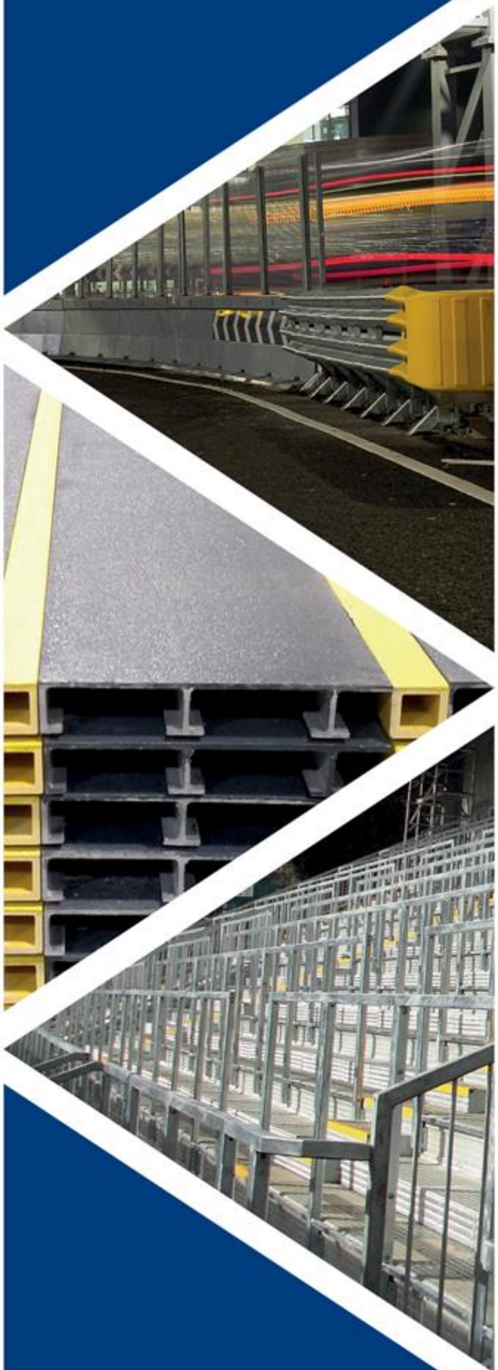
Hill & Smith Holdings PLC

# Delivering intelligent Protection solutions



2020

Half year results

Six months ended 30 June 2020

Stock code HILS

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North Terminal
Air cargo
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**Hill & Smith Holdings PLC**
**Half Year Results (unaudited) for the 6 months ended 30 June 2020**
**Resilient H1 performance; well positioned for recovery; resumption of dividend**

Hill & Smith Holdings PLC ("Hill & Smith" or "the Group"), the international group with leading positions in the manufacture and supply of infrastructure products and galvanizing services to global markets, announces its unaudited results for the six months ended 30 June 2020 ("the period").

## Financial Results

| | 30 June 2020 | 30 June 2019 | *Change* Reported % | Constant** Currency % |
|---|---|---|---|---|
| Revenue | **£315.6m** | £339.5m | *-7* | *-8* |
| Underlying*: | | | | |
| Operating profit | **£26.8m** | £40.2m | *-33* | *-34* |
| Operating margin | **8.5%** | 11.8% | *-330bps* | |
| Profit before taxation | **£22.8m** | £36.9m | *-38* | *-39* |
| Earnings per share | **23.1p** | 37.5p | *-38* | *-39* |
| Reported: | | | | |
| Operating profit | **£23.5m** | £36.6m | *-36* | |
| Profit before taxation | **£19.5m** | £33.4m | *-42* | |
| Basic earnings per share | **19.7p** | 33.9p | *-42* | |
| Dividend per share | **9.2p** | 10.6p | *-13* | |

## Key points:

- **Safety, health and wellbeing of all employees has remained our key priority during the COVID-19 pandemic**
- **Resilient performance with all Group divisions remaining profitable throughout the first half**
  - **US businesses delivered organic revenue and profit growth in the period**
  - **Progressive improvement in Group trading since April**
- **Strong cash generation supported by cash preservation actions**
- **Robust financial position with net debt of £195.4m and c.£193m of facilities headroom**
- **Resumption of dividend policy with FY20 interim dividend of 9.2p declared**
- **Outlook for infrastructure spend remains positive**

**Derek Muir, Chief Executive, said:**

"The Group responded positively to the challenges it faced following the lockdown measures introduced to combat the spread of COVID-19. I would like to put on record my appreciation of the efforts of all our employees and suppliers who have enabled our businesses to continue to service our customers in these difficult times.

"We are seeing a gradual recovery in trading and assuming that end markets continue to remain open, we expect a stronger performance in the second half. It remains likely that governments will stimulate their economies through additional or accelerated infrastructure spending, which the Group is well placed to benefit from in the remainder of 2020 and into 2021. We are also pleased with our cash generation in the period which provides significant financial headroom to fund growth, and together with a more positive outlook has also allowed us to reinstate our dividend policy with the declaration of an interim dividend of 9.2p per share."

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** All underlying measures exclude certain non-underlying items, which are as detailed in note 8 to the financial statements and described in the Financial Review. References to an underlying profit measure throughout this announcement 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 would otherwise distort 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 6 to the financial statements. They are presented on a consistent basis over time to assist in comparison of performance.*

*** Where we make reference to constant currency amounts, these are prepared using exchange rates which prevailed in the current year rather than the actual exchange rates that applied in the prior year. Where we make reference to organic measures, we 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.*

***Notes to Editors***
*Hill & Smith Holdings PLC is an international group with leading positions in the design, manufacture and supply of infrastructure products and galvanizing services to global markets. It serves its customers from facilities principally in the UK, France, USA, Sweden, India and Australia.*

*The Group's operations are organised into three main business segments:*

*Infrastructure Products – Roads & Security, supplying products and services such as permanent and temporary road safety barriers, hostile vehicle mitigation products, street lighting columns, bridge parapets, temporary car parks, variable road messaging solutions, access covers and security fencing.*

*Infrastructure Products – Utilities, supplying products and services such as pipe supports for the power and liquid natural gas markets, energy grid components, composite products, building products, industrial flooring and handrails.*

*Galvanizing Services which provides zinc and other coatings for a wide range of products including fencing, lighting columns, structural steel work, bridges, agricultural and other products for the infrastructure and construction markets.*

*Headquartered in the UK and quoted on the London Stock Exchange (LSE: HILS.L), Hill & Smith Holdings PLC employs some 4,500 staff, principally in six countries.*

## Business Review

### Introduction

The first half of 2020 has seen unprecedented economic conditions for businesses across the world, with the COVID-19 pandemic presenting significant challenges. The Board would like to sincerely thank all our employees for their dedication and hard work during these challenging times. Their safety, health and wellbeing has remained our key priority throughout and the Group continues to follow all local public health guidance in conducting its operations.

The Group made a strong start to the year, delivering organic revenue and profit growth in the first quarter. As expected, trading performance in the six months to 30 June 2020 has been impacted by COVID-19 related business closures and reduced activity levels from the middle of March. As a result, revenue for the second quarter was 22% lower than the same period last year. We are pleased to report that all those businesses that were temporarily closed reopened by the middle of May and we have seen a gradual recovery in trading across the Group.

We are proud that all divisions in the Group remained profitable during this difficult period. This has been possible due to the international mix of businesses in the Group, our focused strategy of serving "essential" niche infrastructure markets and our decentralised business model, with high quality teams who have been able to respond quickly to local market conditions as they unfold. Our US businesses, which represented 44% of Group revenues for the period, have proved particularly resilient, delivering organic revenue and profit growth in the first half.

In addition, we have taken steps to control costs and conserve cash flows without impacting our longer-term growth prospects. Our businesses reacted quickly and decisively to limit discretionary spend and have continued to drive local efficiency plans, taking the opportunity to adapt as required. Cash preservation measures include withdrawal of the final 2019 dividend and tightly managing working capital across the Group. A rigorous review of capital expenditure has also been carried out to limit non-essential spend, while still maintaining investment in key organic growth opportunities. Where necessary, we have made use of government employee furlough schemes to preserve jobs, however with trading conditions now beginning to improve, we do not intend to access such schemes beyond July 2020 and do not expect to take advantage of the recently announced UK Job Retention Bonus.

As a result of the decisive actions taken, the Group continues to be cash generative, maintain a strong liquidity headroom position and robust balance sheet, and operate well within borrowing covenants. This positions us well for the future as we continue to focus on growth opportunities across our businesses.

### Results

Revenue for the period was £315.6m, 7% lower than prior year (2019: £339.5m), including a translational currency benefit of £3.1m. Organically, revenues were 10% below the same period prior year. The Group remained profitable throughout the period, with underlying operating profit of £26.8m (2019: £40.2m), including a benefit from currency translation of £0.6m. Underlying operating margin for the period reduced to 8.5% (2019: 11.8%), mainly as a result of operational leverage on lower revenues, while underlying profit before taxation was 38% lower at £22.8m (2019: £36.9m). Reported operating profit was £23.5m (2019: £36.6m) and reported profit before tax was £19.5m (2019: £33.4m).

## Financial Position and Liquidity

Net debt as at 30 June 2020 was £195.4m compared with £215.3m as at 31 December 2019. At 30 June 2020, the Group had £193.4m of headroom against its borrowing facilities of £356.3m (£341.8m committed, £14.5m on demand). As a result of the future uncertainties created by COVID-19, we have ensured that we have stress-tested our liquidity under a range of scenarios and we are comfortable that the Group has sufficient financial headroom.

The net debt to EBITDA ratio under the Group's principal banking facilities at 30 June 2020 was 1.7 times (31 December 2019: 1.6 times), while interest cover was 15.7 times (31 December 2019: 17.9 times). The Group continues to comply with its borrowing covenants, being net debt to EBITDA of 3.0x and interest cover of 4.0x. The covenants are calculated excluding the impact of IFRS 16 and are tested twice yearly on a 12-month historic basis.

## Dividend

The Board understands the importance of the dividend to our shareholders and is announcing the resumption of dividend payments with the declaration of an interim dividend for FY 2020 of 9.2p per share (2019: 10.6p). The interim dividend will be paid on 8 January 2021 to shareholders on the register on 4 December 2020. In deciding the interim dividend, the Board has weighed the Group's trading and outlook against the need to maintain prudent ratios after considering all potential investment opportunities. As previously announced, the proposed 2019 final dividend was withdrawn and will now not be paid. The Board will continue to review the application of its dividend policy but is focused on maintaining dividends that are sustainable and progressive.

As part of this review process we are considering re-weighting our annual dividend pay-out to better reflect our historic and likely future H1/H2 operating profit performance. While no final decision has been made, this would likely result in a 40:60 pay-out ratio between the interim and final payment.

## Outlook

Forward guidance remains difficult, however, we would note that the Group's FY20 trading performance is likely to be second half weighted, assuming that end markets remain open. Looking forward, we believe the Group is well positioned to benefit from likely government stimulus in our major markets, as well as targeted new business opportunities underpinned by our strong balance sheet and liquidity.

During the period, we were encouraged by the UK Government's confirmation of the next phase of Road Investment Strategy ("RIS2") spend at £27.4bn over the next five years. In the US, the government infrastructure spend outlook is also looking positive, with likely bipartisan support for a new five-year Federal investment programme to repair and upgrade the nation's roads, bridges, rail and public transportation systems.

In the shorter term, experience of previous economic downturns suggests that governments may look to stimulate economic activity through investment in "shovel ready" infrastructure schemes and the Group's businesses are well placed to benefit from such programmes.

## Governance and the Board

On 2 April 2020, the Group announced that Derek Muir, Chief Executive, will step down from the Board on 31 December 2020, having informed the Board of his intention to retire and that Paul Simmons has been appointed to succeed Derek. Paul will join Hill & Smith as Chief Executive Designate and as a member of the Board on 1 September 2020.

## Operational Review

### Roads & Security

| | £m | | +/- | Constant Currency |
|---|---|---|---|---|
| | **2020** | 2019* | % | % |
| Revenue | **128.2** | 128.9 | -1 | -1 |
| Underlying operating profit | **4.3** | 10.7 | -60 | -60 |
| Underlying operating margin % | **3.4** | 8.3 | | |
| Reported operating profit | **2.0** | 8.8 | | |

** Restated as explained in note 5 to the Financial Statements.*

The expanded Hill & Smith Roads & Security division was formed on 1 January 2020. The new 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 hostile vehicle mitigation solutions, perimeter fencing and access covers. Financial comparatives have been restated to reflect the changes, further details of which are set out in note 5 to the Financial Statements.

The division had a strong first quarter, with revenue and underlying operating profit both growing organically year on year, however trading in the second quarter was impacted by COVID-19 related disruption, particularly in our security businesses. As a result, revenue for the period declined organically by 9% to £128.2m after a currency benefit of £0.5m and contribution from acquisitions of £10.3m. The division remained profitable with underlying operating profit of £4.3m (2019 (restated): £10.7m), however the underlying operating margin fell to 3.4% (2019 (restated): 8.3%), mainly as a result of the COVID-19 related disruption to our security businesses where, despite the additional revenue from prior year acquisitions, underlying operating profits were substantially lower than the prior period.

*UK Roads*

On 11 March 2020, the UK Government confirmed their commitment to investment in the UK road infrastructure with the announcement of £27.4bn spend for RIS 2 for the five years to 2025. In addition, we were encouraged that the Department of Transport concluded their review of the safety concerns on Britain's Smart Motorways and are committed to continue their construction, with enhancements, as part of the RIS 2 programme.

During the period, our temporary barrier business continued to operate with minimal disruption. As expected, utilisation levels were good in the first quarter but lower in the second as RIS 1 schemes started to come to an end. In the second quarter, the business benefitted from an increase in rental barrier fleet movement activity due to the quieter transport network during lockdown. Demand for Rebloc temporary concrete barrier has been encouraging and we have invested in further fleet expansion during the period. We expect steady rental barrier utilisation levels for the second half, with the continuation of existing RIS 1 Smart Motorway schemes and new local schemes. New RIS 2 Smart Motorway project activity is expected to commence in the first quarter of 2021.

Our permanent safety barrier business also fared well during the period. In the second quarter, we won a number of RIS 2 replacement barrier schemes which were released to take advantage of the quieter roads. The permanent barrier pipeline for the second half is encouraging both in the UK and for Middle East exports. The RIS 2 committed spend includes £450m for 1,000 miles of safety barrier replacement, which is positive for the longer-term outlook.

The variable message sign business has experienced various headwinds during the period including the delay of new RIS 2 Smart Motorway projects into 2021. We are continuing to take action to restructure the cost base to match the slowdown in demand. Our remaining UK roads portfolio consists of street furniture and lighting columns, bridge parapets, temporary car parks and concrete arches. While all these businesses remained open during the period to meet essential customer demand, trading in the second quarter was adversely impacted by customer delays and deferrals caused by COVID-19 disruption. The integration of the recent acquisition of our street signage business, Signpost Solutions Ltd, is progressing well.

The outlook for the second half is encouraging with orders and prospective projects gaining traction as lockdown eases.

*US Roads*
Our US Roads business was designated an "essential" business and has been allowed to remain open throughout the COVID-19 period. As a result, the business has performed strongly throughout the first half, with both revenues and operating margins increasing year on year. Demand for the broadened product range was strong during the period, particularly for temporary safety barrier and crash attenuators, in part driven by the quieter roads. During the period we have invested in the expansion of our Zoneguard steel temporary safety barrier fleet and in product development to address customer requirements. The outlook for the second half remains positive, albeit state level funding may be impacted by reduced fuel tax revenues. We are encouraged by the apparent bipartisan support for a future Federal infrastructure bill to replace the FAST (Fixing America's Surface Transportation) Act, which ends this year and we are excited about the prospects for further growth.

*International Roads*
The restructuring of our roads business in Sweden has been progressing to plan under new management, with a focus on cost reduction and improved pricing. The business has remained open during the period, and while COVID-19 has resulted in some slowdown in customer demand, we expect the business to break even in 2020, an encouraging improvement on the reported operating losses in 2019. Our lighting columns business in France had a good start to the year, however trading was impacted by COVID-19 factory closures in the middle of March. Operations have since resumed and we are seeing a gradual recovery in activity. In Australia, the roads business had an improved trading performance compared to the same period last year, driven by 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, the businesses experienced a number of headwinds which have had a significant adverse impact on trading.

At the end of March, our fencing and security access cover businesses were forced to close due to COVID-19. The businesses re-opened in May, and while we are seeing a gradual recovery, we remain cautious for the second half outlook as customers delay capital spend on security solutions. Our business which sells security bollard and HVM solutions remained open but has been significantly impacted by customer project delays both in the UK and in the Middle East, where the recent lower oil price has created further uncertainty. COVID-19 has also materially impacted demand for UK security barrier rental with the cancellation of public gatherings and high-profile events, however we have been able to re-deploy our multiskilled team to support other barrier activity.

Looking forward, we are continuing to see strong demand for perimeter security solutions in data centres and new requirements in city centres to provide additional physical protection to pedestrians and cyclists. In the medium to longer term, the Group is confident that there is a growing international demand for products to protect people, buildings and infrastructure from attack and that we are well positioned to benefit from this trend.

## Utilities

| | £m | | +/- | Constant Currency |
|---|---|---|---|---|
| | **2020** | 2019* | % | % |
| Revenue | **101.4** | 112.3 | -10 | -11 |
| Underlying operating profit | **8.2** | 9.2 | -11 | -13 |
| Underlying operating margin % | **8.1** | 8.2 | | |
| Reported operating profit | **7.7** | 8.1 | | |

**Restated as explained in note 5 to the Financial Statements.*

Our Utilities segment provides steel and composite products for a wide range of infrastructure markets including energy creation and distribution, marine, rail and housing. The division had a strong start to the year with revenue and profit both growing organically in the first quarter, however trading in the second quarter has been impacted by COVID-19 related business closures and reduced activity levels in the UK and India. The US businesses remained operational and performed well throughout the period with strong levels of demand, particularly in our composites and power transmission businesses.

Revenue declined by 10% to £101.4m (2019 (restated): £112.3m), including a currency translation benefit of £1.5m and a £4.6m reduction from prior year disposals. The organic revenue decline was 7%. Underlying operating profit was £8.2m (2019 (restated): £9.2m), including a positive currency impact of £0.2m and a benefit from prior year disposals of £0.3m. Underlying operating profit fell organically by £1.5m or 16%. Underlying operating margin was broadly in line with prior year levels at 8.1% (2019 (restated): 8.2%), reflecting the strong performance in our US businesses.

*UK*

The performance of our UK utilities businesses in the first half of the year was significantly impacted by COVID-19 related business closures. The industrial flooring business remained open throughout the period to support essential projects, albeit at reduced activity levels in the second quarter given the restricted access to key customer sites. We have seen a gradual recovery in order levels in June, which is encouraging for the second half outlook. Our building products business, supplying composite residential doors, steel lintels and builders' metalwork, closed at the end of March but reopened at the end of April as customers reopened. The business has seen a steady increase in activity as housebuilders reopen, however prospects for the second half remain unclear as market demand has not yet fully stabilised.

*USA*

Our US utilities businesses were deemed "essential" and allowed to remain open during the period. Both businesses have seen limited disruption arising from the COVID-19 pandemic and have continued to perform well, delivering organic revenue and profit growth during the period.

We are continuing to see a growing acceptance of composite systems for use in infrastructure applications and during the period we saw strong demand for our wide range of composite solutions including cooling towers, railcar flooring, transmission access platforms and waterfront applications. The business has not been significantly disrupted by COVID-19 and with a strong order backlog for waterfront and utility products, we expect further progress in the second half.

The power transmission substation business continued to trade strongly in the first half and carries a good order book into the second half of the year. We expect investment to upgrade the ageing power infrastructure to continue and prospects for future growth are encouraging.

*Pipe Supports*

Our industrial pipe support business in India entered the year with a strong order book, particularly for the cryogenic product range, however a forced shutdown of operations in March has materially impacted the first half trading. With operations now reopened, albeit somewhat restricted by local lockdown measures, the team are working hard to manage the order backlog.

In the US, the pipe support and industrial hanger business was considered "essential" and has been able to operate throughout the pandemic. In the second quarter, there has been a slowdown in demand due to the closure of some commercial construction market customers, however the team have tightly managed the cost base to ensure the business has remained profitable and are expecting an improvement in the second half as demand begins to return. Whilst the pandemic is causing some uncertainty around future capital expenditure for large industrial and commercial projects, the business is focusing investment on niche growth markets including the expansion of our seismic device manufacturing capability.

## Galvanizing Services

| | £m | | +/- | Constant Currency |
|---|---|---|---|---|
| | **2020** | 2019 | % | % |
| Revenue | **86.0** | 98.3 | -13 | -13 |
| Underlying operating profit | **14.3** | 20.3 | -30 | -31 |
| Underlying operating margin % | **16.6** | 20.7 | | |
| Reported operating profit | **13.8** | 19.7 | | |

The Galvanizing Services division offers corrosion protection services to the steel fabrication industry with multi-plant facilities in the UK, the USA and France. Trading in the first half was impacted by COVID-19, with the complete closure of our French operations for a month and a slowdown in volumes across all geographies due to customer shutdowns. As a result, volumes were 13% lower than the same period last year and revenue reduced by 13% to £86.0m (2019: £98.3m) after a currency translation benefit of £1.1m. Underlying operating profit of £14.3m (2019: £20.3m) included a positive currency impact of £0.3m. Underlying operating margin was 16.6% (2019: 20.7%) reflecting the impact of COVID 19 related closures and volume reductions.

*UK*

Our galvanizing businesses are located on 10 sites, four of which are strategically adjacent to our infrastructure products manufacturing facilities.

Trading for the first two months of the year was in line with our expectations, however COVID-19 impacted trading in March. Measures were swiftly deployed to keep employees COVID safe, while continuing to offer a full service to customers. This enabled our sites to remain open, albeit at reduced volumes and shift patterns, to support critical projects such as galvanising key components for the Nightingale hospitals. Since April we have seen a gradual recovery in demand as customers reopen, with volumes in June similar to prior year levels. Total volumes galvanized for the period were 19% lower than 2019.

The UK business benefits from a wide sectoral spread of customers including agriculture, construction, infrastructure, waste, trailer parts and security. This, alongside UK Government support for infrastructure, construction and housebuilding, should position the business well for recovery going forward.

*USA*

Predominantly located in the north east of the country, Voigt & Schweitzer is the market leader with eight plants offering local services and extensive support to fabricators and product manufacturers involved in highways, construction, utilities and transportation.

While all the plants have been designated "essential" status and continued to operate throughout the period, trading has been impacted by customer shutdowns in some of the states in which we operate. During the period our top two customers, who manufacture temporary bridges and trailers, were particularly impacted by the COVID-19 related slowdown and project delays and this also reduced demand for deck coating value added services. With customer sites now reopen we have seen a good recovery since the lowest point in April, with June volumes being above prior year levels. Total volumes galvanized were 7% lower than the same period last year.

Our new facility in Owego, New York State became operational in January 2020 and, despite COVID-19 disruption, is progressing well. We have been successful in winning new customers in the area to create a good baseload of activity and the plant became profitable in April.

Looking forward, we are encouraged by the June performance, however we remain cautious for the second half due to the current uncertainty around the spread of the pandemic in the USA. In the medium to longer term, the outlook is positive with US infrastructure spend levels remaining robust across a wide range of our customer market sectors.

*France*

France Galva has 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 had a good start to the year, with volumes well ahead of prior year in the first two months. However, trading was significantly impacted from the middle of March due to the COVID-19 related forced closure of all plants.

The plants were able to reopen in April and we have seen a gradual recovery in activity since then, with June volumes being at similar levels to 2019. Overall volumes were 10% lower than the same period last year.

The outlook for the second half is encouraging, with customer sites in France now open and the team working hard to drive sales and profit growth.

## Cash generation and financing

Operating cash flow before movement in working capital was £43.1m (2019: £55.3m) with 162% underlying cash conversion, demonstrating the effectiveness of the Group's cash generative model.

The working capital inflow in the period was £18.3m (2019: outflow of £21.8m), reflecting a lower level of receivables due to reduced trading activity in the second quarter, targeted action taken across the Group to maximise working capital efficiency and the deferral of second quarter UK VAT payments in line with government legislation. To date the Group has not experienced any significant deterioration in customer payment profiles since the onset of the pandemic, with debtor days at 30 June 2020 falling to 56 days (31 December 2019: 61 days).

Capital expenditure of £12.9m (2019: £23.9m) represents a multiple of depreciation and amortisation of 1.1 times (2019: 2.2 times). Significant spend during the period included the remaining cash outlay of £3.1m on the New York galvanizing plant, a spend of £2.0m on additional temporary concrete rental barrier for the UK roads market and an investment of £1.6m in the expansion of our Pipe Supports manufacturing facilities in the USA. Whilst the Group continues to critically appraise all capital expenditure proposals as part of its cash management strategies, we remain committed to investing in organic growth opportunities with demonstrable returns.

Net financing costs for the period were £4.0m (2019: £3.2m). The cash element of financing costs was similar to the prior year at £3.4m (2019: £3.3m), with lower UK and US base rates offsetting the higher borrowing cost on the Group's senior unsecured notes, which were issued in June 2019. The net cost of pension fund financing under IAS 19 was £0.2m (2019: £0.3m) and the amortisation of costs relating to refinancing activities was £0.4m (2019: gain of £0.4m following refinancing actions undertaken during that period).

## Tax

The underlying effective tax rate for the period was 19.5% (year ended 31 December 2019: 19.5%) and is the estimated effective rate for the full year. The tax charge for the period was £3.8m (2019: £6.6m) including a £0.6m (2019: £0.6m) credit in respect of non-underlying charges, principally relating to amortisation of acquisition intangibles. Cash tax paid in the period was £10.0m (2019: £6.0m).

## Non-underlying items

The total non-underlying items charged to operating profit in the Consolidated Income Statement amounted to £3.3m (2019: £3.6m) and comprise the following:

- Amortisation of acquired intangible assets of £3.1m (2019: £2.9m).
- Acquisition related expenses of £0.2m (2019: £0.7m) relating to future consideration payments to previous owners of businesses acquired in prior years.

During the period the Group amended its accounting policy in respect of non-underlying items, to exclude net financing costs on defined benefit pension obligations and costs incurred as part of significant refinancing activities. The changes did not have a material impact on the underlying result for either the current or prior period and the comparatives have not been restated. Further details are set out in note 8 to 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 2020 was £20.3m, an increase of £0.4m from 31 December 2019 (£19.9m). The deficit of the UK scheme, the largest employee benefit obligation in the Group, was in line with the prior year end at £14.8m (31 December 2019: £14.8m) with a reduction of 60 basis points in the discount rate during the period, in line with falls in bond yields, being offset by improved asset returns and deficit recovery payments. The Group continues to be actively engaged in dialogue with the schemes' Trustees with regard to management, funding and investment strategies. A formal actuarial valuation of the UK scheme as at April

2019 was finalised early in 2020, alongside an update to the investment strategy, resulting in the Group agreeing a deficit recovery plan with the Trustees that requires an increase in cash contributions to £3.7m per annum (previously £2.5m per annum) until September 2027. The next triennial valuation will be as at April 2022.

## Net Debt and Facilities Headroom

Despite the impact on trading of COVID-19, in the six months to 30 June 2020 the Group continued to be cash generative with net debt at the end of the period amounting to £195.4m, an improvement of £19.9m compared with 31 December 2019 (£215.3m). Since the onset of the pandemic the Group has taken a number of measures to conserve operational cash flows without impacting its longer-term growth prospects, including curtailing other than essential capital expenditure, tightly managing working capital and reducing discretionary spend. The Group also withdrew the 2019 final dividend, which would have required a cash outlay of c.£18m in July 2020.

The Group's principal financing facilities are a headline £280m multi-currency revolving credit agreement, which expires in January 2024, and $70m senior unsecured notes with maturities in June 2026 and June 2029, together with a further £14.5m of on-demand local overdraft arrangements. Throughout the period the Group has operated well within these facilities and at 30 June 2020, the Group had £193.4m of headroom (£178.9m committed, £14.5m on demand). The Group has also secured access to the HM Treasury and Bank of England Covid Corporate Financing Facility ("CCFF") and has established a £300m commercial paper programme under this scheme, which could be drawn down at any time until March 2021. To date this facility remains undrawn.

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. The ratio of net debt to EBITDA at 30 June 2020 was 1.7 times (31 December 2019: 1.6 times) and interest cover was 15.7 times (31 December 2019: 17.9 times).

## 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.

As a result of the future uncertainties created by COVID-19, the Group has carefully considered its cash flow and liquidity outlook for the remainder of 2020 and 2021. In order to stress test future cash flows, the Group has modelled a range of scenarios for the period to 31 December 2021 which take into account various levels of ongoing impact on its results and cash flows across the geographies in which it operates. Specifically, the stress tests model the impacts of Group-wide revenue reductions for the rest of 2020 of between 15% and 30% on management's expectations prior to the onset of COVID-19, and for 2021 up to 10% lower, reflecting variations in the pace of recovery across the Group's infrastructure markets. In all scenarios modelled the Group should be able to operate within the level of its current borrowing facilities, without the need to draw on the CCFF at any stage. In the severe but plausible downside scenarios, the Group should be able to meet its financial covenants throughout the period to December 2021, including the covenant tests at 31 December 2020, 30 June 2021 and 31 December 2021. Only in an extreme scenario, in which the impact of COVID-19 on future trading is more detrimental than the impact experienced to date, would a covenant breach arise. The Directors do not consider this plausible given the ability of the Group to continue with reduced operations throughout the pandemic and its ability to return to more normalised activity levels. The Group also has a number of 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, in order to be able to meet the covenant tests.

## Brexit

The United Kingdom left the European Union on 31 January 2020 with a planned transition period running until 31 December 2020. We have plans in place to ensure that we are prepared for the final outcomes of the negotiations and the Group continues to closely monitor and mitigate the related operational and financial risks, which include possible supply chain disruption to UK imports and translation exposure arising from currency fluctuations. The Group has limited cross border trade activity and we continue to believe that our strategy of international diversification, along with our exposure to longer term Government funded infrastructure investment programmes, will help limit any potential negative impact on the Group.

## 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. The review has specifically considered how the principal risks and uncertainties have been impacted by the COVID-19 pandemic. It is the Directors' opinion that the principal risks set out on pages 36 to 39 of the Group's Annual Report and Accounts for the year ended 31 December 2019, remain applicable to the current financial year.

Additional details have been provided below for those identified as being impacted by COVID-19:

| Principal Risk | COVID-19 impact |
|---|---|
| Changes in government spending plans | Government spending plans are likely to come under increasing scrutiny, as the measures implemented globally to manage the pandemic put pressure on national finances. However, it is likely that infrastructure investment will continue to be a key part of national spending plans, particularly in the short to medium term. In March 2020, the UK government confirmed its commitment to the next phase of road investment spend (RIS2) at £27.4bn. In the US, apparent bipartisan support for a Federal-funded road investment bill is encouraging. The Group is well placed to benefit from these investments and possible short term "shovel ready" schemes to stimulate economic growth. As a result, the Directors believe there is a slight improvement in the severity of this risk. |
| Changes in global outlook and geopolitical environment | 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 Directors believe that this risk exposure has slightly increased. |
| Contractual failure | Credit default risk has been identified as likely to increase, although this has not yet materialised. The Directors believe there is no change in the development of this risk to date. The Group continues to closely monitor the position, with trade credit insurance policies in place in the UK and France which mitigate exposure. |
| Supply chain deficiency | The supply of key raw materials and components has not been impacted significantly with minimal operational disruption, helped by local contingency planning around buffer stock levels and supplier sourcing arrangements. The Directors believe there is no change in the development of this risk. |
| Failure to comply with applicable health and safety legislation | The Group has followed all local guidelines to ensure that facilities are COVID secure. While the potential risk has increased during the period due to COVID-19, the Directors' assessment is that this increase has been mitigated by the measures implemented. |

## 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 adopted by the EU;
- 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 5 August 2020 and is available on the Company's website (www.hsholdings.com).

| **D W Muir** | **H K Nichols** |
|---|---|
| Group Chief Executive | Group Chief Financial Officer |

5 August 2020

# Financial Statements

## Condensed Consolidated Income Statement

Six months ended 30 June 2020

| | Notes | 6 months ended 30 June 2020 | | | 6 months ended 30 June 2019 | | | Year ended 31 December 2019 | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Underlying £m | Non-underlying* £m | Total £m | Underlying £m | Non-underlying* £m | Total £m | Underlying £m | Non-underlying* £m | Total £m |
| Revenue | 5 | **315.6** | **-** | **315.6** | 339.5 | - | 339.5 | 694.7 | - | 694.7 |
| **Underlying operating profit** | 5 | **26.8** | **-** | **26.8** | 40.2 | - | 40.2 | 86.3 | - | 86.3 |
| Amortisation of acquisition intangibles | 8 | **-** | **(3.1)** | **(3.1)** | - | (2.9) | (2.9) | - | (6.2) | (6.2) |
| Business reorganisation costs | 8 | **-** | **-** | **-** | - | - | - | - | (1.9) | (1.9) |
| Gain on disposal of assets held for sale | 8 | **-** | **-** | **-** | - | 0.5 | 0.5 | - | 0.5 | 0.5 |
| Impairment of assets | 8 | **-** | **-** | **-** | - | - | - | - | (7.0) | (7.0) |
| Acquisition costs | 8 | **-** | **(0.2)** | **(0.2)** | - | (0.7) | (0.7) | - | (1.8) | (1.8) |
| Impairment of disposal group held for sale | 8 | **-** | **-** | **-** | - | (0.5) | (0.5) | - | - | - |
| Loss on disposal of subsidiary | 8 | **-** | **-** | **-** | - | - | - | - | (0.7) | (0.7) |
| **Operating profit** | 5,8 | **26.8** | **(3.3)** | **23.5** | 40.2 | (3.6) | 36.6 | 86.3 | (17.1) | 69.2 |
| Financial income | 9 | **0.3** | **-** | **0.3** | 0.2 | 0.8 | 1.0 | 0.5 | 0.9 | 1.4 |
| Financial expense | 9 | **(4.3)** | **-** | **(4.3)** | (3.5) | (0.7) | (4.2) | (7.4) | (1.4) | (8.8) |
| **Profit before taxation** | | **22.8** | **(3.3)** | **19.5** | 36.9 | (3.5) | 33.4 | 79.4 | (17.6) | 61.8 |
| Taxation | 10 | **(4.4)** | **0.6** | **(3.8)** | (7.2) | 0.6 | (6.6) | (15.5) | 2.1 | (13.4) |
| **Profit for the period attributable to owners of the parent** | | **18.4** | **(2.7)** | **15.7** | 29.7 | (2.9) | 26.8 | 63.9 | (15.5) | 48.4 |
| **Basic earnings per share** | 11 | **23.1p** | | **19.7p** | 37.5p | | 33.9p | 80.7p | | 61.1p |
| Diluted earnings per share | 11 | **22.9p** | | **19.6p** | 37.2p | | 33.6p | 80.3p | | 60.8p |
| Dividend per share - Interim | 12 | | | **9.2p** | | | 10.6p | | | 10.6p |

* The Group's definition of non-underlying items is included in note 8.

## Condensed Consolidated Statement of Comprehensive Income

Six months ended 30 June 2020

| | **6 months ended 30 June 2020 £m** | 6 months ended 30 June 2019 £m | Year ended 31 December 2019 £m |
|---|---|---|---|
| **Profit for the period** | **15.7** | 26.8 | 48.4 |
| **Items that may be reclassified subsequently to profit or loss** | | | |
| Exchange differences on translation of overseas operations | **19.6** | 0.3 | (13.1) |
| Exchange differences on foreign currency borrowings denominated as net investment hedges | **(5.3)** | 0.1 | 2.9 |
| **Items that will not be reclassified subsequently to profit or loss** | | | |
| Actuarial (loss)/gain on defined benefit pension schemes | **(1.6)** | (1.3) | 1.0 |
| Taxation on items that will not be reclassified to profit or loss | **0.3** | 0.2 | (0.2) |
| **Other comprehensive income/(expense) for the period** | **13.0** | (0.7) | (9.4) |
| **Total comprehensive income for the period attributable to owners of the parent** | **28.7** | 26.1 | 39.0 |

## Condensed Consolidated Statement of Financial Position

Six months ended 30 June 2020

| | Notes | **30 June 2020 £m** | 30 June 2019 £m | 31 December 2019 £m |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Intangible assets | | **216.6** | 208.8 | 212.8 |
| Property, plant and equipment | | **198.7** | 180.7 | 190.0 |
| Right-of-use assets | | **34.4** | 31.7 | 37.9 |
| Deferred tax assets | | **2.0** | 1.8 | 1.0 |
| | | **451.7** | 423.0 | 441.7 |
| **Current assets** | | | | |
| Disposal groups and assets held for sale | | **1.6** | 2.7 | - |
| Inventories | | **99.3** | 104.5 | 100.7 |
| Trade and other receivables | | **127.5** | 155.9 | 144.1 |
| Cash and cash equivalents | 14 | **20.5** | 24.9 | 26.0 |
| | | **248.9** | 288.0 | 270.8 |
| **Total assets** | | **700.6** | 711.0 | 712.5 |
| **Current liabilities** | | | | |
| Trade and other liabilities | | **(117.1)** | (123.6) | (120.3) |
| Current tax liabilities | | **(5.9)** | (12.1) | (10.7) |
| Provisions for liabilities and charges | | **(0.5)** | (0.3) | (0.8) |
| Lease liabilities | | **(9.7)** | (9.3) | (10.6) |
| Interest bearing borrowings | 14 | **(0.4)** | (0.4) | (0.4) |
| | | **(133.6)** | (145.7) | (142.8) |
| **Net current assets** | | **115.3** | 142.3 | 128.8 |
| **Non-current liabilities** | | | | |
| Other liabilities | | **(1.5)** | (3.4) | (1.3) |
| Provisions for liabilities and charges | | **(2.6)** | (2.7) | (2.5) |
| Deferred tax liability | | **(8.4)** | (8.2) | (8.7) |
| Retirement benefit obligation | | **(20.3)** | (23.4) | (19.9) |
| Lease liabilities | | **(26.6)** | (24.3) | (29.4) |
| Interest bearing borrowings | 14 | **(179.2)** | (194.0) | (200.9) |
| | | **(238.6)** | (256.0) | (262.7) |
| **Total liabilities** | | **(372.2)** | (401.7) | (405.5) |
| **Net assets** | | **328.4** | 309.3 | 307.0 |
| **Equity** | | | | |
| Share capital | | **19.9** | 19.8 | 19.9 |
| Share premium | | **38.2** | 36.4 | 37.4 |
| Other reserves | | **4.9** | 4.9 | 4.9 |
| Translation reserve | | **34.0** | 30.3 | 19.7 |
| Retained earnings | | **231.4** | 217.9 | 225.1 |
| **Total equity** | | **328.4** | 309.3 | 307.0 |

# Condensed Consolidated Statement of Changes in Equity

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.

Six months ended 30 June 2019

| | Share Capital £m | Share Premium £m | Other reserves† £m | Translation reserves £m | Retained Earnings £m | Total equity £m |
|---|---|---|---|---|---|---|
| At 1 January 2019 | 19.8 | 35.5 | 4.9 | 29.9 | 203.1 | 293.2 |
| Adoption of IFRS 16 | - | - | - | - | (2.5) | (2.5) |
| At 1 January 2019 - restated | 19.8 | 35.5 | 4.9 | 29.9 | 200.6 | 290.7 |
| **Comprehensive income** | | | | | | |
| Profit for the period | - | - | - | - | 26.8 | 26.8 |
| Other comprehensive income for the period | - | - | - | 0.4 | (1.1) | (0.7) |
| **Transactions with owners recognised directly in equity** | | | | | | |
| Dividends | - | - | - | - | (7.9) | (7.9) |
| Credit to equity of share-based payments | - | - | - | - | 0.5 | 0.5 |
| Satisfaction of long term incentive payments | - | - | - | - | (1.3) | (1.3) |
| Own shares held by employee benefit trust | - | - | - | - | 0.3 | 0.3 |
| Shares issued | - | 0.9 | - | - | - | 0.9 |
| At 30 June 2019 | 19.8 | 36.4 | 4.9 | 30.3 | 217.9 | 309.3 |

† 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 2019

| | Share Capital £m | Share Premium £m | Other reserves† £m | Translation reserves £m | Retained Earnings £m | Total equity £m |
|---|---|---|---|---|---|---|
| At 1 January 2019 | 19.8 | 35.5 | 4.9 | 29.9 | 203.1 | 293.2 |
| Adoption of IFRS 16 | - | - | - | - | (2.7) | (2.7) |
| At 1 January 2019 - restated | 19.8 | 35.5 | 4.9 | 29.9 | 200.4 | 290.5 |
| **Comprehensive income** | | | | | | |
| Profit for the period | - | - | - | - | 48.4 | 48.4 |
| Other comprehensive income for the period | - | - | - | (10.2) | 0.8 | (9.4) |
| **Transactions with owners recognised directly in equity** | | | | | | |
| Dividends | - | - | - | - | (25.1) | (25.1) |
| Credit to equity of share-based payments | - | - | - | - | 0.9 | 0.9 |
| Satisfaction of long term incentive payments | - | - | - | - | (1.4) | (1.4) |
| Own shares held by employee benefit trust | - | - | - | - | 0.7 | 0.7 |
| Tax taken directly to the Consolidated Statement of Changes in Equity | - | - | - | - | 0.4 | 0.4 |
| Shares issued | 0.1 | 1.9 | - | - | - | 2.0 |
| At 31 December 2019 | 19.9 | 37.4 | 4.9 | 19.7 | 225.1 | 307.0 |

† 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 2020

| | Notes | **6 months ended 30 June 2020 £m** | 6 months ended 30 June 2019 £m | Year ended 31 December 2019 £m |
|---|---|---|---|---|
| Profit before tax | | **19.5** | 33.4 | 61.8 |
| Add back net financing costs | | **4.0** | 3.2 | 7.4 |
| Operating profit | | **23.5** | 36.6 | 69.2 |
| Adjusted for non-cash items: | | | | |
| Share-based payments | | **0.3** | 0.5 | 1.2 |
| Loss on disposal of subsidiary | | **-** | - | 0.7 |
| Gain on disposal of non-current assets | | **(0.2)** | (0.5) | (0.1) |
| Gain on revaluation of assets held for sale | | **(0.4)** | - | - |
| Gain on disposal of assets held for sale | | **-** | - | (0.5) |
| Depreciation of owned assets | | **10.9** | 9.8 | 19.9 |
| Amortisation of intangible assets | | **3.7** | 3.5 | 7.4 |
| Right-of-use asset depreciation | | **5.3** | 4.9 | 10.2 |
| Impairment of disposal groups and assets held for sale | | **-** | 0.5 | - |
| Impairment of non-current assets | | **-** | - | 7.0 |
| | | **19.6** | 18.7 | 45.8 |
| Operating cash flow before movement in working capital | | **43.1** | 55.3 | 115.0 |
| Decrease / (Increase) in inventories | | **2.0** | (5.5) | (2.4) |
| Decrease / (Increase) in receivables | | **20.9** | (15.4) | (0.4) |
| Decrease in payables | | **(4.6)** | (0.9) | (10.1) |
| Decrease in provisions and employee benefits | | **(2.1)** | (2.2) | (3.2) |
| Net movement in working capital and provisions | | **16.2** | (24.0) | (16.1) |
| Cash generated by operations | | **59.3** | 31.3 | 98.9 |
| Purchase of assets for rental to customers | | **(2.0)** | (10.7) | (16.3) |
| Income taxes paid | | **(10.0)** | (6.0) | (14.4) |
| Interest paid | | **(3.2)** | (3.4) | (6.4) |
| Interest paid on lease liabilities | | **(0.4)** | - | (0.9) |
| **Net cash from operating activities** | | **43.7** | 11.2 | 60.9 |
| Interest received | | **0.3** | 0.2 | 0.5 |
| Proceeds on disposal of non-current assets | | **0.6** | 0.1 | 1.0 |
| Proceeds on disposal of assets held for sale | | **-** | 1.3 | 1.3 |
| Purchase of property, plant and equipment | | **(10.2)** | (12.8) | (29.7) |
| Purchase of intangible assets | | **(0.7)** | (0.4) | (1.9) |
| Acquisitions of businesses | | **-** | (23.5) | (43.9) |
| Deferred consideration in respect of prior year acquisitions | | **-** | - | (0.7) |
| Disposal of subsidiary | | **-** | - | 2.0 |
| **Net cash used in investing activities** | | **(10.0)** | (35.1) | (71.4) |
| Issue of new shares | | **0.8** | 0.9 | 2.0 |
| Purchase of shares for employee benefit trust | | **-** | (0.9) | (0.7) |
| Dividends paid | 12 | **(8.4)** | (7.9) | (25.1) |
| Costs associated with refinancing | | **-** | (2.0) | (2.1) |
| Repayments of lease liabilities | | **(5.4)** | (5.0) | (10.5) |
| New loans and borrowings | | **8.0** | 96.2 | 119.9 |
| Repayment of loans and borrowings | | **(35.4)** | (69.4) | (83.2) |
| **Net cash (used in) / raised from financing activities** | | **(40.4)** | 11.9 | 0.3 |
| **Net decrease in cash** | | **(6.7)** | (12.0) | (10.2) |
| Cash at the beginning of the period | | **26.0** | 36.9 | 36.9 |
| Effect of exchange rate fluctuations | | **1.2** | - | (0.7) |
| **Cash at the end of the period** | 14 | **20.5** | 24.9 | 26.0 |

## 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, as adopted by the EU ('Adopted IFRSs') that were effective at 5 August 2020 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 2019 (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 2019) except as described below.

*IAS 20 Government Grants*
The Group has received government assistance income during the period as a result of COVID-19 and has accounted for this under IAS 20 '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. During the period, this income has been recognised as a deduction against the related staff cost expense within cost of sales and administrative expenses.

*New IFRS standards, interpretations and amendments adopted during 2020*
The following amendments and interpretations apply for the first time in 2020, but do not have an impact on the Condensed Consolidated Interim Financial Statements of the Group.

- Amendments to IFRS 3: Definition of a Business
- Amendments to IFRS 7, IFRS 9 and IAS 39: Interest Rate Benchmark Reform
- Amendments to IAS 1 and IAS 8: Definition of Material
- Conceptual Framework for Financial Reporting issued on 29 March 2018

The comparative figures for the financial year ended 31 December 2019 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 2019, relating to actuarial assumptions on pension obligations, impairment of goodwill and other indefinite life intangible assets, and liabilities for uncertain tax positions.

The Board has considered the impact of the COVID-19 pandemic on these judgements and estimates and, given the increased uncertainty over the future economic outlook in the countries and markets in which the Group operates, considers there to be increased estimation uncertainty relating to the assumptions used in the Group's impairment assessments in respect of goodwill and intangible assets. As described in note 13, the Group has performed a full impairment review across all cash-generating units ("CGUs") where the Board believes COVID-19 could plausibly result in a material reduction in the estimated future cash flows compared with management's expectations prior to the onset of the pandemic.

The Board does not consider that COVID-19 has resulted in any additional significant estimates or judgements that could materially affect the amounts included in the Group's results for the six months to 30 June 2020.

## 3. Impact of COVID-19 on the Condensed Consolidated Interim Financial Statements

As outlined in the Operational Review, the COVID-19 pandemic has materially affected the Group's trading performance in the six months to 30 June 2020 with the temporary closure of some of its operations and reduced activity levels from the middle of March. Revenue in the second quarter was 22% below the same period last year. The Group has seen a gradual improvement in trading since April, with all businesses resuming operations by the middle of May. The Group does not consider it possible to reliably determine the level of trading impact arising specifically from COVID-19, as opposed to other market factors, and has therefore not attempted to make any such disclosure in these Condensed Consolidated Interim Financial Statements.

The Group has utilised government support measures in the geographies in which it operates, including employee furlough schemes where necessary to preserve jobs. At the peak for 2-3 weeks in April, we had c. 1,300 employees furloughed, representing around 30% of the workforce. The total UK and French government assistance income received in the period in relation to such schemes was £3.6m, of which £0.5m is recognised as a receivable at 30 June 2020. The Group does not intend to access such schemes beyond July 2020 and does not expect to take advantage of the recently announced UK Job Retention Bonus.

In addition, the Group has made use of government-backed tax deferral schemes, including UK VAT payments that were due between March 2020 and June 2020 that can be deferred until March 2021, resulting in a benefit to working capital at 30 June 2020 of £7.4m.

## 4. Exchange rates

The principal exchange rates used were as follows:

| | **6 months ended 30 June 2020** | | 6 months ended 30 June 2019 | | Year ended 31 December 2019 | |
|---|---|---|---|---|---|---|
| | **Average** | **Closing** | Average | Closing | Average | Closing |
| Sterling to Euro (£1 = EUR) | **1.14** | **1.10** | 1.15 | 1.12 | 1.14 | 1.18 |
| Sterling to US Dollar (£1 = USD) | **1.26** | **1.24** | 1.29 | 1.27 | 1.28 | 1.32 |
| Sterling to Swedish Krona (£1 = SEK) | **12.20** | **11.51** | 12.04 | 11.81 | 12.07 | 12.29 |
| Sterling to Indian Rupee (£1 = INR) | **93.41** | **93.33** | 90.61 | 87.76 | 89.89 | 94.30 |
| Sterling to Australian Dollar (£1 = AUD) | **1.92** | **1.80** | 1.83 | 1.81 | 1.84 | 1.88 |

## 5. Segmental information

Following the acquisitions of ATG Access Limited and Parking Facilities Limited in 2019, both of which have a broad portfolio of security and perimeter protection products, in December 2019 the Board considered the other companies in the Group that also have security products in their portfolio and determined that their operations, markets and strategies were closely aligned with those of the existing businesses in the Group's Roads segment. Consequently, the Group formed a new Roads & Security division at the end of 2019. This includes the businesses previously reported in the Infrastructure Products - Roads segment, the acquisitions noted above and the businesses of Barkers Engineering Limited and Technocover Limited, which were previously part of the Infrastructure Products - Utilities segment but whose product portfolios contain a range of security access and perimeter protection solutions.

As a result, the Group has reassessed its reportable segments under IFRS 8 Operating Segments and has determined that these are now Infrastructure Products – Roads & Security, Infrastructure Products – Utilities, and Galvanizing Services. As was the case prior to the change, 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 Infrastructure Products – 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 Infrastructure Products – 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.

The revised segmental structure was effective from 1 January 2020, from which date information was reported to the Chief Operating Decision Maker, who is the Chief Executive, under the new segments. As required by IFRS 8, comparative information has been restated as indicated by "restated" throughout these Condensed Consolidated Interim Financial Statements. The revision does not result in any change to the consolidated Group results.

## Income Statement

| | 6 months ended 30 June 2020 | | | 6 months ended 30 June 2019 (restated) | | |
|---|---|---|---|---|---|---|
| | Revenue £m | Reported Result £m | Underlying result* £m | Revenue £m | Reported Result £m | Underlying result* £m |
| Infrastructure Products – Roads & Security | **128.2** | **2.0** | **4.3** | 128.9 | 8.8 | 10.7 |
| Infrastructure Products – Utilities | **101.4** | **7.7** | **8.2** | 112.3 | 8.1 | 9.2 |
| Galvanizing Services | **86.0** | **13.8** | **14.3** | 98.3 | 19.7 | 20.3 |
| **Total Group** | **315.6** | **23.5** | **26.8** | 339.5 | 36.6 | 40.2 |
| Net financing costs | | **(4.0)** | **(4.0)** | | (3.2) | (3.3) |
| **Profit before taxation** | | **19.5** | **22.8** | | 33.4 | 36.9 |
| Taxation | | **(3.8)** | **(4.4)** | | (6.6) | (7.2) |
| **Profit after taxation** | | **15.7** | **18.4** | | 26.8 | 29.7 |

| | Year ended 31 December 2019 (restated) | | |
|---|---|---|---|
| | Revenue £m | Reported Result £m | Underlying result* £m |
| Infrastructure Products – Roads & Security | 275.3 | 8.6 | 23.2 |
| Infrastructure Products – Utilities | 222.3 | 20.0 | 21.3 |
| Galvanizing Services | 197.1 | 40.6 | 41.8 |
| **Total Group** | 694.7 | 69.2 | 86.3 |
| Net financing costs | | (7.4) | (6.9) |
| **Profit before taxation** | | 61.8 | 79.4 |
| Taxation | | (13.4) | (15.5) |
| **Profit after taxation** | | 48.4 | 63.9 |

*Underlying result is an alternative performance measure which is stated before Non-underlying items as defined in note 8 and is the measure of segment profit used by the Chief Operating Decision Maker, who is the Chief Executive. The Result columns are included as additional information.

Galvanizing Services sold £0.8m of products and services to Infrastructure Products - Utilities (six months ended 30 June 2019 (restated): £0.8m, year ended 31 December 2019 (restated): £1.6m) and £2.6m of products and services to Infrastructure Products - Roads & Security (six months ended 30 June 2019 (restated): £2.9m, year ended 31 December 2019 (restated): £5.6m). Infrastructure Products - Utilities sold £1.0m of products and services to Infrastructure Products - Roads & Security (six months ended 30 June 2019 (restated): £1.3m, year ended 31 December 2019 (restated): £2.6m). Infrastructure Products - Roads & Security sold £nil of products and services to Infrastructure Products - Utilities (six months ended 30 June 2019 (restated): £nil, year ended 31 December 2019 (restated): £0.1m). These internal revenues, along with revenues generated within each segment, have been eliminated on consolidation.

Revenue from contracts with customers is disaggregated by primary geographical market, major product/service lines and timing of revenue recognition. The table below also includes a reconciliation of the disaggregated revenue with the Group's reportable segments.

| | Roads & Security | | Utilities | | Galvanizing | | Total | |
|---|---|---|---|---|---|---|---|---|
| | June 2020 £m | June 2019 (restated) £m | June 2020 £m | June 2019 (restated) £m | June 2020 £m | June 2019 £m | June 2020 £m | June 2019 (restated) £m |
| **Primary geographical markets** | | | | | | | | |
| UK | **68.2** | 68.5 | **26.3** | 42.2 | **26.5** | 31.6 | **121.0** | 142.3 |
| Rest of Europe | **24.7** | 28.8 | **2.5** | 2.5 | **23.1** | 27.4 | **50.3** | 58.7 |
| North America | **31.5** | 28.2 | **70.4** | 64.4 | **36.4** | 39.3 | **138.3** | 131.9 |
| The Middle East | **1.6** | 1.6 | **0.4** | 0.4 | **-** | - | **2.0** | 2.0 |
| Rest of Asia | **0.4** | 0.4 | **1.5** | 2.2 | **-** | - | **1.9** | 2.6 |
| Rest of the world | **1.8** | 1.4 | **0.3** | 0.6 | **-** | - | **2.1** | 2.0 |
| | **128.2** | 128.9 | **101.4** | 112.3 | **86.0** | 98.3 | **315.6** | 339.5 |
| **Major product/service lines** | | | | | | | | |
| Manufacture, supply and installation of products | **116.5** | 117.9 | **101.4** | 112.3 | **-** | - | **217.9** | 230.2 |
| Galvanizing services | **-** | - | **-** | - | **86.0** | 98.3 | **86.0** | 98.3 |
| Rental income | **11.7** | 11.0 | **-** | - | **-** | - | **11.7** | 11.0 |
| | **128.2** | 128.9 | **101.4** | 112.3 | **86.0** | 98.3 | **315.6** | 339.5 |
| **Timing of revenue recognition** | | | | | | | | |
| Products and services transferred at a point in time | **93.7** | 96.6 | **51.1** | 72.1 | **86.0** | 98.3 | **230.8** | 267.0 |
| Products and services transferred over time | **34.5** | 32.3 | **50.3** | 40.2 | **-** | - | **84.8** | 72.5 |
| | **128.2** | 128.9 | **101.4** | 112.3 | **86.0** | 98.3 | **315.6** | 339.5 |

| | Year ended 31 December 2019 (restated) | | | |
|---|---|---|---|---|
| | Roads & Security | Utilities | Galvanizing | Total |
| **Primary geographical markets** | £m | £m | £m | £m |
| UK | 145.6 | 77.3 | 62.2 | 285.1 |
| Rest of Europe | 63.0 | 5.6 | 54.6 | 123.2 |
| North America | 54.2 | 131.4 | 80.3 | 265.9 |
| The Middle East | 8.2 | 0.9 | - | 9.1 |
| Rest of Asia | 1.4 | 5.4 | - | 6.8 |
| Rest of the world | 2.9 | 1.7 | - | 4.6 |
| | 275.3 | 222.3 | 197.1 | 694.7 |
| **Major product/service lines** | | | | |
| Manufacture, supply and installation of products | 251.4 | 222.3 | - | 473.7 |
| Galvanizing services | - | - | 197.1 | 197.1 |
| Rental income | 23.9 | - | - | 23.9 |
| | 275.3 | 222.3 | 197.1 | 694.7 |
| **Timing of revenue recognition** | | | | |
| Products and services transferred at a point in time | 208.0 | 124.0 | 197.1 | 529.1 |
| Products and services transferred over time | 67.3 | 98.3 | - | 165.6 |
| | 275.3 | 222.3 | 197.1 | 694.7 |

## 6. 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 operating profit, underlying profit before taxation, underlying earnings per share and underlying cash conversion.

All underlying measures exclude certain non-underlying items, which are detailed in note 8. 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 would otherwise distort the underlying performance of the business. Other than for the change in presentation of certain financing items as detailed in note 8, APMs are presented on a consistent basis over time to assist in comparison of performance.

A reconciliation of statutory earnings per share to underlying earnings per share is provided in note 11.

### Reconciliation of underlying to reported profit before tax

| | **6 months ended 30 June 2020 £m** | 6 months ended 30 June 2019 £m | Year ended 31 December 2019 £m |
|---|---|---|---|
| Underlying profit before tax | **22.8** | 36.9 | 79.4 |
| Non-underlying items: | | | |
| Amortisation of acquisition intangibles | **(3.1)** | (2.9) | (6.2) |
| Business reorganisation costs | **-** | - | (1.9) |
| Gain on disposal of assets held for sale | **-** | 0.5 | 0.5 |
| Impairment of assets | **-** | - | (7.0) |
| Acquisition costs | **(0.2)** | (0.7) | (1.8) |
| Impairment of disposal group held for sale | **-** | (0.5) | - |
| Loss on disposal of subsidiary | **-** | - | (0.7) |
| Financial gain relating to refinancing | **-** | 0.8 | 0.9 |
| Financial expenses related to refinancing | **-** | (0.4) | (0.9) |
| Interest cost on net pension scheme deficit | **-** | (0.3) | (0.5) |
| **Reported profit before tax** | **19.5** | 33.4 | 61.8 |

### Reconciliation of underlying to reported operating profit by segment

| | **Roads & Security** | | **Utilities** | | **Galvanizing** | | **Total** | |
|---|---|---|---|---|---|---|---|---|
| | **June 2020 £m** | June 2019 (restated) £m | **June 2020 £m** | June 2019 (restated) £m | **June 2020 £m** | June 2019 £m | **June 2020 £m** | June 2019 (restated) £m |
| **Underlying operating profit** | **4.3** | 10.7 | **8.2** | 9.2 | **14.3** | 20.3 | **26.8** | 40.2 |
| Non-underlying items: | | | | | | | | |
| Amortisation of intangible fixed assets | **(2.1)** | (1.9) | **(0.5)** | (0.4) | **(0.5)** | (0.6) | **(3.1)** | (2.9) |
| Gain on disposal of assets held for sale | **-** | 0.5 | **-** | - | **-** | - | **-** | 0.5 |
| Acquisition costs | **(0.2)** | (0.5) | **-** | (0.2) | **-** | - | **(0.2)** | (0.7) |
| Impairment of disposal group held for sale | **-** | - | **-** | (0.5) | **-** | - | **-** | (0.5) |
| **Reported operating profit** | **2.0** | 8.8 | **7.7** | 8.1 | **13.8** | 19.7 | **23.5** | 36.6 |

| | Year ended 31 December 2019 (restated) | | | |
|---|---|---|---|---|
| | Roads & Security £m | Utilities £m | Galvanizing £m | Total £m |
| **Underlying operating profit** | 23.2 | 21.3 | 41.8 | 86.3 |
| Non-underlying items: | | | | |
| Amortisation of intangible fixed assets | (4.2) | (0.8) | (1.2) | (6.2) |
| Business reorganisation costs | (1.9) | - | - | (1.9) |
| Gain on disposal of assets held for sale | 0.5 | - | - | 0.5 |
| Impairment of assets | (7.0) | - | - | (7.0) |
| Acquisition costs | (2.0) | 0.2 | - | (1.8) |
| Loss on disposal of subsidiary | - | (0.7) | - | (0.7) |
| **Reported operating profit** | 8.6 | 20.0 | 40.6 | 69.2 |

## Calculation of underlying cash conversion

| | **6 months ended 30 June 2020 £m** | 6 months ended 30 June 2019 £m | Year ended 31 December 2019 £m |
|---|---|---|---|
| Underlying operating profit | **26.8** | 40.2 | 86.3 |
| Calculation of adjusted operating cash flow: | | | |
| Cash generated by operations | **59.3** | 31.3 | 98.9 |
| Less: Purchase of assets for rental to customers | **(2.0)** | (10.7) | (16.3) |
| Less: Purchase of property, plant and equipment | **(10.2)** | (12.8) | (29.7) |
| Less: Purchase of intangible assets | **(0.7)** | (0.4) | (1.9) |
| Less: Repayments of lease liabilities | **(5.4)** | (5.0) | (10.5) |
| Add: Proceeds on disposal of non-current assets and assets held for sale | **0.6** | 1.4 | 2.3 |
| Add back: Defined benefit pension scheme deficit payments | **1.7** | 1.2 | 2.5 |
| Add back: Cash flows relating to non-underlying items | **0.2** | (0.5) | 1.2 |
| **Adjusted operating cash flow** | **43.5** | 4.5 | 46.5 |
| **Underlying cash conversion (%)** | **162%** | 11% | 54% |

## 7. Operating profit

| | **6 months ended 30 June 2020 £m** | 6 months ended 30 June 2019 £m | Year ended 31 December 2019 £m |
|---|---|---|---|
| Revenue | **315.6** | 339.5 | 694.7 |
| Cost of sales | **(203.2)** | (214.3) | (438.2) |
| **Gross profit** | **112.4** | 125.2 | 256.5 |
| Distribution costs | **(16.3)** | (18.2) | (36.8) |
| Administrative expenses | **(73.3)** | (71.3) | (152.4) |
| Other operating income | **0.7** | 0.9 | 1.9 |
| **Operating profit** | **23.5** | 36.6 | 69.2 |

## 8. Non-underlying items

During the period, the Group amended its accounting policy in respect of non-underlying items to exclude net financing costs on defined benefit pension obligations and costs incurred as part of significant refinancing activities. The changes did not have a material impact on the underlying result for either the current or prior period and the comparatives have not been restated. The Group's revised accounting policy for non-underlying items is as follows:

Non-underlying items are disclosed separately in the Consolidated Income Statement where the quantum, nature or volatility of such items would otherwise distort the underlying trading performance of the Group. 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.

*Six months ended 30 June 2020*

Non-underlying items included in operating profit comprise the following:

- Amortisation of acquisition intangible fixed assets of £3.1m.
- Acquisition related expenses of £0.2m, reflecting costs associated with acquisitions and including £0.2m relating to future consideration payments to previous owners of acquired businesses, the terms of which require those costs to be treated as a post-acquisition employment expense in accordance with IFRS 3 (Revised).

*Six months ended 30 June 2019*

Non-underlying items included in operating profit comprised the following:

- On 5 August 2019 the Group disposed of Weholite Limited, its non-core plastic drainage pipe business, for a net consideration of £2.7m. Having met the conditions set out in IFRS 5, the business was treated as held for sale at 30 June 2019 and its assets and liabilities remeasured at their expected realisable value, resulting in a loss on remeasurement of £0.5m.
- Amortisation of acquisition intangible fixed assets of £2.9m.
- Acquisition related expenses of £0.7m reflected costs associated with acquisitions and included £0.2m relating to future consideration payments to previous owners of acquired businesses.
- During the prior period the Group completed the disposal of a property that had been held for sale at 31 December 2018, at a profit of £0.5m.

Non-underlying items included in financial income represented a gain on refinancing under IFRS 9 of £0.8m, and included in financial expense represented the net financing cost on pension obligations of £0.3m and a £0.4m charge in respect of amortisation of costs associated with refinancing.

*Year ended 31 December 2019*

Non-underlying items included in operating profit comprised the following:

- Business reorganisation costs of £1.9m and an impairment charge of right-of-use lease assets of £0.2m related to actions taken in Scandinavia following the disappointing performance in 2019. In Sweden we closed underperforming depots and restructured the management team, while in Norway we closed the business and exited that geography.
- An impairment charge of £6.8m, reflected a full impairment of the goodwill and intangible assets relating to the Group's acquisitions in Sweden, which comprised the acquisition of ATA Bygg-Och Markprodukter AB in 2011 and the smaller acquisitions of FMK Traffikprodukter AB and Signalvakter Syd, in 2016 and 2018 respectively, all of which were integrated into a single business unit.
- Amortisation of acquired intangible fixed assets of £6.2m.
- Acquisition expenses of £1.8m related to acquisitions completed during the prior year. The costs included a net credit of £0.2m relating to future consideration payments to previous owners of the acquired businesses.
- A gain of £0.5m in respect of assets held for sale, which reflected a profit on the disposal of that property during the prior year.
- A loss of £0.7m on the Group's disposal of Weholite Limited, its plastic drainage pipe business.

Non-underlying items included in financial income represented a gain on refinancing of £0.9m under IFRS 9, and included in financial expense represented the net financing cost on pension obligations of £0.5m and a £0.9m charge in respect of amortisation of costs associated with refinancing.

## 9. Net financing costs

| | 6 months ended 30 June 2020 £m | 6 months ended 30 June 2019 £m | Year ended 31 December 2019 £m |
|---|---|---|---|
| Interest on bank deposits | **0.2** | 0.2 | 0.5 |
| Underlying financial income | **0.2** | 0.2 | 0.5 |
| Financial gain relating to refinancing | **-** | 0.8 | 0.9 |
| **Financial income** | **0.2** | 1.0 | 1.4 |
| Interest on bank loans and overdrafts | **(3.2)** | (3.1) | (6.5) |
| Interest on lease liabilities | **(0.4)** | (0.4) | (0.9) |
| Financial expenses related to refinancing | **(0.4)** | - | - |
| Interest cost on net pension scheme deficit | **(0.2)** | - | - |
| Underlying financial expense | **(4.2)** | (3.5) | (7.4) |
| Financial expenses related to refinancing | **-** | (0.4) | (0.9) |
| Interest cost on net pension scheme deficit | **-** | (0.3) | (0.5) |
| **Financial expense** | **(4.2)** | (4.2) | (8.8) |
| **Net financing costs** | **(4.0)** | (3.2) | (7.4) |

## 10. Taxation

Tax has been provided on the underlying profit at the estimated effective rate of 19.5% (2019: 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 and is therefore monitoring developments. If the findings of the European Commission's conclusions in relation to the UK legislation are upheld, we have estimated the Group's maximum potential liability to be £2.7m as at 30 June 2020 (31 December 2019: £2.6m). Based on the current status of the case, we have concluded that no provision is required in relation to this amount.

## 11. Earnings per share

The weighted average number of ordinary shares in issue during the period was 79.4m, diluted for the effect of outstanding share options 79.9m (six months ended 30 June 2019: 79.1m and 79.6m diluted; the year ended 31 December 2019: 79.2m and 79.6m 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 2020 | | 6 months ended 30 June 2019 | | Year ended 31 December 2019 | |
|---|---|---|---|---|---|---|
| | **Pence per share** | **£m** | Pence per share | £m | Pence per share | £m |
| Basic earnings | **19.7** | **15.7** | 33.9 | 26.8 | 61.1 | 48.4 |
| Non-underlying items* | **3.4** | **2.7** | 3.6 | 2.9 | 19.6 | 15.5 |
| Underlying earnings | **23.1** | **18.4** | 37.5 | 29.7 | 80.7 | 63.9 |
| Diluted earnings | **19.6** | **15.7** | 33.6 | 26.8 | 60.8 | 48.4 |
| Non-underlying items* | **3.3** | **2.7** | 3.6 | 2.9 | 19.5 | 15.5 |
| Underlying diluted earnings | **22.9** | **18.4** | 37.2 | 29.7 | 80.3 | 63.9 |

*Non-underlying items as detailed in note 8.

## 12. Dividends

Dividends paid in the period were the prior year's interim dividend of £8.4m (2018: £7.9m). The proposed final dividend for 2019 was withdrawn and will not be paid (2018: £17.2m). 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 £7.3m, 9.2p per share (2019: £8.4m, 10.6p per share), which will be paid on 8 January 2021 to shareholders on the register on 4 December 2020.

## 13. 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. Typically the Group carries out impairment tests at its financial year end in December. However, the Board considers that the COVID-19 pandemic has resulted in increased uncertainty over the future economic outlook in many of the countries and markets in which the Group operates, which may be an indicator of impairment, and therefore the Group has performed impairment tests for several of its Cash Generating Units (“CGUs”) at 30 June 2020. In determining which CGUs to test, the Group identified those where it believes COVID-19 could plausibly result in a material reduction in the estimated future cash flows compared with management’s expectations prior to the onset of the pandemic.

Consistent with past practice and as disclosed in the Group’s 2019 Annual Report, impairment tests on the carrying values of goodwill and certain brand names, which are the Group’s only other indefinite life intangible assets, 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 2020 and strategic plans for the following two years, both of which reflect the estimated short to medium term impacts of COVID-19. 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 1.5% and 2.5%. The Board believes the use of long-term historical growth rates is currently the most reliable indicator of future growth rates, given the 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, no impairments were identified for any of the CGUs tested.

The Group has applied sensitivities to assess whether any reasonably possible changes in assumptions could cause an impairment of the goodwill in each CGU. These sensitivity analyses did not identify any material impairments for any of the CGUs tested, with the exception of the France Galva SA CGU. As disclosed in the 2019 Annual Report, the calculations in respect of the goodwill attributable to France Galva are sensitive to the assumptions adopted. The most sensitive of these assumptions is future galvanizing volumes, which are the key driver of future cash flows. The Group’s sensitivity analysis modelled several scenarios for the pace of volume recovery in 2021 and therefore absolute volumes in subsequent years, reflecting the relatively wide range of short to medium term recovery outcomes that are possible given the uncertainties arising due to COVID-19. A summary of each sensitivity and its impact on calculated headroom for the France Galva SA CGU is as follows:

| | Annual volume growth (%) | | | | | |
|---|---|---|---|---|---|---|
| | 2020 | 2021 | 2022-2024 | 2025 onwards | 2024 volume change vs. 2019 (%) | Calculated headroom (£m) |
| Base case | (10.1) | 8.0 | 1.0 | 1.5 | 0.5 | 10.2 |
| Sensitivity 1 | (10.1) | 12.6 | 1.0 | 1.5 | 4.3 | 19.1 |
| Sensitivity 2 | (10.1) | 7.3 | 1.0 | 1.5 | (0.6) | 2.3 |
| Sensitivity 3 | (10.1) | 3.6 | 1.0 | 1.5 | (4.0) | (6.0) |
| Sensitivity 4 | (10.1) | 1.0 | 1.0 | 1.5 | (6.5) | (11.9) |

The Group’s base case, which takes into account external economic projections as well as internal forecasts, assumes a recovery in volumes such that by 2024, volumes are 0.5% higher than in 2019. Sensitivities three and four indicate that if the pace of recovery is significantly lower than that assumed in the base case then an impairment could arise.

The other assumption to which the France Galva goodwill impairment review is most sensitive is the discount rate. The base case assumed a pre-tax discount rate of 17.6%. A 100 basis point increase in this discount rate to 18.6% would reduce calculated headroom by £6.6m. A pre-tax discount rate of 19.2% would reduce calculated headroom to zero.

## 14. Analysis of net debt

| | **6 months ended 30 June 2020 £m** | 6 months ended 30 June 2019 £m | Year ended 31 December 2019 £m |
|---|---|---|---|
| Cash and cash equivalents | **20.5** | 24.9 | 26.0 |
| Interest bearing borrowings due within one year | **(0.4)** | (0.4) | (0.4) |
| Lease liabilities due within one year | **(9.7)** | (9.3) | (10.6) |
| Interest bearing borrowings due after more than one year | **(179.2)** | (194.0) | (200.9) |
| Lease liabilities due after more than one year | **(26.6)** | (24.3) | (29.4) |
| **Net debt** | **(195.4)** | (203.1) | (215.3) |

| | **6 months ended 30 June 2020 £m** | 6 months ended 30 June 2019 £m | Year ended 31 December 2019 £m |
|---|---|---|---|
| **Change in net debt** | | | |
| Operating profit | **23.5** | 36.6 | 69.2 |
| Non-cash items | **19.6** | 18.7 | 45.8 |
| Operating cash flow before movement in working capital | **43.1** | 55.3 | 115.0 |
| Net movement in working capital | **18.3** | (21.8) | (12.9) |
| Change in provisions and employee benefits | **(2.1)** | (2.2) | (3.2) |
| **Operating cash flow** | **59.3** | 31.3 | 98.9 |
| Tax paid | **(10.0)** | (6.0) | (14.4) |
| Net financing costs paid | **(2.9)** | (2.8) | (5.9) |
| Capital expenditure | **(12.9)** | (23.9) | (47.9) |
| Proceeds on disposal of non-current assets and assets held for sale | **0.6** | 1.4 | 2.3 |
| **Free cash flow** | **34.1** | - | 33.0 |
| Dividends paid (note 12) | **(8.4)** | (7.9) | (25.1) |
| Acquisitions | **-** | (24.1) | (48.9) |
| Disposals | **-** | - | 2.4 |
| (Expense)/income associated with refinancing activities | **(0.4)** | 0.4 | - |
| Purchase of shares for employee benefit trust | **-** | (0.9) | (0.7) |
| Issue of new shares | **0.8** | 0.9 | 2.0 |
| New leases and lease measurements | **(1.0)** | (3.9) | (11.1) |
| Interest on lease liabilities | **(0.4)** | (0.4) | (0.9) |
| **Net debt decrease/(increase)** | **24.7** | (35.9) | (49.3) |
| Effect of exchange rate fluctuations | **(4.8)** | (0.2) | 2.9 |
| Net debt at the beginning of the period | **(215.3)** | (132.9) | (132.9) |
| Adoption of new accounting standards | **-** | (34.1) | (36.0) |
| Net debt at the beginning of the period - restated | **(215.3)** | (167.0) | (168.9) |
| **Net debt at the end of the period** | **(195.4)** | (203.1) | (215.3) |

## 15. 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 2020. 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 | - | 20.5 | 20.5 | 20.5 |
| Interest bearing loans due within one year | - | (0.4) | (0.4) | (0.4) |
| Interest bearing loans due after more than one year | - | (179.2) | (179.2) | (179.2) |
| Lease liabilities due within one year | - | (9.7) | (9.7) | (9.7) |
| Lease liabilities due after more than one year | - | (26.6) | (26.6) | (26.6) |
| Other assets | - | 118.8 | 118.8 | 118.8 |
| Other liabilities | - | (98.2) | (98.2) | (98.2) |
| **Total at 30 June 2020** | - | (174.8) | (174.8) | (174.8) |

### Fair value hierarchy

There were no financial instruments carried at fair value at 30 June 2020, 30 June 2019 or 31 December 2019.

## Financial Calendar

| | |
|---|---|
| Ex-dividend date | 3 December 2020 |
| Record date | 4 December 2020 |
| Payment of interim dividend for 2020 | 8 January 2021 |
| Preliminary results announcement for 2020 | 10 March 2021 |
| Annual General Meeting 2021 | 25 May 2021 |

## 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 8 January 2021, need to elect to do so by 15 December 2020 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

**A C B Giddins FCA**
Chairman and Non-executive

**D W Muir BSc, CEng, MICE**
Group Chief Executive

**H Nichols ACA, MA**
Group Chief Financial Officer

**A Quinlan**
Senior Independent Non-executive

**A M Kelleher MSc, BA**
Non-executive

**M J Reckitt BCom, CA**
Non-executive

**P Raby**
Non-executive

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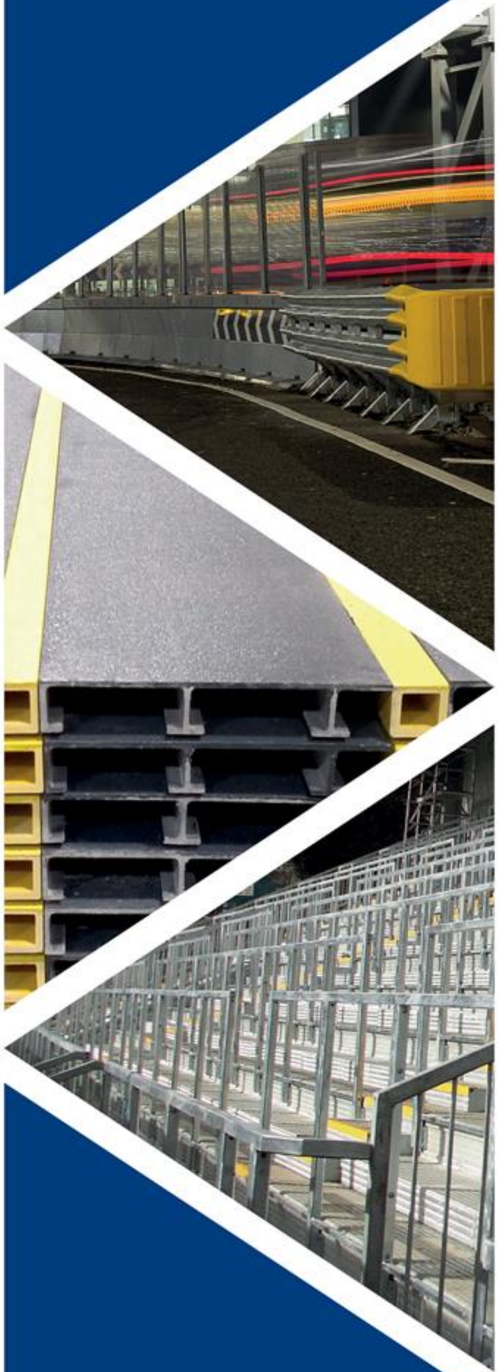


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