gross profit		**262.3**	**–**	**262.3**	244.6	–	244.6
Distribution costs		**(36.5)**	**–**	**(36.5)**	(34.1)	–	(34.1)
Administrative expenses		**(140.5)**	**(29.0)**	**(169.5)**	(142.2)	(27.1)	(169.3)
Other operating income		**0.7**	**–**	**0.7**	1.6	–	1.6
Operating profit	3, 4	**86.0**	**(29.0)**	**57.0**	69.9	(27.1)	42.8
Financial income	7	**0.6**	**–**	**0.6**	0.6	–	0.6
Financial expense	7	**(6.7)**	**–**	**(6.7)**	(7.9)	–	(7.9)
Profit before taxation		**79.9**	**(29.0)**	**50.9**	62.6	(27.1)	35.5
Taxation	9	**(17.8)**	**1.1**	**(16.7)**	(12.4)	0.9	(11.5)
Profit for the year attributable to owners of the parent		**62.1**	**(27.9)**	**34.2**	50.2	(26.2)	24.0
Basic earnings per share	10			**43.0p**			30.2p
Diluted earnings per share	10			**42.5p**			30.0p

* The Group's definition of non-underlying items is included in the Group Accounting Policies on page 134 and further details on non-underlying items are included in note 5 on page 141.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2021

	Notes	2021 £m	2020 £m
Profit for the year		**34.2**	24.0
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of overseas operations		**(2.3)**	(2.5)
Exchange differences on foreign currency borrowings designated as net investment hedges		**0.6**	–
Items that will not be reclassified subsequently to profit or loss			
Actuarial gain/(loss) on defined benefit pension schemes	26	**3.5**	(2.3)
Taxation on items that will not be reclassified to profit or loss	9	**–**	0.8
Other comprehensive income/(expense) for the year		**1.8**	(4.0)
Total comprehensive income for the year attributable to owners of the parent		**36.0**	20.0

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2021

	Notes	2021 £m	2020 £m
Non-current assets			
Intangible assets	12	**177.4**	188.5
Property, plant and equipment	13	**193.3**	183.6
Right-of-use assets	15	**38.2**	30.9
Corporation tax receivable	9	**1.6**	–
Deferred tax assets	16	**1.4**	1.4
		411.9	404.4
Current assets			
Assets held for sale	14	**3.6**	–
Inventories	17	**108.1**	96.3
Trade and other receivables	18	**130.2**	122.7
Current tax assets		**0.7**	1.3
Cash and cash equivalents	19	**18.8**	22.0
		261.4	242.3
Total assets	3	**673.3**	646.7
Current liabilities			
Liabilities held for sale	14	**(1.9)**	–
Trade and other liabilities	20	**(132.7)**	(116.7)
Current tax liabilities		**(4.3)**	(5.5)
Provisions	22	**(4.0)**	(3.3)
Lease liabilities	15	**(8.8)**	(8.6)
Loans and borrowings	20	**(1.9)**	(8.6)
		(153.6)	(142.7)
Net current assets		**107.8**	99.6
Non-current liabilities			
Other liabilities	21	**(1.5)**	(1.4)
Provisions	22	**(2.4)**	(2.5)
Deferred tax liabilities	16	**(12.8)**	(9.0)
Retirement benefit obligations	26	**(12.3)**	(19.6)
Lease liabilities	15	**(30.1)**	(23.8)
Loans and borrowings	21	**(121.0)**	(127.2)
		(180.1)	(183.5)
Total liabilities		**(333.7)**	(326.2)
Net assets		**339.6**	320.5
Equity			
Share capital	24	**20.0**	19.9
Share premium		**40.9**	38.4
Other reserves		**4.9**	4.9
Translation reserve		**15.5**	17.2
Retained earnings		**258.3**	240.1
Total equity		**339.6**	320.5

Approved by the Board of Directors on 9 March 2022 and signed on its behalf by:

P Simmons
Director

H K Nichols
Director

Company Number: 671474

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2021

	Notes	Share capital £m	Share premium £m	Other reserves† £m	Translation reserve £m	Retained earnings £m	Total equity £m
At 1 January 2020		19.9	37.4	4.9	19.7	225.1	307.0
Comprehensive income							
Profit for the year		–	–	–	–	24.0	24.0
Other comprehensive expense for the year		–	–	–	(2.5)	(1.5)	(4.0)
Transactions with owners recognised directly in equity							
Dividends	11	–	–	–	–	(8.4)	(8.4)
Credit to equity of share-based payments	24	–	–	–	–	0.8	0.8
Tax taken directly to the Consolidated Statement of Changes in Equity	9	–	–	–	–	0.1	0.1
Shares issued	24	–	1.0	–	–	–	1.0
At 31 December 2020		**19.9**	**38.4**	**4.9**	**17.2**	**240.1**	**320.5**
Comprehensive income							
Profit for the year		**–**	**–**	**–**	**–**	**34.2**	**34.2**
Other comprehensive income for the year		**–**	**–**	**–**	**(1.7)**	**3.5**	**1.8**
Transactions with owners recognised directly in equity							
Dividends	11	**–**	**–**	**–**	**–**	**(21.2)**	**(21.2)**
Credit to equity of share-based payments	24	**–**	**–**	**–**	**–**	**2.5**	**2.5**
Own shares held by employee benefit trust		**–**	**–**	**–**	**–**	**(1.5)**	**(1.5)**
Satisfaction of long term incentive and deferred bonus awards		**–**	**–**	**–**	**–**	**(0.3)**	**(0.3)**
Tax taken directly to the Consolidated Statement of Changes in Equity	9	**–**	**–**	**–**	**–**	**1.0**	**1.0**
Shares issued	24	**0.1**	**2.5**	**–**	**–**	**–**	**2.6**
At 31 December 2021		**20.0**	**40.9**	**4.9**	**15.5**	**258.3**	**339.6**

† Other reserves represent the premium on shares issued in exchange for shares of subsidiaries acquired and £0.2m (2020: £0.2m) capital redemption reserve.

At 31 December 2020 a total of 19,928 shares were held in an employee benefit trust for the purpose of settling awards granted to employees under equity-settled share based payment plans. The cost of these shares, amounting to £0.3m, was included within retained earnings at that date. During 2021, 7,665 shares have been issued in settlement of awards to employees and a further 98,821 shares have been purchased at a cost of £1.8m, leaving 111,084 shares held at 31 December 2021, at a cost of £1.8m included within retained earnings.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2021

	Notes	2021 £m	2021 £m	2020 £m	2020 £m
Profit before tax			**50.9**		35.5
Add back net financing costs	7		**6.1**		7.3
Operating profit	3, 4		**57.0**		42.8
Adjusted for non-cash items:					
Share-based payments	6, 24	**2.8**		0.8	
Loss on disposal of subsidiary	5	**0.4**		–	
Gain on disposal of non-current assets	8	**(1.1)**		(1.9)	
Depreciation of owned assets	8, 13	**20.9**		21.9	
Amortisation of intangible assets	8, 12	**7.5**		7.5	
Right-of-use asset depreciation	8, 15	**10.3**		10.4	
Gain on lease termination	15	**(0.1)**		(0.1)	
Release of accrued contingent consideration	5	**(0.9)**		–	
Impairment of non-current assets	5, 8, 12	**16.0**		19.5	
			55.8		58.1
Operating cash flow before movement in working capital			**112.8**		100.9
(Increase)/decrease in inventories		**(13.6)**		1.0	
(Increase)/decrease in receivables		**(7.9)**		21.6	
Increase/(decrease) in payables		**14.7**		(4.4)	
Decrease in provisions and employee benefits		**(2.9)**		(0.8)	
Net movement in working capital			**(9.7)**		17.4
Cash generated by operations			**103.1**		118.3
Purchase of assets for rental to customers			**(16.7)**		(3.1)
Income taxes paid			**(15.2)**		(16.5)
Interest paid			**(4.7)**		(6.0)
Interest paid on lease liabilities			**(0.8)**		(0.8)
Net cash from operating activities			**65.7**		91.9
Interest received		**0.6**		0.6	
Proceeds on disposal of non-current assets		**3.7**		6.5	
Purchase of property, plant and equipment		**(17.8)**		(15.5)	
Purchase of intangible assets		**(1.4)**		(1.8)	
Acquisition of subsidiary	12	**(11.8)**		(0.9)	
Disposal of subsidiary	5	**1.6**		–	
Net cash used in investing activities			**(25.1)**		(11.1)
Issue of new shares	24	**2.6**		1.0	
Purchase of shares for employee benefit trust		**(1.8)**		–	
Dividends paid	11	**(21.2)**		(8.4)	
Repayment of lease liabilities		**(10.3)**		(11.1)	
New loans and borrowings		**55.3**		–	
Repayment of loans and borrowings		**(61.0)**		(74.4)	
Net cash used in financing activities			**(36.4)**		(92.9)
Net increase/(decrease) in cash and cash equivalents net of bank overdraft			**4.2**		(12.1)
Cash and cash equivalents net of bank overdraft at the beginning of the year			**13.9**		26.0
Effect of exchange rate fluctuations			**–**		–
Cash and cash equivalents net of bank overdraft at the end of the year	19		**18.1**		13.9

GROUP ACCOUNTING POLICIES

1. GROUP ACCOUNTING POLICIES

Hill & Smith Holdings PLC is a company incorporated in the UK. The consolidated financial statements of Hill & Smith Holdings PLC and its subsidiaries (the "Group") are presented for the year ended 31 December 2021.

The Group Financial Statements have been prepared and approved by the Directors in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and UK-adopted International Financial Reporting Standards. The Company has elected to prepare its Parent Company Financial Statements in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"); these are presented on pages 174 to 183.

The Accounting Policies set out below have, unless otherwise stated, been applied consistently in all periods presented in these Group Financial Statements. Judgements made by the Directors in the application of these Accounting Policies that have a significant effect on the Group Financial Statements and estimates with a significant risk of material adjustment in the next year are discussed in note 2.

Basis of preparation

The consolidated financial statements comprise the financial statements of the Company, Hill & Smith Holdings PLC, and its subsidiaries as at 31 December 2021. Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the Group Financial Statements from the date that control commences until the date that control ceases.

In preparing the consolidated financial statements, management has considered the impact of climate change, taking into account the relevant disclosures in the Strategic Report, including those made in accordance with the recommendations of the Taskforce on Climate-related Financial Disclosures. This included an assessment of assets with indefinite and long lives and how they could be impacted by measures taken to address global warming. As outlined in the Chief Executive's Review on page 22, physical climate change presents a relatively low risk to the Group's future business operations. As such, no issues were identified that would impact the carrying values of such assets or have any other impact on the financial statements.

Measurement convention

The Group Financial Statements are prepared on the historical cost basis except where the measurement of balances at fair value is required as explained below. The Group Financial Statements are presented in Sterling and all values are stated in million (£m) rounded to one decimal place, except where otherwise indicated.

Impact of COVID on the consolidated financial statements

As outlined in the Operating and Financial Review on pages 22 to 31, the Group has seen a strong recovery in 2021 across all operating divisions compared with 2020, which was materially affected by temporary business closures and reduced activity levels as a result of the COVID pandemic. As such, whilst the impact of COVID on the consolidated financial statements is significantly lower than in prior year, the Group does not consider it possible to reliably determine the level of any trading impact arising specifically from COVID in 2021, as opposed to other market factors, and has therefore not attempted to make any such disclosure in these consolidated financial statements.

Going concern and liquidity risk

In determining the appropriate basis of preparation of its financial statements, the Directors are required to assess whether the Group can continue in operational existence for the foreseeable future. When making this assessment, the Group considers whether it will be able to maintain adequate liquidity headroom above the level of its borrowing facilities and to operate within the financial covenants on those facilities.

At 31 December 2021, the Group had £327.6m of committed borrowing facilities, of which only £1.8m matures before December 2023 at the earliest, and a further £13.4m of on-demand facilities. The amount drawn down under these facilities at 31 December 2021 was £125.4m, which together with cash and cash equivalents £18.8m gave total headroom of £234.4m (£221.2m committed, £13.2m on demand). The Group has not made any changes to its principal borrowing facilities between 31 December 2021 and the date of approval of these financial statements, and there have been no significant changes to liquidity headroom during that period. The principal borrowing facilities are subject to covenants that are measured biannually in June and December, being net debt to EBITDA of a maximum of 3.0x and interest cover of a minimum of 4.0x, based on measures as defined in the facilities agreements which are adjusted from the equivalent IFRS amounts. The ratio of net debt to EBITDA at 31 December 2021 was 1.0 times and interest cover was 25.4 times. Note 23 to the Financial Statements sets out more information on the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to credit and liquidity risk.

The Group has carefully modelled its cash flow outlook for the period to 30 June 2023, taking account of the current uncertainties created by COVID and its impact on global economic conditions. In this 'base case' scenario, the forecasts indicate significant liquidity headroom will be maintained above the Group's borrowing facilities and financial covenants will be met throughout the period, including the covenant tests at 30 June 2022, 31 December 2022 and 30 June 2023.

The Group has carried out stress tests against the base case to determine the performance levels that would result in a breach of covenants or a reduction of headroom against its borrowing facilities to nil. For a breach of covenants to occur during the relevant period, the Group would need to experience a sustained revenue reduction of 24% compared with current expectations throughout the period from May 2022 through June 2023. A reduction in headroom against borrowing facilities to nil would occur if the Group experienced a sustained revenue reduction of 50% compared with current expectations between May 2022 and June 2023. The Directors do not consider either of these scenarios to be plausible given the ability of the Group to continue its operations throughout the COVID pandemic (noting that revenues fell by only 22% in the second quarter of 2020, the worst-affected period). The Group also has several mitigating actions under its control including minimising capital expenditure to critical requirements, reducing levels of discretionary spend, rationalising its overhead base and curtailing future dividend payments which, although not forecast to be required, could be implemented in order to be able to meet the covenant tests and to continue to operate within borrowing facility limits.

1. GROUP ACCOUNTING POLICIES CONTINUED

After making these assessments, the Directors have reasonable expectation that the Company and its subsidiaries have adequate resources to continue in operational existence for the foreseeable future and for the period to 30 June 2023. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Financial Statements.

New IFRS standards and interpretations adopted during 2021

The following amendments and interpretations apply for the first time in 2021, and therefore were adopted by the Group:

- Covid-19-Related Rent Concessions beyond 30 June 2021 – Amendments to IFRS 16
- Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16
- Attributing Benefit to Periods of Service – IAS 19 Interpretation

The amendments noted above have not had a material impact on the financial statements.

New IFRS standards and interpretations to be adopted in the future

The following standards and interpretations, which are not yet effective and have not been early adopted by the Group, will, where relevant, be adopted in future accounting periods:

To be adopted for year-ending 31 December 2022:

- Amendments to IFRS 3 – Reference to Conceptual Framework
- Amendments to IAS 16 – Proceeds before intended use
- Amendments to IAS 37 – Onerous contracts – costs of fulfilling a contract

To be adopted for year-ending 31 December 2023:

- Amendments to IAS 1 – Classification of liabilities as current or non-current
- Amendments to IAS 8 – Definition of Accounting Estimates
- Amendments to IAS 1 – Disclosure of Accounting Policies
- Amendments to IAS 12 – Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The above changes are not expected to have a material impact on the Group.

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value. Acquisition-related costs are expensed as incurred and included in non-underlying costs (see accounting policy 'non-underlying items'). Fair value adjustments are always considered to be provisional at the first year end date after the acquisition to allow the maximum time to elapse for management to make a reliable estimate.

The Group determines that it has acquired a business when the acquired set of activities and assets include an input and a substantive process that together significantly contribute to the ability to create outputs. The acquired process is considered substantive if it is critical to the ability to continue producing outputs, and the inputs acquired include an organised workforce with the necessary skills, knowledge, or experience to perform that process or it significantly contributes to the ability to continue producing outputs and is considered unique or scarce or cannot be replaced without significant cost, effort, or delay in the ability to continue producing outputs.

Intangible assets – Goodwill

Goodwill on acquisition of subsidiaries is initially measured at cost and comprises the excess of the fair value of the purchase consideration paid for subsidiaries over the Group's share of the fair value of the identifiable assets and liabilities acquired. After initial recognition, goodwill is measured at cost less impairment losses (see accounting policy 'Impairment of assets').

Intangible assets – Other

Other intangible assets that are acquired by the Group as part of a business combination, such as brands, patents and customer lists, are stated at cost less accumulated amortisation and impairment losses (see accounting policy 'Impairment of assets'). Cost reflects management's judgement of the fair value of the individual intangible asset calculated by reference to the net present value of future benefits accruing to the Group from the utilisation of the asset, discounted at an appropriate discount rate.

Certain US brands are considered to have an indefinite life and therefore are subject to annual impairment testing (see accounting policy 'Impairment of assets'). In determining that these brands have indefinite lives, consideration was given to the extent of their trading history, which in all cases exceeds 50 years, their prominence in the markets in which they operate and the nature of the products sold under those brands in the context of potential for future development. For other brands, patents and customer lists, amortisation is provided equally over the estimated useful economic life of the assets concerned, currently up to 20 years. Amortisation of such items is recorded as a non-underlying item within administrative expenses (note 5).

Where computer software is not an integral part of a related item of computer hardware, the software is treated as an intangible asset. Acquired computer software licences are capitalised on the basis of costs incurred to acquire and bring into use the specific software. An internally generated intangible asset arising from the Group's development of computer systems (including websites) is recognised if, and only if, the costs are directly associated with the production of identifiable and unique software products, controlled by the Group and it is probable that future economic benefits will flow to the Group. Amortisation is provided equally over the estimated useful economic life of the assets concerned, currently up to seven years.

1. GROUP ACCOUNTING POLICIES CONTINUED

Trade licences are amortised over the specific term granted to each individual licence.

An intangible asset is derecognised upon disposal (i.e. at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising upon derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Consolidated Income Statement.

Intangible assets – Research and development costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale;
- Its intention to complete and its ability and intention to use or sell the asset;
- How the asset will generate future economic benefits;
- The availability of resources to complete the asset; and
- The ability to measure reliably the expenditure during development.

The expenditure capitalised includes the cost of materials, direct labour and an appropriate amount of directly attributable overheads. Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses (see accounting policy 'Impairment of assets'). Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. Amortisation is recorded in administrative expenses. During the period of development, the asset is tested for impairment annually.

Other development expenditure is recognised in the Consolidated Income Statement as an expense as incurred.

Property, plant, equipment and depreciation

Property, plant and equipment are recorded in the Group's Consolidated Statement of Financial Position at cost less accumulated depreciation and any recognised impairment loss. Cost includes, where appropriate, directly attributable costs incurred in bringing each asset to its present condition and location.

Assets in the course of construction are stated at cost, net of any accumulated impairment losses.

Certain of the Group's Roads businesses routinely generate revenue from the rental of assets to customers. Such assets are accounted for as plant and equipment. If an asset that is held for rental is sold, the asset is transferred from property, plant and equipment to inventories at the carrying amount when the asset ceases to be rented. The proceeds from the sale of such assets are recognised as revenue in the Consolidated Income Statement.

Depreciation is provided to write off the cost or deemed cost less the estimated residual value of property, plant and equipment (excluding assets in the course of construction) by equal instalments over their estimated useful economic lives as follows:

Buildings and leasehold improvements	5 to 50 years
Plant, machinery and vehicles	4 to 20 years

No depreciation is provided on freehold land.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal (i.e. at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Consolidated Income Statement when the asset is derecognised.

Repair and maintenance costs are recognised in the Consolidated Income Statement as incurred.

Impairment of assets

For goodwill and intangible assets that have an indefinite life, the recoverable amount is assessed at each year end date, or when indicators of impairment exist, and an impairment loss is recognised, where appropriate, for the amount by which the asset's carrying amount exceeds its recoverable amount. Impairment reviews are undertaken at the level of each significant cash generating unit, which are no larger than operating segments as defined in IFRS 8 – Segmental reporting.

The carrying amounts of the Group's other non-financial assets, other than inventories (see accounting policy 'Inventories') and deferred tax balances (see accounting policy 'Deferred taxation'), are reviewed at each year end date to determine whether there is an indication of impairment. If such an indication exists, the relevant asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of the asset or its cash generating unit exceeds its recoverable amount.

The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

1. GROUP ACCOUNTING POLICIES CONTINUED

Non-current assets held for sale and discontinued operations

The Group classifies non-current assets and disposal groups as held for sale if their carrying amount will be recovered principally through sale rather than through continuing use. On initial classification as held for sale, non-current assets and disposal groups are measured at the lower of the previous carrying amount and fair value less costs to sell with any adjustments taken to the Consolidated Income Statement. The same applies to gains and losses on subsequent remeasurement. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense.

The criteria for held for sale classification are regarded as met only when the sale is highly probable, and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. The Group must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Property, plant and equipment, intangible assets and right-of-use assets are not depreciated or amortised once classified as held for sale.

Assets and liabilities classified as held for sale are presented separately as current items in the Group's Consolidated Statement of Financial Position.

Financial instruments

Financial assets and liabilities are recognised in the Group's Consolidated Statement of Financial Position when the Group becomes party to the contractual provisions of the instrument.

Trade receivables and trade payables are initially measured at fair value. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, and in the case of trade receivables, less any impairment losses. Impairment losses are measured using an expected credit loss model. The Group uses the simplified approach to measure expected credit losses for trade receivables and therefore does not track changes in credit risk, but instead recognises a loss allowance based on lifetime expected credit losses at each reporting date. Further details are provided in note 23(e).

Derivative financial instruments of the Group are used to hedge its exposure to interest rate and foreign currency risks arising from operational, financing and investment activities.

In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments, as follows:

- Derivative financial instruments are stated at fair value. The unhedged gain or loss on remeasurement to fair value is recognised immediately in the Consolidated Income Statement.
- The fair value of foreign exchange contracts is the estimated amount that the Group would receive or pay to terminate such contracts at the year end date, taking into account the forward exchange rates prevailing at that date.

Where derivative financial instruments are used to hedge cash flow risk, such as interest rate swaps, the effective part of any gain or loss on the fair value of cash flow hedges is recognised in the Consolidated Statement of Comprehensive Income and in the hedge reserve, while any ineffective part is recognised immediately in the Consolidated Income Statement. Amounts recorded in the hedge reserve are subsequently reclassified to the Consolidated Income Statement when the interest expense is actually recognised.

To qualify for hedge accounting the hedging relationship must meet several conditions with respect to documentation, probability of occurrence, hedge effectiveness and reliability of measurement. At the inception of the transaction, the Group documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking the hedge transaction. This process includes linking all derivatives designated as hedges to specific assets and liabilities or to specific firm commitments or forecast transactions. The Group also documents its assessment, at hedge inception and on a half yearly basis, as to whether the derivatives that are used in hedging transactions have been, and are likely to continue to be, effective in offsetting changes in fair value or cash flows of hedged items.

Interest bearing borrowings are recognised initially at fair value. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the Consolidated Income Statement over the period of the borrowings on an effective interest basis.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are, where there is a right of offset, included as a component of cash and cash equivalents for the purpose of the Consolidated Statement of Cash Flows.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Any gain or loss on translation of monetary foreign currency assets and liabilities arising from a movement in exchange rates subsequent to initial measurement is included as an exchange gain or loss in the Consolidated Income Statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

1. GROUP ACCOUNTING POLICIES CONTINUED

The assets and liabilities of overseas subsidiary undertakings, including goodwill and fair value adjustments arising on acquisition, are translated at the closing exchange rate. Income statements and cash flows of such undertakings are translated into Sterling at weighted average rates of exchange, other than substantial transactions that are translated at the rate on the date of the transaction. The adjustments to period end rates are taken to the cumulative translation reserve in equity and reported in the Consolidated Statement of Comprehensive Income. When an overseas operation is disposed of, in part or in full, the relevant amount in the translation reserve is transferred to profit or loss.

Foreign currency differences arising on the retranslation of a financial liability designated as a hedge of a net investment in a foreign operation are recognised and reported in the Consolidated Statement of Comprehensive Income, to the extent that the hedge is effective. To the extent that the hedge is ineffective, such differences are recognised in profit or loss. When the hedged part of a net investment is disposed of, the associated cumulative amount in the translation reserve is transferred to profit or loss as an adjustment to the profit or loss on disposal.

The principal exchange rates used were as follows:

	2021		2020	
	Average	Closing	Average	Closing
Sterling to Euro (£1 = EUR)	1.16	1.19	1.13	1.11
Sterling to US Dollar (£1 = USD)	1.38	1.35	1.28	1.36
Sterling to Swedish Krona (£1 = SEK)	11.80	12.21	11.80	11.15
Sterling to Indian Rupee (£1 = INR)	101.71	100.21	95.10	99.73
Sterling to Australian Dollar (£1 = AUD)	1.83	1.86	1.86	1.76

Inventories

Inventories are stated at the lower of cost and net realisable value. In determining the cost of raw materials, consumables and goods purchased for resale, either the FIFO or average cost method is used depending on the nature of the inventory. Cost for work in progress and finished goods comprises direct materials, direct labour and an appropriate proportion of attributable overheads.

Provisions

A provision is recognised in the Consolidated Statement of Financial Position when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

In accordance with the Group's environmental policy and applicable legal requirements, a provision for site restoration in respect of contaminated land is recognised as an obligation arises.

Leases

To the extent that a right-of-control exists over an asset subject to a lease and with a lease term exceeding one year, the Group recognises a right-of-use asset, representing the underlying lease asset, and a lease liability, representing the Group's obligation to make lease payments. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, any initial direct costs incurred and an estimate of the dismantling, removal and restoration costs as required by the terms of the lease contract.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to review for impairment (see accounting policy 'Impairment of assets').

The lease liability is measured at the present value of the future lease payments discounted using the Group's incremental borrowing rate, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. Future lease payments include: fixed payments, variable lease payments that depend on an index or a rate (initially measured using the index or rate as at the commencement date), amounts expected to be payable under a residual guarantee and the exercise price of purchased options where it is reasonably certain that the option will be exercised. Finance charges, representing the unwinding of the discount rate, are recognised in the Consolidated Income Statement over the period of the lease.

Lease payments for low value assets and short term leases (less than 12 months) are recognised as an expense on a straight-line basis over the lease term.

1. GROUP ACCOUNTING POLICIES CONTINUED

Revenue

Revenue is measured based on the consideration specified in a contract with a customer for the provision of goods and services. The amount recognised excludes sales taxes and is adjusted for any discounts or volume rebates that are included in the contract. It includes consideration received from the customer for freight activities only if the transportation activities are required to fulfil a performance obligation. If the transportation activities are determined to be a separate performance obligation, an entity will only recognise the consideration as revenue if the entity is determined to be acting as principal in the agreement, otherwise the consideration received from the customer for transport costs is recognised net of the related cost, rather than as revenue. The Group's contracts with customers do not contain significant financing components and payment terms are generally customary to the jurisdictions in which each subsidiary operates.

The Group recognises revenue when it transfers control over a good or service to a customer. The following information sets out the Group's approach to the nature and timing of the satisfaction of performance obligations in contracts with customers in each of its operating segments and the related revenue recognition policies.

Utilities and Roads & Security

For standard products that are manufactured, revenue is recognised when goods are accepted by customers, which is usually on delivery depending on the Incoterms defined in the contract. The Group also enters into certain contracts which require customers to inspect and accept goods that have been manufactured but retained in the Group's facilities; in these cases the customer is deemed to have accepted the product when they have provided evidence of their acceptance and revenue is therefore recognised at that point, assuming that the other criteria set out in IFRS 15 have been met.

Certain of the Group's businesses in the Utilities and Roads & Security segments manufacture non-standard products that are specific to customer requirements and therefore require a high degree of customisation. The Group has determined that in these cases a product with no alternative use is created. Where the contractual terms are such that if the contract is terminated by the customer then the Group has a right to reimbursement of the costs incurred including a reasonable margin, revenue is recognised over time i.e. before the completed goods are delivered to the customer's premises. Progress is generally determined using input methods (such as costs incurred), unless the circumstances of the contract are such that output methods (such as milestones reached) are considered more appropriate.

In some cases the Group provides installation of its products to customers as an additional service. Revenue from installation services is recognised over the period that the installation takes place, which is generally less than one month.

Certain of the Group's businesses in these segments engage in contracts with customers which include variable consideration. This occurs where the Group provides retrospective sales volume rebates to certain customers once, amongst other matters, the quantity of goods purchased during a predetermined period exceeds thresholds specified in the sales contract. To estimate the variable consideration for these expected future rebates, the Group applies the most likely amount method to reflect the consideration that the Group is entitled to. Variable consideration is only recognised to the extent that it is highly probable that the inclusion will not result in a significant revenue reversal in the future.

Certain of the Group's Roads businesses routinely generate revenue from the rental of assets to customers. Revenue from these rental agreements is recognised over the period over which the assets are available to the customer. If an asset that is held for rental is sold, the asset is transferred from property, plant and equipment to inventories at the carrying amount when the asset ceases to be rented. The proceeds from the sale of such assets are recognised as revenue in the Consolidated Income Statement.

The Group classifies proceeds from the sale of scrap products generated in the manufacturing process within revenue.

Galvanizing Services

Contracts with customers in the Galvanizing Services segment are generally simple. Revenue is recognised at a point in time, which is when the galvanized goods are either despatched or collected by the customer.

The Group classifies proceeds from the sale of by-products generated during the galvanizing process within revenue.

Contract assets

Contract assets primarily relate to the rights to consideration for work completed but not billed at the reporting date. Contract assets are transferred to receivables when the rights become unconditional.

Contract liabilities

Contract liabilities arise when the Group receives consideration from customers based on an agreed billing schedule, as established in the contract, which may not correspond with the pattern of performance under the contract. Where consideration has been received but a performance obligation not satisfied at the reporting date, a contract liability is recorded and presented as Deferred Income in the Consolidated Statement of Financial Position.

1. GROUP ACCOUNTING POLICIES CONTINUED

Retirement benefits

The Group operates pension schemes under which contributions by employees and by the sponsoring companies are held in trust funds separated from the Group's finances.

Obligations for contributions to defined contribution pension schemes are recognised as an expense in the Consolidated Income Statement as incurred.

The Group's net obligation in respect of defined benefit pension schemes is calculated separately for each scheme by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. This benefit is discounted to determine its present value, and the fair value of any scheme assets is deducted. The discount rate is the yield at the year end date on AA rated bonds that have maturity dates approximating to the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit method. Scheme assets are valued at bid price.

In the Consolidated Income Statement current and past service costs are recognised in operating profit and the interest cost on the net defined benefit obligations is included in financial expense.

All actuarial gains and losses in calculating the Group's obligation in respect of defined benefit schemes are recognised annually in reserves and reported in the Consolidated Statement of Comprehensive Income.

Share-based payment transactions

The Group issues equity settled share-based payments to certain employees, including those in the form of buy-out awards or deferred bonus awards. The fair value of shares/options granted is recognised as an employee expense, with a corresponding increase in equity reserves. The fair value is calculated at the grant date and spread over the period during which the employees become unconditionally entitled to the shares/options. The Black–Scholes model has been adopted as the method of evaluating the fair value of the options where vesting is based on non-market conditions, while a Monte Carlo Simulation is used where vesting is based on market conditions. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no adjustment for differences between expected and actual outcomes.

The fair value of amounts payable to employees in respect of share appreciation rights settled in cash is recognised as an employee expense and corresponding increase in liabilities. The fair value of the liability is remeasured at each reporting date and spread over the period during which employees become unconditionally entitled to the payment.

Financial income and expense

Financial income comprises interest income on funds invested and gains on the fair value of financial assets and liabilities at fair value through profit or loss. Interest income is recognised as it accrues in the Consolidated Income Statement using the effective interest method.

Financial expense comprises interest expense on borrowings, interest cost on net pension scheme obligations, unwinding of discounts, losses on the fair value of financial assets and liabilities at fair value through profit or loss, the interest expense on lease liabilities and financial expenses related to refinancing. All borrowing costs are recognised in the Consolidated Income Statement using the effective interest method.

Non-underlying items

The Group's accounting policy for non-underlying items is as follows:

Non-underlying items are presented separately in the Consolidated Income Statement where, in the Directors' judgement, the quantum, nature or volatility of such items gives further information to obtain a fuller understanding of the underlying performance of the business. The following are included by the Group in its assessment of non-underlying items:

- Gains or losses arising on disposal, closure, restructuring or reorganisation of businesses that do not meet the definition of discontinued operations.
- Amortisation of intangible fixed assets arising on acquisitions, which can vary depending on the nature, size and frequency of acquisitions in each financial period.
- Expenses associated with acquisitions and disposals, comprising professional fees incurred, any consideration which, under IFRS 3 (Revised) is required to be treated as a post-acquisition employment expense, and changes in contingent consideration payable on acquisitions.
- Impairment charges in respect of tangible or intangible fixed assets, or right-of-use assets.
- Changes in the fair value of derivative financial instruments.
- Significant past service items or curtailments and settlements relating to defined benefit pension obligations resulting from material changes in the terms of the schemes.

The non-underlying tax charge or credit comprises the tax effect of the above non-underlying items.

Details in respect of the non-underlying items recognised in the current and prior year are set out in note 5 to the Financial Statements.

1. GROUP ACCOUNTING POLICIES CONTINUED

Income tax

Income tax on the profit or loss for the year represents the sum of the tax currently payable and deferred tax. Income tax is recognised in the Consolidated Income Statement except to the extent that it relates to items either recognised in other comprehensive income or directly in equity.

Current tax is the expected tax payable on the taxable profit for the year. Taxable profit differs from net profit as reported in the Consolidated Income Statement because it excludes items of income or expense that are not taxable or deductible. The Group's liability for current tax is calculated using tax rates enacted or substantively enacted at the year end date, and any adjustments to tax payable in respect of previous years.

Deferred taxation

Deferred tax is provided in full using the Consolidated Statement of Financial Position liability method and represents the tax expected to be payable or recoverable on the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets and liabilities not resulting from a business combination that affects neither accounting or taxable profit, and differences relating to investments in subsidiaries to the extent that they will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the year end date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. The carrying amount of deferred tax assets is reviewed at each year end date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Ordinary dividends

Dividends are recognised as a liability in the period in which they are approved by the Company's shareholders.

Own shares held by Employee Benefit Trust ('EBT')

Transactions of the Group-sponsored EBT are included in the Group Financial Statements. In particular, the Trust's purchases of shares in the Company are debited directly to equity.

Government Grants

Government grant income is recognised where there is reasonable assurance that the grant will be received, and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. Government grant income that is linked to capital expenditure is deferred to the Consolidated Statement of Financial Position as Deferred Government Grants in Liabilities and credited to the Consolidated Income Statement over the life of the related asset.

Financial guarantee contracts

Where the Group enters into financial guarantee contracts to guarantee the indebtedness of subsidiary companies, the Group considers these to be insurance contracts and treats the guarantee contract as a contingent liability until such time as it becomes probable that the Group will be required to make a payment under the guarantee.

2. ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of income, expenses, assets and liabilities. Actual results may differ from these estimates.

Impairment of goodwill (note 12)

Estimates

The determination of whether goodwill and other indefinite life intangible assets should be impaired requires the estimation of future cash flows and growth factors adopted by each cash generating unit. Furthermore, discount rates applied to these cash flows are determined by reference to the markets in which they operate and are risk adjusted to reflect risks and opportunities existing for each cash generating unit. These factors are all affected by prevailing market and economic factors outside the Group's control. Further information on this issue, including sensitivity analyses, is included in note 12.

Actuarial assumptions on pension obligations (note 26)

Estimates

In determining the valuation of the defined benefit pension deficit, certain estimates and assumptions about the scheme have been made, notably the inflation rates, discount rates, mortality and pension increases. The factors affecting these assumptions are influenced by wider macro-economic factors that are largely outside of the Group's control. A sensitivity analysis of the impact of changes in key assumptions is set out in note 26.

2. ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS CONTINUED

Taxation (notes 9 and 16)

Judgements

Liabilities for uncertain tax positions require management judgements in respect of tax audit issues and exposures in each of the jurisdictions in which the Group operates. Where management judges that a tax position is uncertain, a current tax liability is held for anticipated taxes that are considered to be probable based on the information available. The key judgement area for the Group is the pricing of intercompany goods and services and other cross border transactions between subsidiaries in different countries.

Estimates

Management is required to make an estimate of the current tax liability together with an assessment of the temporary differences which arise as a consequence of different accounting and tax treatments. Liabilities for uncertain tax positions also require management estimates in respect of the amount of tax that may become payable. Management engages with professional advisors in making its assessment and, if appropriate, will liaise with the relevant taxation authorities to resolve the matter. The tax liability is reassessed in each period to reflect management's best estimate in light of the information available. Included in the current tax payable is a liability of £4.7m (2020: £4.4m) for uncertain tax positions. Depending on the conclusions of any tax audits conducted by the tax authorities in the various jurisdictions in which the Group operates, management estimate the range of possible outcomes to be between £nil and £6.1m (2020: £nil to £7.4m) and therefore it is possible that, if the outcomes are different to those estimated by management, the difference may materially impact the income tax charge / (credit) in the year in which the matter is concluded. Further information is set out in note 9 and note 16.

3. SEGMENTAL INFORMATION

Business segment analysis

The Group has three reportable segments which are Roads & Security, Utilities and Galvanizing Services. The Group's internal management structure and financial reporting systems differentiate between these segments, and, in reporting, management have taken the view that they comprise a reporting segment on the basis of the following economic characteristics:

- The **Roads & Security** segment contains a group of businesses supplying products designed to ensure the safety and security of roads and other national infrastructure, many of which have been developed to address national and international safety standards, to customers involved in the construction of that infrastructure;
- The **Utilities** segment contains a group of businesses supplying products characterised by a degree of engineering expertise, to public and private customers involved in the construction of facilities serving the utilities markets; and
- The **Galvanizing Services** segment contains a group of companies supplying galvanizing and related materials coating services to companies in a wide range of markets including construction, agriculture and infrastructure.

Corporate costs are allocated to reportable segments in proportion to the revenue of each of those segments.

Segmental Income Statement

	2021			2020		
	Revenue £m	**Reported operating profit £m**	**Underlying operating profit* £m**	Revenue £m	Reported operating profit £m	Underlying operating profit* £m
Roads & Security	**283.0**	**(5.7)**	**19.7**	263.4	5.6	13.2
Utilities	**223.7**	**26.3**	**26.8**	211.2	20.1	20.9
Galvanizing Services	**198.3**	**36.4**	**39.5**	185.9	17.1	35.8
Total Group	**705.0**	**57.0**	**86.0**	660.5	42.8	69.9
Net financing costs		**(6.1)**	**(6.1)**		(7.3)	(7.3)
Profit before taxation		**50.9**	**79.9**		35.5	62.6
Taxation		**(16.7)**	**(17.8)**		(11.5)	(12.4)
Profit after taxation		**34.2**	**62.1**		24.0	50.2

* Underlying operating profit is stated before non-underlying items as defined in the Group Accounting Policies on page 134 and is the measure of segment profit used by the Chief Operating Decision Maker, who is the Chief Executive. The reported operating profit columns are included as additional information.

Transactions between operating segments are on an arm's length basis similar to transactions with third parties. Galvanizing Services sold £6.5m (2020: £5.2m) of products and services to Roads & Security and £1.6m (2020: £1.7m) of products and services to Utilities. Utilities sold £3.0m (2020: £2.2m) of products and services to Roads & Security. Roads & Security sold £nil (2020: £0.2m) of products and services to Utilities. These internal revenues, along with revenues generated from within their own segments, have been eliminated on consolidation.

In the following tables, revenue from contracts with customers is disaggregated by primary geographical market, major product/service lines and timing of revenue recognition. Revenue by primary geographical market is defined as the end location of the Group's product or service. The table also includes a reconciliation of the disaggregated revenue with the Group's reportable segments.

3. SEGMENTAL INFORMATION CONTINUED

	Roads & Security		Utilities		Galvanizing		Total	
Primary geographical markets	**2021 £m**	2020 £m	**2021 £m**	2020 £m	**2021 £m**	2020 £m	**2021 £m**	2020 £m
UK	**165.2**	140.7	**72.0**	59.6	**69.6**	59.2	**306.8**	259.5
Rest of Europe	**52.8**	53.9	**6.0**	6.0	**56.5**	50.9	**115.3**	110.8
North America	**56.8**	58.0	**137.3**	138.2	**72.2**	75.8	**266.3**	272.0
The Middle East	**3.2**	5.2	**0.6**	1.4	**–**	–	**3.8**	6.6
Rest of Asia	**0.6**	0.8	**7.1**	5.4	**–**	–	**7.7**	6.2
Rest of the world	**4.4**	4.8	**0.7**	0.6	**–**	–	**5.1**	5.4
	283.0	263.4	**223.7**	211.2	**198.3**	185.9	**705.0**	660.5
Major product/service lines								
Manufacture, supply and installation of products	**260.7**	240.4	**223.7**	211.2	**–**	–	**484.4**	451.6
Galvanizing services	**–**	–	**–**	–	**198.3**	185.9	**198.3**	185.9
Rental income	**22.3**	23.0	**–**	–	**–**	–	**22.3**	23.0
	283.0	263.4	**223.7**	211.2	**198.3**	185.9	**705.0**	660.5
Timing of revenue recognition								
Products and services transferred at a point in time	**223.2**	201.6	**120.2**	107.9	**198.3**	185.9	**541.7**	495.4
Products and services transferred over time	**59.8**	61.8	**103.5**	103.3	**–**	–	**163.3**	165.1
	283.0	263.4	**223.7**	211.2	**198.3**	185.9	**705.0**	660.5

The Group has no material unsatisfied or partially satisfied performance obligations at the balance sheet date that have an expected duration of more than one year and therefore has taken the practical expedient under IFRS 15 not to disclose such details.

Additional segmental analysis

	2021		2020	
Capital expenditure and impairment losses, amortisation and depreciation	**Capital expenditure £m**	**Impairment losses, amortisation and depreciation £m**	Capital expenditure £m	Impairment losses, amortisation and depreciation £m
Roads & Security	**24.4**	**30.3**	7.1	16.0
Utilities	**4.4**	**3.8**	3.9	4.1
Galvanizing Services	**8.3**	**10.3**	8.5	28.4
Total Group	**37.1**	**44.4**	19.5	48.5
Property, plant and equipment (note 13)	**35.7**	**20.9**	17.7	22.4
Intangible assets (note 12)	**1.4**	**23.5**	1.8	26.1
Total Group	**37.1**	**44.4**	19.5	48.5

The 2021 amounts for impairment losses, amortisation and depreciation relating to the Roads & Security segment include goodwill and intangible asset impairment losses of £10.8m relating to ATG Access Limited and £5.2m relating to Parking Facilities Limited (2020: £1.6m impairment losses for goodwill, intangible and tangible assets relating to our variable message signs business).

The 2020 amounts for impairment losses, amortisation and depreciation relating to the Galvanizing Services segment included a goodwill impairment loss of £17.5m relating to France Galva SA, our French galvanizing business.

3. SEGMENTAL INFORMATION CONTINUED

Geographical analysis

Total assets	2021 £m	2020 £m
UK	290.8	288.2
Rest of Europe	90.7	96.0
North America	273.2	245.7
Asia	13.6	12.7
Rest of the world	5.0	4.1
Total Group	**673.3**	646.7

Non-current assets	2021 £m	2020 £m
UK	192.0	198.5
Rest of Europe	43.2	50.3
North America	169.8	152.3
Asia	3.2	3.2
Rest of the world	3.7	0.1
Total Group	**411.9**	404.4

Capital expenditure	2021 £m	2020 £m
UK	11.1	9.0
Rest of Europe	3.6	3.2
North America	20.9	7.1
Asia	0.1	0.2
Rest of the world	1.4	–
Total Group	**37.1**	19.5

4. ALTERNATIVE PERFORMANCE MEASURES

The Group presents Alternative Performance Measures ("APMs") in addition to its statutory results. These are presented in accordance with the Guidelines on APMs issued by the European Securities and Markets Authority. The principal APMs are:

- Underlying profit before taxation;
- Underlying operating profit;
- Underlying operating profit margin;
- Organic measure of change in revenue and underlying operating profit;
- Underlying cash conversion ratio;
- Capital expenditure to depreciation and amortisation ratio;
- Covenant net debt to EBITDA ratio; and
- Underlying earnings per share. A reconciliation of statutory earnings per share to underlying earnings per share is provided in note 10.

All underlying measures exclude certain non-underlying items, which are detailed in note 5. References to an underlying profit measure are made on this basis and, in the opinion of the Directors, aid the understanding of the underlying business performance as they exclude items whose quantum, nature or volatility gives further information to obtain a fuller understanding of the underlying performance of the business. APMs are presented on a consistent basis over time to assist in comparison of performance.

4. ALTERNATIVE PERFORMANCE MEASURES CONTINUED

Reconciliation of underlying to reported profit before tax

	2021 £m	2020 £m
Underlying profit before tax	79.9	62.6
Non-underlying items included in operating profit (note 5)	(29.0)	(27.1)
Reported profit before tax	**50.9**	35.5

Reconciliation of underlying to reported operating profit

	Roads & Security		Utilities		Galvanizing		Total	
	2021 £m	2020 £m	2021 £m	2020 £m	2021 £m	2020 £m	2021 £m	2020 £m
Underlying operating profit	19.7	13.2	26.8	20.9	39.5	35.8	86.0	69.9
Non-underlying items:								
Amortisation of acquisition intangibles	(4.5)	(4.3)	(0.5)	(0.7)	(1.1)	(1.1)	(6.1)	(6.1)
Business reorganisation costs	(4.5)	–	–	–	–	–	(4.5)	–
Impairment of assets	(16.0)	(2.8)	–	–	–	(17.5)	(16.0)	(20.3)
Expenses related to acquisitions and disposals	–	(0.3)	–	–	(2.0)	–	(2.0)	(0.3)
Pension past service expense	–	(0.2)	–	(0.1)	–	(0.1)	–	(0.4)
Loss on disposal of Technocover	(0.4)	–	–	–	–	–	(0.4)	–
Reported operating profit	(5.7)	5.6	26.3	20.1	36.4	17.1	57.0	42.8

Calculation of underlying operating profit margin

	Roads & Security		Utilities		Galvanizing		Total	
	2021 £m	2020 £m	2021 £m	2020 £m	2021 £m	2020 £m	2021 £m	2020 £m
Underlying operating profit	19.7	13.2	26.8	20.9	39.5	35.8	86.0	69.9
Revenue	283.0	263.4	223.7	211.2	198.3	185.9	705.0	660.5
Underlying operating profit margin (%)	7.0%	5.0%	12.0%	9.9%	19.9%	19.3%	12.2%	10.6%

4. ALTERNATIVE PERFORMANCE MEASURES CONTINUED

Organic measure of change in revenue and underlying operating profit

Organic measures exclude the impact of currency translation movements, acquisitions, disposals and closures of subsidiary businesses. In respect of acquisitions, the amounts referred to represent the amounts for the period in the current year that the business was not held in the prior year. In respect of disposals and closures of subsidiary businesses, the amounts referred to represent the amounts for the period in the prior year that the business was not held in the current year.

	Roads & Security		Utilities		Galvanizing		Total	
	Revenue £m	Underlying operating profit £m	Revenue £m	Underlying operating profit £m	Revenue £m	Underlying operating profit £m	Revenue £m	Underlying operating profit £m
2020	263.4	13.2	211.2	20.9	185.9	35.8	660.5	69.9
Impact of exchange rate movements	(4.6)	(0.3)	(10.6)	(1.5)	(6.8)	(2.2)	(22.0)	(4.0)
2020 translated at 2021 exchange rates (A)	258.8	12.9	200.6	19.4	179.1	33.6	638.5	65.9
Acquisitions and disposals	2.7	1.2	–	–	–	–	2.7	1.2
Organic growth (B)	21.5	5.6	23.1	7.4	19.2	5.9	63.8	18.9
2021	**283.0**	**19.7**	**223.7**	**26.8**	**198.3**	**39.5**	**705.0**	**86.0**
Organic growth % (B divided by A)	**8.3%**	**43.4%**	**11.5%**	**38.1%**	**10.7%**	**17.6%**	**10.0%**	**28.7%**

Calculation of underlying cash conversion ratio

	2021 £m	2020 £m
Underlying operating profit	**86.0**	69.9
Calculation of adjusted operating cash flow:		
Cash generated by operations	**103.1**	118.3
Less: Purchase of assets for rental to customers	**(16.7)**	(3.1)
Less: Purchase of property, plant and equipment	**(17.8)**	(15.5)
Less: Purchase of intangible assets	**(1.4)**	(1.8)
Less: Repayments of lease liabilities	**(10.3)**	(11.1)
Add: Proceeds on disposal of non-current assets	**3.7**	6.5
Add back: Defined benefit pension scheme deficit payments	**3.7**	3.6
Add back: Cash flows relating to non-underlying items	**2.7**	0.6
Adjusted operating cash flow	**67.0**	97.5
Underlying cash conversion (%)	**78%**	139%

Calculation of capital expenditure to depreciation and amortisation ratio

	2021 £m	2020 £m
Calculation of capital expenditure:		
Purchase of assets for rental to customers	**16.7**	3.1
Purchase of property, plant and equipment	**17.8**	15.5
Purchase of intangible assets	**1.4**	1.8
	35.9	20.4
Calculation of depreciation and amortisation:		
Depreciation of property, plant and equipment (note 8)	**20.9**	21.9
Amortisation of development costs (note 8)	**1.1**	1.2
Amortisation of other intangible assets (note 8)	**0.3**	0.2
	22.3	23.3
Capital expenditure to depreciation and amortisation ratio	**1.6x**	0.9x

4. ALTERNATIVE PERFORMANCE MEASURES CONTINUED

Calculation of covenant net debt to EBITDA ratio

	2021 £m	2020 £m
Reported net debt (note 19)	**144.7**	146.2
Lease liabilities (note 15)	**(40.6)**	(32.4)
Amounts related to refinancing under IFRS 9	**2.5**	3.4
Covenant net debt (A)	**106.6**	117.2
Underlying operating profit	**86.0**	69.9
Depreciation of owned assets (note 13)	**20.9**	21.9
Right-of-use asset depreciation (note 15)	**10.3**	10.4
Amortisation of development costs (note 12)	**1.1**	1.2
Amortisation of other intangible assets (note 12)	**0.3**	0.2
Underlying EBITDA	**118.6**	103.6
Adjusted for:		
Lease payments (note 15)	**(11.1)**	(11.9)
Share-based payments expense (note 24)	**2.8**	0.8
Annualised EBITDA of subsidiaries acquired/disposed	**0.4**	–
Covenant EBITDA (B)	**110.7**	92.5
Covenant net debt to EBITDA (A divided by B)	**1.0**	1.3

5. NON-UNDERLYING ITEMS

Included in operating profit

	2021 £m	2020 £m
Amortisation of acquisition intangibles	**(6.1)**	(6.1)
Business reorganisation costs [a]	**(4.5)**	–
Impairment of assets [b]	**(16.0)**	(20.3)
Expenses related to acquisitions and disposals [c]	**(2.0)**	(0.3)
Loss on disposal of the Group's access cover business, Technocover Limited [d]	**(0.4)**	–
Pension past service expense [e]	**–**	(0.4)
	(29.0)	(27.1)

Notes:

a) Business reorganisation costs of £4.5m represent the costs of closing the UK variable message sign business, following the strategic decision taken by the Group in March 2021. £1.3m of this charge represents cash costs during the year, with a provision of £3.2m for costs expected to be incurred in 2022, principally in respect of remaining contractual and property-related obligations. Non-cash impairment charges of £2.8m relating to the assets of the business were recognised in 2020 and are included within 'impairment of assets' in the table above.

b) In 2021, goodwill and intangible asset impairment charges of £10.8m in respect of ATG Access Limited ('ATG') and £5.2m in respect of Parking Facilities Limited ('Parking Facilities'), two of the Group's UK Security businesses, have been recognised.

ATG operates in niche security markets, manufacturing and distributing hostile vehicle mitigation and related products that protect both public and private developments such as transport hubs, commercial buildings and infrastructure sites from the threat of attack. The COVID pandemic has had two significant impacts on ATG's markets: firstly, the restrictions on public gatherings across the world and secondly, a constraint on customer budgets resulting in them de-prioritising significant security projects. Following a challenging trading period in 2020, results in 2021 remained well below previous expectations leading the Board to reassess the business's future prospects. This reassessment concluded that the pace of ATG's recovery is likely to be slower than had previously been anticipated, mainly due to an expectation of prolonged inactivity in several of its key sectors and also reflecting increased competition in the market. Consequently, the impairment review concluded that ATG's expected future cash flows were not sufficient to support its carrying value, resulting in an impairment of the acquisition goodwill.

Parking Facilities manufactures and sells a range of perimeter access security products, predominantly to specialist security installers in the UK. Similar to ATG, the COVID pandemic resulted in a weak trading period in 2020 as several customer contracts were cancelled or postponed. Whilst the business saw a marginal improvement in revenue and profitability in 2021, ongoing constraints on customer budgets continue to weigh on demand. The Board's reassessment of the future outlook for Parking Facilities, which also took into account the impact on gross margins of recent changes in the competitive landscape, concluded that there was a limited prospect of the business returning to the levels of profitability anticipated at the time of its acquisition and therefore that the expected future cash flows were not sufficient to support the carrying value. The resulting impairment charge of £5.2m comprises £1.6m in respect of goodwill, £3.3m in respect of acquired customer lists and £0.3m in respect of acquired brand names.

In 2020, an impairment charge of £17.5m was made in respect of goodwill relating to France Galva SA following a reassessment of the outlook for the business. A further £2.8m impairment charge was made in relation to the closure of the variable message signs business as explained in a) above.

5. NON-UNDERLYING ITEMS CONTINUED

c) Expenses related to acquisitions and disposals of £2.0m (2020: £0.3m) comprise professional fees and other similar costs in respect of acquisitions and disposals that the Group either concluded or considered during the year, including £0.4m relating to the acquisition of Prolectric Services Limited ('Prolectric') in March 2021 and £0.4m relating to the disposal of Technocover Limited in June 2021. The net cost also includes a credit of £0.9m in respect of contingent consideration relating to the Prolectric acquisition. The agreement for the acquisition included contingent consideration, dependent on Prolectric's adjusted operating profit for the 12-month period to 31 March 2022. As at the acquisition date, the fair value of the contingent consideration was estimated to be £0.9m, calculated on a probability-weighted basis. At 31 December 2021, despite a positive contribution from Prolectric since acquisition the Group has reassessed the fair value of the contingent consideration to be £nil.

d) On 15 June 2021 the Group completed the disposal of Technocover Limited, our small, loss-making security access covers business, at a loss of £0.4m. Details of the disposal are set out below.

Disposal of Technocover	**£m**
Property, plant and equipment	1.7
Right-of-use assets	0.1
Inventories	0.5
Trade debtors	1.9
Cash	0.6
Lease liabilities	(0.1)
Trade creditors and accruals	(2.1)
Net assets disposed	**2.6**
Consideration	
Consideration received	2.2
Loss on disposal	**(0.4)**
Cash flow effect	
Consideration received	2.2
Cash disposed of	(0.6)
Net cash consideration shown in the Consolidated Statement of Cash Flows	**1.6**

e) In October 2018, the High Court handed down a judgement requiring businesses with defined benefit pension schemes to equalise historical Guaranteed Minimum Pensions ('GMPs') between male and female members. The Group's results in 2018 included a non-underlying charge of £1.0m in respect of the likely cost to be incurred in equalising GMPs arising in prior years. In 2020 there was a further hearing in relation to members who have transferred out of schemes, which concluded that schemes do need to revisit historical transfers for GMP equalisation. The Group took professional advice as to the impact of this judgement and recognised a further cost of £0.4m in 2020.

Included in taxation

The tax effect of the above items is a credit to the income statement of £1.1m (2020: £0.9m).

6. EMPLOYEES

	2021 No.	2020 No.
The average number of people employed by the Group during the year		
Roads & Security	**1,343**	1,470
Utilities	**1,515**	1,547
Galvanizing Services	**1,528**	1,482
Total Group	**4,386**	4,499

	2021 £m	2020 £m
Total employee benefit expense for the year		
Wages and salaries	**149.4**	152.9
Share-based payments (note 24)	**2.8**	0.8
Social security costs	**26.7**	25.5
Pension costs (note 26)	**4.3**	5.0
	183.2	184.2

	2021 £m	2020 £m
Remuneration of key management personnel		
Remuneration in relation to short term benefits	**3.0**	1.8
Company contributions to money purchase pension plans	**0.2**	0.2
	3.2	2.0

Key management personnel are those persons having authority and responsibility for planning, directing, and controlling the activities of the Group, directly or indirectly, including any directors (whether executive or otherwise) of the Group. At the beginning of 2021, as noted in the 2020 Annual Report & Accounts, the Group announced a new senior management structure and the establishment of an Executive Board. The new structure includes the Executive Directors, Group Presidents, the Corporate Development Director and the Chief People Officer, who all report into the Chief Executive. As of 1 January 2021, key management personnel are considered to be the Board of Directors of Hill & Smith Holdings PLC and the members of the Executive Board who are not also Directors of the Group. Prior to 1 January 2021, only the Board of Directors were considered to be key management personnel.

Further details of the Directors' remuneration and share interests are given in the Directors' Remuneration Report on pages 94 to 104.

7. NET FINANCING COSTS

	2021 £m	2020 £m
Interest on bank deposits	**0.6**	0.6
Financial income	**0.6**	0.6
Interest on loans and borrowings	**(4.9)**	(6.0)
Interest on lease liabilities (note 15)	**(0.8)**	(0.8)
Financial expenses related to refinancing	**(0.8)**	(0.8)
Interest cost on net pension scheme deficit (note 26)	**(0.2)**	(0.3)
Financial expense	**(6.7)**	(7.9)
Net financing costs	**(6.1)**	(7.3)

8. EXPENSES AND AUDITOR'S REMUNERATION

	2021 £m	2020 £m
Income statement charges		
Depreciation of property, plant and equipment	**(20.9)**	(21.9)
Right-of-use asset depreciation	**(10.3)**	(10.4)
Short term leases	**(0.4)**	(0.4)
Low value leases	**(0.1)**	–
Research and development expenditure	**(0.7)**	(0.5)
Amortisation of acquisition intangibles	**(6.1)**	(6.1)
Amortisation of development costs	**(1.1)**	(1.2)
Amortisation of other intangible assets	**(0.3)**	(0.2)
Impairment losses:		
Intangible fixed assets	**(16.0)**	(18.6)
Tangible fixed assets	**–**	(0.5)
Right-of-use lease assets	**–**	(0.4)
Income statement credits		
Foreign exchange gain	**0.1**	–
Profit on disposal of non-current assets	**1.2**	1.9
Grants receivable	**0.1**	0.1
Sublease income (note 15)	**0.6**	1.1

A detailed analysis of the auditor's remuneration worldwide is as follows:

	£m	£m
Audit of the Company's Annual Accounts	**0.5**	0.4
Audit of the Company's subsidiaries	**1.0**	1.0
	1.5	1.4

A description of the work of the Audit Committee is set out in the Audit Committee Report on pages 86 to 90 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditor. Non-audit assurance services totalled £4,000 (2020: £3,000).

9. TAXATION

	2021 £m	2020 £m
Current tax		
UK corporation tax	**4.1**	2.0
Overseas tax at prevailing local rates	**11.1**	10.1
Adjustments in respect of prior years	**(1.8)**	(1.8)
	13.4	10.3
Deferred tax (note 16)		
UK deferred tax	**0.1**	(0.5)
Overseas tax at prevailing local rates	**0.2**	1.1
Adjustments in respect of prior years	**0.6**	(0.2)
Effects of changes in tax rates and laws	**2.4**	0.8
	3.3	1.2
Tax on profit in the Consolidated Income Statement	**16.7**	11.5
Deferred tax (note 16)		
Relating to defined benefit pension schemes	**–**	(0.8)
Tax on items taken directly to other comprehensive income	**–**	(0.8)
Current tax		
Relating to share-based payments	**(0.2)**	(0.1)
Deferred tax (note 16)		
Relating to share-based payments	**(0.8)**	–
Tax taken directly to the Consolidated Statement of Changes in Equity	**(1.0)**	(0.1)

The tax charge in the Consolidated Income Statement for the period is higher (2020: higher) than the standard rate of corporation tax in the UK. The differences are explained below:

	2021 £m	2020 £m
Profit before taxation	**50.9**	35.5
Profit before taxation multiplied by the effective rate of corporation tax in the UK of 19.0% (2020: 19.0%)	**9.7**	6.7
Expenses not deductible/income not chargeable for tax purposes	**0.9**	0.6
Non-deductible goodwill impairment	**2.4**	4.9
Benefits from international financing arrangements – current and prior years	**(0.5)**	(1.2)
Local tax incentives	**(0.6)**	(0.1)
Overseas profits taxed at higher rates	**3.3**	1.8
Recognition of losses	**(0.1)**	(0.6)
Overseas losses not relieved	**0.5**	0.6
Impacts of rate and law changes	**2.3**	0.8
Adjustments in respect of prior years	**(1.2)**	(2.0)
Tax charge	**16.7**	11.5

In October 2017, the European Commission opened a state aid investigation into the Group Financing Exemption in the UK Controlled Foreign Company ('CFC') legislation. On 2 April 2019, the Commission announced that it believed that in certain circumstances the UK's CFC regime constituted state aid. In common with other UK-based international companies, the Group may be affected by the outcome of this case. In January 2021 the Group received a charging notice from HMRC requiring it to pay £1.6m in respect of state aid that HMRC considers had been unlawfully received in previous years. The amount was paid in full in February 2021. Based on the current status of the case in both the UK and EU jurisdictions, we have concluded that it is appropriate to recognise this amount as a tax receivable at 31 December 2021.

10. EARNINGS PER SHARE

The weighted average number of ordinary shares in issue during the year was 79.6m (2020: 79.5m), diluted for the effects of the outstanding dilutive share options 80.6m (2020: 79.9m). Diluted earnings per share takes account of the dilutive effect of all outstanding share options disclosed in note 24, calculated using the treasury share method. Underlying earnings per share have been shown because the Directors consider that this provides valuable additional information about the underlying performance of the Group.

	2021		2020	
	Pence per share	£m	Pence per share	£m
Basic earnings	43.0	34.2	30.2	24.0
Non-underlying items*	34.9	27.9	33.0	26.2
Underlying earnings	77.9	62.1	63.2	50.2
Diluted earnings	42.5	34.2	30.0	24.0
Non-underlying items*	34.6	27.9	32.9	26.2
Underlying diluted earnings	77.1	62.1	62.9	50.2

* Non-underlying items as detailed in note 5.

11. DIVIDENDS

Dividends paid during the year

	2021		2020	
	Pence per share	£m	Pence per share	£m
Interim dividend paid in relation to year-ended 31 December 2019*	–	–	10.6	8.4
Interim dividend paid in relation to year-ended 31 December 2020	9.2	7.3	–	–
Final dividend paid in relation to year-ended 31 December 2020	17.5	13.9	–	–
Total	26.7	21.2	10.6	8.4

* A final dividend for 2019 of 23.0p per share was proposed but was withdrawn and not paid.

Dividends declared in respect of the year

	2021		2020	
	Pence per share	£m	Pence per share	£m
Interim dividend declared in relation to year-ended 31 December 2020	–	–	9.2	7.3
Final dividend declared in relation to year-ended 31 December 2020	–	–	17.5	13.9
Interim dividend declared in relation to year-ended 31 December 2021	12.0	9.6	–	–
Final dividend proposed in relation to year-ended 31 December 2021	19.0	15.1	–	–
Total	31.0	24.7	26.7	21.2

The final dividend for the year was proposed after the year end date and was not recognised as a liability at 31 December 2021, in accordance with IAS 10.

12. INTANGIBLE ASSETS

	Goodwill £m	Brands £m	Customer Lists £m	Capitalised Development Costs £m	Contracts, licences and other assets £m	Total £m
Cost						
At 1 January 2020	169.2	30.2	56.4	15.5	17.1	288.4
Exchange adjustments	0.1	(0.2)	–	(0.3)	(0.3)	(0.7)
Transfers from property, plant and equipment	–	–	–	1.0	0.4	1.4
Acquisitions	(0.2)	–	–	–	–	(0.2)
Additions	–	–	–	1.5	0.3	1.8
At 31 December 2020	169.1	30.0	56.4	17.7	17.5	290.7
Exchange adjustments	(1.7)	(0.2)	(0.2)	–	–	(2.1)
Acquisition of subsidiary	5.5	0.7	3.0	–	1.6	10.8
Additions	–	–	–	1.2	0.2	1.4
Disposal of subsidiary	(1.9)	(0.3)	(3.9)	–	(1.8)	(7.9)
At 31 December 2021	**171.0**	**30.2**	**55.3**	**18.9**	**17.5**	**292.9**
Amortisation and impairment losses						
At 1 January 2020	16.9	13.1	26.7	11.7	7.2	75.6
Exchange adjustments	0.6	–	0.1	(0.2)	(0.2)	0.3
Transfer from property, plant and equipment	–	–	–	–	0.2	0.2
Amortisation charge for the year	–	1.0	3.5	1.2	1.8	7.5
Impairment losses	17.8	0.1	–	0.7	–	18.6
At 31 December 2020	35.3	14.2	30.3	13.4	9.0	102.2
Exchange adjustments	(1.7)	(0.2)	(0.3)	(0.1)	–	(2.3)
Disposal of subsidiary	(1.9)	(0.3)	(3.9)	–	(1.8)	(7.9)
Amortisation charge for the year	–	1.0	3.4	1.1	2.0	7.5
Impairment losses	12.4	0.3	3.3	–	–	16.0
At 31 December 2021	**44.1**	**15.0**	**32.8**	**14.4**	**9.2**	**115.5**
Carrying values						
At 1 January 2020	152.3	17.1	29.7	3.8	9.9	212.8
At 31 December 2020	133.8	15.8	26.1	4.3	8.5	188.5
At 31 December 2021	**126.9**	**15.2**	**22.5**	**4.5**	**8.3**	**177.4**

12. INTANGIBLE ASSETS CONTINUED

2021

Prolectric Services Limited

On 1 March 2021 the Group acquired 100% of the share capital of Prolectric Services Limited ("Prolectric") and its dormant subsidiaries for an initial consideration of £12.0m. Further consideration of up to £5.7m is payable depending on Prolectric's achievement of financial performance targets in the 12-month period to 31 March 2022. Prolectric, located in Clevedon, North Somerset, is a UK market leader in off-grid solar energy solutions, aligning closely with the Group's purpose of creating sustainable infrastructure and providing new technology that the Group can leverage in its existing markets. Details of the acquisition are set out below:

	Pre-acquisition carrying amount £m	Policy alignment and fair value adjustments £m	Total £m
Intangible Assets			
Brands	–	0.7	0.7
Customer lists	–	3.0	3.0
Contracts, licences and other assets	0.1	1.5	1.6
Property, plant and equipment	2.6	(1.5)	1.1
Right-of-use assets	–	2.4	2.4
Inventories	0.4	–	0.4
Current assets	1.9	–	1.9
Cash	0.2	–	0.2
Total assets	**5.2**	**6.1**	**11.3**
Lease Liabilities	–	(1.8)	(1.8)
Current liabilities	(1.0)	–	(1.0)
Current interest bearing liabilities	(1.2)	1.2	–
Deferred tax	(0.1)	(1.0)	(1.1)
Total liabilities	**(2.3)**	**(1.6)**	**(3.9)**
Net assets	**2.9**	**4.5**	**7.4**
Consideration			
Consideration in the year			12.0
Fair value of contingent consideration due within one year			0.9
Goodwill			**5.5**
Cash flow effect			
Consideration in the year			12.0
Cash acquired within the business			(0.2)
Net cash consideration shown in the Consolidated Statement of Cash Flows			**11.8**

Brands, customer lists, contracts, licences and other assets have been recognised as specific intangible assets as a result of the acquisition. The residual goodwill arising, which has been allocated to the Roads & Security segment, primarily represents the highly skilled workforce, future technological advantages and potential for geographical expansion afforded to the Group. Policy alignment and fair value adjustments have been made to align the accounting policies of the acquired business with the Group's accounting policies and to reflect the fair value of assets and liabilities acquired. In respect of leases, the Group measured the acquired lease liabilities using the present value of the remaining lease payments at the date of acquisition. The right-of-use assets were measured at an amount equal to the lease liabilities and adjusted to reflect the terms of the leases relative to market terms. The fair value of the current assets acquired includes £1.3m of trade receivables, which have a gross value of £1.3m.

As part of the acquisition agreement, contingent consideration has been agreed. The amount of contingent consideration is dependent on Prolectric's adjusted operating profit for the 12-month period to 31 March 2022. Below the 'trigger' (as defined in the Share Purchase Agreement), no additional consideration is due. If the 'trigger' is achieved, additional consideration of £2.2m becomes payable. Above this level, there are several targets between which the additional consideration increases linearly. Should Prolectric achieve the 'cap' (as defined in the Share Purchase Agreement), a maximum additional consideration of £5.7m will become payable. As at the acquisition date, the fair value of the contingent consideration was estimated to be £0.9m, calculated on a probability-weighted basis. As explained in note 5, despite a positive contribution from Prolectric since acquisition, the Group has reassessed the fair value of the contingent consideration at 31 December 2021 and determined it to be £nil, resulting in a non-underlying credit to the Consolidated Income Statement of £0.9m.

Post-acquisition the acquired business has contributed £7.0m revenue and £1.4m operating profit, which are included in the Group's Consolidated Income Statement. If the acquisition had been made on 1 January 2021, the Group's results for the year would have shown revenue of £706.2m, underlying operating profit of £86.3m and reported operating profit of £57.3m.

12. INTANGIBLE ASSETS CONTINUED

2020
Morgan Valley

On 28 September 2020 the Group acquired the trade and assets of Morgan Valley Manufacturing, Inc. and Morgan Valley Metals, LLC ("Morgan Valley"). Based in Utah, US, the acquisition has enabled the inhouse fabrication of crash attenuators and supports the US roads growth strategy. Details of the acquisition are set out below:

	Pre-acquisition carrying amount £m	Policy alignment and fair value adjustments £m	Total £m
Property, plant and equipment	0.4	0.4	0.8
Inventories	0.2	–	0.2
Current assets	0.2	–	0.2
Total assets	**0.8**	**0.4**	**1.2**
Current liabilities	(0.3)	0.1	(0.2)
Total liabilities	**(0.3)**	**0.1**	**(0.2)**
Net assets	**0.5**	**0.5**	**1.0**
Consideration			
Consideration in the year			1.0
Goodwill			–
Cash flow effect			
Consideration			1.0
Deferred consideration			(0.1)
Net cash consideration shown in the Consolidated Statement of Cash Flows			**0.9**

The acquired business contributed £0.9m revenue and £0.2m underlying operating profit in 2020 post acquisition, which were included in the Group's Consolidated Income Statement. If the acquisition had been made on 1 January 2020, the Group's results for 2020 would have shown revenue of £661.8m and underlying operating profit of £70.0m.

Cash generating units with significant amounts of goodwill

	2021 £m	2020 £m
Utilities		
US Composites	**15.7**	15.6
V&S Utilities	**5.3**	5.3
Others <£5m individually	**5.0**	5.0
Roads & Security		
ATG Access	**4.7**	15.5
H&S Inc.	**8.6**	8.5
VRS Solutions Group	**10.4**	10.4
Mallatite	**5.7**	5.7
Prolectric	**5.5**	–
Parking Facilities	**–**	1.6
Others <£5m individually	**4.2**	4.1
Galvanizing Services		
France Galva SA	**11.8**	12.3
USA	**25.2**	25.0
UK	**24.8**	24.8
	126.9	133.8

Goodwill impairment reviews have been carried out on all CGUs to which goodwill is allocated.

12. INTANGIBLE ASSETS CONTINUED

Methodology and assumptions

Impairment tests on the carrying values of goodwill and certain brand names of £7.5m (2020: £7.5m), which are the Group's only other indefinite life intangible assets, are performed by analysing the carrying value allocated to each significant CGU against its value in use. All goodwill is allocated to specific CGUs, which are in all cases no larger than operating segments. Value in use is calculated for each CGU as the net present value of that unit's discounted future cash flows. These cash flows are based on budget cash flow information for a period of one year and strategic plans for 2023 through 2025, both of which are prepared taking into account a range of factors including past experience, the forecast future trading environment and macroeconomic conditions in the Group's key markets. The cash flows beyond the strategic plan period use growth rates which reflect the long-term historical growth in GDP of the economies in which each CGU is located, excluding 2020 and 2021 given the sharp economic movements in those years due to COVID. The long-term growth rates vary between 1.6% and 2.5%.

Summary of results of goodwill impairment reviews

The calculated headroom between value in use and carrying value of each of the Group's CGUs with significant amounts of goodwill, together with the pre-tax discount rates applied, are set out below. The pre-tax discount rates are derived from a market participant's cost of capital and risk adjusted for individual CGUs' circumstances.

	2021			2020		
	Goodwill £m	**Headroom/ (impairment) £m**	**Discount rate**	Goodwill £m	Headroom/ (impairment) £m	Discount rate*
US Composites	**15.7**	**106.7**	**13.1%**	15.6	78.2	13.2%
V&S Utilities	**5.3**	**70.1**	**14.0%**	5.3	61.8	13.3%
VRS Solutions Group	**10.4**	**104.4**	**13.0%**	10.4	155.6	11.8%
ATG Access	**15.5**	**(10.8)**	**13.0%**	15.5	4.4	11.7%
Mallatite	**5.7**	**27.1**	**13.0%**	5.7	26.1	11.8%
Parking Facilities	**1.6**	**(5.2)**	**13.0%**	1.6	12.8	11.8%
H&S Inc.	**8.6**	**21.3**	**14.1%**	8.5	35.4	13.4%
France Galva SA	**11.8**	**12.5**	**12.4%**	29.8	(17.5)	12.7%
Galvanizing Services – USA	**25.2**	**207.6**	**14.0%**	25.0	203.9	13.3%
Galvanizing Services – UK	**24.8**	**84.3**	**13.0%**	24.8	41.6	11.9%

* The value in use for each CGU is determined using post-tax cash flows and applying a post-tax discount rate. The tax cash flows are then removed from this calculation and, by iteration, an equivalent pre-tax discount rate is derived for disclosure purposes. The 31 December 2020 pre-tax discount rate disclosure has been restated due to an error in the iteration process used to derive it. There is no impact on the previously reported value in use, impairment charges, headroom amounts or any other disclosures in the financial statements.

Based on the methodology set out above, as explained in note 5, the impairment reviews for ATG Access and Parking Facilities concluded that the carrying values of the businesses exceeded their recoverable amounts and accordingly impairment charges of £10.8m in respect of ATG Access and £5.2m in respect of Parking Facilities Limited have been recognised.

ATG operates in niche security markets, manufacturing and distributing hostile vehicle mitigation and related products that protect both public and private developments such as transport hubs, commercial buildings and infrastructure sites from the threat of attack. The COVID pandemic has had two significant impacts on ATG's markets: firstly, the restrictions on public gatherings across the world and secondly, a constraint on customer budgets resulting in them de-prioritising significant security projects. Following a challenging trading period in 2020, results in 2021 remained well below previous expectations leading the Board to reassess the business's future prospects. This reassessment concluded that the pace of ATG's recovery is likely to be slower than had previously been anticipated, mainly due to an expectation of prolonged inactivity in several of its key sectors and also reflecting increased competition in the market. Consequently, the impairment review concluded that ATG's expected future cash flows were not sufficient to support its carrying value, resulting in an impairment of the acquisition goodwill.

Parking Facilities manufactures and sells a range of perimeter access security products, predominantly to specialist security installers in the UK. Similar to ATG, the COVID pandemic resulted in a weak trading period in 2020 as several customer contracts were cancelled or postponed. Whilst the business has seen a marginal improvement in revenue and profitability in 2021, ongoing constraints on customer budgets continue to weigh on demand. The Board's reassessment of the future outlook for Parking Facilities, which also took into account the impact on gross margins of recent changes in the competitive landscape, concluded that there was a limited prospect of the business returning to the levels of profitability anticipated at the time of its acquisition and therefore that the expected future cash flows were not sufficient to support the carrying value. The resulting impairment charge of £5.2m comprises £1.6m in respect of goodwill, £3.3m in respect of acquired customer lists and £0.3m in respect of acquired brand names.

12. INTANGIBLE ASSETS CONTINUED

Sensitivities

The Group has applied sensitivities to assess whether any reasonable possible changes in assumptions could cause an impairment of the goodwill in any CGU that would be material to these Consolidated Financial Statements. The sensitivity analyses did not identify any potential impairment for any CGU, with the exception of France Galva, ATG Access and Parking Facilities.

France Galva SA

The pace of recovery in galvanizing volumes, long term cash flow growth rates and the discount rate are the key assumptions on which the goodwill impairment review is most sensitive. The Group's sensitivity analyses modelled several scenarios for the pace of galvanizing volume recovery between 2022 and 2026, reflecting the relatively wide range of recovery outcomes that are possible given the ongoing economic uncertainties, together with variations in the rate of future cash flow growth and possible discount rates. The following table provides information on impairment charges that may arise in those scenarios, for each of the key assumptions (independently in each case):

Input	Scenario	Sensitivity applied %	Sensitised headroom/ (impairment) £m
	Base case	2.7%	12.5
Increase/(decrease) in 2026 galvanizing volumes compared with 2019	Zero headroom	(4.4%)	–
	H&S Sensitivity	(7.3%)	(5.5)
	Base case	1.6%	12.5
Annual cash flow growth/(decline) 2026 onwards	Zero headroom	(0.6%)	–
	H&S Sensitivity	(2.0%)	(5.5)
Pre-tax discount rate	Base case	12.4%	12.5
	Zero headroom	14.9%	–
	H&S Sensitivity	16.3%	(5.5)

ATG Access

ATG's future performance is largely dependent on the pace of post-pandemic recovery in UK and global security products markets, which itself is inherently dependent on public and customer behaviour. It is plausible that the pace of recovery could be more gradual than that assumed in the impairment tests that have been carried out, in which case a further material impairment could arise. Revenue growth, gross margins, long-term cash flow growth and the discount rate are the key assumptions on which the goodwill impairment review is most sensitive. The following table provides information on the impact on calculated headroom of various scenarios for each of those key assumptions (independently in each case):

Input	Scenario	Sensitivity applied %	Additional impairment charge £m
	Base case	4.7%	–
Compound annual revenue growth 2021-2026	H&S sensitivity 1*	2.0%	(4.7)
	H&S sensitivity 2*	0.0%	(8.4)
	Base case	27.3%	–
Gross profit margin	H&S sensitivity 1**	24.2%	(3.1)
	H&S sensitivity 2**	21.1%	(7.4)
Annual cash flow growth 2026 onwards	Base case	2.0%	–
	H&S sensitised	0.0%	(1.4)
Pre-tax discount rate	Base case	13.0%	–
	H&S sensitised	16.0%	(2.3)

* Illustrates the impacts of compound revenue growth at 2% (consistent with long-term UK growth rates) and 0% (i.e., revenues do not grow from 2021).

** The base case assumes a gradual increase in gross profit margin from 21.1% through to 27.3% in 2026. H&S Sensitivity 2 assumes no growth in gross profit margin from 2021. H&S Sensitivity 1 shows the mid-point between the two.

12. INTANGIBLE ASSETS CONTINUED

Parking Facilities

Similar to ATG, Parking Facilities' future performance is dependent on the pace of post-pandemic recovery in the UK security market, as well as the evolution of other competitive pressures that exist in the market. Revenue growth, gross margins, long-term cash flow growth and the discount rate are the key assumptions on which the goodwill impairment review is most sensitive. The following table provides information on the impact on calculated headroom of various scenarios for each of those key assumptions (independently in each case):

Input	Scenario	Sensitivity applied %	Additional impairment charge £m
	Base case	3.1%	–
Compound annual revenue growth 2021-2026	H&S sensitivity 1*	2.0%	(1.8)
	H&S sensitivity 2*	0.0%	(4.3)
	Base case	29.9%	–
Gross profit margin	H&S sensitivity 1**	27.9%	(2.2)
	H&S sensitivity 2**	25.9%	(5.4)
Annual cash flow growth 2026 onwards	Base case	2.0%	–
	Zero headroom	0.0%	(1.3)
Pre-tax discount rate	Base case	13.0%	–
	H&S sensitised	16.0%	(1.9)

* Illustrates the impacts of compound revenue growth at 2% (consistent with long-term UK growth rates) and 0% (i.e., revenues do not grow from 2021).

** The base case assumes a gross profit margin of 29.9% every year from 2022 through 2026. The sensitivity scenarios show a 200-basis point and 400-basis point reduction in gross profit margin in the period 2022 through 2026.

13. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings £m	Plant, machinery and vehicles £m	Total £m
Cost			
At 1 January 2020	121.2	226.4	347.6
Exchange adjustments	(0.2)	0.9	0.7
Acquisitions (note 12)	0.8	–	0.8
Additions	7.9	9.8	17.7
Transfers to intangible fixed assets	–	(1.4)	(1.4)
Transfers from inventories	0.2	3.4	3.6
Disposals	(2.4)	(9.4)	(11.8)
At 31 December 2020	127.5	229.7	357.2
Exchange adjustments	(1.6)	(2.7)	(4.3)
Acquisition of subsidiary (note 12)	–	1.1	1.1
Additions	6.6	29.1	35.7
Disposal of subsidiary (note 5)	(1.7)	(1.1)	(2.8)
Transfers from inventories	–	1.6	1.6
Disposals	(1.2)	(13.3)	(14.5)
Transfers to assets held for sale (note 14)	–	(6.6)	(6.6)
At 31 December 2021	**129.6**	**237.8**	**367.4**
Depreciation and impairment losses			
At 1 January 2020	37.2	120.4	157.6
Exchange adjustments	0.5	0.5	1.0
Disposals	–	(7.2)	(7.2)
Transfers to intangible fixed assets	–	(0.2)	(0.2)
Charge for the year	5.6	16.3	21.9
Impairment charge	0.4	0.1	0.5
At 31 December 2020	43.7	129.9	173.6
Exchange adjustments	(1.1)	(1.7)	(2.8)
Disposal of subsidiary (note 5)	(0.3)	(0.8)	(1.1)
Disposals	(1.0)	(10.9)	(11.9)
Transfers to assets held for sale (note 14)	–	(4.6)	(4.6)
Charge for the year	4.9	16.0	20.9
At 31 December 2021	**46.2**	**127.9**	**174.1**
Carrying values			
At 1 January 2020	84.0	106.0	190.0
At 31 December 2020	83.8	99.8	183.6
At 31 December 2021	**83.4**	**109.9**	**193.3**

The gross book value of land and buildings includes freehold land of £17.0m (2020: £20.4m). Included within plant, machinery and vehicles are assets held for rental with a cost of £98.9m (2020: £83.7m) and accumulated depreciation of £46.7m (2020: £39.9m).

The gross book value of plant, machinery and vehicles includes assets under construction of £15.3m (2020: £1.1m).

14. ASSETS AND LIABILITIES HELD FOR SALE

	2021 £m	2020 £m
Plant, machinery and vehicles	2.0	–
Right-of-use assets	1.6	–
Total Assets held for sale	**3.6**	–
Lease liabilities	(1.7)	–
Other liabilities	(0.2)	–
Total Net Assets held for sale	**1.7**	–

Following a strategic review, in Q4 2021 the Group took the decision to seek a buyer for the rental division of ATA Hill & Smith AB, the Group's Swedish roads business. At 31 December 2021 the Group had committed to a sale, actively marketed the business and entered into negotiations with interested parties. Those negotiations have continued in early 2022 and the Group expects to conclude the sale in the first half of 2022. In accordance with IFRS 5, the assets and liabilities of the business have been recognised as a disposal group held for sale at 31 December 2021 and reported separately in the Consolidated Statement of Financial Position. Cumulative exchange differences relating to these assets and liabilities have accumulated in equity and amount to £0.3m at 31 December 2021.

15. LEASES

The leases held by the Group can be split into two categories: land and buildings, and plant and equipment. The Group leases various properties for its manufacturing and distribution activities. Plant and equipment includes all other leases, such as vehicles and machinery.

The movements in the carrying value of the right-of-use assets and lease liabilities in the years ended 31 December 2020 and 31 December 2021 were as follows:

Right-of-use assets	Land and buildings £m	Plant and equipment £m	Total £m
At 1 January 2020	24.1	13.8	37.9
Additions	0.1	3.3	3.4
Terminations	(0.4)	(0.3)	(0.7)
Charge for the year	(4.7)	(5.7)	(10.4)
Impairment	(0.4)	–	(0.4)
Re-measurement	0.5	0.1	0.6
Effect of movements in foreign exchange	0.3	0.2	0.5
At 31 December 2020	19.5	11.4	30.9
Acquisition of subsidiary	0.6	1.8	2.4
Additions	12.7	4.1	16.8
Disposal of subsidiary	–	(0.1)	(0.1)
Terminations	(0.3)	(0.2)	(0.5)
Charge for the year	(5.2)	(5.1)	(10.3)
Re-measurement	0.9	–	0.9
Transfers to assets held for sale (note 14)	–	(1.6)	(1.6)
Effect of movements in foreign exchange	(0.2)	(0.1)	(0.3)
At 31 December 2021	**28.0**	**10.2**	**38.2**

15. LEASES CONTINUED

Lease liabilities	2021 £m	2020 £m
At 1 January	**32.4**	40.0
Additions	**16.7**	3.4
Terminations	**(0.6)**	(0.8)
Interest expense	**0.8**	0.8
Disposal of subsidiary	**(0.1)**	–
Acquisition of subsidiary	**1.8**	–
Lease payments	**(11.1)**	(11.9)
Re-measurement	**0.9**	0.6
Transfers to liabilities held for sale (note 14)	**(1.7)**	–
Effect of movements in foreign exchange	**(0.2)**	0.3
At 31 December	**38.9**	32.4

The following table shows the breakdown of the lease expense between amounts charged to operating profit and amounts charged to finance costs:

	2021 £m	2020 £m
Depreciation of right-of-use assets	**10.3**	10.4
Short-term lease expense	**0.4**	0.4
Low-value lease expense	**0.1**	–
Sublease income	**(0.6)**	(1.1)
Charged to operating profit	**10.2**	9.7
Interest expense relating to lease liabilities	**0.8**	0.8
Charged to profit before taxation	**11.0**	10.5

The maturity of the lease liabilities at 31 December was as follows:

	2021 £m	2020 £m
Due within one year	**8.8**	8.6
Due between one and two years	**7.2**	7.3
Due between two and three years	**5.0**	5.8
Due between three and four years	**3.9**	3.7
Due between four and five years	**2.9**	2.3
Due after more than five years	**11.1**	4.7
Total lease liabilities	**38.9**	32.4

15. LEASES CONTINUED

The Group has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the leased asset portfolio and align with the Group's business needs. Management exercise judgement in determining whether these extension and termination options are reasonably certain to be exercised.

Set out below are the:

- Undiscounted potential future rental payments relating to periods following the exercise date of extension that are not included in the lease term; and
- Undiscounted future rental payments relating to periods that are included in the lease term as the break clauses are not expected to be exercised.

	2021			2020		
	Within five years £m	More than five years £m	Total £m	Within five years £m	More than five years £m	Total £m
Extension options expected not to be exercised	0.1	6.5	6.6	3.2	5.8	9.0
Termination options expected not to be exercised	3.0	4.3	7.3	2.8	2.5	5.3

The Group has lease contracts that have not yet commenced as at 31 December 2021. The total future lease payments for these non-cancellable lease contracts are £2.6m (2020: £5.6m).

16. DEFERRED TAXATION

	Intangible assets £m	Property, plant and equipment £m	Inventories £m	Retirement obligation £m	Other timing differences £m	Total £m
At 1 January 2020	(9.8)	(6.2)	0.4	3.8	4.1	(7.7)
Exchange adjustments	0.1	0.2	–	0.1	–	0.4
Adjustment to prior year acquisitions	–	–	–	–	0.1	0.1
Credited/(charged) for the year in the Consolidated Income Statement (note 9)	0.2	(1.9)	0.2	(0.6)	0.9	(1.2)
Credited for the year in the Consolidated Statement of Comprehensive Income (note 9)	–	–	–	0.8	–	0.8
At 31 December 2020	**(9.5)**	**(7.9)**	**0.6**	**4.1**	**5.1**	**(7.6)**
Exchange adjustments	**–**	**–**	**–**	**(0.1)**	**(0.1)**	**(0.2)**
Acquisition of subsidiary (note 12)	**(1.0)**	**(0.3)**	**–**	**–**	**0.2**	**(1.1)**
Credit/(charge) for the year in the Consolidated Income Statement (note 9)	**(0.5)**	**(1.8)**	**(0.6)**	**(0.9)**	**0.5**	**(3.3)**
Credit for the year in the Consolidated Statement of Changes in Equity (note 9)	**–**	**–**	**–**	**–**	**0.8**	**0.8**
At 31 December 2021	**(11.0)**	**(10.0)**	**–**	**3.1**	**6.5**	**(11.4)**

	2021 £m	2020 £m
Deferred tax assets	**1.4**	1.4
Deferred tax liabilities	**(12.8)**	(9.0)
Deferred tax liability	**(11.4)**	(7.6)

The deferred tax asset of £6.5m (2020: £5.1m) in respect of other timing differences includes £0.9m (2020: £0.9m) in relation to tax losses and £2.4m (2020: £1.0m) in relation to share based payments.

No deferred tax asset has been recognised in respect of other tax losses of £16.9m net (2020: £13.1m net) as their future use is uncertain. There is no time limit on the carrying forward of the losses. The losses are predominantly capital losses.

No deferred tax liability is recognised on temporary differences of £1.2m (2020: £1.1m) relating to the unremitted earnings of overseas subsidiaries as the Group is able to control the timings of the reversal of these temporary differences and it is probable that they will not reverse in the foreseeable future. The Group does not expect this to crystallise into a cash expense in the near future.

The UK headline corporation tax rate for the year was 19.0% (2020: 19.0%). In the Spring Budget of 2021, the UK Government announced that from 1 April 2023 the rate of UK corporation tax will increase from 19% to 25%. This new law was substantively enacted on 24 May 2021. Therefore, UK deferred tax assets and liabilities have been calculated at a rate of 25% (2020: 19%).

17. INVENTORIES

	2021 £m	2020 £m
Raw materials and consumables	**64.3**	52.6
Work in progress	**10.7**	8.8
Finished goods and goods for resale	**33.1**	34.9
	108.1	96.3

The amount of inventories expensed to the Consolidated Income Statement in the year was £388.8m (2020: £364.1m). The value of inventories written down and expensed in the Consolidated Income Statement during the year amounted to £0.4m (2020: £0.2m). The amount of inventories held at fair value less cost to sell included in the above was £nil (2020: £1.8m).

18. TRADE AND OTHER RECEIVABLES

	2021 £m	2020 £m
Trade and other current receivables		
Trade receivables	**112.3**	106.8
Prepayments	**7.3**	6.5
Other receivables	**1.2**	1.1
Fair value derivatives	**0.2**	–
Contract assets	**9.2**	8.3
	130.2	122.7

The movements in contract assets, and deferred income (note 20), during the year correspond to the completion of performance obligations partially satisfied as at 31 December 2020 offset by contracts that are in progress at 31 December 2021.

19. CASH AND BORROWINGS

	2021 £m	2020 £m
Cash and cash equivalents in the Consolidated Statement of Financial Position		
Cash and cash equivalents	18.8	22.0
Bank overdraft (note 20)	(0.7)	(8.1)
Cash and cash equivalents net of bank overdraft	18.1	13.9
Interest bearing loans and other borrowings		
Amounts due within one year (note 20)	(1.2)	(0.5)
Amounts due after more than one year (note 21)	(121.0)	(127.2)
Lease liabilities classified as liabilities held for sale (note 14)	(1.7)	–
Lease liabilities due within one year (note 15)	(8.8)	(8.6)
Lease liabilities due after more than one year (note 15)	(30.1)	(23.8)
Net debt	(144.7)	(146.2)
Change in net debt		
Operating profit	57.0	42.8
Non-cash items	55.8	58.1
Operating cash flow before movement in working capital	112.8	100.9
Net movement in working capital	(6.8)	18.2
Changes in provisions and employee benefits	(2.9)	(0.8)
Operating cash flow	103.1	118.3
Tax paid	(15.2)	(16.5)
Net financing costs paid	(4.1)	(5.4)
Capital expenditure	(35.9)	(20.4)
Proceeds on disposal of non-current assets	3.7	6.5
Free cash flow	51.6	82.5
Dividends paid (note 11)	(21.2)	(8.4)
Acquisition of subsidiary (note 12)	(13.6)	(0.9)
Disposal of subsidiary (note 5)	1.6	–
Amortisation of costs associated with refinancing activities (note 7)	(0.8)	(0.8)
Purchase of shares for employee benefit trust	(1.8)	–
Issue of new shares (note 24)	2.6	1.0
New leases and lease remeasurements (note 15)	(17.1)	(3.2)
Interest on lease liabilities (note 15)	(0.8)	(0.8)
Net debt decrease	0.5	69.4
Effect of exchange rate fluctuations	1.0	(0.3)
Net debt at the beginning of the year	(146.2)	(215.3)
Net debt at the end of the year	(144.7)	(146.2)

19. CASH AND BORROWINGS CONTINUED

Reconciliation of movements in financial liabilities to cash flows arising from financing activities

	2021 £m	2020 £m
Interest bearing loans and other borrowings and lease liabilities		
At 1 January	**160.1**	241.3
New loans and borrowings	**55.3**	–
Repayments of loans and borrowings	**(61.0)**	(74.4)
Payment of lease liabilities	**(10.3)**	(11.1)
Cash flows used in financing activities	**(16.0)**	(85.5)
Other changes		
Effect of exchange rate fluctuations	**(0.8)**	0.1
Financial expenses relating to financing	**0.8**	0.8
Lease changes:		
Effect of exchange rate fluctuations	**(0.2)**	0.3
New leases	**16.7**	3.4
Terminations	**(0.6)**	(0.9)
Revaluations	**0.9**	0.6
Acquisition of subsidiary	**1.8**	–
Disposal of subsidiary	**(0.1)**	–
Interest expense	**0.8**	0.8
Interest paid	**(0.8)**	(0.8)
At 31 December	**162.6**	160.1

20. CURRENT LIABILITIES

	2021 £m	2020 £m
Interest bearing loans and borrowings		
Loans and borrowings	**1.2**	0.5
Bank overdrafts	**0.7**	8.1
	1.9	8.6
Trade and other current liabilities		
Trade payables	**79.3**	62.7
Other taxation and social expenses	**9.5**	14.0
Accrued expenses	**35.5**	30.2
Deferred income	**4.7**	6.1
Fair value derivatives	**–**	0.1
Other payables	**3.7**	3.6
	132.7	116.7

The amount of contract liabilities included in deferred income as at 31 December 2021 was £4.7m (2020: £6.1m). During the year, £6.1m (2020: £2.6m) of revenue was recognised in respect of contract liabilities present as at 1 January 2021.

21. NON-CURRENT LIABILITIES

	2021 £m	2020 £m
Interest bearing loans and borrowings		
Loans and borrowings	**121.0**	127.2
	121.0	127.2
Other non-current liabilities		
Deferred consideration on acquisitions	**0.2**	0.3
Deferred government grants	**1.0**	0.9
Accrued expenses	**0.3**	0.2
	1.5	1.4

22. PROVISIONS

	Environmental £m	Restructuring £m	Other £m	Total £m
At 1 January 2020	2.1	0.8	0.4	3.3
Charged during the year	–	0.8	2.6	3.4
Utilised during the year	–	(0.9)	–	(0.9)
At 31 December 2020	**2.1**	**0.7**	**3.0**	**5.8**
Exchange adjustments	**(0.1)**	**–**	**–**	**(0.1)**
Charged during the year	**–**	**4.5**	**0.4**	**4.9**
Utilised during the year	**–**	**(1.5)**	**(2.6)**	**(4.1)**
Released during the year	**–**	**(0.1)**	**–**	**(0.1)**
At 31 December 2021	**2.0**	**3.6**	**0.8**	**6.4**

	2021 £m	2020 £m
Amounts due within one year	**4.0**	3.3
Amounts due after more than one year and less than five years	**2.4**	2.5
	6.4	5.8

Environmental provisions

Environmental provisions recognise the estimated cost of remediating contaminated land at a number of the Group's operating sites, where it is considered probable that the Group will be obliged to carry out the necessary remediation work. Primarily the issues identified relate to sites acquired through acquisitions of businesses. As a consequence of the nature of the liabilities, the timescales are uncertain and the provisions represent the Directors' best estimate of the associated costs. The Group has sought expert external valuations where appropriate.

Restructuring provisions

Restructuring provisions represent the cash costs of closing or rationalising operations. The provisions represent the Directors' best estimate of the liabilities arising and are expected to be settled within the next twelve months. The charge of £4.5m in 2021 relates to the closure of the Group's variable message sign business.

Other provisions

Other provisions relate to various obligations including obligations in respect of onerous leases, property dilapidations and claims or disputes. The provision utilised in the year of £2.6m relates to the contractual dilapidation obligations on two leased properties which were settled during the year.

23. FINANCIAL INSTRUMENTS

(a) Management of financial risks

Overview

The Group has exposure to a number of risks associated with its use of financial instruments.

This note presents information about the Group's exposure to each of these risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these Consolidated Financial Statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. A programme of commercial, operating, financial and third party reviews is in place to assist the Group Audit Committee with its assessment of the effectiveness of risk management and internal control procedures.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises from cash and cash equivalents, derivative financial instruments and principally from the Group's receivables from customers. The maximum exposure to credit risk for receivables and other financial assets is represented by their carrying amount.

It is the Group's policy to insure a substantial part of the Group's trade receivables. Any residual risk is spread across a significant number of customers. As such the impairment losses are not significant. Purchase limits are established for each customer and are reviewed regularly. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis. The Group's UK companies represent the most significant geographical trade receivable at 31 December 2021 with 49% (2020: 44%) and currently the only significant geographical region that does not generally insure trade receivables is the USA, which represents 30% (2020: 29%) of the Group's trade receivables. Subsidiaries in the USA have a policy of taking out trade references before granting credit limits and selectively insuring where it is deemed appropriate by management.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

It is the Group's policy to minimise its liquidity risk in terms of limiting the amounts of loans and borrowings maturing within the next 12 months. As at 31 December 2021 all such debt was covered by cash and cash equivalents netting to £16.9m positive current liquidity (2020: £13.4m).

The Group's principal UK revolving credit facility is a multicurrency agreement with a value at 31 December 2021 of £273.9m (2020: £275.4m), based on year end exchange rates. Along with various other on demand lines of credit, including bank overdrafts, the Group has access to bank borrowing facilities of £287.3m at 31 December 2021 (2020: £289.2m).

In addition, in 2019 the Group signed an agreement with an institutional investor for a private placement of $70m new senior unsecured notes ("Senior Unsecured Notes"). The issue consisted of two equal tranches with maturities in June 2026 and June 2029 respectively.

At 31 December 2021, the Group's total committed borrowing facilities were £327.6m (2020: £328.3m) and the amount undrawn at this date was £202.4m (2020: £190.8m).

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and commodity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. The Group buys and sells derivatives in the ordinary course of business, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Board. Refer to note 23(f) for further details.

Counterparty risk

A group of relationship banks provides the bulk of the banking services, with pre-approved credit limits set for each institution. Financial derivatives are entered into with these core banks and the underlying credit exposure to these instruments is included when considering the credit exposure to the counterparties. At the end of 2021 credit exposure including cash deposited did not exceed £6.2m with any single institution (2020: £5.7m).

Currency risk

The Group publishes its Consolidated Financial Statements in Sterling, but conducts business in several foreign currencies, including significant operations based in Continental Europe and the US. This results in foreign currency exchange risk due to exchange rate movements which will affect the Group's transaction costs and the translation of the results and net assets of its foreign operations.

The trading currency of each operation is predominantly in the same denomination. However, the Group uses forward exchange contracts to minimise currency risk. The Group does not apply hedge accounting to these derivative financial instruments.

The Group has hedged its investment in its US and European operations by way of financing the acquisitions through like denominations of its multi-currency banking facility and the Senior Unsecured Notes. The Group's investments in other subsidiaries are not hedged because fluctuations on translation of their assets into Sterling are not significant to the Group.

23. FINANCIAL INSTRUMENTS CONTINUED

Interest rate risk

The Group's policy is to enter into interest rate swaps in order to fix interest rates on up to 40% of its outstanding gross borrowings. At 31 December 2021 the proportion of gross borrowings subject to fixed interest rate swaps was 0% (2020: 0%). At the current time, the Group has determined that there is no significant benefit of entering into such contracts. In addition, the Group currently feels that using fixed interest rates for short-term day-to-day trading is not appropriate.

The Senior Unsecured Notes account for 42% (2020: 38%) of the Group's outstanding gross borrowings at 31 December 2021 and attract a fixed rate of interest averaging 3.92% (2020: 3.92%) per annum.

Insurance

The Group purchases insurance for commercial, legal and contractual reasons. The Group retains insurable risk where external insurance is not commercially viable.

Capital management

The Group maintains a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board monitors both the demographic spread of shareholders, as well as the return, which the Group defines as total shareholders' equity and the level of dividends to ordinary shareholders.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

There are financial covenants associated with the Group's borrowings, which are interest cover and EBITDA to net debt. The Group comfortably complied with these covenants in 2021 and 2020, as set out in the Operational & Financial Review on pages 22 to 31.

There were no significant changes in the Group's approach to capital management during the year.

(b) Total financial assets and liabilities

The table below sets out the Group's accounting classification of its financial assets and liabilities and their fair values as at 31 December. The fair values of all financial assets and liabilities are not materially different to the carrying values.

	Designated at fair value £m	Amortised cost £m	Total carrying value £m	Fair value £m
Cash and cash equivalents net of bank overdraft	**–**	**18.1**	**18.1**	**18.1**
Loans and other borrowings due within one year	**–**	**(1.2)**	**(1.2)**	**(1.2)**
Loans and borrowings due after more than one year	**–**	**(121.0)**	**(121.0)**	**(121.0)**
Lease liabilities classified as held for sale	**–**	**(1.7)**	**(1.7)**	**(1.7)**
Lease liabilities due within one year	**–**	**(8.8)**	**(8.8)**	**(8.8)**
Lease liabilities due after more than one year	**–**	**(30.1)**	**(30.1)**	**(30.1)**
Derivative assets	**0.2**	**–**	**0.2**	**0.2**
Other assets	**–**	**113.5**	**113.5**	**113.5**
Other liabilities	**–**	**(118.6)**	**(118.6)**	**(118.6)**
Total at 31 December 2021	**0.2**	**(149.8)**	**(149.6)**	**(149.6)**
Cash and cash equivalents net of bank overdraft	–	13.9	13.9	13.9
Loans and other borrowings due within one year	–	(0.5)	(0.5)	(0.5)
Loans and borrowings due after more than one year	–	(127.2)	(127.2)	(127.2)
Lease liabilities due within one year	–	(8.6)	(8.6)	(8.6)
Lease liabilities due after more than one year	–	(23.8)	(23.8)	(23.8)
Derivative liabilities	(0.1)	–	(0.1)	(0.1)
Other assets	–	107.9	107.9	107.9
Other liabilities	–	(96.5)	(96.5)	(96.5)
Total at 31 December 2020	(0.1)	(134.8)	(134.9)	(134.9)

23. FINANCIAL INSTRUMENTS CONTINUED

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either as a direct price or indirectly derived from prices.
- Level 3: inputs for the asset or liability that are not based on observable market data.

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Derivative financial assets	**–**	**0.2**	**–**	**–**
Total at 31 December 2021	**–**	**0.2**	**–**	**–**
Derivative financial liabilities	–	(0.1)	–	–
Total at 31 December 2020	–	(0.1)	–	–

At 31 December 2021 the Group did not have any assets or liabilities classified at Level 1 or Level 3 in the fair value hierarchy (2020: nil). There have been no transfers in any direction in the year.

The Group's financial assets, excluding short term receivables, consist mainly of cash and call deposit accounts.

Where cash surpluses arise in the short term, interest is earned based on a floating rate related to bank base rate or SONIA/SOFR/EURIBOR. Where the Group's funding requirements allow longer term investment of surplus cash, management will review available options to obtain the best possible return whilst maintaining an appropriate degree of access to the funds.

The Group's financial liabilities, excluding short term creditors, are set out below. Fixed rate financial liabilities comprise US Dollar denominated Senior Unsecured Notes. Floating rate financial liabilities comprise Sterling, Euro and US Dollar bank loans and overdrafts, and lease liabilities. The floating rate bank loans and overdrafts bear interest at rates related to bank base rates or SONIA/SOFR/EURIBOR. The floating rates of the lease liabilities are determined using the Group's incremental borrowing rate, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Each subsidiary has financial assets and liabilities which are predominantly in the same denomination as that subsidiary's functional currency. The financial assets and liabilities not denominated in the functional currency of these entities are insignificant to the Group.

Certain UK subsidiaries hold Euro £9.7m (2020: £16.2m) and US Dollar £51.9m (2020: £51.5m) denominated interest bearing loans, which are predominantly used to fund the Group's European and United States operations and include £61.6m (2020: £67.7m) designated as a hedge of the net investment in a foreign operation. The foreign currency loss/gain of £nil (2020: £nil) for the effective portion was recognised in the Consolidated Statement of Comprehensive Income netted against exchange differences on translation of foreign operations. Any ineffective portion recognised in the Consolidated Income Statement is insignificant.

Fixed rate financial liabilities

	Weighted average interest rate %	Weighted average period for which rate is fixed Years
US Dollar at 31 December 2021	**3.9**	**6.0**
US Dollar at 31 December 2020	3.9	7.0

23. FINANCIAL INSTRUMENTS CONTINUED

(c) Maturity profile

The table below sets out the contractual cash flows associated with the Group's financial liabilities, including estimated interest payments, analysed by maturity:

	Effective interest rate	Carrying amounts £m	Contractual cash flows £m	Due within one year £m	Due between one and two years £m	Due between two and five years £m	Due after more than five years £m
Secured loans and borrowings	**Floating**	**1.8**	**(1.8)**	**(1.1)**	**(0.5)**	**(0.2)**	**–**
Unsecured loans and borrowings	**Floating**	**69.5**	**(73.6)**	**(1.7)**	**(71.9)**	**–**	**–**
Senior Unsecured Notes	**3.9%**	**51.6**	**(64.0)**	**(2.0)**	**(2.0)**	**(31.5)**	**(28.5)**
Lease liabilities	**Floating**	**38.9**	**(38.9)**	**(8.8)**	**(7.2)**	**(11.8)**	**(11.1)**
Lease liabilities classified as held for sale	**Floating**	**1.7**	**(1.7)**	**(0.6)**	**(0.6)**	**(0.5)**	**–**
Other liabilities	**n/a**	**123.7**	**(125.0)**	**(124.5)**	**(0.5)**	**–**	**–**
Total at 31 December 2021		**287.2**	**(305.0)**	**(138.7)**	**(82.7)**	**(44.0)**	**(39.6)**
Secured loans and borrowings	Floating	1.4	(1.4)	(0.4)	(0.4)	(0.6)	–
Unsecured loans and borrowings	Floating	83.2	(89.3)	(9.2)	(1.1)	(79.0)	–
Senior Unsecured Notes	3.9%	51.2	(67.7)	(2.0)	(2.0)	(6.1)	(57.6)
Lease liabilities	Floating	32.4	(35.6)	(9.2)	(7.8)	(12.5)	(6.1)
Other liabilities	n/a	103.1	(103.1)	(102.6)	(0.5)	–	–
Derivative liabilities	n/a	0.1	(0.1)	(0.1)	–	–	–
Total at 31 December 2020		271.4	(297.2)	(123.5)	(11.8)	(98.2)	(63.7)

The unsecured bank borrowings bear interest based on SONIA/SOFR/EURIBOR, plus a margin (as defined in the facilities agreement) which varies depending on the Group's ratio of net debt to EBITDA. The secured loans and borrowings are held by subsidiaries in the USA and bear interest at varying rates linked to underlying US bond markets.

The Group had the following undrawn committed facilities at 31 December, in respect of which all conditions precedent had been met:

	2021 £m	2020 £m
Undrawn committed borrowing facilities	**202.4**	190.8

(d) Fair values

The fair value of forward currency exchange contracts realised in the Consolidated Income Statement as part of fair value derivatives amounted to nil (2020: £0.1m). The fair values of the Group's other financial instruments at 31 December 2021 and 2020 were not materially different to their carrying value. Fair values were calculated using market rates where available, otherwise cash flows were discounted at prevailing rates.

Impairment charges of £16.0m (2020: £19.5m) were recognised in respect of the carrying values of non-current assets as detailed in note 12.

(e) Credit risk

Exposure to credit risk

The exposure to credit risk is substantially mitigated by the credit insurance employed by the Group. In the absence of this insurance the maximum credit exposure on the carrying value of financial assets at the reporting date was:

Carrying amount

	2021 £m	2020 £m
Trade and other receivables and contract assets at amortised cost	**122.7**	116.2
Cash and cash equivalents at the end of the year	**18.8**	22.0
Total	**141.5**	138.2

23. FINANCIAL INSTRUMENTS CONTINUED

Carrying value of trade receivables by geography

	2021 £m	2020 £m
UK	**54.7**	46.5
Rest of Europe	**19.8**	20.0
North America	**34.1**	31.5
Rest of the world	**3.7**	8.8
Total	**112.3**	106.8

Carrying value of trade receivables by business segment

	2021 £m	2020 £m
Roads & Security	**47.6**	45.8
Utilities	**32.6**	31.6
Galvanizing Services	**32.1**	29.4
Total	**112.3**	106.8

Impairment losses

The Group maintains a level of credit insurance covering a significant part of its trade receivables which mitigates against possible impairment losses. An impairment assessment is performed at each reporting date to assess whether there has been a significant increase in the credit risk. Expected credit loss rates are calculated individually for each business within the Group and are based on historical observed default rates, adjusted for forward-looking information. Whilst there has been some economic recovery in 2021, uncertainty remains in the economy following the COVID global pandemic. As such, the Group believes the risk of an increased number of defaults still exists. Accordingly, default loss rates incorporate forward-looking information based on available macroeconomic information. The assessment of the correlation between forecast economic conditions and expected future credit losses is an estimate but is not determined to be a significant estimate as the Group does not expect future credit losses to be materially different to the credit losses estimated at the reporting date. The charge to the Consolidated Income Statement in the year in respect of the expected loss of trade receivables was £0.7m (2020: £2.2m). The Group does not require collateral in respect of trade and other receivables. The Group does not have trade receivables or contract assets for which no loss allowance is recognised because of collateral.

The ageing of trade receivables at the reporting date was:

	2021			2020		
	Gross £m	Provisions £m	Net £m	£m	Provisions £m	Net £m
Not past due	**74.9**	**(0.2)**	**74.7**	71.4	(0.8)	70.6
Past due 1–30 days	**25.6**	**(0.1)**	**25.5**	23.7	(0.2)	23.5
Past due 31–120 days	**9.9**	**(0.3)**	**9.6**	9.2	(0.2)	9.0
Past due more than 120 days	**6.1**	**(3.6)**	**2.5**	8.8	(5.1)	3.7
Total	**116.5**	**(4.2)**	**112.3**	113.1	(6.3)	106.8

The movements in provisions for impairment of trade receivables are as follows:

	£m
At 1 January 2020	5.2
Charged in the year	2.2
Utilised during the year	(1.1)
At 31 December 2020	**6.3**
Disposal of subsidiary	**(0.1)**
Charged in the year	**0.1**
Utilised during the year	**(2.1)**
At 31 December 2021	**4.2**

23. FINANCIAL INSTRUMENTS CONTINUED

(f) Market Risk – Sensitivity analysis

In managing interest rate and currency risks the Group aims to reduce the impact of short term fluctuations on the Group's earnings. Over the longer term, however, permanent changes in foreign exchange and interest rates may have an impact on consolidated earnings. At the end of the reporting periods, the effects of hypothetical changes in interest and currency rates are as follows:

- Based on average month end net debt balances, if interest rates had varied throughout the year by 1% the positive or negative variation on the year's result would have been £1.9m, which would directly impact on the Consolidated Income Statement.
- Based on a 10% weakening in Sterling against all currencies throughout the year, the impact on the Consolidated Income Statement would have been a gain of £4.8m and the impact on equity would have been an increase of £24.9m.
- Based on a 10% strengthening in Sterling against all currencies throughout the year, the impact on the Consolidated Income Statement would have been a loss of £3.9m and the impact on equity would have been a decrease of £21.5m.

24. CALLED UP SHARE CAPITAL

	2021 £m	2020 £m
Allotted, called up and fully paid		
79.8m ordinary shares of 25p each (2020: 79.5m)	20.0	19.9

In 2021 the Company issued 0.3m shares under its various share option schemes (2020: 0.1m), realising £2.6m (2020: £1.0m).

Each ordinary share carries equal voting rights and there are no restrictions on any share.

Options outstanding over the Company's shares

The Group operates a number of employee share schemes categorised as follows:

- Save As You Earn ("SAYE") schemes – SAYE is a tax qualifying monthly savings scheme facilitating the purchase of shares at a discount as permitted by the applicable legislation (currently up to a maximum discount of 20%). SAYE options may be exercised in the event of a change of control to the extent permitted by the rules of the scheme. Such schemes are typically issued annually, are either three or five years and are offered to employees in the UK;
- Long Term Incentive Plans ("LTIP") and Executive Share Option Schemes ("ESOS") – The Remuneration Committee may, at its discretion, structure awards as approved awards comprising a tax qualifying option granted under both the ESOS and LTIP awards. LTIP awards are at nil cost and ESOS is a costed option; and
- Buy-out awards – On joining the Company as CEO Designate in September 2020, Paul Simmons forfeited his 2018 and 2019 long term incentive awards at his previous employer. The Company compensated Mr Simmons for these awards by granting two awards over Hill & Smith shares, to ensure the ultimate reward is aligned with shareholders' experience. The awards are at nil cost. Further details are provided in the Directors' Remuneration Report on pages 96 to 104. Similar awards may be made to other employees appointed to senior management positions.

The number of options outstanding by scheme are as follows:

	2021		2020	
	Number of shares	Option price range (p)	Number of shares	Option price range (p)
SAYE schemes †	714,243	891p to 1,485p	844,616	560p to 1,021p
LTIP awards	499,741	–	232,267	–
ESOS awards ^	389,489	316p to 1,113p	639,443	316p to 1,113p
Buy-out awards	45,955	–	40,921	–
Outstanding at the end of the year	1,649,428		1,757,247	
Exercisable at the year end	451,715		71,443	
Not exercisable at the year end	1,197,713		1,685,804	
Outstanding at the end of the year	1,649,428		1,757,247	

† Options may be exercised early under the terms of this scheme if employees meet the criteria of 'good leaver', which encompasses circumstances such as retirement or redundancy, otherwise, awards will vest if the participants continue to be in employment at the vesting date.

^ Vesting of awards under the LTIP and ESOS schemes is subject to various financial performance criteria.

The remaining weighted average life of the outstanding share options is 3 years 0 months (2020: 4 years 2 months).

24. CALLED UP SHARE CAPITAL CONTINUED

The movement and weighted average exercise prices of share options during the year are as follows:

	Weighted average exercise price (p) 2021	Millions of options 2021	Weighted average exercise price (p) 2020	Millions of options 2020
Outstanding at the beginning of the year	810	1.8	842	1.7
Granted during the year	471	0.4	520	0.4
Exercised during the year	(843)	(0.3)	(723)	(0.1)
Lapsed during the year	(907)	(0.2)	(509)	(0.2)
Outstanding at the end of the year	696	1.7	810	1.8

The weighted average share price on the dates of exercise of share options during the year was 1,597p (2020: 1,417p), and the weighted average fair value of options and awards granted in the year was 1167p (2020: 541p). The weighted average exercise price of outstanding options exercisable at the year end was 566p (2020: 612p).

Share-based payments

The fair value of services received in return for share options granted is measured by reference to the fair value of the share options granted. The estimate of the fair value of the services received is measured based on the Black–Scholes model where vesting is based on non-market conditions, or a Monte Carlo Simulation where vesting is based on market conditions. The contractual life is the life of the option in question and the growth in dividend yield is based on the best current estimate of future yields over the contractual period.

The expected volatility is wholly based on the historical volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information.

Share options have been granted to qualifying employees in line with either HM Revenue & Customs approved or unapproved schemes. Other than the LTIP and Buy-out awards, the strike price for the option is made based on the market values of shares at the date the option is offered.

As explained in the Directors Remuneration Report on page 99, bonuses awarded to the Executive Directors include an element awarded in shares, deferred for a period of two years. The Group has determined the fair value of such awards to be equal to their cash equivalent. The resulting charge is included in the expense arising from share-based payments in the year to which the awards relate.

The key assumptions for the grants in the current and prior year were as follows:

	2021			2020		
	SAYE	LTIP	Buy-out awards	SAYE	LTIP	Buy-out awards
Expected share price volatility (%)	26%/16%	32%	0%	17%/15%	33%	0%
Dividend yield (%)	1.55%	0.0%	0.0%	2.8%	0.0%	0.0%
Option life (years)	3/5	3	0.8	3/5	3	0.8/1.8
Risk free interest rate (%)	0.5%/0.1%	0.2%	0%	-0.1%/0.0%	-0.1%	0%

The total expense recognised for the period arising from share-based payments is as follows:

	2021 £m	2020 £m
Equity-settled	2.5	0.8
Cash-settled	0.3	–
Total expensed during the year	2.8	0.8

The carrying amount of the liability in relation to cash-settled share based payments at the end of the year was £0.7m (2020: £0.7m).

25. GUARANTEES AND OTHER FINANCIAL COMMITMENTS

(a) Guarantees

Subsidiary audit exemptions

Hill & Smith Holdings Plc has issued guarantees over the liabilities of the following non-trading UK subsidiaries as at 31 December 2021 under Section 479C of the Companies Act 2006.These entities are exempt from the requirements of the Act relating to the audit of individual accounts by virtue of Section 479A of the Act:

Company Name	Company Number
Bergen Pipe Supports Limited	00926644
Hill & Smith (International) Limited	11331411
Hill & Smith (Americas) 2 Limited	10783462
Hill & Smith (Americas) 3 Limited	12060645
Hardstaff Barriers Limited	02791285
Cobaco Holdings Limited	08317210

The Group had no financial guarantee contracts outstanding as at 31 December 2020.

(b) Capital commitments

	2021 £m	2020 £m
Contracted for but not provided in the accounts	3.0	3.6

(c) Operating lease receivables

The total future minimum commitments receivable under non-cancellable operating leases are analysed as follows:

	2021		2020	
	Land and Buildings £m	Other £m	Land and Buildings £m	Other £m
Group				
Within one year	0.1	4.6	0.2	5.2
Between one and five years	–	1.1	–	0.7
After five years	–	–	0.1	–
	0.1	5.7	0.3	5.9

26. PENSIONS

Total

The total Group retirement benefit assets and obligations are detailed below:

	UK £m	Overseas £m	2021 £m	UK £m	Overseas £m	2020 £m
Total fair value of scheme assets	61.8	3.4	65.2	62.0	3.2	65.2
Present value of scheme funded obligations	(69.5)	(7.8)	(77.3)	(76.0)	(8.6)	(84.6)
Present value of scheme unfunded obligations	–	(0.2)	(0.2)	–	(0.2)	(0.2)
Retirement benefit obligation	(7.7)	(4.6)	(12.3)	(14.0)	(5.6)	(19.6)

26. PENSIONS CONTINUED

United Kingdom

The Group operates one main pension scheme in the UK, the Hill & Smith 2016 Pension Scheme ('the Scheme'), providing benefits on a defined benefit and defined contribution basis. The Scheme is closed to future accrual and is subject to the statutory scheme specific funding requirements outlined in UK legislation. The average duration of the defined benefit plan obligation at the end of the reporting period is approximately 15 years (2020: 15 years).

The assets of the Scheme are administered by Trustees and are kept entirely separate from those of the Group. Full independent actuarial valuations are carried out every three years. Contribution rates are determined on the basis of advice from an independent professionally qualified actuary, with the objective of providing the funds required to meet pension obligations as they fall due.

The last full actuarial valuation was carried out as at 5 April 2019. The results of this valuation have been incorporated in the updated IAS 19 position at 31 December 2021 by a qualified actuary. All actuarial gains and losses are recognised immediately in the Consolidated Statement of Comprehensive Income.

There are also separate personal pension plans.

The Consolidated Income Statement for the year includes a pension charge within operating profit of £3.1m (2020: £3.6m), which includes the costs of the defined contribution and the defined benefit sections of the Scheme.

The Scheme exposes the Group to a number of risks, the most significant being:

Risk	Description
Volatile asset returns	The defined benefit obligation is calculated using a discount rate set with reference to high quality corporate bond yields. If assets underperform against this discount rate, this will create a plan deficit. The Scheme holds a proportion of its assets in growth assets which are expected to outperform corporate bonds in the long term. However, returns are likely to be volatile in the short term, potentially resulting in short term cash requirements and an increase in the defined benefit obligation recorded in the Consolidated Statement of Financial Position. The allocation to growth assets is monitored to ensure it remains appropriate given the Scheme's long term objectives.
Changes in bond yields	A decrease in corporate bond yields will increase the funding and accounting liabilities, although this will be partially offset by an increase in the value of the Scheme's investments in Liability Driven Investment and bond funds.
Inflation risk	A significant proportion of the defined benefit obligation is indexed in line with price inflation, with higher inflation leading to higher liabilities. This risk will be partially offset by the Scheme's Liability Driven Investments, which will increase in value in line with market inflation expectations.
Life expectancy	The majority of the Scheme's obligations are to provide a pension for the life of each of the members, so increases in life expectancy will result in an increase in the liabilities.

The principal assumptions used by the actuary

	2021	2020
Rate of increase in salaries	**n/a**	n/a
Rate of increase in pensions payment	**3.3%**	2.9%
Discount rate	**1.8%**	1.2%
Inflation – RPI	**3.5%**	3.0%
Inflation – CPI	**2.7%**	2.2%
Mortality table	**114%117%**	114%117%
	CMI 2020	CMI 2019
	(1.25%)	(1.25%)

The mortality assumptions imply the following expected future lifetimes from age 65:

	2021	2020
Males currently aged 45	**22.4 years**	22.5 years
Females currently aged 45	**24.8 years**	24.8 years
Males currently aged 65	**21.1 years**	21.2 years
Females currently aged 65	**23.3 years**	23.3 years

The assumptions have been chosen by the Directors from a range of possible actuarial assumptions which, due to the timescales covered, may not be borne out in practice. The Group takes advice from an independent actuary regarding the appropriateness of the assumptions used.

26. PENSIONS CONTINUED

Assets and liabilities

The Scheme holds assets and liabilities in respect of defined contribution benefits which are equal in value and are excluded from the following figures. The fair values of Scheme assets in respect of the defined benefit scheme, which are not intended to be realised in the short term and may be subject to significant change before they are realised are detailed below. In addition, the value of the Scheme liabilities, which is derived from cash flow projections over an average period of approximately 15 years (the weighted average duration of the Scheme) and which is therefore inherently uncertain is also set out below.

	Market value 2021 £m	Market value 2020 £m
Assets		
Equities	7.3	6.8
Bonds	25.8	26.9
With profits policies	0.9	0.9
Liability Driven Investment ("LDI") funds	16.6	22.2
Cash	5.2	5.2
Alternatives*	6.0	–
Total fair value of Scheme assets	61.8	62.0
Present value of Scheme funded obligations	(69.5)	(76.0)
Retirement benefit obligation	(7.7)	(14.0)

* Alternatives are investments in asset classes other than traditional equities, bonds, property and cash. They include investments in private equity, private credit, hedge funds, infrastructure, and renewable energy investments.

In 2017 the Group and the Trustees undertook an investment review of the Scheme. The intention of the revised strategy for the Scheme is to reduce a proportion of interest rate and inflation risk by investing a portion of the Scheme's assets in Liability Driven Investment funds. This strategy resulted in an initial shift between bonds and LDI funds in the asset categories in 2017. This strategy was reassessed as part of the April 2019 triennial valuation exercise, which resulted in a further shift from growth assets to bonds in 2020, reducing the level of risk in the Scheme's asset strategy. The Scheme's LDI investment is structured as investment in a number of unit-linked funds of short and long-dated nominal and index-linked government bonds, some of which are leveraged, held with the Scheme's investment manager. This is designed to reflect the size and shape of the Scheme's interest rate and inflation exposure.

Assets in the bonds and equities categories, which account for approximately 54% (2020: 54%) of total Scheme assets, have quoted market prices in active markets.

Total expense recognised in the Consolidated Income Statement

	2021			2020		
	Defined contribution schemes £m	Defined benefit schemes £m	Total £m	Defined contribution schemes £m	Defined benefit schemes £m	Total £m
Current service costs	2.1	–	2.1	2.3	–	2.3
Past service cost	–	–	–	–	0.4	0.4
Expenses	0.5	0.5	1.0	0.6	0.3	0.9
Charge to operating profit	2.6	0.5	3.1	2.9	0.7	3.6
Interest on net Scheme deficit	–	0.2	0.2	–	0.3	0.3
Total charged to profit before tax	2.6	0.7	3.3	2.9	1.0	3.9

26. PENSIONS CONTINUED

Change in the present value of the defined benefit obligations

	2021 £m	2020 £m
Opening defined benefit obligations	**76.0**	72.5
Past service cost	**–**	0.4
Interest cost	**0.9**	1.4
Actuarial (gain)/loss arising from:		
Financial assumptions	**(3.3)**	7.6
Demographic assumptions	**(0.1)**	(2.3)
Benefits paid	**(4.0)**	(3.6)
Closing defined benefit obligations	**69.5**	76.0

Changes in fair values of Scheme assets

	2021 £m	2020 £m
Opening fair value of assets	**62.0**	57.7
Interest income	**0.7**	1.1
Return on plan assets excluding interest income	**(0.5)**	3.2
Employer contributions	**3.6**	3.6
Benefits paid	**(4.0)**	(3.6)
Closing fair value of assets	**61.8**	62.0
Actual return on Scheme assets	**0.2**	4.3
Expected employer contributions in the following year		
Defined benefit scheme	**4.1**	3.9
Defined contribution schemes	**2.0**	1.7

Amounts recognised in the Consolidated Statement of Comprehensive Income

	% of Scheme assets/ liabilities %	2021 £m	% of Scheme assets/ liabilities %	2020 £m
Return on plan assets excluding interest income	**(1)**	**(0.5)**	5	3.2
Changes in assumptions underlying the present value of Scheme obligations	**5**	**3.4**	(7)	(5.3)
Amount recognised in the year	**4**	**2.9**	(3)	(2.1)

The table below shows the sensitivity of the Consolidated Statement of Financial Position to certain changes in the significant pension assumptions:

	Balance at 31 December 2021	Increase in pensions payment (+0.1% p.a.) £m	Discount rate (-0.1% p.a.) £m	Inflation rate (+0.1% p.a.) £m	Life expectancy (+1 year) £m
Value of funded obligations	**(69.5)**	(70.0)	(70.5)	(70.0)	(72.3)
Fair value of plan assets	**61.8**	61.8	61.8	61.8	61.8
Deficit	**(7.7)**	(8.2)	(8.7)	(8.2)	(10.5)

The sensitivity analyses above have been determined based on a method that extrapolates the impact on the defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the year. The sensitivity analyses are based on a change in a significant assumption, keeping all other assumptions constant. As such the sensitivity analyses may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation from one another.

The Group remains actively engaged in dialogue with the Scheme's Trustees with regard to management, funding and investment strategy. A formal actuarial valuation of the Scheme as at April 2019 was finalised in 2020, alongside an update to the investment strategy, resulting in the Group agreeing a deficit recovery plan with the Trustees that requires cash contributions of £3.7m per annum until September 2027. The next triennial valuation will be as at April 2022.

26. PENSIONS CONTINUED

The Group has considered the requirements of IFRIC 14. The terms of the Scheme give the Group the right to recover any surplus assets in the Scheme upon wind up and therefore management have concluded that there is no impact on the amounts recognised in respect of retirement benefit obligations.

Overseas

The Group operates two overseas pension schemes in France and the USA.

In France, France Galva SA provides certain long term benefits and operates post employment defined benefit plans which provide lump sum benefits at retirement in accordance with collective bargaining agreements. Some of those plans are funded with insurance companies. The average duration of the defined benefit plan obligation at the end of the reporting period is approximately 19 years (2020: 19 years) for the funded scheme and 9 years (2020: 9 years) for the unfunded scheme.

In the USA, Bergen Pipe Supports, Inc. operates a defined benefit pension plan comprising current and deferred pensioners such that no future benefits accrue. The average duration of the defined benefit plan obligation at the end of the reporting period is approximately 10 years (2020: 10 years).

The Group also operates defined contribution plans in a number of other overseas operations. The amount contributed to these plans during the year was £1.0m (2020: £1.0m).

The Consolidated Income Statement for the year includes a pension charge within operating profit of £1.2m (2020: £1.4m), which includes the costs of the defined contribution schemes and the defined benefit schemes.

Actuarial valuations of the above schemes were carried out by independent actuaries as at 31 December 2021. All actuarial gains and losses are recognised immediately in the Consolidated Statement of Comprehensive Income.

The principal assumptions used by the actuaries

	2021		2020	
	USA	**France**	USA	France
Rate of increase in salaries	**0.00%**	**2.50%**	0.00%	2.50%
Discount rate	**2.75%**	**0.98%/0.5%**	2.40%	0.45%/0.45%
Inflation	**0.00%**	**2.00%**	0.00%	2.00%
Mortality table	**2014 SOA**	**TH00–02, TF00–02**	2014 SOA	TH00–02, TF00–02

Assets and liabilities

The fair values of scheme assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the value of the scheme liabilities, which is derived from cash flow projections over long periods and which is therefore inherently uncertain, are as follows:

	Market Value 2021 £m	Market Value 2020 £m
Assets		
Cash and other insured fixed interest assets	**3.4**	3.2
Total fair value of scheme assets	**3.4**	3.2
Present value of scheme funded obligations	**(7.8)**	(8.6)
Present value of scheme unfunded obligations	**(0.2)**	(0.2)
Retirement benefit obligation	**(4.6)**	(5.6)

Cash and other insured fixed interest assets – where assets are held in cash or a policy with a fixed interest asset allocation, the expected long term rate of return is taken to be the yields generally prevailing on such assets as at the year end date.

Total expense recognised in the Consolidated Income Statement

	2021			2020		
	Defined contribution schemes £m	**Defined benefit schemes £m**	**Total £m**	£m	Defined benefit schemes £m	Total £m
Current service cost	**1.0**	**0.2**	**1.2**	1.0	0.4	1.4
Charge to operating profit	**1.0**	**0.2**	**1.2**	1.0	0.4	1.4
Interest on net pension scheme deficit	**–**	**–**	**–**	–	–	–
Total charged to profit before tax	**1.0**	**0.2**	**1.2**	1.0	0.4	1.4

26. PENSIONS CONTINUED

Change in the present value of the defined benefit obligation

	2021 £m	2020 £m
Opening defined benefit obligation	8.8	8.2
Current service costs	0.2	0.3
Interest cost on scheme obligations	0.1	0.1
Actuarial (gains)/losses arising from:		
Financial assumptions	(0.4)	0.7
Demographic adjustments	(0.3)	(0.5)
Experience adjustment	0.1	0.4
Benefits paid	(0.2)	(0.5)
Exchange adjustments	(0.3)	0.1
Closing defined benefit obligation	8.0	8.8

Changes in fair values of scheme assets

	2021 £m	2020 £m
Opening fair value of assets	3.2	3.1
Return on plan assets excluding interest income	–	0.4
Interest on plan assets	0.1	0.1
Employer contributions	–	0.1
Admin expenses	(0.1)	(0.1)
Benefits paid	–	(0.2)
Exchange adjustments	0.2	(0.2)
Closing fair value of assets	3.4	3.2
Actual return on scheme assets	0.1	0.5
Expected employer contributions in the following year		
Defined benefit schemes	–	–
Defined contribution schemes	1.0	1.0

Amounts recognised in the Consolidated Statement of Comprehensive Income

	% of scheme assets/ liabilities %	2021 £m	% of scheme assets/ liabilities %	2020 £m
Experience loss on scheme obligations	(1)	(0.1)	(5)	(0.4)
Return on plan assets excluding interest income	–	–	13	0.4
Changes in assumptions underlying the present value of scheme obligations	9	0.6	(2)	(0.2)
Exchange rate adjustment on assets and liabilities	9	0.5	(5)	(0.3)
Amount recognised in the year	13	1.0	(6)	(0.5)

The Group considers that any reasonable sensitivities applied to the assumptions for the overseas schemes would not have a material impact on the Consolidated Financial Statements.

27. RELATED PARTY TRANSACTIONS

As explained in note 6, the key management personnel are considered to be the Board of Directors of Hill & Smith Holdings PLC and the members of the Executive Board who are not also Directors of Hill & Smith Holdings PLC. The Board of Directors' remuneration can be seen in the Directors' Remuneration Report on pages 94 to 104. The combined remuneration of key management personnel can be seen in note 6 to the financial statements on page 143.

COMPANY BALANCE SHEET

	Notes	2021 £m	2020 £m
Fixed assets			
Tangible assets	4	**0.1**	0.1
Right-of-use assets	5	**0.4**	0.4
Investments	6	**329.8**	329.8
		330.3	330.3
Current assets			
Debtors	7	**107.0**	89.6
Cash and cash equivalents		**0.1**	0.1
		107.1	89.7
Creditors: amounts falling due within one year			
Bank loans and overdrafts	8, 9	**(1.2)**	(8.5)
Lease liabilities	5	**(0.1)**	(0.1)
Other creditors	8	**(69.8)**	(55.5)
		(71.1)	(64.1)
Net current assets		**36.0**	25.6
Total assets less current liabilities		**366.3**	355.9
Creditors: amounts falling due after more than one year	9	**(36.9)**	(43.5)
Provisions: pension liabilities	11	**(0.2)**	(0.4)
Net assets		**329.2**	312.0
Share capital and reserves			
Called up share capital	12	**20.0**	19.9
Share premium		**40.9**	38.4
Capital redemption reserve		**0.2**	0.2
Retained earnings		**268.1**	253.5
Total equity		**329.2**	312.0

The Company has taken advantage of the exemption permitted by section 408 of the Companies Act 2006 not to publish its individual profit and loss account and related notes. The Company made a profit attributable to the equity shareholders of £34.6m in the year (2020: £34.6m).

Approved by the Board of Directors on 9 March 2022 and signed on its behalf by:

P Simmons
Director

H K Nichols
Director

Company Number: 671474

COMPANY STATEMENT OF CHANGES IN EQUITY

	Called up share capital £m	Share premium account £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
Balance at 1 January 2020	19.9	37.4	0.2	226.6	284.1
Comprehensive income					
Profit for the year	–	–	–	34.6	34.6
Other comprehensive expense for the year	–	–	–	(0.1)	(0.1)
Transactions with owners recognised directly in equity					
Dividends	–	–	–	(8.4)	(8.4)
Credit to equity of share-based payments	–	–	–	0.8	0.8
Issue of shares	–	1.0	–	–	1.0
At 31 December 2020	**19.9**	**38.4**	**0.2**	**253.5**	**312.0**
Comprehensive income					
Profit for the year	**–**	**–**	**–**	**34.6**	**34.6**
Other comprehensive income for the year	**–**	**–**	**–**	**0.1**	**0.1**
Transactions with owners recognised directly in equity					
Dividends	**–**	**–**	**–**	**(21.2)**	**(21.2)**
Credit to equity of share-based payments	**–**	**–**	**–**	**2.5**	**2.5**
Satisfaction of long term incentive and deferred bonus awards	**–**	**–**	**–**	**(1.8)**	**(1.8)**
Tax taken directly to the Statement of Changes in Equity	**–**	**–**	**–**	**0.4**	**0.4**
Issue of shares	**0.1**	**2.5**	**–**	**–**	**2.6**
At 31 December 2021	**20.0**	**40.9**	**0.2**	**268.1**	**329.2**

Details of share options and related share-based payments are contained in note 24 to the Group Financial Statements.

Transactions of the Group sponsored Employee Benefit Trust ('EBT') are included in the Company Financial Statements. In particular, the EBT's purchase of shares in the Company to satisfy shares awarded under Long Term Incentive Plans and other remuneration agreements is debited directly to equity.

Distributable reserves

The Company maintains a policy of recognising gains arising from intra-group transactions as distributable only once a formal legal opinion has been sought to confirm the position, after all steps required to execute a transaction have been duly completed. The legal opinions required under this policy will be sought no later than the point at which the reserves in question are required to be accessed for the purposes of distribution. In line with this policy the Company has available to it distributable reserves of not less than £88.1m (2020: £73.5m), representing 3.6 times (2020: 3.5 times) cover of the current year proposed dividend. When required the Company can receive dividends from its subsidiaries to further increase its distributable reserves; the Company's UK trading subsidiaries had reserves of approximately £44.2m available for distribution at 31 December 2021 (2020: £49.4m). Further reserves are available for distribution from trading subsidiaries located overseas, subject to local regulations.

1. COMPANY PRINCIPAL ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's Financial Statements, except as noted below.

Basis of preparation

These Financial Statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101').

In preparing these Financial Statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the UK ('Adopted IFRSs'), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account.

As the Consolidated Financial Statements include the equivalent disclosures, the Company has taken the available exemptions under FRS 101 in respect of the following disclosures:

- IFRS 2 Share Based Payments in respect of Group settled share based payments;
- A Cash Flow Statement and related notes;
- Disclosures in respect of transactions with wholly owned Group companies; and
- The effects of new but not yet effective IFRSs.

The Accounting Policies set out on pages 128 to 135 have, unless otherwise stated, been applied consistently to all periods presented in these Financial Statements.

Measurement convention

The Financial Statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial instruments classified as fair value through profit or loss or as fair value through other comprehensive income and liabilities for cash-settled share-based payments. Non-current assets and disposal groups held for sale are stated at the lower of previous carrying amount and fair value less costs to sell.

Accounting judgements, estimates and assumptions

The preparation of the Company's Financial Statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of income, expenses, assets and liabilities. Actual results may differ from these estimates.

Significant estimates are required in determining whether impairment of the Company's investments exists, which requires estimation of the investments' value in use. A process similar to the impairment review performed on the Group's goodwill and other indefinite life intangible assets is undertaken. Key assumptions include the estimation of future cash flows, growth factors and discount rates.

There are no significant judgements used by management in preparing the Company's Financial Statements.

Investments in subsidiary undertakings

In the Company's Financial Statements, investments in subsidiary undertakings are carried at cost less impairment.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are, where there is a right of offset, included as a component of cash and cash equivalents.

Foreign currencies

Transactions in foreign currencies are translated to the Company's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the profit and loss account.

Financial instruments

Trade and other debtors and amounts owed by subsidiary undertakings

Trade and other debtors and amounts owed by subsidiary undertakings are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other creditors and amounts owed to subsidiary undertakings

Trade and other creditors and amounts owed to subsidiary undertakings are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

1. COMPANY PRINCIPAL ACCOUNTING POLICIES CONTINUED

Provisions

A provision is recognised in the Balance Sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Land is not depreciated. The estimated useful lives are as follows:

Leasehold improvements	life of the lease
Plant, machinery and vehicles	4 to 20 years

Depreciation methods, useful lives and residual values are reviewed at each Balance Sheet date.

Leases

To the extent that a right-of-control exists over an asset subject to a lease and with a lease term exceeding one year, the Company recognises: a right-of-use asset, representing the underlying lease asset, and a lease liability, representing the Company's obligation to make lease payments. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, any initial direct costs incurred and an estimate of the dismantling, removal and restoration costs as required by the terms of the lease contract.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. If ownership of the leased asset transfers to the Company at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to impairment.

The lease liability is measured at the present value of the future lease payments discounted using the Company's incremental borrowing rate, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. Future lease payments include: fixed payments, variable lease payments that depend on an index or a rate (initially measured using the index or rate as at the commencement date), amounts expected to be payable under a residual guarantee and the exercise price of purchased options where it is reasonably certain that the option will be exercised. Finance charges, representing the unwinding of the discount rate, are recognised in the profit and loss account over the period of the lease.

Lease payments for low value assets and short term leases (less than 12 months) are recognised as an expense on a straight-line basis over the lease term.

Pension scheme arrangements

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair values of any plan assets (at bid price) are deducted. The Company determines the net interest on the net defined benefit liability/asset for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability/asset.

The discount rate is the yield at the reporting date on bonds that have a credit rating of at least AA that have maturity dates approximating to the terms of the Company's obligations and that are denominated in the currency in which the benefits are expected to be paid.

Remeasurements arising from defined benefit plans comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). The Company recognises them immediately in other comprehensive income and all other expenses related to defined benefit plans in employee benefit expenses in profit or loss.

Certain of the Company's employees are members of Group-wide defined benefit schemes. The net defined benefit cost of the plans is allocated to participating entities based on the contracting entity of the participating employees of the scheme. The contributions payable by the participating entities are determined on the same basis.

Share-based payments

Share-based payment arrangements in which the Company receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Company.

The grant date fair value of share-based payments awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the awards. The fair value of the awards granted is measured using an option valuation model, taking into account the terms and conditions upon which the awards were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

1. COMPANY PRINCIPAL ACCOUNTING POLICIES CONTINUED

Share-based payment transactions in which the Company receives goods or services by incurring a liability to transfer cash or other assets that is based on the price of the Company's equity instruments are accounted for as cash-settled share-based payments. The fair value of the amount payable to employees is recognised as an expense, with a corresponding increase in liabilities, over the period in which the employees become unconditionally entitled to payment. The liability is remeasured at each Balance Sheet date and at settlement date. Any changes in the fair value of the liability are recognised as personnel expense in profit or loss.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the Balance Sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the Balance Sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

Ordinary dividends

Dividends are recognised in the Financial Statements in the period in which they are approved by the Company's shareholders. Dividend income is recognised in the Profit and Loss Account on the date the Company's right to receive payment is established.

Financial guarantee contracts

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of subsidiary companies, the Company considers these to be insurance contracts and treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

2. PROFIT BEFORE TAXATION

Fees paid to Ernst & Young LLP and its associates for audit and non-audit services to the Company itself are not disclosed in the individual Financial Statements of Hill & Smith Holdings PLC because the Group Financial Statements are required to disclose such fees on a consolidated basis.

3. DIVIDENDS

Dividends paid during the year

	2021		2020	
	Pence per share	£m	Pence per share	£m
Interim dividend paid in relation to year-ended 31 December 2019*	–	–	10.6	8.4
Interim dividend paid in relation to year-ended 31 December 2020	9.2	7.3	–	–
Final dividend paid in relation to year-ended 31 December 2020	17.5	13.9	–	–
Total	**26.7**	**21.2**	10.6	8.4

*A final dividend for 2019 of 23.0p per share was proposed but was withdrawn and not paid.

Dividends declared in respect of the year

	2021		2020	
	Pence per share	£m	Pence per share	£m
Interim dividend declared in relation to year-ended 31 December 2020	–	–	9.2	7.3
Final dividend declared in relation to year-ended 31 December 2020	–	–	17.5	13.9
Interim dividend declared in relation to year-ended 31 December 2021	12.0	9.6	–	–
Final dividend proposed in relation to year-ended 31 December 2021	19.0	15.1	–	–
Total	**31.0**	**24.7**	26.7	21.2

The final dividend for the year was proposed after the year end date and was not recognised as a liability at 31 December 2021, in accordance with IAS 10.

4. TANGIBLE FIXED ASSETS

	Short leasehold properties £m	Plant, machinery and vehicles £m	Total £m
Cost or valuation			
At 1 January 2021	0.1	0.5	0.6
Additions	–	–	–
At 31 December 2021	**0.1**	**0.5**	**0.6**
Depreciation			
At 1 January 2021	0.1	0.4	0.5
Charge for the year	–	–	–
At 31 December 2021	**0.1**	**0.4**	**0.5**
Net book value			
At 31 December 2021	**–**	**0.1**	**0.1**
At 31 December 2020	–	0.1	0.1

5. LEASES

The movements in the carrying value of the right-of-use assets and lease liabilities in the year ended 31 December 2021 are as follows:

Right-of-use assets	Land and buildings £m	Total £m
Balance at 1 January 2021	0.4	0.4
Charge for the year	–	–
At 31 December 2021	**0.4**	**0.4**

Lease liabilities	Total £m
Balance at 1 January 2021	0.4
Lease payments in period	–
At 31 December 2021	**0.4**

The following table shows the breakdown of the lease expense between amounts charged to operating profit and amounts charged to finance costs:

	2021 £m	2020 £m
Depreciation of right-of-use assets	**0.1**	0.1
Charged to operating profit	**0.1**	0.1
Charged to profit before taxation	**0.1**	0.1

The maturities of the lease liabilities at 31 December were as follows:

	2021 £m	2020 £m
Due within one year	**0.1**	0.1
Due between one and two years	**0.1**	0.1
Due between two and five years	**0.2**	0.2
Total lease liabilities	**0.4**	0.4

6. FIXED ASSET INVESTMENTS

	Shares in subsidiary undertakings £m	Total £m
Cost		
At 1 January 2021 and at 31 December 2021	**379.6**	**379.6**
Provisions		
At 1 January 2021 and at 31 December 2021	**49.8**	**49.8**
Net book value		
At 31 December 2021	**329.8**	**329.8**
At 31 December 2020	329.8	329.8

A list of the businesses owned by the Company is given in note 15. All of the Company's subsidiaries are wholly owned.

7. DEBTORS

	2021 £m	2020 £m
Amounts owed by subsidiary undertakings (including £7.0m (2020: £7.0m) due after more than one year)	**99.9**	82.7
Corporation tax	**4.7**	5.9
Deferred tax (note 10)	**1.3**	0.3
Other debtors	**0.3**	0.4
Prepayments and accrued income	**0.8**	0.3
	107.0	89.6

8. CREDITORS AMOUNTS FALLING DUE WITHIN ONE YEAR

	2021 £m	2020 £m
Bank loans and overdrafts (note 9)		
Bank overdrafts	**1.2**	8.5
	1.2	8.5
Other creditors		
Trade creditors	**1.4**	2.2
Other taxation and social security	**0.2**	0.2
Accruals	**5.1**	3.7
Other creditors	**0.9**	1.3
Amounts owed to subsidiary undertakings	**62.2**	48.1
	69.8	55.5

9. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

The Company's interest bearing loans and borrowings are detailed below. Further information on the Company's exposure to interest rate and foreign currency risk is provided in note 23 of the Group Financial Statements.

	2021 £m	2020 £m
Bank loans	36.6	43.2
Lease liabilities	0.3	0.3
	36.9	43.5

The Company's bank loans and borrowings are also analysed below into the periods in which they mature:

Bank loans and overdraft	2021 £m	2020 £m
Amounts due within one year (note 8)	1.2	8.5
Amounts due after more than one year:		
Between one and two years	36.6	–
Between two and five years	–	43.2
	36.6	43.2
	37.8	51.7

10. DEFERRED TAX

	2021 £m	2020 £m
Deferred tax asset – At 1 January	0.3	0.2
Credit for the year in the profit and loss account	0.6	0.1
Credit for the year directly in equity	0.4	–
Deferred tax asset – At 31 December	1.3	0.3
Other timing differences	1.3	0.3

11. PENSION LIABILITIES

The Company contributes to the Group's Hill & Smith 2016 Pension Scheme, which has sections providing benefits accruing in the future on a defined benefit basis and on a defined contribution basis. Details of the Scheme and the most recent actuarial valuations are contained in note 26 to the Group Financial Statements. There are also separate personal pension plans.

The Company's profit for the year includes a pension charge of £0.3m (2020: £0.4m), which includes the costs of the defined contribution schemes and the defined benefit schemes.

12. CALLED UP SHARE CAPITAL

	2021 £m	2020 £m
Allotted, called up and fully paid		
79.8m Ordinary Shares of 25p each (2020: 79.5m)	20.0	19.9

In 2021 the Company issued 0.3m shares under its various share option schemes (2020: 0.1m), realising £2.6m (2020: £1.0m). Details of share options and related share-based payments are contained in note 24 to the Group Financial Statements.

Each ordinary share carries equal voting rights and there are no restrictions on any share.

13. GUARANTEES

Subsidiary audit exemptions

Hill & Smith Holdings Plc has issued guarantees over the liabilities of the following non-trading UK subsidiaries as at 31 December 2021 under Section 479C of the Companies Act 2006. These entities are exempt from the requirements of the Act relating to the audit of individual accounts by virtue of Section 479A of the Act:

Company Name	Company Number
Bergen Pipe Supports Limited	00926644
Hill & Smith (International) Limited	11331411
Hill & Smith (Americas) 2 Limited	10783462
Hill & Smith (Americas) 3 Limited	12060645
Hardstaff Barriers Limited	02791285
Cobaco Holdings Limited	08317210

These guarantees did not exist as at 31 December 2020.

The Company guarantees the bank loans, overdrafts and other borrowings of certain subsidiary undertakings. The amount outstanding at 31 December 2021 was £108.2m (2020: £81.9m).

14. RELATED PARTY TRANSACTIONS

The Company has related party relationships with its key management personnel and with its subsidiaries (either directly or indirectly controlled).

The related party transactions with key management personnel are considered by the Company to be the same as those of the Group and are set out in note 6 to the Group Financial Statements.

The Company has taken the available exemption under FRS 101 not to disclose transactions with wholly owned Group companies.

15. SUBSIDIARIES

Incorporated in the UK

AAJG Holdings Limited (H)

Access Design & Engineering Limited (D)

Ash & Lacy Limited (H)*

Ash & Lacy Manufacturing Limited (H)

Ash & Lacy Services Limited (H)

Asset International Limited (D)

ATG Access Ltd (R)

A W Thorne Limited (D)*

Barkers Engineering Limited (R, G)

Bergen Pipe Supports Group Limited (H)*

Bergen Pipe Supports Limited (H)

Berry Safety Systems Limited (D)*

Bipel Group plc (D)

Birtley Group Limited (U, G)

Bowater Doors Limited (D)

Bromford Steel Limited (D)

Bytec Limited (D)

Carrington Packaging Limited (D)

Cobaco Holdings Limited (H)

Cobaco Limited (D)

Cooper Securities (Dudley) Limited (D)

Cooper Securities Limited (D)

Dee Organ Limited (D)

Expamet Building Products Limited (D)

Expamet Limited (D)

Forgen Renewables Ltd (D)

Hawkshead Properties Limited (H)

Hardstaff Barriers Limited (R)

Hill & Smith (Americas) Limited (H)

Hill & Smith (Americas) 2 Limited (H)

Hill & Smith (Americas) 3 Limited (H)

Hill & Smith (France) Limited (H)*

Hill & Smith (Treasury) Limited (H)*

Hill & Smith (USA) Limited (H)

Hill & Smith Galvanized Products Limited (H)

Hill & Smith Group Limited (D)

Hill & Smith Holdings PLC (H)

Hill & Smith (International) Limited (H)

Hill & Smith Infrastructure Products Group Limited (D)

Hill & Smith Limited (R)*

Hill & Smith Overseas Limited (H)*

Hill & Smith Pension Trustees Limited (D)

Hill & Smith (VSG) Limited (D)

H&S Expamet Limited (D)

H2S2 Limited (R) **

J. & F. Pool Limited (D)

Jevons Tools Limited (D)

Joseph Ash Limited (G)

Lionweld Steel Limited (D)

Lionweld Kennedy Flooring Limited (U)*

Mallatite Limited (R)*

Mallatite Minor Structures & Products Limited (D)

Medway Galvanising Company Limited (G)

Parking Facilities Ltd (R)

Pipe Supports Overseas Limited (H)*

Post & Column Limited (D)

Premier Galvanizing Limited (G)

Prolectric Services Limited (R)

Redman Architectural Metalwork Limited (D)

Redman Fisher Engineering Limited (U)

Safety and Security Barrier Holdings Limited (H)

Signature Limited (D)

Signpost Solutions Limited (R)

Tegrel Limited (R)

The Global Tank and Foundry (Wolverhampton) Limited (D)

Variable Message Signs Limited (D)

Varley & Gulliver Limited (R)*

Vista Galvanizing (UK) Limited (D)

VMS Newco Limited (R)

Western Galvanizers Limited (D)

Wombwell Foundry Limited (D)

All of the above subsidiaries have a year end date of 31 December and are included in the consolidated results of the Group. The Company holds 100% of the share capital of all businesses, either directly or indirectly, unless otherwise stated. All of the above subsidiaries have a registered office address at Westhaven House, Arleston Way, Shirley, Solihull, B90 4LH, England.

(U) Utilities

(R) Roads & Security

(G) Galvanizing

(D) Dormant

(H) Holding Company

* Directly held by Hill & Smith Holdings PLC

** 50% owned Joint Venture

Incorporated in Australia

Hill & Smith Pty Limited (R)
Suite 12, Level 12, 37 Bligh Street,
Sydney, New South Wales 2000

Incorporated in Jersey

Hill & Smith (Jersey) Limited (H)

Vista Limited (H)
Second Floor, No. 4 The Forum,
Grenville Street, St. Helier

Incorporated in France

Conimast International SAS (R)
ZI la Saunière, - BP70, 89600, Saint-Florentin

Européenne de Galvanisation SAS (G)
10 Route de Merviller, 54120, Baccarat

France Galva SA (G)
ZI la Saunière - BP70, 89600, Saint-Florentin

France Galva Lorraine SAS (G)
ZI due Lavoisier, 57340, Morhange

Galvacier SAS (G)
ZI des Terres Noires, 81370, Saint Sulpice

Galva Gaillard SAS (G)
801 rue de la Rive, 42320 La Grand Croix

Galvalandes SAS (G)
3031 route de Mont-de-Marsan, CS 50007, 40120, Sarbazan

Galvanisation de l'Artois SAS (G)
437 Chemin de Noyelles, 62110, Henin-Beaumont

Galvanisation du Cambrésis SAS (G)
Champ de la Cheminée, 59980, Honnechy

Galvamed SAS (G)
1447 avenue des Verges, ZI du Pont, 13750, Plan D'orgon

Société Nantaise de Galvanisation SAS (G)
ZI - 4 rue de l'Europe, 44470, Carquefou

Incorporated in India

Bergen Pipe Supports (India) Private Limited (U)
Plot No 12, Ground Floor, 'RADHA', Mangala Nagar Main Road,
Porur, Chennai, 60016

Hill & Smith Infrastructure Products India Private Limited (D)
574, 3rd Floor, Main Road, Chirag Delhi, New Delhi, 110017

Incorporated in Ireland

Redman Fisher Limited (U)
Naas Industrial Estate, Naas,
Co Kildare, 496407

Hill & Smith (Ireland) Unlimited Company
Custom House Plaza, Block 6
International Financial Services Centre, Dublin

Incorporated in Norway

ATA Hill & Smith AS (R)
Jacob Borchsgate 6, 3012 Drammen

Incorporated in Sweden

ATA Hill & Smith AB (R)

Hill & Smith Sweden AB (H)

FMK Trafikprodukter AB (D)
Box 7051, 192 78, Sollentuna, Stockholms län

Incorporated in Spain

Prolectric Solar Lighting SL (D)

Incorporated in the USA

Bergen Pipe Supports, Inc. (U)

Carpenter & Paterson, Inc. (U)

Creative Pultrusions, Inc. (U)

CPK Manufacturing LLC (U)

CPCA Manufacturing LLC (U)

Hill & Smith Group Holdings, Inc. (H)

Hill & Smith Holdings LLC (H)

Hill & Smith, Inc. (R)

Voigt & Schweitzer LLC (H)
c/o The Corporation Trust Company, Corporation Trust Centre,
1209 Orange Street, Wilmington, Delaware 19801

V&S Amboy Galvanizing LLC (G)

V&S Columbus Galvanizing LLC (G)

V&S Delaware Galvanizing LLC (G)

V&S Detroit Galvanizing LLC (G)

V&S Lebanon Galvanizing LLC (G)

V&S Memphis Galvanizing LLC (G)

V&S New York Galvanizing LLC (G)

V&S Schuler Engineering, Inc. (U)

V&S Schuler Tubular Products LLC (U)

V&S Taunton Galvanizing, LLC (G)

987 Buckeye Park Road, Columbus, Ohio, 43207

All of the above subsidiaries have a year end date of 31 December, with the exception of Bergen Pipe Supports (India) Private Limited and Hill & Smith Infrastructure Products India Private Limited, which each have a year end of 31 March. All of the subsidiaries listed above are included in the consolidated results of the Group. The Company holds 100% of the share capital of all businesses, either directly or indirectly.

(U) Utilities

(R) Roads & Security

(G) Galvanizing

(D) Dormant

(H) Holding Company

FIVE YEAR SUMMARY

As reported	2021 £m	2020 £m	2019 £m	2018 £m	2017 £m
Revenue	**705.0**	660.5	694.7	637.9	585.1
Underlying operating profit	**86.0**	69.9	86.3	80.1	81.3
Underlying profit before taxation	**79.9**	62.6	79.4	76.3	78.5
Shareholders' funds	**339.6**	320.5	307.0	293.2	258.6

	Pence	Pence	Pence	Pence	Pence
Underlying earnings per share	**77.9**	63.2	80.7	77.8	75.9
Proposed dividends per share	**31.0**	26.7	10.6*	31.8	30.0

* The proposed final dividend for 2019 of 23.0p per share was withdrawn and not paid.

FINANCIAL CALENDAR

Annual General Meeting	Tuesday 24 May 2022
Trading Update	Tuesday 24 May 2022
Ex-dividend date for 2021 final dividend	Wednesday 1 June 2022
Record date 2021 final dividend	Monday 6 June 2022
Dividend Reinvestment Plan – last date for election	Friday 17 June 2022
Final 2021 ordinary dividend payable	Friday 8 July 2022
Announcement of 2022 interim results	Wednesday 3 August 2022
Trading Update	Thursday 24 November 2022
Ex-dividend date for 2022 interim dividend	Thursday 1 December 2022
Record date 2022 interim dividend	Friday 2 December 2022
Dividend Reinvestment Plan – last date for election	Tuesday 13 December 2022
Payment of 2022 interim dividend	Friday 6 January 2023

SHAREHOLDER INFORMATION

SHAREHOLDER BASE

Holdings of shares at 25 February 2022:

Range of shareholders	Number of holders	%	Number of shares	%
1 -500	679	31.89	139,801	0.17
501 – 1000	340	15.97	260,859	0.33
1001 – 5000	593	27.85	1,388,739	1.74
5001 – 50,000	345	16.20	5,025,289	6.29
50,001 – 100,000	62	2.91	4,504,436	5.63
100,001 – 500,000	74	3.48	15,519,907	23.17
500,001 – 1,000,000	18	0.85	12,088,250	15.12
Above 1,000,001	18	0.85	12,088,250	15.12
Total	2,129	100.00	76,946,022	100.00

SHAREHOLDER BASE

	Number of holders	%	Number of shares	%
Individuals	1,390	65.29	3,416,318	4.27
Institutions	706	33.16	76,277,112	95.41
Other corporate	33	1.55	252,592	0.32
Total	2,129	100.00	76,946,022	100.00

DIVIDEND HISTORY – PROPOSED DIVIDEND PER SHARE

	2021	2020	2019	2018	2017
Interims	12.0	9.2	10.6	10.0	9.4
Final	19.0	17.5	–	21.8	20.6
Total	31.0	26.7	10.6	31.8	30.0

COMMUNICATION WITH SHAREHOLDERS AND ANALYSTS

Directors meet with major shareholders and potential investors following interim and final results, and at other times if requested. Presentations for analysts are also held on the day of these announcements and we keep in regular contact with analysts throughout the year.

CORPORATE INFORMATION

The Annual and Interim Reports are the main forms of communication with our shareholders. We have updated our website to supplement these reports with additional information. The website address is www.hsholdings.com and includes share price information, investor relations information and contact details.

ANNUAL GENERAL MEETING

The AGM will be held on Tuesday 24 May 2022 at 11.00am at The Village Hotel, The Green Business Park, Shirley, Solihull, B90 4GW. Full details are contained within the Notice of AGM. A proxy card is also enclosed with this statement for voting. Alternatively, you can vote electronically as explained below.

ELECTRONIC PROXY VOTING

To lodge your proxy vote via the internet, log on to www.investorcentre.co.uk/eproxy. You will need the Control number, Shareholder Reference number ('SRN') and PIN number printed on your Form of Proxy where you will find the full instructions.

SHAREHOLDING ONLINE

Computershare Investor Centre gives access to view your holdings online. To register click on Investor Centre on the Computershare home page www.computershare.com and follow the instructions.

You will be able to:

- View all your holding details for companies registered with Computershare.
- View the market value of your portfolio.
- Update your contact address and personal details online.
- Access current and historical market prices.
- Access trading graphs.
- Add additional shareholdings to your portfolio.

SHARE DEALING

Share dealing services are available through Computershare Investor Services PLC. Log on to www-uk.computershare.com/Investor/#ShareDealingInfo for internet and postal dealing information.

DIVIDEND REINVESTMENT PLAN ('DRIP')

The Company offers shareholders the facility to reinvest their cash dividends to buy more shares in the Company.

- The service allows you to increase your shareholding in an easy and convenient way.
- Online application process enables you to participate easily and securely: www.investorcentre.co.uk.
  - Click on 'Register' to sign up to the Investor Centre. This will allow you to carry out a number of share related transactions online, including opting for the DRIP.
  - You will be required to fill in your SRN and your postcode, together with your email address. You will also be asked to select a user name (ID) and password of your choice.
  - Once registered select 'Dividend Plans' from the left hand menu and amend your current cash dividend instruction, confirming acceptance of the DRIP terms and conditions.
- New shares will be purchased as soon as possible on or after the dividend pay date.

SHAREHOLDER HELPLINE NUMBER

There is a helpline for shareholders who have enquiries about their shareholdings. The dedicated helpline number is 0370 707 1058.

PRINCIPAL GROUP BUSINESSES

ROADS & SECURITY

UNITED KINGDOM

ATG Access Limited*
Manufacture and installation of hostile vehicle mitigation and perimeter security solutions including bollards, road blockers, barriers and gates

Cobaco House, North Florida Road Haydock Industrial Estate, Haydock Merseyside, WA11 9TP

Tel: +44 (0) 8456 757574
www.atgaccess.com

Hill & Smith Limited
Highway and off-highway safety barriers, permanent and temporary solutions for vehicle restraints, and retained earth systems for Highway & Rail construction sectors

Springvale Business and Industrial Park, Bilston, Wolverhampton, WV14 0QL

Tel: +44 (0) 1902 499400
Fax: +44 (0) 1902 499419

www.hill-smith.co.uk

Barkers Engineering Limited*
Perimeter security solutions and fasteners

Duke Street, Fenton, Stoke-on-Trent, Staffordshire, ST4 3NS

Tel: +44 (0) 1782 319264
Fax: +44 (0) 1782 599724

www.barkersengineering.com

Mallatite Limited
Manufacture of lighting columns, bespoke support structures, traffic sign columns, posts and associated lighting products

Holmewood Industrial Estate, Hardwick View Road, Holmewood, Chesterfield, Derbyshire, S42 5SA

Tel: +44 (0) 1246 593280
Fax: +44 (0) 1246 593281

www.mallatite.co.uk

Parking Facilities Ltd*
Design, manufacture and supply of parking and access control products including gates, barriers, bollards, rising kerbs and speed ramps

Unit One, Kingsbury Link Trinity Road, Tamworth Staffordshire B78 2EX

Tel: +44 (0) 1827 870250
Fax: +44 (0) 1827 870251

www.parkingfacilities.co.uk

Prolectric Services Limited
UK's leading expert on sustainable lighting, power and security

35 Hither Green, Industrial Estate, Clevedon BS21 6XU

Tel: +44 (0)1275400570

www.prolectric.co.uk

REST OF THE WORLD

ATA Hill & Smith AB*
Road safety barriers, road signage and traffic safety solutions
Incorporated in Sweden

Staffans väg 7, 192 78, Sollentuna, Sweden

Tel: +46 10 440 71 01
Fax: +46 (0) 8 29 25 15

www.ata.se

Conimast International SAS*
Specialist steel lighting columns, galvanizing and steel powder coating
Incorporated in France

Z.I. La Sauniere BP70, 89600, Saint Florentin, France

Tel: +33 (0) 3 86 43 82 00
Fax: +33 (0) 3 86 43 41 08

www.conimast.fr

Hill & Smith, Inc.*
Temporary road barrier solutions for work zone protection providing smart, safe, innovative solutions for the traffic safety and highway infrastructure businesses
Incorporated in the USA

987 Buckeye Park Road, Columbus, Ohio, 43207, USA

Tel: +1 (614) 340 6294
Fax: +1 (614) 340 6296

www.hillandsmith.com

Hill & Smith Pty Ltd*
Wire rope and temporary safety barriers
Incorporated in Australia

Unit 1, 242 New Cleveland Road, Tingalpa, QLD 4173, Australia Tel: +61 (0) 7 3162 6078

www.hsroads.com.au

Notes:

The above lists the Company's subsidiary undertakings, except for some intermediate holding companies and certain other undertakings of minor importance. Except where indicated, the undertakings are subsidiaries incorporated in Great Britain and the share capital consists of ordinary shares only.

* The Company's effective interest is held indirectly for these undertakings.

UTILITIES

UNITED KINGDOM

Birtley Group Limited*
Galvanized lintels, construction fittings, composite doors, builders' metalwork & plasterers' accessories

Mary Avenue, Birtley, County Durham, DH3 1JF

Tel: +44 (0) 191 410 6631
Fax: +44 (0) 191 410 0650

www.birtleygroup.co.uk

Lionweld Kennedy Flooring Limited
Open steel flooring, handrailing and ancillary products

Marsh Road, Middlesbrough, TS1 5JS

Tel: +44 (0) 1642 245151
Fax: +44 (0) 1642 224710

www.lk-uk.com

UNITED STATES OF AMERICA

Creative Pultrusions, Inc.*
Manufacture of fibre reinforced polymer (FRP) composite profiles

214 Industrial Lane, Alum Bank, Pennsylvania, 15521, USA

Tel: +1 (814) 839 4186

Toll-free: # 888-CPI-PULL (274-7855)

www.creativepultrusions.com

E.T. Techtonics (D)
Design and construction of fiberglass bridge and boardwalk systems

www.ettechtonics.com

Kenway Composites (D)
Advanced custom composite manufacturing and professional field services for various industries

www.kenway.com

Tower Tech (D)
Manufacture of cooling tower products that effectively bridge the gap between sustainability and energy efficiency

www.towertechinc.com

Composite Advantage (D)
A leading manufacturer for Fibre Reinforced Polymer composite bridge, waterfront and rail infrastructure markets
www.creativecompositesgroup.com

V&S Utilities**
Fabrication of electrical transmission and substation structures and supplier of substation packaging services

987 Buckeye Park Road, Columbus, Ohio, 43207, USA

Tel: +1 (614) 449 8281
Fax: +1 (614) 449 8851

www.vsschuler.com

Bergen Pipe Supports, Inc.*
Manufacture and supply of pipe supports solutions, including constant and variable effort supports

484 Galiffa Drive, Donora, Pennsylvania, 15033, USA

Tel: +1 (724) 379 5212
Fax: +1 (724) 379 9363

www.pipesupports.com

Carpenter & Paterson, Inc.*
Industrial pipe hangers, metal framing channel and fasteners

225 Merrimac Street, Woburn, Massachusetts, 01801, USA

Tel: +1 (781) 935 2950
Fax: +1 (781) 935 7664

www.pipehangers.com

Novia Corporation, Inc.
Vibration and seismic control manufacturer

1 Northwestern Drive, Salem, NH 03079, USA

www.cp-novia.com

INDIA

Bergen Pipe Supports (India) Private Limited*
Manufacture and supply of pipe supports solutions, including cryogenic supports
Incorporated in India

Plot No.12, Ground Floor,

'RADHA', Mangala Nagar Main Road, Porur, Chennai, 600116

Tel: +91 8576 305 666

www.pipesupports.com

Notes:

The above lists the Company's subsidiary undertakings, except for some intermediate holding companies and certain other undertakings of minor importance. Except where indicated, the undertakings are subsidiaries incorporated in Great Britain and the share capital consists of ordinary shares only.

* The Company's effective interest is held indirectly for these undertakings.

** Trading name for V&S Schuler Engineering Inc and V&S Schuler Tubular Products LLC, both are indirectly held, wholly owned and incorporated in the USA.

(D) Operating division only, not a limited company.

GALVANIZING SERVICES

UNITED KINGDOM

Joseph Ash Limited*
Galvanizing services

Alcora Building 2, Mucklow Hill Halesowen, West Midlands, B62 8DG

Tel: +44 (0) 121 504 2560
Fax: +44 (0) 121 504 2599

www.josephash.co.uk

Medway Galvanising Company Limited*
Galvanizing, shotblasting and powder coating services

Castle Road, Eurolink Industrial Centre, Sittingbourne, Kent, ME10 3RN

Tel: +44 (0) 1795 479489
Fax: +44 (0) 1795 477598

www.medgalv.co.uk

Premier Galvanizing Limited*
Galvanizing and powder coating services

Unit 25, Stoneferry Business Park, Foster Street, East Riding of Yorkshire, HU8 8BT

Tel: +44 (0) 1482 587587
Fax: +44 (0) 1482 588599

www.premiergalv.co.uk

Barkers Engineering Limited*
Galvanizing and powder coating services
Duke Street, Fenton, Stoke-on-Trent, Staffordshire, ST4 3NS

Tel: +44 (0) 1782 343811
Fax: +44 (0) 1782 344974

www.barkersgalvanizing.com

Birtley Group Limited*
Galvanizing services

Mary Avenue, Birtley, County Durham, DH3 1JF

Tel: +44 (0) 191 410 4421
Fax: +44 (0) 191 492 1817

www.birtleygalvanizing.co.uk

UNITED STATES OF AMERICA

Voigt & Schweitzer LLC*
Galvanizing services

987 Buckeye Park Road, Columbus Ohio, 43207, USA
Tel: +1 (614) 449 8281
Fax: +1 (614) 449 8851

www.hotdipgalvanizing.com

FRANCE

France Galva SA*
Galvanizing and powder coaters of steel

Z.I. La Saunière BP70, 89600 Saint Florentin, France

Tel: +33 (0) 3 86 43 82 30
Fax: +33 (0) 3 86 43 82 29

www.francegalva.fr

Notes:

The above lists the Company's subsidiary undertakings, except for some intermediate holding companies and certain other undertakings of minor importance. Except where indicated, the undertakings are subsidiaries incorporated in Great Britain and the share capital consists of ordinary shares only.

* The Company's effective interest is held indirectly for these undertakings.

DIRECTORS, CONTACTS AND ADVISORS

DIRECTORS

Alan Giddins
Chair

Paul Simmons
Chief Executive

Hannah Nichols
Chief Financial Officer

Tony Quinlan
Senior Independent Non-executive

Annette Kelleher
Non-executive

Mark Reckitt
Non-executive

Pete Raby
Non-executive

Leigh-Ann Russell
Non-executive

HILL & SMITH HOLDINGS PLC

Registered Office
Westhaven House Arleston Way Shirley,
Solihull West Midlands B90 4LH

Tel: +44 (0) 121 704 7430
Fax: +44 (0) 121 704 7439

Registration Details
Registered in England and Wales
Company Number: 671474

Company Website
www.hsholdings.com

Company Secretary
C A Henderson FCIS

PROFESSIONAL ADVISORS

Auditor
Ernst & Young LLP
No. 1 Colmore Square
Birmingham
B4 6HQ

Brokers and Financial Advisors
Numis Securities Limited
45 Gresham St
London
EC2V 7BF

Principal Bankers
Barclays Bank Plc
Midlands Corporate Banking Centre PO
Box 3333
1 Snowhill
Snow Hill Queensway
Birmingham
B3 2WN

Lawyers
Gowling WLG
Two Snowhill
Birmingham
B4 6WR

Silks Solicitors
Barclays Bank Chambers
Birmingham Street
Oldbury
B69 4EZ

Financial Public Relations
Engine MHP
60 Great Portland Street
London
W1W 7RT

SHAREHOLDER NOTES

Planting trees to catch carbon • Planting trees to catch carbon •
22039900788
Printed on Carbon Captured paper

The production of this report supports the work of the Woodland Trust, the UK's leading woodland conservation charity. Each tree planted will grow into a vital carbon store, helping to reduce environmental impact as well as creating natural havens for wildlife and people.

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

Hill & Smith Holdings PLC
Westhaven House
Arleston Way
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Solihull
B90 4LH
+44 (0)121 704 7430

Hill & Smith Holdings PLC