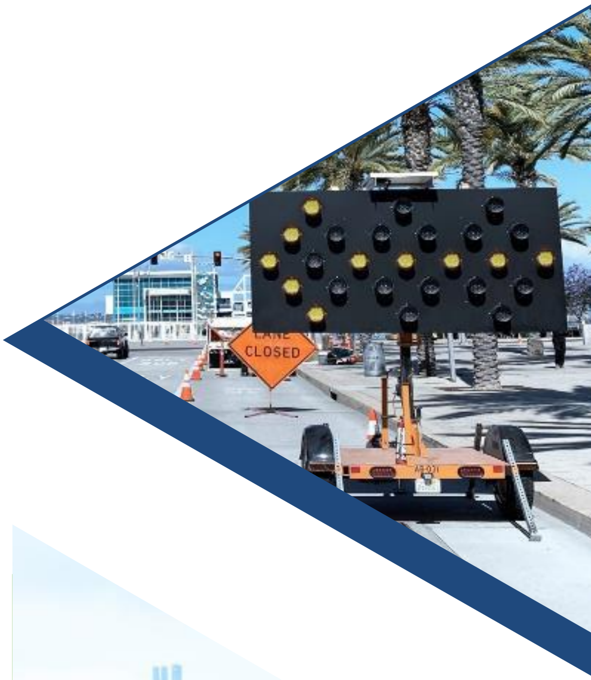
Hill & Smith Holdings PLC



Creating sustainable infrastructure and safe transport through innovation

2021

Half year results

Six months ended 30 June 2021

Hill & Smith Holdings PLC

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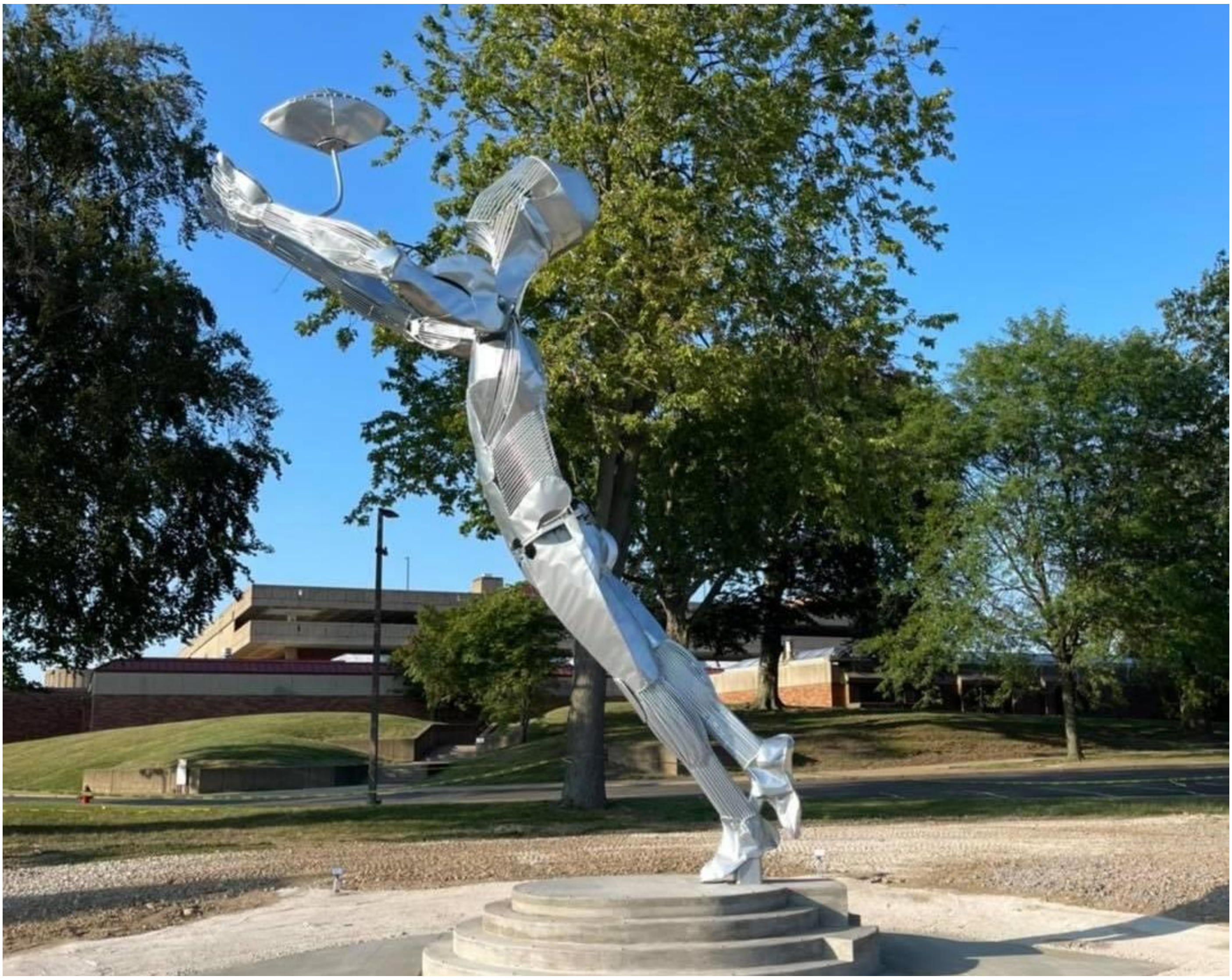

Hill & Smith Holdings PLC
Half Year Results (unaudited) for the 6 months ended 30 June 2021
Strong recovery, strategic progress, positive outlook

Hill & Smith Holdings PLC ("Hill & Smith" or "the Group") the international group creating sustainable infrastructure and safe transport through innovation, announces its unaudited results for the six months ended 30 June 2021 ("the period").

Financial Results

			Change	
	30 June 2021	30 June 2020	*Reported %*	*Organic constant currency (OCC)** %*
Revenue	**£354.2m**	£315.6m	*+12*	*+ 16*
Underlying*:				
Operating profit	**£42.5m**	£26.8m	*+59*	*+73*
Operating margin	**12.0%**	8.5%	*+350 bps*	*+390 bps*
Profit before taxation	**£39.2m**	£22.8m	*+72*	
Earnings per share	**38.5p**	23.1p	*+67*	
Reported:				
Operating profit	**£24.1m**	£23.5m	*+3*	
Operating margin	**6.8%**	7.4%	*-60bps*	
Profit before taxation	**£20.8m**	£19.5m	*+7*	
Basic earnings per share	**15.0p**	19.7p	*-24*	
Dividend per share	**12.0p**	9.2p	*+30*	

Key Highlights:

- Strong H1 performance, trading significantly ahead of 2020 which was impacted by COVID-19
  - Good recovery in trading across all Group divisions, with return to Group margin target range
  - Ahead of H1 2019: organic constant currency growth +6% revenue and +9% underlying operating profit
  - Security sub-division continues to face challenges due to impact of COVID-19 on certain end markets
  - Ongoing raw material inflation and labour shortages have been successfully managed
- Continued focus on improving the quality of the portfolio, in line with refreshed strategy
  - Acquisition of Prolectric Services Ltd, a UK market leader in off-grid solar energy solutions
  - Disposal of loss-making security access cover business
  - Closure of loss-making variable message sign business
- Group remains highly cash generative with a strong balance sheet to support future growth opportunities
- FY21 underlying operating profit expected to be slightly ahead of the top end of current analyst range^
- Interim dividend of 12.0p declared

Paul Simmons, Chief Executive, said:

"We are pleased with the first half trading performance, with revenue and profit ahead of 2020 and 2019 levels. On behalf of the Board, I would like to thank all our colleagues for their significant contribution and continued resolve during these challenging times.

"We are also encouraged by the strategic progress we have made which is laying the foundations for long term sustainable growth. This includes an acquisition, one disposal and one closure, sustainability actions and senior management hires. Based on the first half and the current outlook the Board now expects full year underlying operating profit to be slightly ahead of the current analyst range. Longer term, with or without the benefit of additional significant government infrastructure spending, we believe we are well placed to deliver strong profit growth."

^The current analyst forecast range for FY21 operating profit is £81.8m to £84.6m.

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** All underlying measures exclude certain non-underlying items, which are as detailed in note 6 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 5 to the financial statements. They are presented on a consistent basis over time to assist in comparison of performance.*

*** Organic constant currency excludes 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.*

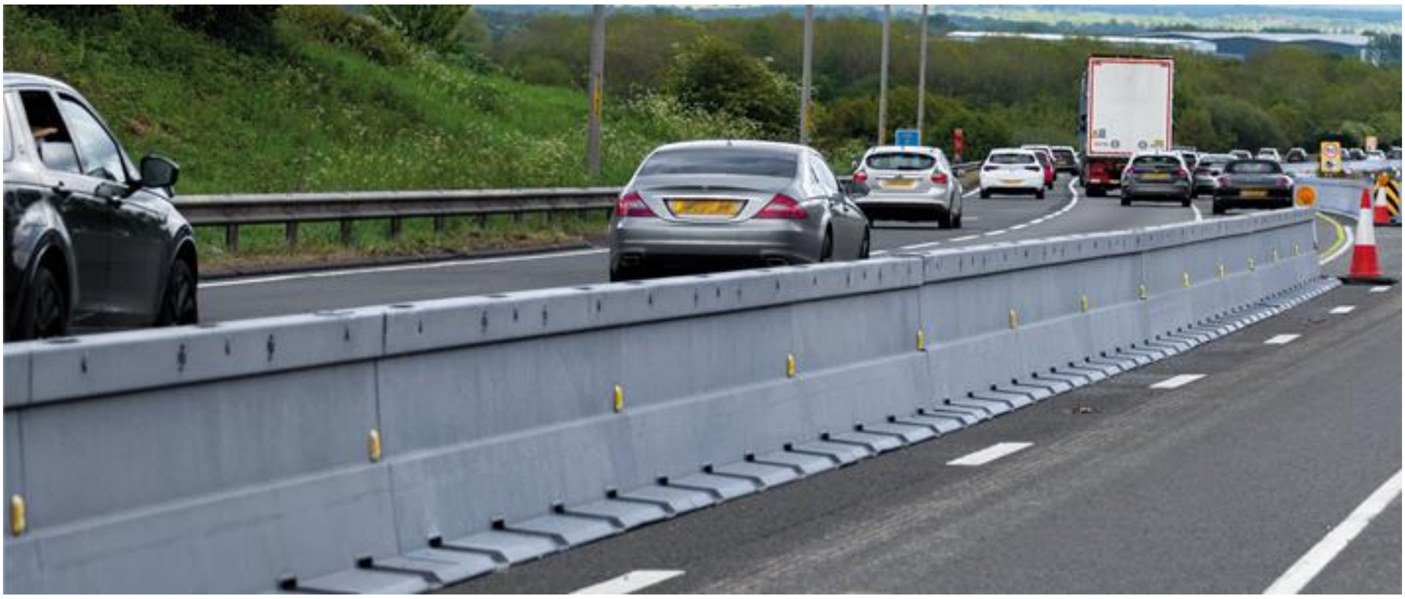
Notes to Editors
Hill & Smith Holdings PLC creates sustainable infrastructure and safe transport through innovation. The Group employs c.4,500 people worldwide with the majority employed by its autonomous, agile, customer focussed operating businesses based in the UK, USA, France, Sweden, India and Australia. It has a head office in the UK and it is quoted on the London Stock Exchange (LSE: HILS.L).

The Group's operating businesses are organised into three main business segments:

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 steel and engineered 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: dramatically increasing the sustainability and maintenance free life of steel products including structural steel work, lighting, bridges, agricultural and other products for the industrial and infrastructure markets.



Business Review

Introduction

Trading in the first half of 2021 has been encouraging. The Group delivered strong revenue and operating profit growth in comparison to the same period last year which was impacted by COVID-19 related disruption from the middle of March 2020. We are also pleased to report that the Group delivered 6% revenue and 9% profit growth on an organic constant currency basis compared to H1 2019, a prior record first half trading period, which reflects the strengths of the Group's business model and the underlying resilience of our end markets.

We have seen a good recovery in trading across all three divisions. Our roads sub-division delivered revenue and profit ahead of 2020 and 2019, reflecting continued strong levels of demand for our products in the US and a solid performance in the UK. While our security businesses delivered an improved performance compared to the same period last year, the sub-division continued to face challenges due to COVID-19 restrictions on public gatherings and delayed customer projects.

Our Utilities division performed well supported by strong demand for engineered composite solutions in the US and a good recovery in demand in our engineered supports (formerly "pipe supports") and UK utilities businesses. As a result, revenues and profits were ahead of 2020 and 2019 levels.

In our Galvanizing division, revenue and profit were also ahead of the same period in 2020 and 2019. This reflects a solid performance in the US and a strong recovery in demand both in the UK and France following the COVID-19 disruption in H1 2020.

As reported previously, we continue to experience headwinds relating to raw material cost inflation and related shortages, with steel being the most impacted category for the Group. In addition, labour shortages have been a challenge, particularly in our US businesses. Our local teams have successfully navigated these challenges, taking swift action to mitigate the impact including implementing price increases, securing supply of raw materials and increasing wages to retain and attract staff. This highlights the strengths of the Group's decentralised autonomous operating model and some of the benefits it brings including agility and customer intimacy. We continue to monitor and manage these headwinds as we enter the second half.

The Group remains highly cash generative and maintains a strong balance sheet which positions us well for the future as we focus on developing and funding growth opportunities across the Group. Geographically, the US and the UK remain our key areas of focus for both organic growth and targeted acquisition opportunities.

Our Strategy

Our strategic decision making is guided by our purpose of "creating sustainable infrastructure and safe transport through innovation". Our purpose, alongside consideration of long-term macro and market drivers determines our choice of markets and applications. We are attracted to fast growing niche opportunities and critical applications that provide significant value to our customers. Our products and services help transport become safer and infrastructure become more sustainable, with both the environment and our customers benefiting through the value that our diverse offerings provide.

We operate a decentralised autonomous operating model which drives high levels of accountability, agility and customer intimacy and is fundamental to our growth strategy. Our operating model allows us to care about small, high growth, high gross margin applications in a way that a more centralised, volume driven organisation cannot. Innovation is also a key element of our organic growth strategy, and we have recently launched a Group-wide initiative to accelerate our rate of innovation. We aim to foster an innovation culture across the Group, supported by a common framework.

We take a disciplined approach to portfolio management as we look to evolve our portfolio through organic developments, thoughtful acquisitions and targeted disposals. The aim is to improve the quality of our portfolio with each iteration and at the beginning of this year we fine-tuned our portfolio management criteria to place greater emphasis on higher gross margins and long-term growth. Multiple initiatives are now underway to rebuild the acquisition pipeline based on these new criteria.

In line with our refreshed strategy, we have taken a number of actions to enhance the quality of the portfolio. In March 2021, we acquired Prolectric Services Ltd ("Prolectric"), a UK market leader in off-grid solar energy solutions, which operates in a market with strong long term growth potential driven by the transition from fossil fuels toward renewable energy. Prolectric is also an excellent example of how we can utilise our extensive domain knowledge in operations and customer end markets to de-risk the acquisition of new to Hill & Smith technology. Trading since acquisition has been in line with our expectations.

As previously disclosed, in March 2021, we also made the decision to close our small, loss-making UK variable message sign business and expect operations to fully cease by the end of this year. In addition, in June 2021, we sold Technocover, our loss-making security access cover business.

We continue to take action to organise for growth and scalability. As previously announced, we formed a new Executive Board in January 2021 and have introduced Group Presidents who are responsible for accelerating organic growth within their market portfolio and acquiring high quality businesses. We currently have two Group Presidents in place and are actively recruiting for a third to create a structure that will scale as the business continues to grow. Talented people are fundamental to the success of our decentralised model, and we are delighted that Andrew Park joined the Group as Chief People Officer in June 2021 to lead on talent and career development across the Group. We have also recalibrated the 2021 Managing Director incentive scheme to align with our growth ambitions.

Our purpose of "creating sustainable infrastructure and safe transport through innovation" guides our decisions, ensuring that improving sustainability is woven into our daily working lives. The development of our environmental, social and governance (ESG) strategy is a key priority for H2 2021 and we have established an ESG steering group to work with the operating companies to create common sense, actionable plans with measurable near-term targets. We will also recruit a Head of Sustainability to provide additional focus and guidance on this priority area.

An independent ESG materiality study was completed in June 2021, having consulted a diverse range of employees, major customers, suppliers, investors and our major lending bank. We are taking a materiality-based approach to ESG, using a blend of our recent materiality study and the relevant Sustainability Accounting Standards Board (SASB) materiality maps. As a result of this we have defined our ESG focus areas as:

- sustainable products
- greenhouse gas emission and energy reduction
- health and safety
- talent development and employment practices
- engagement, diversity and inclusion
- physical and transitional climate risks
- ethical conduct

At the year end, we will provide a further update on action plans, targets and progress to date.

The successful execution of our strategy will drive superior returns for shareholders, provide high quality jobs for employees, benefit the environment and local communities and provide long term opportunities for our supply chain partners.

Results

The Group has seen a good recovery in trading compared to H1 2020 which was impacted by COVID-19 related business closures and reduced levels of demand from the middle of March 2020. Revenue for the period was £354.2m (2020: £315.6m), an increase of 12% on a reported basis. Organic constant currency revenue growth was 16%. Underlying operating profit for the period was £42.5m (2020: £26.8m) and underlying operating margin recovered strongly to 12.0% compared to 8.5% in 2020. Underlying profit before taxation was £39.2m (2020: £22.8m). Reported operating profit was £24.1m (2020: £23.5m) and reported profit before tax was £20.8m (2020: £19.5m). Underlying earnings per share increased to 38.5p (2020: 23.1p) and reported earnings per share was 15.0p (2020: 19.7p).

The principal reconciling items between underlying and reported operating profit are non-cash charges including the write down of goodwill relating to one of our security businesses of £10.8m and the amortisation of acquisition intangibles of £3.0m, together with costs associated with the closure of the UK variable message signs business of £3.3m. Note 6 of the financial statements provides further details on the Group's non-underlying items.

Dividend

The Board has declared an interim dividend for FY 2021 of 12.0p per share (2020: 9.2p). The interim dividend will be paid on 7 January 2022 to shareholders on the register on 3 December 2021. Looking forward, we aim to provide sustainable and progressive dividend growth, targeting a prudent dividend cover of around 2.5 times underlying earnings.

Board Update

In February 2021, we were pleased to announce the appointment of Leigh-Ann Russell as a Non-executive Director with effect from 1 April 2021. Leigh-Ann's appointment is part of the Group's careful succession planning to recruit Non-executive Directors with the necessary skills, experience and diversity to support the Group's future development.

Outlook

The Group has made a good start to the year and, assuming end markets remain open, we expect FY 2021 underlying operating profit to be slightly ahead of the top of the current analyst forecast range^, with a more balanced first half, second half weighting compared to prior years. While we continue to face headwinds in raw material cost inflation and labour shortages, our local teams have acted quickly to mitigate the impact and expect to continue to do so.

We are encouraged by the potential for a significant infrastructure bill to be passed in the US under the Biden administration and our US businesses are well placed to take advantage of the opportunities arising from any increased investment. In the UK, the Government remains committed to the increased levels of funding for Road Investment Strategy 2 ('RIS2') and we expect this to support medium-term growth. While we still await the outcome of the parliamentary review on the benefits and safety of Smart Motorways, we were encouraged by the commencement of the first new RIS2 Smart Motorway scheme in June 2021.

The medium to longer term outlook for the Group remains positive, supported by strong growth drivers for both sustainable infrastructure and safe transport.

^The current analyst forecast range for FY21 operating profit is £81.8m to £84.6m.

Operational Review

Roads & Security

	£m		+/-	OCC
	2021	2020	%	%
Revenue	**146.8**	128.2	+15	+15
Underlying operating profit	**9.5**	4.3	+121	+138
Underlying operating margin %	**6.5**	3.4		
Reported operating (loss)/profit	**(8.0)**	2.0		

The Roads & Security division includes UK and international companies which design, manufacture and install temporary and permanent safety products for the roads market, alongside UK-based businesses which provide a range of security products to protect people, buildings and infrastructure from attack, including high security fencing and hostile vehicle mitigation (HVM) solutions.

The division has seen strong growth in revenue and margin during the period, reflecting a good recovery in parts of the UK roads portfolio which were impacted by COVID-19 related disruption in H1 2020 and the continued high levels of demand in our US roads business. While our security businesses continued to face challenges due to COVID-19 restrictions on public gatherings and delayed customer projects, on an underlying basis the sub-division was profitable and trading performance was ahead of the same period last year. As a result, revenue for the period increased by 15% to £146.8m after a currency headwind of £2.5m and net contribution from acquisitions and disposals of £2.1m. Underlying operating profit increased to £9.5m (2020: £4.3m), with a corresponding improvement in operating margins to 6.5% (2020: 3.4%). The reported loss of £8.0m included a goodwill impairment charge of £10.8m in respect of ATG Access, closure costs of £3.3m relating to the variable message sign business and a loss of £0.8m on the disposal of the security access cover business. Further details are set out in note 6 to the financial statements.

UK Roads

Our temporary safety barrier rental business operated as expected during the period with lower levels of barrier utilisation as RIS1 schemes came to an end. While we were encouraged by the commencement of the first RIS2 Smart Motorway scheme in June 2021, we still await the outcome of the Transport Committee parliamentary review on the safety and benefits of Smart Motorways.

The permanent safety barrier business continues to see good levels of demand, primarily driven by large highway schemes and a buoyant maintenance and repair market. Our remaining UK roads portfolio consists of street furniture and lighting columns, bridge parapets, temporary car parks and concrete arches. All these businesses showed a strong recovery compared to the same period in 2020, which was adversely impacted by customer delays and deferrals caused by COVID-19 disruption.

As highlighted above, in March 2021 we acquired Prolectric, a UK market leader in off-grid solar energy solutions, for an initial cash consideration of £12.0m. Prolectric offers a range of remotely monitored lighting and security products, either for rental or sale, which are field proven in rail, road and other niche infrastructure applications. The technology also enables customers to measure the reduction in CO2 emissions versus diesel powered alternatives. The business benefits from the ongoing transition from fossil fuels to a zero-carbon economy and the need to reduce noise pollution, driven by government legislation and customer demands.

As previously announced, in March 2021 we made the decision to close our small, loss making UK variable message sign business and expect operations to fully cease by the end of this year.

US Roads

The US Roads business saw good levels of demand in the first half with revenue increasing year on year. Demand was particularly strong for our tested Zoneguard temporary safety barrier and SmartCushion crash attenuators. This is the result of being well positioned in key states, maintaining strong distributor relationships, and having a good reputation with installers and state departments of transport. During the period, the business took appropriate pricing actions to offset the steep increase in steel raw materials and freight costs and while first half margins were impacted, we expect margins to show improvement in the second half.

Our US roads growth strategy is, in part, based on geographical expansion and the build of our new facility in Garland, Texas, is on plan and budget. In addition, in the second half we will continue to invest in rental barrier fleet expansion and product development to further support the growth strategy.

We are encouraged by the apparent bipartisan support for a future infrastructure framework bill, which outlines significant investment in roads and bridges, and are excited about the prospects for further growth.

International Roads

The restructuring of our roads business in Sweden is ongoing, although we have been adversely impacted by the postponement of several major highway repair projects due to government funding challenges. The strengthened local team have made good progress on restructuring the operations and are continuing to refine their key areas of market focus.

In contrast, the lighting column business in France performed robustly with a solid order book and our Australian road business benefitted from higher levels of road barrier sales.

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.

During the period, key markets for our HVM solutions remained impacted by COVID-19 restrictions including crowded places protection, stadiums, airports and shopping centres. We are however starting to see a gradual recovery in demand and all businesses in the portfolio delivered an improved performance compared to the same period in 2020, albeit still lower than 2019 levels. Demand for UK security barrier rental is returning, with the resumption of high-profile events including the G7 Summit in Cornwall. The demand for perimeter security solutions in data centres remains strong.

We continue to take steps to enhance the quality of the portfolio and 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 £0.8m.

Given the HVM market outlook remains challenging, and it is likely to take some time for activity to return to pre-pandemic levels, the Group reassessed the value of acquisition goodwill relating to the ATG Access business and concluded that an impairment charge of £10.8m was required. Further details are set out in note 6 to the financial statements.

Utilities

	£m		+/-	OCC
	2021	2020	%	%
Revenue	**107.7**	101.4	+6	+14
Underlying operating profit	**12.0**	8.2	+46	+64
Underlying operating margin %	**11.1**	8.1		
Reported operating profit	**11.7**	7.7		

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

The division delivered a strong first half performance, underpinned by a good recovery in engineered supports and UK utilities, which were disrupted by COVID-19 last year, and continued high levels of demand for US engineered composites solutions. Revenue increased by 6% to £107.7m (2020: £101.4m), including a currency translation headwind of £6.8m. The organic constant currency revenue increase was 14%. Underlying operating profit increased to £12.0m (2020: £8.2m), including a negative currency impact of £0.9m. Underlying operating margin also improved to 11.1% (2020: 8.1%), slightly ahead of the target margin range for the division of 8 to 11%.

UK

Our UK businesses delivered a strong trading performance compared to the same period last year, which was significantly impacted by COVID-19 disruption. The industrial flooring business has experienced good levels of demand in the first half, particularly for large data centre and distribution centre projects. The building products business, supplying composite residential doors, steel lintels and builders' metal work, has seen a strong recovery in the markets it serves and prospects for the second half are encouraging.

USA

Overall US utilities delivered organic revenue and profit growth against strong comparators. The US composite business delivered a strong first half and continues to see high levels of demand for a range of composite solutions including fire resistant utility poles, waterfront protection products and mass transit infrastructure. The business has a strong order backlog and we expect further progress in the second half. The electricity distribution substation business faced challenges as a result of rising steel prices and customers delaying non-essential projects, however we anticipate demand will recover as steel prices stabilise. Prospects for future growth remain encouraging, driven by the requirement to upgrade the ageing electricity infrastructure in the US.

Engineered Supports

Our engineered pipe support business in India delivered a strong first half performance, having successfully navigated the challenges presented by further COVID-19 restrictions and raw material input cost increases and shortages. The business enters the second half with a solid order book and we are continuing to see a strong demand to supply products and engineering services to support key liquefied natural gas developments across the globe.

Our US business supplies engineered pipe and hanger supports and seismic protection devices for a range of end markets. The business delivered a good performance in the first half, supported by a strong rebound in demand in commercial construction for schools, hospitals, biotech, pharma, and water treatment. The expansion of our seismic protection device manufacturing capability is on plan and the prospects for future growth are encouraging.

Galvanizing Services

	£m		+/-	OCC
	2021	2020	%	%
Revenue	**99.7**	86.0	+16	+21
Underlying operating profit	**21.0**	14.3	+47	+59
Underlying operating margin %	**21.1**	16.6		
Reported operating profit	**20.4**	13.8		

The Galvanizing Services division offers corrosion protection services to the steel fabrication industry with multi-plant facilities in the UK, the USA and France. The galvanizing process dramatically increases the sustainability and maintenance free life of steel products.

The division delivered a strong recovery in trading compared to the same period last year, which was impacted by the complete closure of our French operations for a month and a slowdown in volumes across all geographies. Revenue and profit were also ahead of 2019 levels.

Volumes of steel galvanized were 11% higher than the same period last year and revenue increased by 16% to £99.7m (2020: £86.0m), including a currency translation headwind of £3.5m. The organic constant currency increase was 21%. Underlying operating profit increased significantly to £21.0m (2020: £14.3m), including a negative currency impact of £1.1m. Underlying operating margin recovered to 21.1% (2020: 16.6%), back within our target margin range for the division of 19 to 22%.

UK

Our galvanizing businesses are located on 10 sites, four of which are strategically adjacent to our infrastructure products manufacturing facilities. The UK group continued to see a strong recovery in demand in the first half, partly due to the release of construction and housing projects which had previously been deferred. Overall volumes were 25% higher than the same period last year, in part due to the COVID-19 slowdown in the second quarter of 2020. The strategy of focusing on higher margin, lower volume business is proving successful and benefited operating margins during the period. The UK business benefits from a wide sectoral spread of customers who operate in resilient end markets such as infrastructure, construction and agriculture and we expect this strong demand to continue into the second half.

USA

Predominantly located in the north east of the country, we are a market leader with eight strategically located plants offering local services and extensive support to fabricators and product manufacturers involved in highways, construction, utilities and transportation.

The business delivered a solid performance in the first half. While volumes galvanized were 6% below the same period last year, the business delivered 6% organic constant currency revenue growth which reflects the benefits of pricing actions, product mix and a good demand for value added coating services. As a result, the business delivered a good improvement in operating profit. During the period, the team has faced challenges due to customer project delays as a result of end market component shortages and higher steel costs. Labour shortages have also limited production capacity in some of our plants. We expect the situation to improve in the second half as COVID-19 unemployment reliefs come to an end and raw material availability increases.

In the medium to longer term, the outlook is positive with US infrastructure spend levels remaining robust across a wide range of our customer end markets.

France

In France we have 10 strategically located galvanizing plants, each serving a local market. We act as a key part of the manufacturing supply chain in those markets and deliver a high level of service and quality to maintain our position as market leaders.

The business performed well in the first half of 2021, supported by a continued recovery in demand. As a result, volumes galvanized were 14% ahead of the same period last year which was impacted by COVID-19 related closures. The outlook for the second half is encouraging, with the team working hard to drive sales and profit growth.

Financial Review

Cash Generation and Financing

Operating cash flow before movement in working capital was £55.3m (2020: £43.1m), an increase of £12.2m demonstrating the ongoing effectiveness of the Group's cash generative model.

As expected, the working capital outflow in the period was £15.3m (2020: inflow of £18.3m), reflecting a higher level of receivables due to increased trading activity. The Group continues to focus on maximising working capital efficiency and to date has not experienced any significant deterioration in customer payment profiles since the onset of the pandemic, with debtor days at 30 June 2021 at 55 days (31 December 2020: 54 days).

Capital expenditure of £10.7m (2020: £12.9m) represents a multiple of depreciation and amortisation of 1.0 times (2020: 1.1 times). Significant spend during the period included £0.7m on the expansion of our temporary barrier rental facility in Texas, £0.5m to increase manufacturing capacity in our high margin US seismic restraints operation, and £0.6m on expanding production facilities in our US electricity distribution business.

Net financing costs for the period were £3.3m (2020: £4.0m). The cash element of financing costs was lower than the prior year at £2.7m (2020: £3.4m), reflecting lower levels of average net debt during the period following the strong cash generation performance in the second half of 2020. The net cost of pension fund financing under IAS 19 was £0.2m (2020: £0.2m) and the amortisation of costs relating to refinancing activities was £0.4m (2020: £0.4m).

Underlying cash conversion was 61% which reflects the working capital outflow in the period. Assuming typical trading patterns, we expect improved cash conversion in the second half.

Net Debt and Facilities Headroom

The Group continues to be highly cash generative with a strong balance sheet. Net debt at the end of the period amounted to £154.6m (31 December 2020: £146.2m), with the £8.4m increase including cash outflows of £7.3m for the 2020 interim dividend and £11.8m on the Prolectric acquisition.

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 period the Group has operated well within these facilities and at 30 June 2021, the Group had £216.4m of headroom (£204.6m committed, £11.8m on demand).

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 30 June 2021 was 1.1 times (31 December 2020: 1.3 times) and interest cover was 22.8 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.

Return On Invested Capital ('ROIC')

The Group's ROIC for the period to 30 June 2021 was 16.3% (2020: 13.0%), the increase reflecting the improved trading performance in the first half of the year. We continue to maintain a disciplined approach to capital investment, focussing on allocating capital to our higher growth, higher return markets.

Tax

The underlying effective tax rate for the period was 21.8% (year ended 31 December 2020: 19.8%) and is the estimated effective rate for the full year. The tax charge for the period was £8.9m (2020: £3.8m) and includes a £0.3m charge (2020: £0.6m credit) in respect of non-underlying items, principally relating to the amortisation of acquisition intangibles. Cash tax paid in the period was £9.2m (2020: £10.0m).

Exchange Rates

The Group is exposed to movements in exchange rates when translating the results of its overseas operations into Sterling. Retranslating H1 2020 revenue and underlying operating profit using average exchange rates for H1 2021 would have reduced revenue by £12.8m and underlying operating profit by £2.4m, mainly as a result of Sterling's appreciation against the US Dollar. A one cent movement in the average US Dollar rate currently results in an adjustment of approximately £2.0m 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 £18.4m (2020: £3.3m) and comprised the following:

- An impairment charge of £10.8m in respect of goodwill relating to ATG Access Ltd, our HVM business (2020: £nil)
- Costs associated with the closure of the UK variable message signs business of £3.3m (2020: £nil)
- Amortisation of acquired intangible assets of £3.0m (2020: £3.1m)
- A loss on disposal of Technocover Ltd, our small UK security access cover business, of £0.8m (2020: £nil)
- Acquisition related expenses of £0.5m (2020: £0.2m).

The non-cash element of these charges was £16.3m. Further details are set out in note 6 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 30 June 2021 was £16.6m, a reduction of £3.0m 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 £11.3m (31 December 2020: £14.0m) due to the Group's deficit recovery payments and an increase of 50 basis points in the discount rate during the period, in line with increases in bond yields, being partly offset by lower asset returns. The Group continues to be actively engaged in dialogue with the scheme's Trustees with regards to management, funding and investment strategies. The next triennial valuation will be as at April 2022.

Going Concern

After making enquiries, 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 a period of at least 12 months following the approval of these financial statements. 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 December 2022, 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 31 December 2021, 30 June 2022 and 31 December 2022. 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 31 December 2022. The Directors do not consider the resulting performance levels to be plausible given the Group's strong trading performance in the six months to 30 June 2021 and the positive outlook across the infrastructure markets in which it operates.

Principal Risks and Uncertainties

The Group has a process for identifying, evaluating and managing the principal risks and uncertainties that it faces, and the Directors have reviewed these principal risks and uncertainties during the period. It is the Directors' opinion that the principal risks set out on pages 50 to 53 of the Group's Annual Report for the year ended 31 December 2020, remain applicable to the current financial year.

Key considerations relating to the review of principal risks and uncertainties during the period are set out below:

Principal Risk	**Considerations**
Reduction in government spending plans	It is increasingly likely that infrastructure investment will continue to be a key part of national spending plans, particularly in the short to medium term. In the UK, the next phase of the road investment spend (RIS2) has been confirmed with schemes due to commence during 2021. In the US, bipartisan support for a Federal-funded infrastructure investment bill is encouraging. The Group is well placed to benefit from these investments and as a result, the Directors believe there has been a slight reduction in the net risk.
Contractual failure	With the ongoing impact of the COVID-19 pandemic, the potential for increased credit default has been identified, although this has not yet materialised. The Group continues to closely monitor the position, with trade credit insurance policies in place in the UK and France which partly mitigate exposure. The Directors believe that there has been no change in the net risk.
Supply chain failure	The after-effects of the COVID-19 pandemic on global supply chains have impacted the price and availability of key raw materials and components across several Group businesses, as highlighted in the 2020 Annual Report. Local contingency planning around buffer stock levels, supplier sourcing arrangements and sales price increases have helped to mitigate the increased risk exposure. The Directors believe that there has been an increase in the net risk.
IT systems failure	Given threat actors have tried to capitalise on the disruption of the COVID-19 pandemic and ransomware attacks are becoming ever more prevalent, the Group is continuing to take action to develop its cyber security controls and mitigate the enhanced risk, including the recent recruitment of a Chief Information Security Officer. The Directors believe that there has been a slight increase in the net risk.
Talent, development, diversity, recruitment and retention of key employees	As reported, parts of the Group have experienced labour shortages during the period, particularly in the US. We expect the situation to improve in the second half as COVID-19 unemployment reliefs come to an end. The Directors believe there has been a slight increase in the net risk.
Prevention of harm or injury to people	The Group has followed all local guidelines to ensure that facilities are COVID-19 safe. While the potential risk due to COVID-19 remains, the Directors' assessment is that this has been mitigated by the measures implemented and the net risk remains unchanged.

Directors' Responsibility Statement

We confirm that to the best of our knowledge:

- The condensed set of Financial Statements has been prepared in accordance with IAS 34: Interim Financial Reporting as contained in UK-adopted IFRS;
- The interim management report includes a fair review of the information required by:

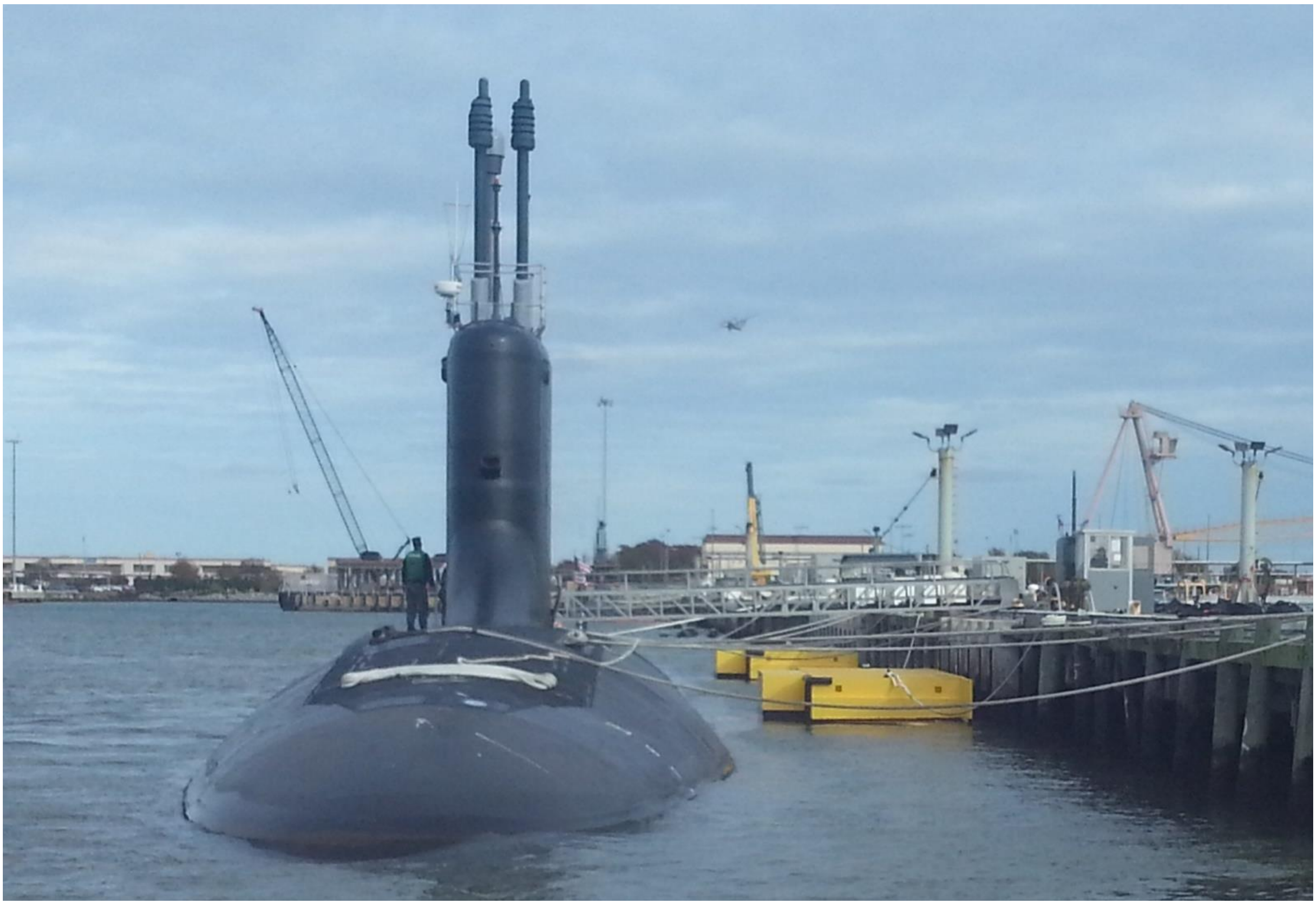
a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of Financial Statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period including any changes in the related party transactions described in the last Annual Report that could do so.

This report was approved by the Board of Directors on 10 August 2021 and is available on the Company's website (www.hsholdings.com).

P Simmons	**H K Nichols**
Group Chief Executive	Group Chief Financial Officer

10 August 2021



Financial Statements

Condensed Consolidated Income Statement

Six months ended 30 June 2021

		6 months ended 30 June 2021			6 months ended 30 June 2020			Year ended 31 December 2020		
	Notes	Underlying £m	Non-underlying* £m	Total £m	Underlying £m	Non-underlying* £m	Total £m	Underlying £m	Non-underlying* £m	Total £m
Revenue	4	**354.2**	**-**	**354.2**	315.6	-	315.6	660.5	-	660.5
Cost of sales		**(222.2)**	**-**	**(222.2)**	(203.2)	-	(203.2)	(415.9)	-	(415.9)
Gross profit		**132.0**	**-**	**132.0**	112.4	-	112.4	244.6	-	244.6
Distribution costs		**(18.7)**	**-**	**(18.7)**	(16.3)	-	(16.3)	(34.1)	-	(34.1)
Administrative expenses		**(71.2)**	**(18.4)**	**(89.6)**	(70.0)	(3.3)	(73.3)	(142.2)	(27.1)	(169.3)
Other operating income		**0.4**	**-**	**0.4**	0.7	-	0.7	1.6	-	1.6
Operating profit	5	**42.5**	**(18.4)**	**24.1**	26.8	(3.3)	23.5	69.9	(27.1)	42.8
Financial income	7	**0.2**	**-**	**0.2**	0.3	-	0.3	0.6	-	0.6
Financial expense	7	**(3.5)**	**-**	**(3.5)**	(4.3)	-	(4.3)	(7.9)	-	(7.9)
Profit before taxation		**39.2**	**(18.4)**	**20.8**	22.8	(3.3)	19.5	62.6	(27.1)	35.5
Taxation	8	**(8.6)**	**(0.3)**	**(8.9)**	(4.4)	0.6	(3.8)	(12.4)	0.9	(11.5)
Profit for the period attributable to owners of the parent		**30.6**	**(18.7)**	**11.9**	18.4	(2.7)	15.7	50.2	(26.2)	24.0
Basic earnings per share	9			**15.0p**			19.7p			30.2p
Diluted earnings per share	9			**14.9p**			19.6p			30.0p

* The Group's definition of non-underlying items and further details of the amounts included are set out in note 6.

Condensed Consolidated Statement of Comprehensive Income

Six months ended 30 June 2021

	6 months ended 30 June 2021 £m	6 months ended 30 June 2020 £m	Year ended 31 December 2020 £m
Profit for the period	**11.9**	15.7	24.0
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of overseas operations	**(6.5)**	19.6	(2.5)
Exchange differences on foreign currency borrowings denominated as net investment hedges	**1.5**	(5.3)	-
Items that will not be reclassified subsequently to profit or loss			
Actuarial gain/(loss) on defined benefit pension schemes	**1.0**	(1.6)	(2.3)
Taxation on items that will not be reclassified to profit or loss	**0.6**	0.3	0.8
Other comprehensive (expense)/income for the period	**(3.4)**	13.0	(4.0)
Total comprehensive income for the period attributable to owners of the parent	**8.5**	28.7	20.0

Condensed Consolidated Statement of Financial Position

Six months ended 30 June 2021

	Notes	30 June 2021 £m	30 June 2020 £m	31 December 2020 £m
Non-current assets				
Intangible assets		**184.0**	216.6	188.5
Property, plant and equipment		**177.2**	198.7	183.6
Right-of-use assets		**34.7**	34.4	30.9
Corporation tax receivable	8	**1.6**	-	-
Deferred tax assets		**1.4**	2.0	1.4
		398.9	451.7	404.4
Current assets				
Assets held for sale		**-**	1.6	-
Inventories		**99.1**	99.3	96.3
Trade and other receivables		**150.4**	127.5	122.7
Current tax assets		**-**	-	1.3
Cash and short term deposits	12	**19.2**	20.5	22.0
		268.7	248.9	242.3
Total assets		**667.6**	700.6	646.7
Current liabilities				
Trade and other liabilities		**(132.1)**	(117.1)	(116.7)
Current tax liabilities		**(4.0)**	(5.9)	(5.5)
Provisions		**(1.4)**	(0.5)	(3.3)
Lease liabilities	12	**(9.6)**	(9.7)	(8.6)
Loans and borrowings	12	**(6.3)**	(0.4)	(8.6)
		(153.4)	(133.6)	(142.7)
Net current assets		**115.3**	115.3	99.6
Non-current liabilities				
Other liabilities		**(1.4)**	(1.5)	(1.4)
Provisions		**(4.6)**	(2.6)	(2.5)
Deferred tax liabilities		**(10.8)**	(8.4)	(9.0)
Retirement benefit obligations		**(16.6)**	(20.3)	(19.6)
Lease liabilities	12	**(26.3)**	(26.6)	(23.8)
Loans and borrowings	12	**(131.6)**	(179.2)	(127.2)
		(191.3)	(238.6)	(183.5)
Total liabilities		**(344.7)**	(372.2)	(326.2)
Net assets		**322.9**	328.4	320.5
Equity				
Share capital		**19.9**	19.9	19.9
Share premium		**39.5**	38.2	38.4
Other reserves		**4.9**	4.9	4.9
Translation reserve		**12.2**	34.0	17.2
Retained earnings		**246.4**	231.4	240.1
Total equity		**322.9**	328.4	320.5

Condensed Consolidated Statement of Changes in Equity

Six months ended 30 June 2021

	Share Capital £m	Share Premium £m	Other reserves† £m	Translation reserves £m	Retained Earnings £m	Total equity £m
At 1 January 2021	19.9	38.4	4.9	17.2	240.1	320.5
Comprehensive income						
Profit for the period	-	-	-	-	11.9	11.9
Other comprehensive income for the period	-	-	-	(5.0)	1.6	(3.4)
Transactions with owners recognised directly in equity						
Dividends	-	-	-	-	(7.3)	(7.3)
Credit to equity of share-based payments	-	-	-	-	0.6	0.6
Satisfaction of long term incentive payments	-	-	-	-	(0.2)	(0.2)
Own shares held in employee benefit trust	-	-	-	-	(0.5)	(0.5)
Tax taken directly to the Consolidated Statement of Changes in Equity	-	-	-	-	0.2	0.2
Shares issued	-	1.1	-	-	-	1.1
At 30 June 2021	19.9	39.5	4.9	12.2	246.4	322.9

† Other reserves represents the premium on shares issued in exchange for shares of subsidiaries acquired and £0.2m capital redemption reserve.

Six months ended 30 June 2020

	Share Capital £m	Share Premium £m	Other reserves† £m	Translation reserves £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 period	-	-	-	-	15.7	15.7
Other comprehensive income for the period	-	-	-	14.3	(1.3)	13.0
Transactions with owners recognised directly in equity						
Dividends	-	-	-	-	(8.4)	(8.4)
Credit to equity of share-based payments	-	-	-	-	0.3	0.3
Shares issued	-	0.8	-	-	-	0.8
At 30 June 2020	19.9	38.2	4.9	34.0	231.4	328.4

† Other reserves represents the premium on shares issued in exchange for shares of subsidiaries acquired and £0.2m capital redemption reserve.

Year ended 31 December 2020

	Share Capital £m	Share Premium £m	Other reserves† £m	Translation reserves £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 period	-	-	-	-	24.0	24.0
Other comprehensive income for the period	-	-	-	(2.5)	(1.5)	(4.0)
Transactions with owners recognised directly in equity						
Dividends	-	-	-	-	(8.4)	(8.4)
Credit to equity of share-based payments	-	-	-	-	0.8	0.8
Tax taken directly to the Consolidated Statement of Changes in Equity	-	-	-	-	0.1	0.1
Shares issued	-	1.0	-	-	-	1.0
At 31 December 2020	19.9	38.4	4.9	17.2	240.1	320.5

† Other reserves represents the premium on shares issued in exchange for shares of subsidiaries acquired and £0.2m capital redemption reserve.

Condensed Consolidated Statement of Cash Flows

Six months ended 30 June 2021

	Notes	6 months ended 30 June 2021 £m	6 months ended 30 June 2020 £m	Year ended 31 December 2020 £m
Profit before tax		**20.8**	19.5	35.5
Add back net financing costs		**3.3**	4.0	7.3
Operating profit		**24.1**	23.5	42.8
Adjusted for non-cash items:				
Share-based payments		**0.6**	0.3	0.8
Loss on disposal of subsidiary		**0.8**	-	-
Gain on disposal of non-current assets		**(0.4)**	(0.2)	(1.9)
Gain on revaluation of assets held for sale		**-**	(0.4)	-
Depreciation of owned assets		**10.5**	10.9	21.9
Amortisation of intangible assets		**3.7**	3.7	7.5
Right-of-use asset depreciation		**5.2**	5.3	10.4
Gain on lease termination		**-**	-	(0.1)
Impairment of non-current assets		**10.8**	-	19.5
		31.2	19.6	58.1
Operating cash flow before movement in working capital		**55.3**	43.1	100.9
(Increase)/decrease in inventories		**(3.3)**	2.0	1.0
(Increase)/decrease in receivables		**(29.5)**	20.9	21.6
Increase/(decrease) in payables		**17.5**	(4.6)	(4.4)
Decrease in provisions and employee benefits		**(1.6)**	(2.1)	(0.8)
Net movement in working capital and provisions		**(16.9)**	16.2	17.4
Cash generated by operations		**38.4**	59.3	118.3
Purchase of assets for rental to customers		**(1.6)**	(2.0)	(3.1)
Income taxes paid		**(9.2)**	(10.0)	(16.5)
Interest paid		**(2.4)**	(3.2)	(6.0)
Interest paid on lease liabilities		**(0.4)**	(0.4)	(0.8)
Net cash from operating activities		**24.8**	43.7	91.9
Interest received		**0.3**	0.3	0.6
Proceeds on disposal of non-current assets		**0.7**	0.6	6.5
Purchase of property, plant and equipment		**(8.7)**	(10.2)	(15.5)
Purchase of intangible assets		**(0.4)**	(0.7)	(1.8)
Acquisitions of businesses		**(11.8)**	-	(0.9)
Disposal of subsidiary		**1.2**	-	-
Net cash used in investing activities		**(18.7)**	(10.0)	(11.1)
Issue of new shares		**1.1**	0.8	1.0
Purchase of shares for employee benefit trust		**(0.7)**	-	-
Dividends paid	10	**(7.3)**	(8.4)	(8.4)
Repayments of lease liabilities		**(5.0)**	(5.4)	(11.1)
New loans and borrowings		**28.0**	8.0	-
Repayment of loans and borrowings		**(22.5)**	(35.4)	(74.4)
Net cash used in financing activities		**(6.4)**	(40.4)	(92.9)
Net decrease in cash		**(0.3)**	(6.7)	(12.1)
Cash at the beginning of the period		**13.9**	26.0	26.0
Effect of exchange rate fluctuations		**(0.3)**	1.2	-
Cash and cash equivalents at the end of the period	12	**13.3**	20.5	13.9

Notes to the Financial Statements

1. Basis of preparation

Hill & Smith Holdings PLC is incorporated in the UK. The Condensed Consolidated Interim Financial Statements of the Company have been prepared on the basis of International Financial Reporting Standards ('IFRSs') that were effective at 10 August 2021 and in accordance with IAS 34: Interim Financial Reporting, comprising the Company, its subsidiaries and its interests in jointly controlled entities (together referred to as the 'Group').

As required by the Disclosure and Transparency Rules of the Financial Services Authority, the Condensed Consolidated Interim Financial Statements have been prepared applying the accounting policies and presentation that were applied in the preparation of the Company's published Consolidated Financial Statements for the year ended 31 December 2020 (these statements do not include all of the information required for full Annual Financial Statements and should be read in conjunction with the full Annual Report for the year ended 31 December 2020).

New IFRS standards, interpretations and amendments adopted during 2021
The following amendments and interpretations apply for the first time in 2021, but do not have an impact on the Condensed Consolidated Interim Financial Statements of 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

The comparative figures for the financial year ended 31 December 2020 are not the Company's statutory accounts for that financial year. Those accounts have been reported on by the Company's auditor and delivered to the Registrar of Companies. The report of the auditor (i) was unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006.

These Condensed Consolidated Interim Financial Statements have not been audited or reviewed by an auditor pursuant to the Auditing Practices Board's Guidance on Financial Information.

The Condensed Consolidated Interim Financial Statements are prepared on the going concern basis, as explained in the Financial Review.

2. Financial risks, estimates, assumptions and judgements

The preparation of the Condensed Consolidated Interim Financial Statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from estimates.

In preparing these Condensed Consolidated Interim Financial Statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Consolidated Financial Statements as at and for the year ended 31 December 2020, relating to actuarial assumptions on pension obligations, impairment of goodwill and other indefinite life intangible assets, and liabilities for uncertain tax positions.

3. Exchange rates

The principal exchange rates used were as follows:

	6 months ended 30 June 2021		6 months ended 30 June 2020		Year ended 31 December 2020	
	Average	**Closing**	Average	Closing	Average	Closing
Sterling to Euro (£1 = EUR)	**1.15**	**1.17**	1.14	1.10	1.13	1.11
Sterling to US Dollar (£1 = USD)	**1.39**	**1.38**	1.26	1.24	1.28	1.36
Sterling to Swedish Krona (£1 = SEK)	**11.67**	**11.81**	12.20	11.51	11.80	11.15
Sterling to Indian Rupee (£1 = INR)	**101.87**	**102.75**	93.41	93.33	95.10	99.73
Sterling to Australian Dollar (£1 = AUD)	**1.80**	**1.84**	1.92	1.80	1.86	1.76

4. Segmental information

The Group has three reportable segments which are Roads & Security, Utilities, and Galvanizing Services. Several operating segments that have similar economic characteristics have been aggregated into these reporting segments. 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

	6 months ended 30 June 2021			6 months ended 30 June 2020		
	Revenue £m	Reported operating profit £m	Underlying operating profit* £m	Revenue £m	Reported operating profit £m	Underlying operating profit* £m
Roads & Security	**146.8**	**(8.0)**	**9.5**	128.2	2.0	4.3
Utilities	**107.7**	**11.7**	**12.0**	101.4	7.7	8.2
Galvanizing Services	**99.7**	**20.4**	**21.0**	86.0	13.8	14.3
Total Group	**354.2**	**24.1**	**42.5**	315.6	23.5	26.8
Net financing costs		**(3.3)**	**(3.3)**		(4.0)	(4.0)
Profit before taxation		**20.8**	**39.2**		19.5	22.8
Taxation		**(8.9)**	**(8.6)**		(3.8)	(4.4)
Profit after taxation		**11.9**	**30.6**		15.7	18.4

	Year ended 31 December 2020		
	Revenue £m	Reported operating profit £m	Underlying operating profit* £m
Roads & Security	263.4	5.6	13.2
Utilities	211.2	20.1	20.9
Galvanizing Services	185.9	17.1	35.8
Total Group	660.5	42.8	69.9
Net financing costs		(7.3)	(7.3)
Profit before taxation		35.5	62.6
Taxation		(11.5)	(12.4)
Profit after taxation		24.0	50.2

*Underlying operating profit is an alternative performance measure which is stated before non-underlying items as defined in note 6 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 £0.8m of products and services to Utilities (six months ended 30 June 2020: £0.8m, year ended 31 December 2020: £1.7m) and £3.1m of products and services to Roads & Security (six months ended 30 June 2020: £2.6m, year ended 31 December 2020: £5.2m). Utilities sold £1.5m of products and services to Roads & Security (six months ended 30 June 2020: £1.0m, year ended 31 December 2020: £2.2m). Roads & Security sold £0.1m of products and services to Utilities (six months ended 30 June 2020: £nil, year ended 31 December 2020: £0.2m). These internal revenues, along with revenues generated within each segment, have been eliminated on consolidation.

In the following tables, revenue from contracts with customers is disaggregated by primary geographical market, major product/service line 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.

	Roads & Security		Utilities		Galvanizing		Total	
Primary geographical markets	**6 months ended 30 June 2021 £m**	6 months ended 30 June 2020 £m	**6 months ended 30 June 2021 £m**	6 months ended 30 June 2020 £m	**6 months ended 30 June 2021 £m**	6 months ended 30 June 2020 £m	**6 months ended 30 June 2021 £m**	6 months ended 30 June 2020 £m
UK	**80.2**	68.2	**34.4**	26.3	**35.6**	26.5	**150.2**	121.0
Rest of Europe	**27.5**	24.7	**2.5**	2.5	**29.4**	23.1	**59.4**	50.3
North America	**32.7**	31.5	**66.3**	70.4	**34.7**	36.4	**133.7**	138.3
The Middle East	**2.0**	1.6	**0.3**	0.4	**-**	-	**2.3**	2.0
Rest of Asia	**0.9**	0.4	**3.3**	1.5	**-**	-	**4.2**	1.9
Rest of the world	**3.5**	1.8	**0.9**	0.3	**-**	-	**4.4**	2.1
	146.8	128.2	**107.7**	101.4	**99.7**	86.0	**354.2**	315.6
Major product/service lines								
Manufacture, supply and installation of products	**136.9**	116.5	**107.7**	101.4	**-**	-	**244.6**	217.9
Galvanizing services	**-**	-	**-**	-	**99.7**	86.0	**99.7**	86.0
Rental income	**9.9**	11.7	**-**	-	**-**	-	**9.9**	11.7
	146.8	128.2	**107.7**	101.4	**99.7**	86.0	**354.2**	315.6
Timing of revenue recognition								
Products and services transferred at a point in time	**115.7**	93.7	**56.4**	51.1	**99.7**	86.0	**271.8**	230.8
Products and services transferred over time	**31.1**	34.5	**51.3**	50.3	**-**	-	**82.4**	84.8
	146.8	128.2	**107.7**	101.4	**99.7**	86.0	**354.2**	315.6

	Year ended 31 December 2020			
	Roads & Security £m	Utilities £m	Galvanizing £m	Total £m
Primary geographical markets				
UK	140.7	59.6	59.2	259.5
Rest of Europe	53.9	6.0	50.9	110.8
North America	58.0	138.2	75.8	272.0
The Middle East	5.2	1.4	-	6.6
Rest of Asia	0.8	5.4	-	6.2
Rest of the world	4.8	0.6	-	5.4
	263.4	211.2	185.9	660.5
Major product/service lines				
Manufacture, supply and installation of products	240.4	211.2	-	451.6
Galvanizing services	-	-	185.9	185.9
Rental income	23.0	-	-	23.0
	263.4	211.2	185.9	660.5
Timing of revenue recognition				
Products and services transferred at a point in time	201.6	107.9	185.9	495.4
Products and services transferred over time	61.8	103.3	-	165.1
	263.4	211.2	185.9	660.5

5. 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 tax;
- 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; and
- Underlying earnings per share. A reconciliation of statutory earnings per share to underlying earnings per share is provided in note 9.

All underlying measures exclude certain non-underlying items, which are detailed in note 6. 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.

Reconciliation of underlying to reported profit before tax

	6 months ended 30 June 2021 £m	6 months ended 30 June 2020 £m	Year ended 31 December 2020 £m
Underlying profit before tax	**39.2**	22.8	62.6
Non-underlying items:			
Amortisation of acquisition intangibles	**(3.0)**	(3.1)	(6.1)
Business reorganisation costs	**(2.9)**	-	-
Impairment of assets	**(11.2)**	-	(20.3)
Acquisition related expenses	**(0.5)**	(0.2)	(0.3)
Past service pension expense	**-**	-	(0.4)
Loss on disposal of subsidiary	**(0.8)**	-	-
Reported profit before tax	**20.8**	19.5	35.5

Reconciliation of underlying to reported operating profit by segment

	Roads & Security		**Utilities**		**Galvanizing**		**Total**	
	6 months ended 30 June 2021 £m	6 months ended 30 June 2020 £m	**6 months ended 30 June 2021 £m**	6 months ended 30 June 2020 £m	**6 months ended 30 June 2021 £m**	6 months ended 30 June 2020 £m	**6 months ended 30 June 2021 £m**	6 months ended 30 June 2020 £m
Underlying operating profit	**9.5**	4.3	**12.0**	8.2	**21.0**	14.3	**42.5**	26.8
Non-underlying items:								
Amortisation of acquisition intangibles	**(2.1)**	(2.1)	**(0.3)**	(0.5)	**(0.6)**	(0.5)	**(3.0)**	(3.1)
Business reorganisation costs	**(2.9)**	-	**-**	-	**-**	-	**(2.9)**	-
Acquisition related expenses	**(0.5)**	(0.2)	**-**	-	**-**	-	**(0.5)**	(0.2)
Loss on disposal of subsidiary	**(0.8)**	-	**-**	-	**-**	-	**(0.8)**	-
Impairment of assets	**(11.2)**	-	**-**	-	**-**	-	**(11.2)**	-
Reported operating profit/(loss)	**(8.0)**	2.0	**11.7**	7.7	**20.4**	13.8	**24.1**	23.5

	Year ended 31 December 2020			
	Roads & Security £m	Utilities £m	Galvanizing £m	Total £m
Underlying operating profit	13.2	20.9	35.8	69.9
Non-underlying items:				
Amortisation of acquisition intangibles	(4.3)	(0.7)	(1.1)	(6.1)
Impairment of assets	(2.8)	-	(17.5)	(20.3)
Acquisition related expenses	(0.3)	-	-	(0.3)
Pension past service expense	(0.2)	(0.1)	(0.1)	(0.4)
Reported operating profit	5.6	20.1	17.1	42.8

Calculation of underlying operating profit margin

	Roads & Security		Utilities		Galvanizing		Total	
	6 months ended 30 June 2021 £m	6 months ended 30 June 2020 £m	**6 months ended 30 June 2021 £m**	6 months ended 30 June 2020 £m	**6 months ended 30 June 2021 £m**	6 months ended 30 June 2020 £m	**6 months ended 30 June 2021 £m**	6 months ended 30 June 2020 £m
Underlying operating profit	**9.5**	4.3	**12.0**	8.2	**21.0**	14.3	**42.5**	26.8
Revenue	**146.8**	128.2	**107.7**	101.4	**99.7**	86.0	**354.2**	315.6
Underlying operating profit margin (%)	**6.5%**	3.4%	**11.1%**	8.1%	**21.1%**	16.6%	**12.0%**	8.5%

	Year ended 31 December 2020			
	Roads & Security £m	Utilities £m	Galvanizing £m	Total £m
Underlying operating profit	13.2	20.9	35.8	69.9
Revenue	263.4	211.2	185.9	660.5
Underlying operating profit margin (%)	5.0%	9.9%	19.3%	10.6%

Organic measure of change in revenue and underlying operating profit

	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	128.2	4.3	101.4	8.2	86.0	14.3	315.6	26.8
Impact of exchange rate movements from 2020 to 2021	(2.5)	(0.4)	(6.8)	(0.9)	(3.5)	(1.1)	(12.8)	(2.4)
2020 translated at 2021 exchange rates (A)	125.7	3.9	94.6	7.3	82.5	13.2	302.8	24.4
Acquisitions and disposals	2.1	0.2	-	-	-	-	2.1	0.2
Organic growth (B)	19.0	5.4	13.1	4.7	17.2	7.8	49.3	17.9
2021	**146.8**	**9.5**	**107.7**	**12.0**	**99.7**	**21.0**	**354.2**	**42.5**
Organic growth % (B divided by A)	**15%**	**139%**	**14%**	**64%**	**21%**	**59%**	**16%**	**73%**

Calculation of underlying cash conversion ratio

	6 months ended 30 June 2021 £m	6 months ended 30 June 2020 £m	Year ended 31 December 2020 £m
Underlying operating profit	**42.5**	26.8	69.9
Calculation of adjusted operating cash flow:			
Cash generated by operations	**38.4**	59.3	118.3
Less: Purchase of assets for rental to customers	**(1.6)**	(2.0)	(3.1)
Less: Purchase of property, plant and equipment	**(8.7)**	(10.2)	(15.5)
Less: Purchase of intangible assets	**(0.4)**	(0.7)	(1.8)
Less: Repayments of lease liabilities	**(5.0)**	(5.4)	(11.1)
Add: Proceeds on disposal of non-current assets and assets held for sale	**0.7**	0.6	6.5
Add back: Defined benefit pension scheme deficit payments	**1.9**	1.7	3.6
Add back: Cash flows relating to non-underlying items	**0.6**	0.2	0.6
Adjusted operating cash flow	**25.9**	43.5	97.5
Underlying cash conversion (%)	**61%**	162%	139%

Calculation of capital expenditure to depreciation and amortisation ratio

	6 months ended 30 June 2021 £m	6 months ended 30 June 2020 £m	Year ended 31 December 2020 £m
Calculation of capital expenditure:			
Purchase of assets for rental to customers	**1.6**	2.0	3.1
Purchase of property, plant and equipment	**8.7**	10.2	15.5
Purchase of intangible assets	**0.4**	0.7	1.8
	10.7	12.9	20.4
Calculation of depreciation and amortisation:			
Depreciation of property, plant and equipment	**10.5**	10.9	21.9
Amortisation of development costs	**0.5**	0.5	1.2
Amortisation of other intangible assets	**0.2**	0.1	0.2
	11.2	11.5	23.3
Capital expenditure to depreciation and amortisation ratio	**1.0x**	1.1x	0.9x

6. Non-underlying items

Non-underlying items are disclosed 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, comprising professional fees incurred and any consideration which, under IFRS 3 (Revised) is required to be treated as a post-acquisition employment expense.
- 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 period and prior year are set out below.

	6 months ended 30 June 2021 £m	6 months ended 30 June 2020 £m	Year ended 31 December 2020 £m
Amortisation of acquisition intangibles	**(3.0)**	(3.1)	(6.1)
Business reorganisation costs (a)	**(2.9)**	-	-
Impairment of assets (b)	**(11.2)**	-	(20.3)
Acquisition related expenses (c)	**(0.5)**	(0.2)	(0.3)
Past service pension expenses (d)	**-**	-	(0.4)
Loss on disposal of subsidiary (e)	**(0.8)**	-	-
	(18.4)	(3.3)	(27.1)

Notes:

a) Following a period of weak trading and a strategic review of future options, in March 2021 the Group took the decision to close its loss-making variable message sign ('VMS') business. Business reorganisation costs of £2.9m in 2021 reflect the anticipated cash costs of closure, which is expected to be completed by the end of the year. An additional impairment charge of £0.4m has also been recognised in the period following a reassessment of the carrying value of inventories in the business and is recognised within "impairment of assets" in the table above.

b) In 2021, an impairment charge of £10.8m in respect of goodwill relating to ATG Access Limited ('ATG') has been recorded. 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-19 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 the first half of 2021 have 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 performed at 30 June 2021 concluded that ATG's expected future cash flows were not sufficient to support its carrying value at that date, resulting in an impairment of the acquisition goodwill.

In 2020, the impairment charge of £20.3m included asset impairments of £2.8m associated with the VMS closure, reflecting the expected realisable value of the business's assets at that date, and comprised goodwill and intangible assets of £1.1m, tangible fixed assets of £0.5m, inventories of £0.8m and right-of-use lease assets of £0.4m. The remaining £17.5m impairment charge reflected an impairment of goodwill relating to France Galva SA, following a reassessment of its future outturn in light of the impacts of the COVID-19 pandemic.

c) Acquisition related expenses of £0.5m (year ended 31 December 2020: £0.3m) include £0.1m (year ended 31 December 2020: £0.2m) relating to future consideration payments to previous owners of the acquired businesses, the terms of which require those costs to be treated as a post-acquisition employment expense in accordance with IFRS 3 (Revised).

d) In October 2018, the High Court handed down a judgement requiring businesses with defined benefit pension schemes to equalise the historical Guaranteed Minimum Pensions between male and female members. 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 equalisation. The Group recognised a charge of £0.4m in 2020 in respect of the impact of the latest judgement.

e) On 15 June 2021 the Group completed the disposal of Technocover Limited, our small, loss-making security access covers business, at a loss of £0.8m. 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
Current assets	1.9
Cash	0.6
Lease liabilities	(0.1)
Current liabilities	(2.1)
Net assets disposed	**2.6**
Consideration	
Consideration received	2.2
Less costs of disposal	(0.4)
Loss on disposal	**0.8**

7. Net financing costs

	6 months ended 30 June 2021 £m	6 months ended 30 June 2020 £m	Year ended 31 December 2020 £m
Interest on bank deposits	**0.2**	0.3	0.6
Financial income	**0.2**	0.3	0.6
Interest on loans and borrowings	**(2.5)**	(3.3)	(6.0)
Interest on lease liabilities	**(0.4)**	(0.4)	(0.8)
Financial expenses related to refinancing	**(0.4)**	(0.4)	(0.8)
Interest cost on net pension scheme deficit	**(0.2)**	(0.2)	(0.3)
Financial expense	**(3.5)**	(4.3)	(7.9)
Net financing costs	**(3.3)**	(4.0)	(7.3)

8. Taxation

Tax has been provided on the underlying profit at the estimated effective rate of 21.8% (2020: 19.5%) for existing operations for the full year.

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 believes 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 30 June 2021.

9. Earnings per share

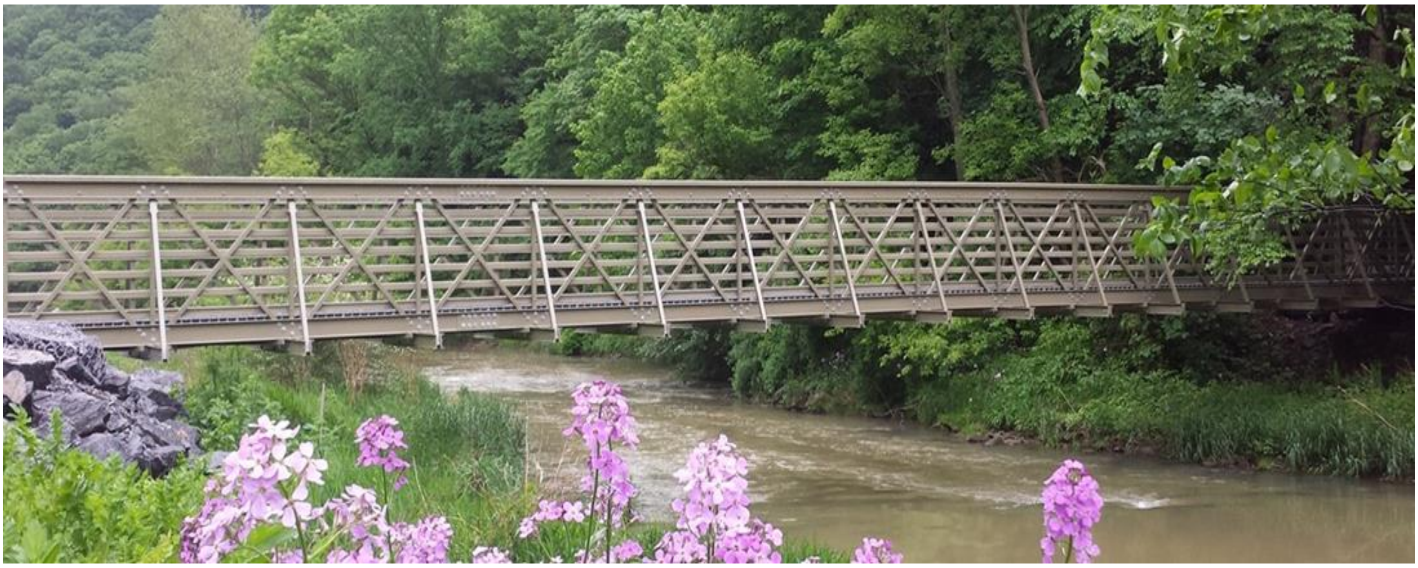
The weighted average number of ordinary shares in issue during the period was 79.6m, diluted for the effect of outstanding share options 80.3m (six months ended 30 June 2020: 79.4m and 79.9m diluted; the year ended 31 December 2020: 79.5m and 79.9m diluted). Underlying earnings per share are shown below as the Directors consider that this measurement of earnings gives valuable information on the underlying performance of the Group:

	6 months ended 30 June 2021		6 months ended 30 June 2020		Year ended 31 December 2020	
	Pence per share	**£m**	Pence per share	£m	Pence per share	£m
Basic earnings	**15.0**	**11.9**	19.7	15.7	30.2	24.0
Non-underlying items*	**23.5**	**18.7**	3.4	2.7	33.0	26.2
Underlying earnings	**38.5**	**30.6**	23.1	18.4	63.2	50.2
Diluted earnings	**14.9**	**11.9**	19.6	15.7	30.0	24.0
Non-underlying items*	**23.3**	**18.7**	3.3	2.7	32.9	26.2
Underlying diluted earnings	**38.2**	**30.6**	22.9	18.4	62.9	50.2

* Non-underlying items as detailed in note 6.

10. Dividends

Dividends paid in the period were the prior year's interim dividend of £7.3m (2020: £8.4m). Dividends declared after the Balance Sheet date are not recognised as a liability, in accordance with IAS 10. The Directors have proposed an interim dividend for the current year of £9.6m, 12.0p per share (2020: £7.3m, 9.2p per share), which will be paid on 7 January 2022 to shareholders on the register on 3 December 2021.



11. Intangible assets

Acquisition of 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:

Assets acquired and liabilities assumed	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	1.8	-	1.8
Cash	0.2	-	0.2
Total assets	**5.1**	**6.1**	**11.2**
Lease liabilities	-	(1.8)	(1.8)
Current liabilities	(1.0)	-	(1.0)
Current interest bearing liabilities	(1.2)	1.2	-
Deferred tax	-	(1.4)	(1.4)
Total liabilities	**(2.2)**	**(2.0)**	**(4.2)**
Net assets	**2.9**	**4.1**	**7.0**
Consideration			
Consideration in the year			12.0
Fair value of contingent consideration due within 1 year			0.9
Goodwill			**5.9**
Cash flow effect			
Consideration in the year			12.0
Cash acquired with 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 businesses 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.

Post-acquisition the acquired business has contributed £2.5m revenue and £0.2m underlying 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 period would have shown revenue of £355.4m and underlying operating profit of £42.8m.

Impairment of goodwill and indefinite life intangible assets

IAS 36 *Impairment of Assets* requires the Group to test goodwill and other indefinite life intangible assets for impairment annually, or at other reporting period ends where there is an indication of impairment. In determining which Cash Generating Units (CGUs) to test at 30 June 2021, the Group identified those where the trading performance or outlook in the first six months of the year had fallen substantially below previous expectations. On this basis, impairment tests were carried out on the ATG Access and Parking Facilities CGUs. Notwithstanding a positive performance in the first half of 2021, given that the France Galva SA CGU was impaired by £17.5m at 31 December 2020 and was therefore carried at its recoverable amount at that date, the Group concluded that it would also be appropriate to test France Galva SA at 30 June 2021.

Consistent with past practice and as disclosed in the Group's 2020 Annual Report, impairment tests on the carrying values of goodwill are performed by comparing 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. Short-term cash flows are based on latest management forecasts for the second half of 2021 and strategic plans for the following four years. 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, which vary between 1.6% and 2.0%. The Board believes the use of long-term historical growth rates is currently the most reliable indicator of future growth rates, given the ongoing volatility and uncertainty in any forward-looking growth projections at the reporting date. Discount rates are derived from a market participant's cost of capital, risk adjusted for individual CGU's circumstances.

Based on the methodology outlined above, the impairment review for ATG Access concluded that the carrying values of the assets of the business exceeded their recoverable amount by £10.8m. The Group has therefore recognised an impairment charge of £10.8m in respect of ATG Access, as detailed in note 6, all of which has been allocated to the goodwill arising on acquisition. No impairments were identified for the France Galva SA or Parking Facilities CGUs.

The Group has applied sensitivities to assess whether any reasonably possible changes in assumptions could cause an impairment of the goodwill in each tested CGU. These sensitivity analyses identified potential impairments in respect of the France Galva SA and ATG Access CGUs.

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 2021 and 2025, 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 additional 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
Percentage change in 2025 galvanizing volumes compared with 2019	Base case	1.1	7.0
	H&S sensitised *	(5.3)	(5.1)
	Zero headroom	(2.6)	-
Annual cash flow growth 2026 onwards	Base case	1.6	7.0
	H&S sensitised	0.0	(1.5)
	Zero headroom	0.3	-
Pre-tax discount rate	Base case	18.5	7.0
	H&S sensitised	20.5	(4.0)
	Zero headroom	19.7	-

* This scenario assumes no growth in galvanizing volumes between 2021 and 2025. The sensitivity compares future volumes with 2019 to determine the extent to which performance is expected to return to pre-pandemic levels in the future.

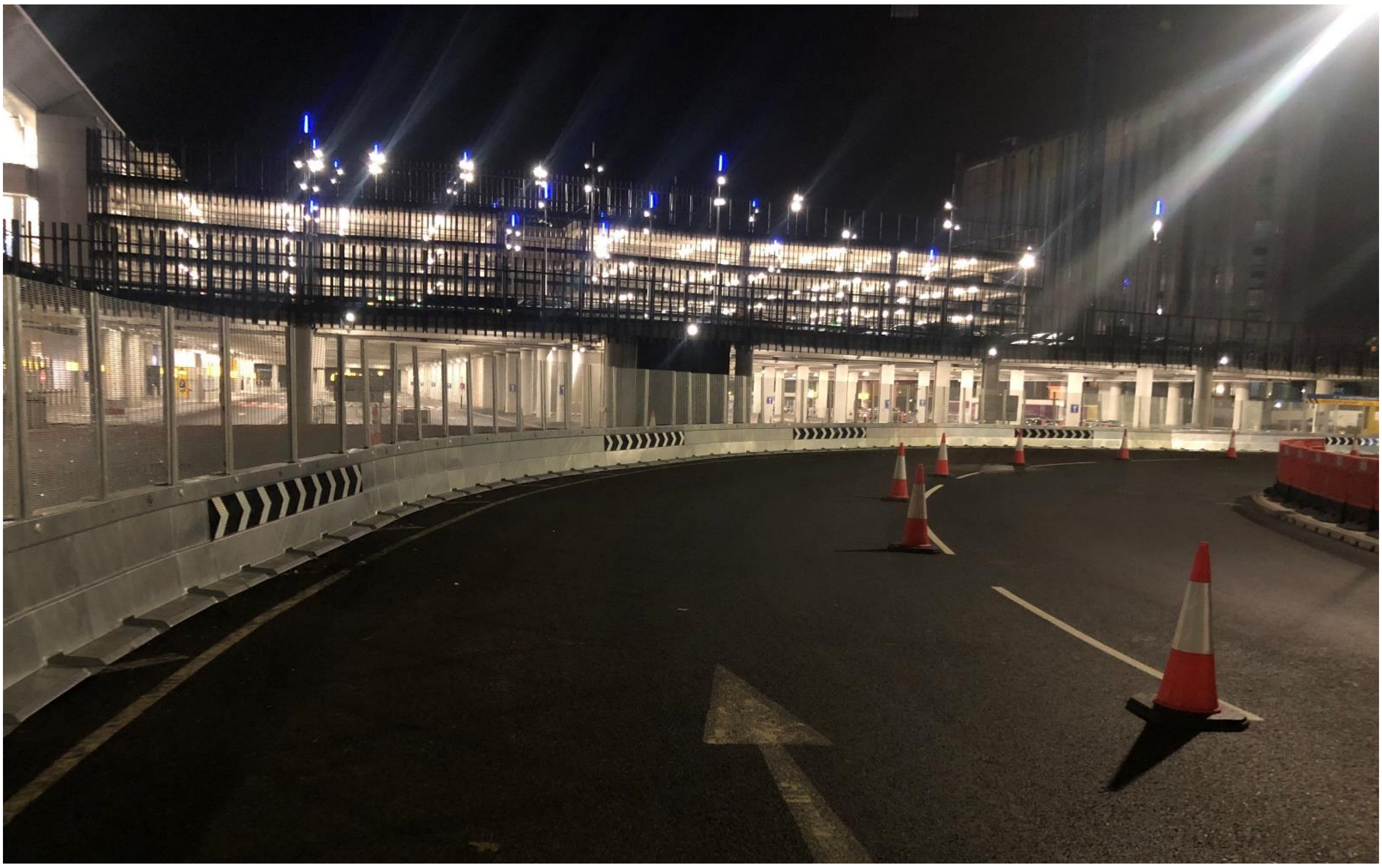
ATG Access

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 £m
Compound annual revenue growth 2021-2025	Base case	3.9	-
	H&S sensitivity 1 *	2.0	(3.3)
	H&S sensitivity 2 *	0.0	(6.6)
Gross profit margin 2025 onwards	Base case	27.3	-
	H&S sensitivity 1 **	25.5	(2.9)
	H&S sensitivity 2 **	23.8	(5.6)
Annual cash flow growth 2026 onwards	Base case	2.0	-
	H&S sensitivity 1	1.0	(1.5)
	H&S sensitivity 2	0.0	(2.7)
Pre-tax discount rate	Base case	20.2	-
	H&S sensitivity 1	21.4	(1.9)
	H&S sensitivity 2	22.7	(3.4)

* 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 the forecast 2021 outturn).

** Illustrates the impacts of long-term gross margins of 25.5% (the midpoint of the base case range between 2021 and 2025) and 23.8% (consistent with the forecast H2 2021 outturn).



12. Analysis of net debt

	6 months ended 30 June 2021 £m	6 months ended 30 June 2020 £m	Year ended 31 December 2020 £m
Cash and cash equivalents in the Condensed Consolidated Statement of Financial Position			
Cash and short term deposits	**19.2**	20.5	22.0
Bank overdrafts	**(5.9)**	-	(8.1)
Cash and cash equivalents	**13.3**	20.5	13.9
Interest bearing loans and other borrowings			
Amounts due within one year	**(0.4)**	(0.4)	(0.5)
Amounts due after more than one year	**(131.6)**	(179.2)	(127.2)
Lease liabilities due within one year	**(9.6)**	(9.7)	(8.6)
Lease liabilities due after more than one year	**(26.3)**	(26.6)	(23.8)
Net debt	**(154.6)**	(195.4)	(146.2)

	6 months ended 30 June 2021 £m	6 months ended 30 June 2020 £m	Year ended 31 December 2020 £m
Change in net debt			
Operating profit	**24.1**	23.5	42.8
Non-cash items	**31.2**	19.6	58.1
Operating cash flow before movement in working capital	**55.3**	43.1	100.9
Net movement in working capital	**(15.3)**	18.3	18.2
Change in provisions and employee benefits	**(1.6)**	(2.1)	(0.8)
Operating cash flow	**38.4**	59.3	118.3
Tax paid	**(9.2)**	(10.0)	(16.5)
Net financing costs paid	**(2.1)**	(2.9)	(5.4)
Capital expenditure	**(10.7)**	(12.9)	(20.4)
Proceeds on disposal of non-current assets and assets held for sale	**0.7**	0.6	6.5
Free cash flow	**17.1**	34.1	82.5
Dividends paid (note 10)	**(7.3)**	(8.4)	(8.4)
Acquisitions	**(13.6)**	-	(0.9)
Disposals	**1.3**	-	-
Expense associated with refinancing activities	**(0.4)**	(0.4)	(0.8)
Purchase of shares for employee benefit trust	**(0.7)**	-	-
Issue of new shares	**1.1**	0.8	1.0
New leases and lease remeasurements	**(7.2)**	(1.0)	(3.2)
Interest on lease liabilities	**(0.4)**	(0.4)	(0.8)
Net debt (increase)/decrease	**(10.1)**	24.7	69.4
Effect of exchange rate fluctuations	**1.7**	(4.8)	(0.3)
Net debt at the beginning of the period	**(146.2)**	(215.3)	(215.3)
Net debt at the end of the period	**(154.6)**	(195.4)	(146.2)

13. Financial instruments

The table below sets out the Group's accounting classification of its financial assets and liabilities and their fair values as at 30 June 2021. 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	-	**13.3**	**13.3**	**13.3**
Loans and borrowings due within one year	-	**(0.4)**	**(0.4)**	**(0.4)**
Loans and borrowings due after more than one year	-	**(131.6)**	**(131.6)**	**(131.6)**
Lease liabilities due within one year	-	**(9.6)**	**(9.6)**	**(9.6)**
Lease liabilities due after more than one year	-	**(26.3)**	**(26.3)**	**(26.3)**
Other assets	-	**141.7**	**141.7**	**141.7**
Other liabilities	-	**(116.6)**	**(116.6)**	**(116.6)**
Total at 30 June 2021	-	**(129.5)**	**(129.5)**	**(129.5)**

Fair value hierarchy

There were no financial instruments carried at fair value at 30 June 2021, 30 June 2020 or 31 December 2020.

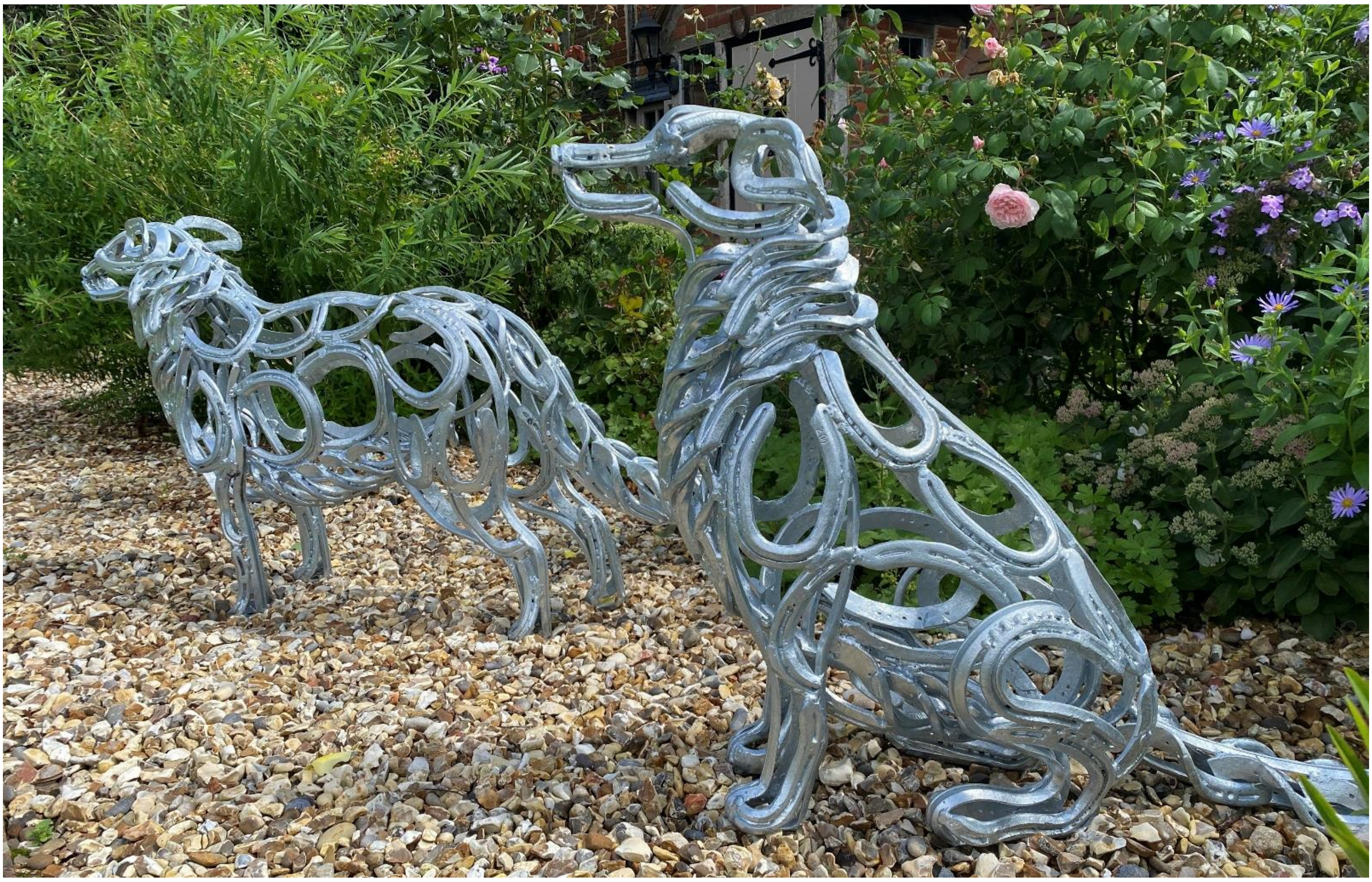
Financial Calendar

Ex-dividend date for 2021 interim dividend	2 December 2021
Record date	3 December 2021
Payment of interim dividend for 2021	7 January 2022
Preliminary results announcement for 2021	10 March 2022
Annual General Meeting 2022	24 May 2022

Dividend Reinvestment Plan

Hill & Smith offers a Dividend Reinvestment Plan ('Plan'). The Plan, administered by the Company's Registrars, Computershare Investor Services, allows shareholders to reinvest their cash dividends in Hill & Smith ordinary shares.

Shareholders who have not already joined the Plan in respect of the interim dividend to be paid on 7 January 2022, need to elect to do so by 14 December 2021 and can contact Computershare Investor Services either by telephoning 0370 707 1058 or by visiting their website at www.computershare.com/investor/UK.



Directors, Contacts & 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

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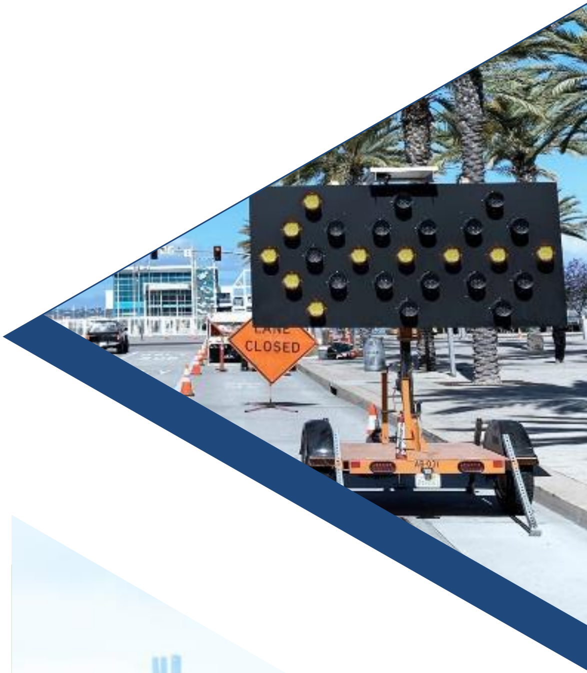

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