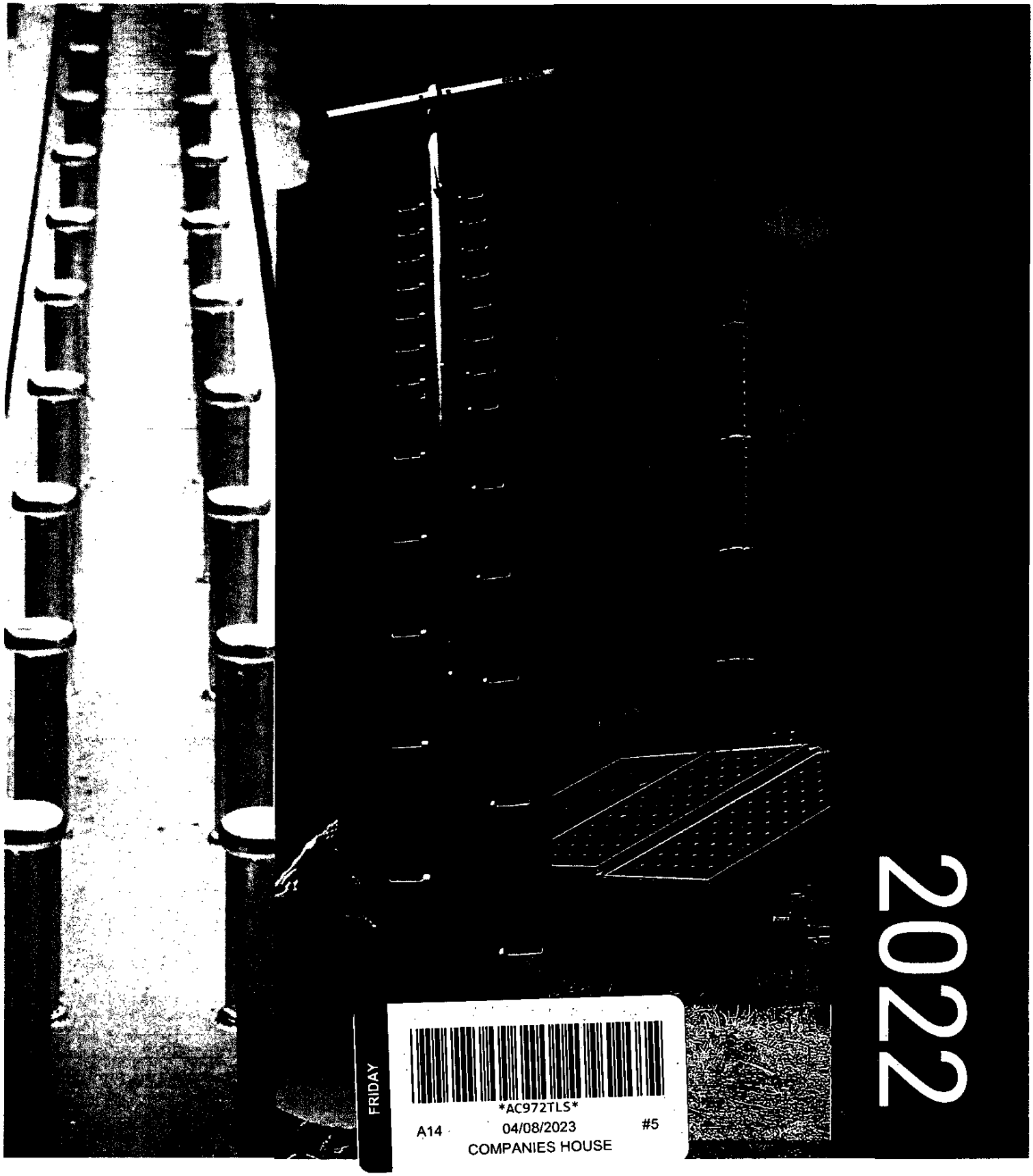

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COMPANIES HOUSE

2022

Creating sustainable infrastructure
and safe transport through innovation.

Hill & Smith PLC
Annual Report for the year ended 31 December 2022

Hill & Smith PLC

INVESTMENT CASE

Structural tailwinds in attractive markets

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

Read more on Our Market Place on pages 8 to 9.

Strong execution track record

Hill & Smith's autonomous model has delivered strong performance over the long term. Our agile business model has been key to mitigating challenges around supply chain, labour and COVID

Our model is scalable and supported by an ambitious management team

Read more in our Operational and Financial Review on pages 22 to 31.

Focus on high value niche applications

Our increasing focus on high value, fast growing niche markets fuels organic growth and generates higher gross margins and strong cash conversion

Read more on Our Divisions on pages 3 and 13.

Portfolio management

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

Active management within our operating companies drives gross margin improvement and allows reinvestment in areas of talent and innovation

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

Purpose and sustainability

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

Read more on Our Sustainability Plan on pages 32 to 57.

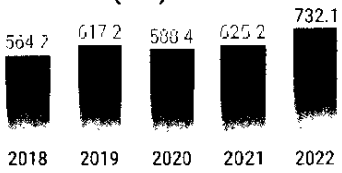
Strong balance sheet and cash generation

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

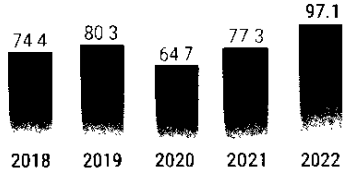
Read more in our Operational and Financial Review on pages 30 to 31.

FIVE-YEAR TRACK RECORD

Revenue[1] (£m)

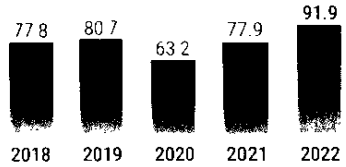


Underlying operating profit[1] (£m)

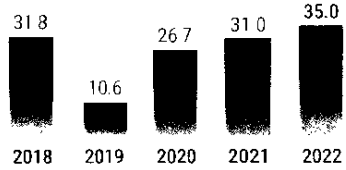


1 Continuing operations

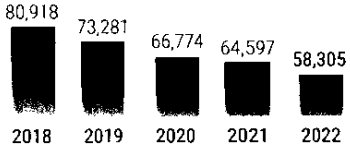
Underlying earnings per share (p)

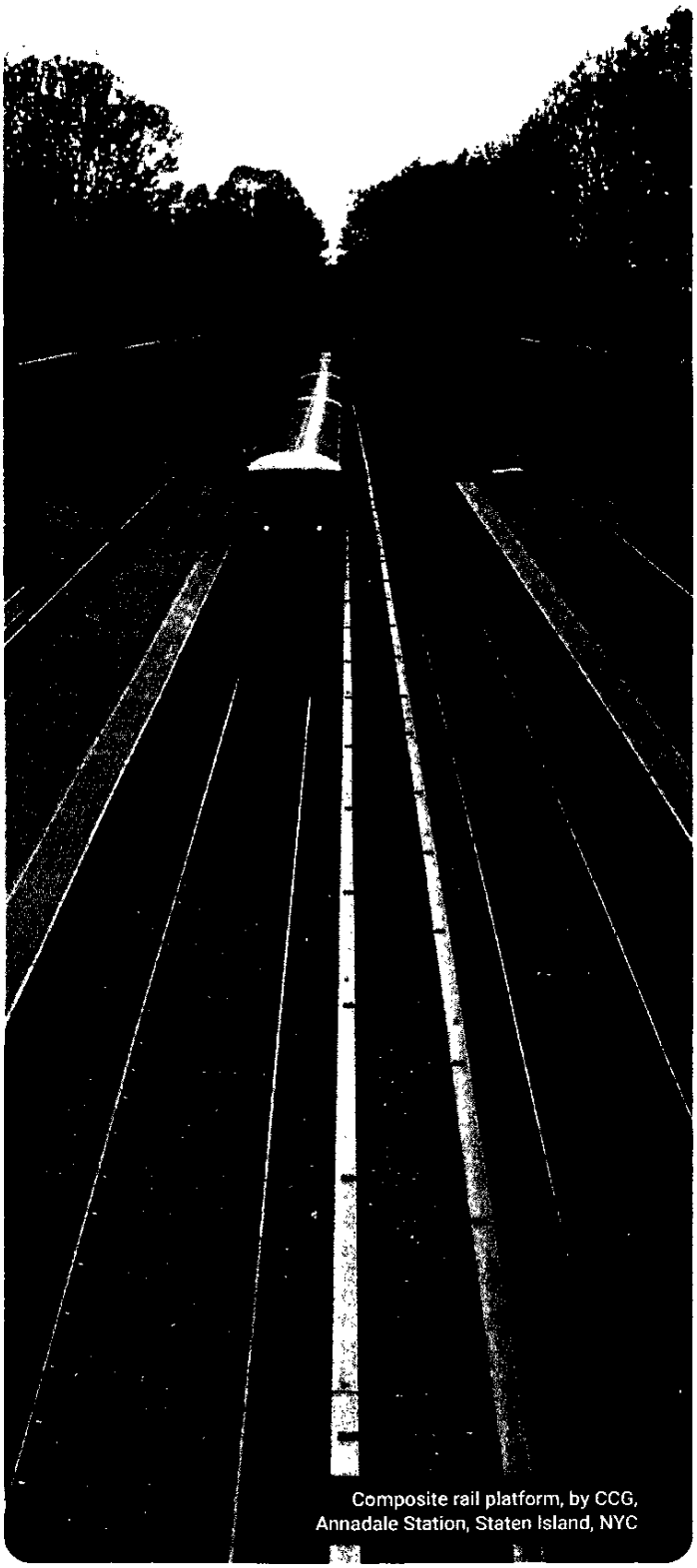


Dividend per share (p)



Scope 1 & 2 Carbon emissions (market-based consumption) (tonnes)





Composite rail platform, by CCG, Annadale Station, Staten Island, NYC

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HIGHLIGHTS

GROUP HIGHLIGHTS:

	Underlying*			Change		Statutory		Change
	31 December 2022	31 December 2021[1]	Reported %	Constant Currency %	OCC ^ %	31 December 2022	31 December 2021[1]	Reported %
Continuing Operations [1]								
Revenue	**£732.1m**	£625.2m	**+17%**	**+12%**	**+14%**	**£732.1m**	£625.2m	+17%
Operating profit	**£97.1m**	£77.3m	**+26%**	**+17%**	**+14%**	**£78.5m**	£48.9m	+61%
Operating margin	**13.3%**	12.4%	**+90bps**			**10.7%**	7.8%	+290bps
Profit before tax	**£87.9m**	£71.2m	**+23%**			**£69.3m**	£42.8m	+62%
Earnings per share	**85.4p**	70.0p	**+22%**			**66.7p**	35.8p	+86%
Total Group [1]								
Earnings per share	**91.9p**	77.9p	**+18%**			**71.0p**	43.0p	+65%
Dividend per share	**35.0p**	31.0p	**+13%**			**35.0p**	31.0p	+13%

* [illegible]

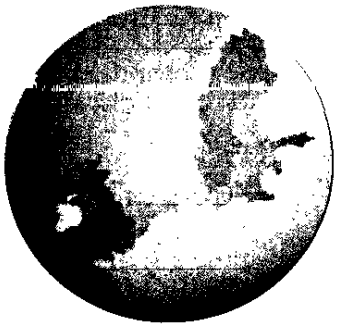
[illegible]

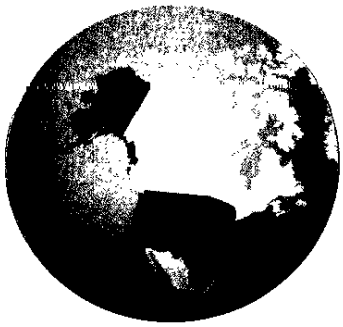
^ [illegible]

KEY HIGHLIGHTS:

- **Record trading performance**
  - 14% organic constant currency revenue and profit growth
  - Growth significantly driven by US businesses which represented 64% of Group operating profit
  - Operating margin increased by 90bps to 13.3%, reflecting strong operational performance, pricing actions and portfolio evolution
  - Strong performance highlights the resilience of our chosen long term end markets and focus on higher growth businesses
- **Significant progress on portfolio management**
  - Announcement of two value enhancing acquisitions in October 2022
    - National Signal, a high growth US off grid solar lighting business, for £24.2m
    - Widnes Galvanising, expanding our galvanizing footprint in the UK, for £3.9m
  - Acquisition of Enduro Composites in February 2023 for £28.7m further accelerating our US composites growth strategy
  - Acquisition of Korns Galvanizing in March 2023 for £9.4m, supporting growth in attractive US galvanizing market
  - Disposal of France Galva in October 2022 for £62.0m reduces our exposure to lower growth, lower margin French galvanizing market
- **Refreshed financial framework reflecting Group's growth potential**
- **Improved cash generation in second half, with year-end covenant leverage at 0.7 times**
- **Final dividend of 22p proposed, a 16% increase on 2021, in line with the Group's sustainable and progressive dividend policy**
- **Well-positioned in structurally growing end markets and expect to make further progress in 2023, despite macro-economic uncertainties**

GROUP AT A GLANCE





GROUP SUMMARY

Our porfolio: As at 31 December 2022, the Group consisted of 30 companies operating from 57 sites in five countries, through which we aim to deliver high levels of organic growth and strong cash conversion. These companies are supported by a head office team who offer support and leadership in areas including capital allocation, M&A, health & safety, tax, legal and sustainability.

Our operating framework: We operate a decentralised autonomous operating model, which benefits from high accountability, agility and customer intimacy, and helps us to attract talented people who want to make a difference.

Sustainability built in: Our products and services help transport become safer and infrastructure become more sustainable, with our customers benefitting through the value that our products and services provide.

ROADS & SECURITY

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

ENGINEERED SOLUTIONS

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

GALVANIZING SERVICES

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

	Roads & Security	Engineered Solutions	Galvanizing Services
% Group Revenue	36%	40%	24%
% Group Operating Profit	19%	36%	45%

INTERIM EXECUTIVE CHAIR'S LETTER

Alan Giddins
Interim Executive Chair

Dear Stakeholder

2022 has been a year in which we have delivered record revenue and profits despite the challenges of a difficult macro-economic backdrop. We have also made significant progress in delivering on our M&A strategy.

Performance Highlights

On a continuing operations basis the Group had revenue of £732.1m (2021: £625.2m) and operating profit of £97.1m (2021: £77.3m), representing an organic revenue and operating profit growth of 14%. Operating margins improved from 12.4% to 13.3%. Continuing operations reflects the disposal of France Galva during the year, with the France Galva results being shown as discontinued operations in both the current and prior year figures.

Underpinning these results was a strong performance across both our Galvanizing and Engineered Solutions divisions, delivering organic operating profit growth of 23% and 24% respectively. By contrast, our Roads & Security division saw broadly flat earnings during the year, impacted by delays in strategic road network projects in the UK, and certain operational issues in our US Roads business.

While we saw lower cash conversion in the first half of the year as we made a strategic decision to hold higher levels of stock in the face of significant supply chain uncertainties, we saw much improved cash generation in the second half of the year at 93%, giving rise to a full year cash conversion of 51%. As at 31 December 2022 total net debt was £119.7m (2021: £144.7m), leaving financing headroom of £237.9m on the Group's borrowing facilities. Return on capital employed was 19.2% (2021: 17.1%).

Board and Employees

In July, Paul Simmons stepped down as Chief Executive of Hill & Smith, and I was asked by the Board to take on the role of Interim Executive Chair. Paul joined Hill & Smith in September 2020, and I would like to thank him for his contribution during this period.

Since the half year we have made five new Managing Director appointments. These include our first two female Managing Directors within the Group, Rachel Preen at Prolectric Services, our UK solar lighting business and Rose Mary Clyburn at Hill & Smith Inc., our US roads business. Being able to attract and retain key talent is absolutely critical to our business, and it is something that I and the Board have as one of our key priorities.

2022 has thrown up a range of challenges for our wider workforce. In the first half of the year we faced a number of supply chain challenges, as well as increased energy costs, particularly in the UK. In the second half of the year we have seen significant inflation and related economic uncertainties. Inflation impacted input costs into our business, but also created significant cost of living pressures for our employees. I am pleased that our businesses have responded so proactively, using in-year salary reviews, one-off cost of living payments, crisis loans and variable pay awards to help support our lower income employees.

During the year we also set up a Charitable Donation Matching Programme. The programme matches charitable funds raised by our employees on an application basis and was available to employees in all our operating jurisdictions. During the year we have matched donations benefitting causes such as DEC Ukraine, War Child Ukraine Humanitarian Appeal, Cancer Research UK and many more, and we were delighted to support these fundraisings.

Governance

The Board continues to be committed to the highest standards of governance, and stakeholder considerations remain central to the Board's decision making. Our full Corporate Governance Report, including details of our compliance with the UK Corporate Governance Code, is set out on pages 74 to 85. This includes a number of changes which we have made during the year to our governance approach to reflect the fact I have taken on an executive role during the second half of the year.

As approved at the Company's AGM in November 2022 the Company dropped "Holdings" from its name and simplified it to Hill & Smith PLC. We also refreshed the Group's logo.

Health & Safety

The importance of health & safety cannot be over-estimated. Our employees rightfully expect to be kept safe at work and the Board of Hill & Smith takes their responsibilities extremely seriously, with health and safety being a standing item on each Board agenda. Lost Time Injury Reports are monitored carefully, and I have been extremely pleased by the progress that has been made, with the Lost Time Injury Rate declining from 1.7 to 1.1 (see pages 20 and 21 for more details).

Strategy

Hill & Smith has a very clear strategy. We focus our capital into our highest growth markets, consistent with our purpose, and behind our best management teams. We then seek to complement this with selective M&A. At the heart of our strategy lies our autonomous business model, which is about giving ownership to our local teams to drive performance in their businesses. It is also about excellence in execution, both when we are acquiring businesses, but also where we see underperformance in our portfolio and there is a need to take proactive performance and management actions.

M&A Activity

One of the areas I committed to giving greater focus to was driving our M&A strategy. In October we announced two acquisitions, National Signal, a California-based market leader in solar lighting serving the US market and Widnes Galvanising. Widnes Galvanising gives us a stronger foothold in the northwest of the UK, and as a result is highly complementary to our Joseph Ash business.

> Hill & Smith has a very clear strategy. We focus our capital into our highest growth markets, consistent with our purpose, and behind our best management teams. We then seek to complement this with [illegible]

Since the year end we have made two further acquisitions. In February 2023 we acquired Enduro Composites, a designer, manufacturer and supplier of engineered composite solutions based in Houston, Texas, and in March 2023 we announced the acquisition of Kerns Galvanizing, which specialises in spin galvanizing, and is based in Johnstown, Pennsylvania.

We also made one material disposal during the year, France Galva SA. The deal received shareholder approval on 5 September 2022 and completed on 4 October 2022. The decision to sell France Galva reflected our view that the French market would continue to be extremely competitive and as such we would not be able to meet our targeted returns through owning the business. Further information on the disposal can be found on page 146.

Sustainability and ESG

The Group is mindful of our impact on climate change and sustainability. This is felt throughout the business and during the course of 2022 we have made good progress in this area. Lucinda Farrington Parker joined as Group Head of Sustainability in February 2022 and has been responsible for helping drive our ESG strategy. Inevitably we are at the start of a long journey, but I have been impressed by the progress made to date and the commitment of our senior management. Since becoming Executive Chair, I have joined our ESG Committee, which reports to the Board.

Dividend and Annual General Meeting

The Board has proposed a final dividend of 22.0p (2021: 19.0p) which, if approved, would result in a full year dividend of 35.0p (2021: 31.0p), an increase of 13%, while keeping dividend cover of around 2.5 times underlying earnings.

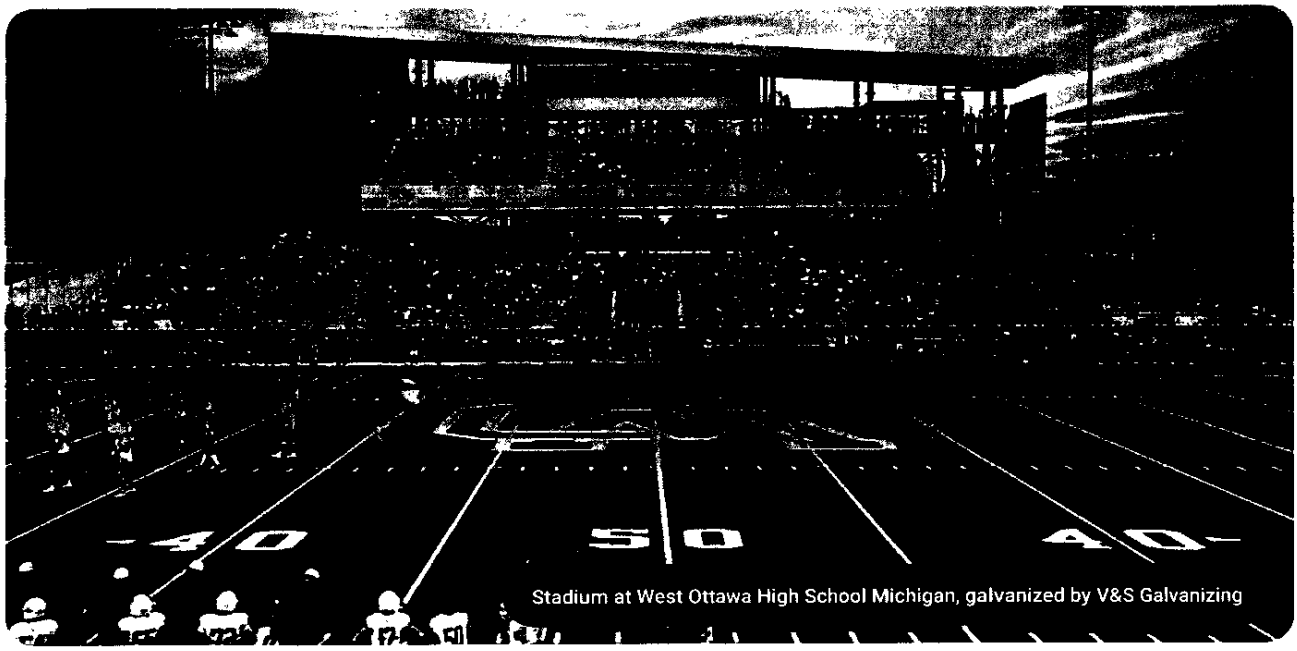
The Annual General Meeting of the Company will be held at 11.00 a.m. on Thursday 25 May 2023 at Cranmore Park Conference, Event & Exhibition Centre, Cranmore Avenue, Shirley, West Midlands, B90 4LE, United Kingdom. The meeting is an ideal forum for raising any questions you may have of your Board, and I hope many of you will take advantage of this opportunity. I very much look forward to meeting you there.

Looking Ahead

Hill & Smith has a very effective business model and a very strong culture. We are facing into a number of high growth end markets driven by infrastructure spend, particularly in the US, which should allow us to continue to deliver attractive earnings growth through the cycle. Combined with a strong senior management team and a highly committed workforce, I feel very confident about the medium and long term prospects for the Group.

Alan Giddins
Interim Executive Chair

8 March 2023



Stadium at West Ottawa High School Michigan, galvanized by V&S Galvanizing

OUR PURPOSE AND STRATEGY

1. WHY?

Creating sustainable infrastructure and safe transport through innovation

2. WHERE?

Macro drivers

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

Market drivers

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

Applications and niches

- Systematic process
- Faster growing niche opportunities
- Critical applications

Read more on Our Market Place on pages 8 to 9.

3. HOW?

Organic growth

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

Portfolio management

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

ESG

- Protecting the world
- Saving and enhancing lives
  - Health & Safety
  - Talent and diversity
- Sustainable governance

Financial model

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

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

4. WHAT?

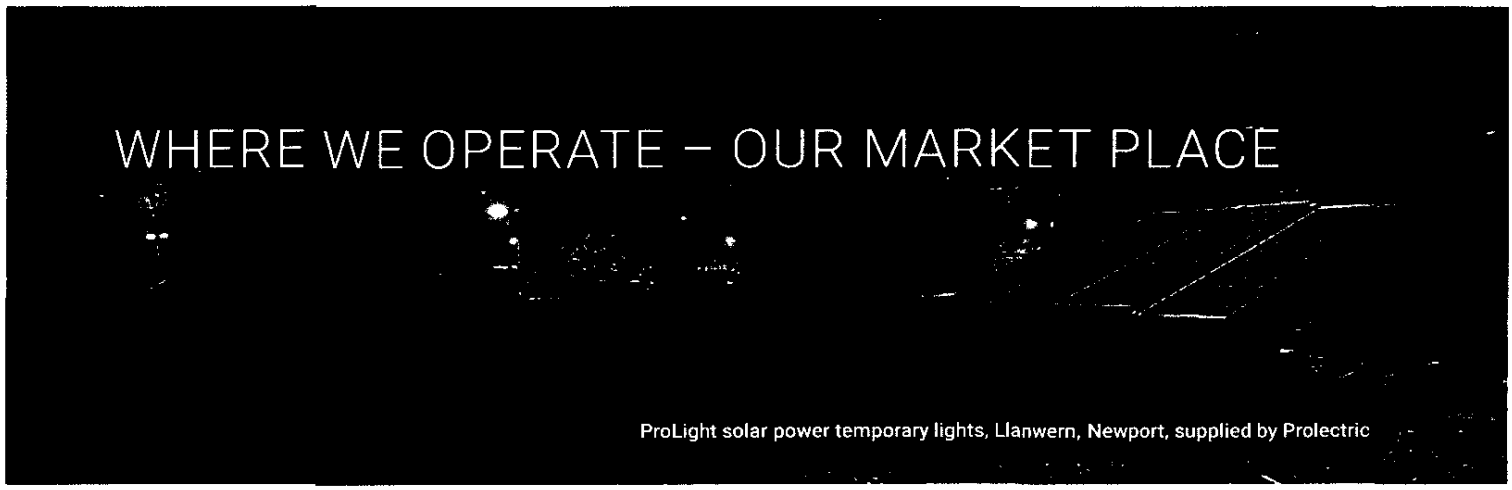
Superior long term stakeholder value

Read more on Our Investment Case on the inside front cover.

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

Read more on Our Approach to Sustainability on pages 32 to 57.

WHERE WE OPERATE – OUR MARKET PLACE

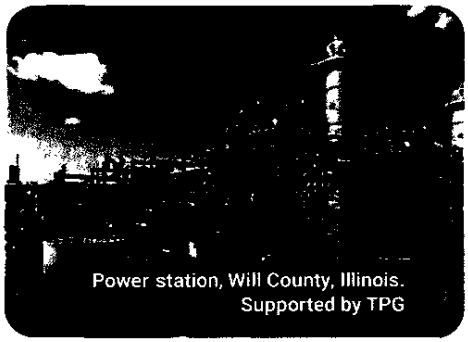


ProLight solar power temporary lights, Llanwern, Newport, supplied by Prolectric

NICHE MARKETS

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

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



Power station, Will County, Illinois. Supported by TPG

Why we focus on these markets...

GALVANIZING SERVICES

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

The end markets that our UK and US galvanizing businesses serve are many and varied including growth industries such as road and rail infrastructure, water treatment, construction, and electrical transmission and distribution. Our operating companies target above industry growth rates through thoughtful investment and superior service.

In the US, we expect to benefit from both increased on-shoring of manufacturing and high infrastructure spend as a result of the Investment in Infrastructure and Jobs Act (IIJA).

ENGINEERED SOLUTIONS

Our Engineered Solutions businesses span several growing markets.

Our US composites business builds bespoke solutions into industrial applications and projects to increase environmental resilience. The combination of high strength and low weight make composites a low embodied carbon solution compared with traditional materials. Similarly, our three engineered support businesses serve critical applications in water treatment, power generation and chemical processing.

The US electrical transmission and distribution network is set for significant growth due to historical underfunding and the increased demand for low carbon electricity. Our US substation frame business is well placed to play its part.

Our two UK businesses predominantly address cloud infrastructure that serve construction, oil and gas and data centre markets.

ROADS & SECURITY

[illegible]

TRENDS

MACRO DRIVERS

INCREASING POPULATION

By the late-2030s the world's population is forecast to be c 9 0bn, compared with 8 0bn in 2022. This increase in population, an increasing proportion of whom are aged, will drive an increase in the need for safe, sustainable infrastructure

Effect

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

Opportunities

The increase in infrastructure investment required is an opportunity for all our operating companies, as they supply products to the roads, rail, water treatment, and transmission and distribution markets

Our galvanizing plants supply products across all sectors.

URBANISATION

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

Effect

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

Opportunities

Increased urbanisation generates opportunities for our companies that supply into roads, rail, water treatment, and transmission & distribution markets as well as general building construction and includes products such as galvanized steel, pipe supports and hangers, and cooling towers

CLIMATE CHANGE

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

Effect

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

Opportunities

We produce a number of products that help to reduce climate change and improve infrastructure resilience, protecting against extreme weather.

Our galvanized steel is 100% recyclable, reducing the renewal of steel structures. We also have composite products which are corrosion resistant and lightweight, including cooling towers which use 25%-45% less energy than more traditional systems; and fire-resistant utility poles.

Our solar lighting towers and hybrid generators reduce greenhouse gas emissions during construction activity

HEALTH & SAFETY LEGISLATION

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

Effect

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

Opportunities

More demanding standards create opportunities for a number of our businesses including seismic restraints, temporary and permanent crash barrier and utility poles.

MARKET DRIVERS

SUSTAINABLE MATERIALS

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

Effect

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

Opportunities

Our composites products are used in a number of applications including bridge decks, boardwalks, cooling towers, utility poles and waterfront infrastructure.

We expect the range of applications to increase as acceptability of the products continues to increase

DECARBONISATION

The US and UK Governments have both agreed to meet the carbon reduction goals of the Paris Agreement

Effect

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

Opportunities

We aim to be at the forefront of decarbonising all processes across our businesses, so we are the supplier of choice.

ENABLING TECHNOLOGY

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

Effect

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

Opportunities

We are actively looking at how this type of technology can be incorporated into more of our products, having implemented this in our US roads product portfolio

VISION ZERO

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

Effect

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

Opportunities

We aim to be at the forefront of the development of Vehicle Restraint Systems ('VRS') and passive safety systems to respond to the latest trends in Vision Zero.

Our companies in the US, UK and Australia are active in both temporary and permanent VRS and passive safety products.

INFRASTRUCTURE SAFETY

Poor infrastructure resilience such as bridge collapses, rail accidents and wildfires can lead to high profile incidents This leads to an increased focus on infrastructure safety.

Effect

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

Opportunities

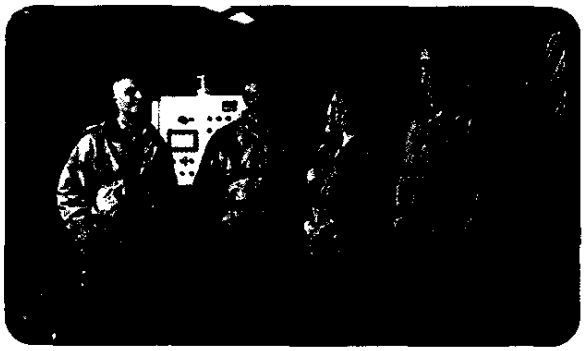
We are focused on further developing our resilient infrastructure products which include fire resistant utility poles and composite products for the waterfront and rail markets

HOW WE OPERATE – OUR BUSINESS MODEL

DRIVING ORGANIC GROWTH

Autonomous operating model

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



Premium on talent

Talented people are fundamental to the success of our decentralised operating model. 99% of our employees are employed by our operating companies. We place great importance on attracting, developing, and retaining exceptional people from across *the whole community. We seek to create an environment in which* individual difference is respected and everyone can give their best.

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

More information on the Group's approach to talent and diversity can be found on pages 44 to 48.

Innovation

Innovation is instrumental in supporting our long term organic profit growth targets. We are committed to innovating products in the medium term that meet evolving customer and market needs. We continue to accelerate our rate of innovation through our innovation workshops.

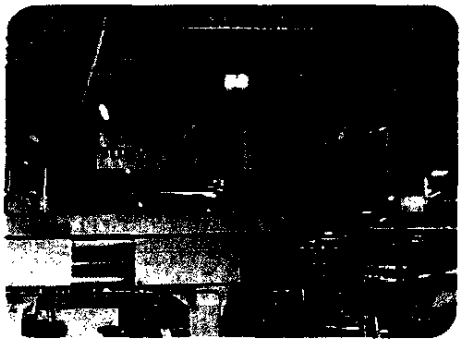
PORTFOLIO MANAGEMENT

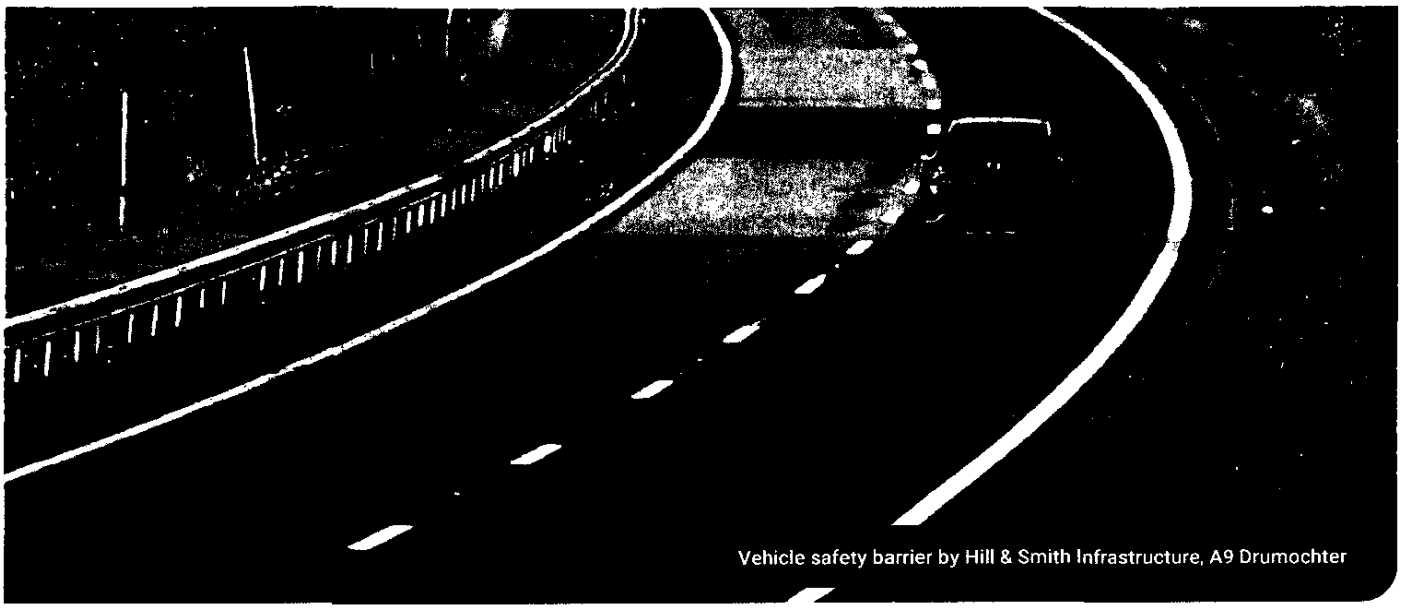
A disciplined M&A approach

Acquisitions form a key element of the Group's growth strategy. All potential *acquisitions are tightly evaluated to ensure they fit with our purpose and can* deliver sustainable organic profit growth. During the year we made good progress in building our M&A pipeline and we will develop this further in 2023.

During 2022, we completed the disposal of France Galva which reduces our exposure to the lower growth, lower margin French galvanizing market. We acquired National Signal, a high growth designer and manufacturer of off grid solar lighting solutions in California, and Widnes Galvanising, to expand our geographic footprint into the northwest of the UK.

In early 2023 we have also acquired Enduro Composites and Korns Galvanizing, both businesses based in the US.





Vehicle safety barrier by Hill & Smith Infrastructure, A9 Drumochter

ESG

Sustainability

The majority of our revenue is derived from products and services that make infrastructure more sustainable or keep people safe. For example, our composite products, due to their low weight and high strength have lower embodied energy than traditional materials. In recent years we have added solar powered lighting solutions to our portfolio, helping our customers to reduce their carbon emissions. Similarly, our galvanizing services extend the life of steel products by decades, reducing carbon emissions by preventing rusting and ensuring that at the end of the product's life the steel is fit for recycling. Our purpose ensures that sustainability is a natural part of everything that we do.

More information on the Group's approach to sustainability can be found on pages 32 to 41

Health & Safety

The health, safety and wellbeing of our employees is a key focus across all operating companies. All sites are committed to minimising the risks that our people and visitors face daily, ensuring that their policies, procedures, and risk assessments are followed. Increasingly the Group adopts measures to maintain a safe working environment and to ensure work related risks are effectively identified and controlled. Our monitoring programmes help to spot issues at the earliest opportunity and lessons are learned from any events that do occur.

More information on the Group's approach to health & safety can be found on pages 42 to 43

Governance

As an international group, we recognise that acting ethically towards our employees and other stakeholders shows our commitment to doing business in a responsible manner.

More information on the Group's approach to sustainable governance can be found on pages 50 to 57

FINANCIAL MODEL

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

Our objective is to deliver annual cash conversion above 80% and we seek to maintain conservative leverage, targeting a covenant net debt to EBITDA ratio of 1.0 to 2.0 times.

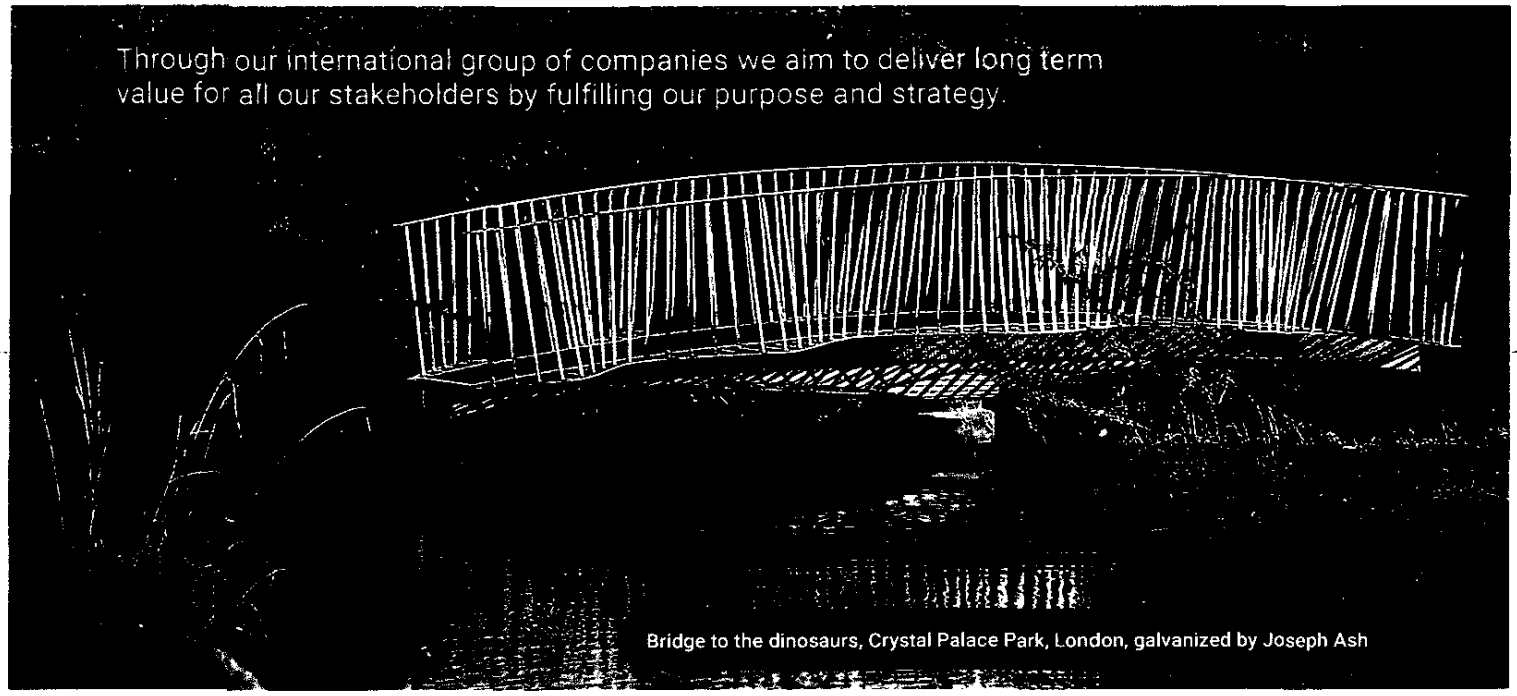
Capital Allocation Priorities

1. **Reinvesting for organic growth**
   We allocate capital to support organic growth, with the focus on higher return niches and growth markets.
2. **Targeted acquisitions to enhance growth**
   Acquisitions must fit with our purpose and strategy. We follow a structured approach to acquisitions based on a clear set of financial criteria, and we expect acquisitions to achieve returns above our Group WACC within a three-year timeframe.
3. **Sustainable and progressive dividend growth**
   We understand the importance of providing consistent and growing returns to our shareholders, and the Group's strong levels of cash generation allow us to invest in organic and inorganic growth while paying a progressive dividend. We target dividend cover of c. 2.5 times underlying earnings.

We use return on invested capital ('ROIC') to measure our overall capital efficiency with a target of achieving returns in excess of 18%, above the Group's cost of capital, through the cycle.

WHAT WE DO – DELIVER LONG TERM STAKEHOLDER VALUE

Through our international group of companies we aim to deliver long term value for all our stakeholders by fulfilling our purpose and strategy.



Bridge to the dinosaurs, Crystal Palace Park, London, galvanized by Joseph Ash

EMPLOYEES

Talented people are fundamental to the success of our decentralised model. We aim to provide safe, high-quality jobs for our employees worldwide, offering the potential for career development and socio-economic mobility. We are committed to ensuring that we provide stable, inclusive employment for all members of the community in successful and sustainable businesses.

PORTFOLIO COMPANIES

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

COMMUNITIES

Our autonomous operating companies can work directly with their local communities in supporting their economic aspirations and local charitable initiatives.

CUSTOMERS AND SUPPLIERS

Our Suppliers work closely with our operating companies and we have strong relationships that ensure a fair and equitable financial arrangement.

Our Customers have confidence in our expertise and our ability to support critical projects. They benefit from the value that our diverse range of products and services provide.

SHAREHOLDERS

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

DIVISIONS

CASE STUDY

Solar LED lights, Burnley General Hospital

ROADS & SECURITY

Burnley General Hospital was looking for reliable year-round lighting to illuminate its staff car park. With no mains power supply, they needed a solution that would save on the high costs of a Distribution Network Operator connection to get power to the site. Prolectric's AE6 Solar LED street lights, with smart control and Passive Infra Red sensors that ensure the lights work from dusk until dawn throughout all seasons, were the ideal solution. Prolectric designed the lighting layout to BS 5489-1:2020 highway standards and installed the lights using their in-house team.

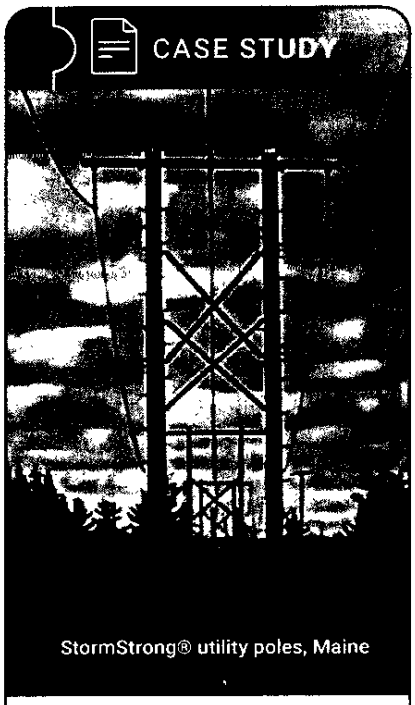
Sustainability Improvements

The solar powered lights are zero carbon and need no mains power, saving energy use from the grid. They are quick and easy to install with no trenching, ducting, or cabling and need no maintenance, so have zero running costs.

Prolectric Services

www.prolectric.co.uk

CASE STUDY



StormStrong® utility poles, Maine

ENGINEERED SOLUTIONS

A utility company in Maine, USA contacted our Creative Composites Group to discuss StormStrong®, 'storm proof' utility poles. Maine faces several challenges: it is geographically dispersed with harsh, unpaved terrain often in between customers and power hubs, and is also impacted each year by deep freezes, thick snow and ice, and heavy rainfall. StormStrong® poles are equal to Maine's toughest conditions. They absorb significant impact energy, commonly caused by severe storms. In addition they are rot and woodpecker proof.

Sustainability Improvements

StormStrong® poles, having low embodied carbon and reducing reliance on wood, stand up to the most extreme weather, terrain and environmental conditions to help create a resilient grid and to protect utility customers.

Creative Composites Group

www.creativecompositesgroup.com

CASE STUDY

Galvanized pig lift, Pembrokeshire

GALVANIZING SERVICES

Beneath the Wood, an award winning vegan sanctuary based in Wales, needed animal lifting equipment that would help them care for their pigs. They sought a solution that was strong and modular enough to accommodate different size animals. Once this was designed it was delivered to our Joseph Ash, Walsall, site to be treated with a galvanized coating to prolong the life of the equipment.

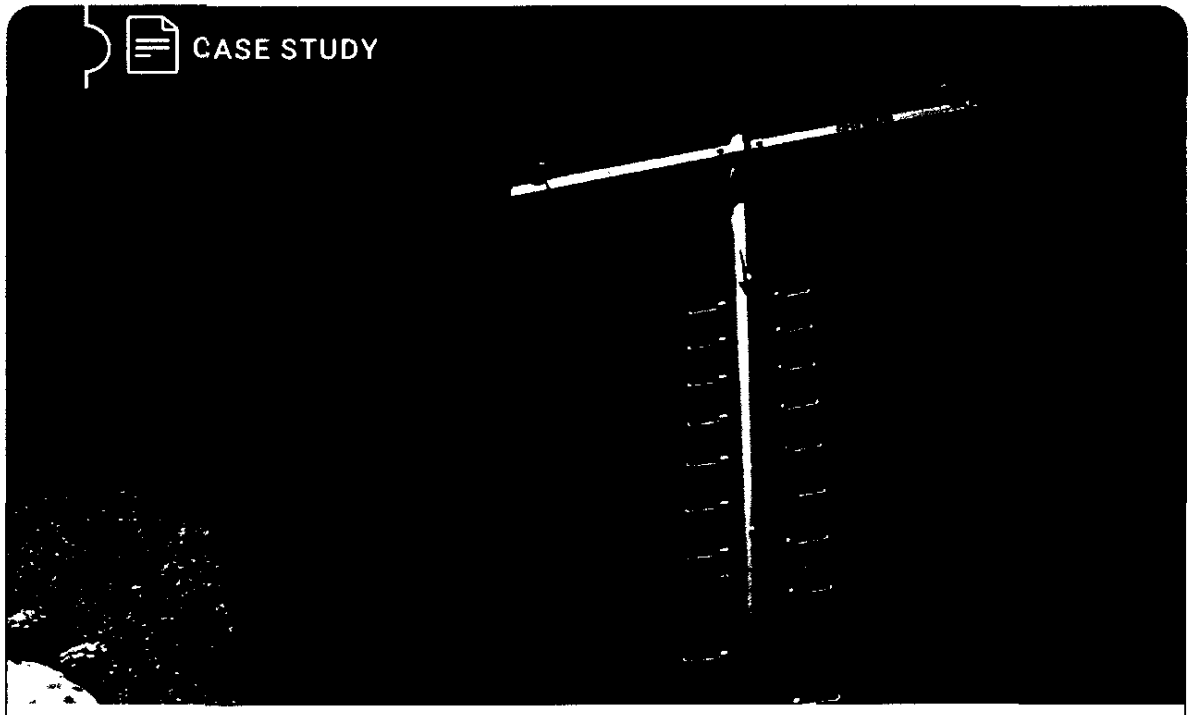
Sustainability Improvements

Hot-dip galvanizing provides a long-life, low-maintenance corrosion protection, safeguarding the steel from atmospheric attack, which causes rust and weakening.

Joseph Ash

www.josephash.co.uk

CASE STUDY



FireStrong™ Self-Monitoring Composite Pole Systems

The Creative Composites Group's Fiber-reinforced polymer ('FRP') fire-resistant utility poles can be used to protect the grid from the excessive heat generated by typical brush/grass fires. FireStrong™ utility poles maintain their structural integrity after a fire, so they can be kept in service. In addition, the integration of an irreversible temperature monitoring system helps utility workers determine whether pole strength retention was successful.

Utility poles are engineered to last up to 75 years in some of the harshest environments with little to no maintenance. Adding fire-resistant poles further increases their durability and longevity in fire-prone areas. As a result, poles will be less susceptible to damage and degradation caused by the heat from a fire. A third-party testing agency tested the poles by simulating a chaparral wildfire. Our FireStrong™ poles withstood three minutes at 2,100°C and retained 100% of their design strength.

FireStrong™ poles include an irreversible temperature monitoring system that is placed around the pole. The system is engineered to continuously monitor the temperature experienced by the pole and permanently record the highest temperature measured on its surface. During post-fire inspections, utility workers can compare this measurement to a temperature vs. strength retention chart for the particular type of FRP pole, to evaluate whether the utility pole has to be replaced. This step helps shorten the amount of time required for inspections without sacrificing the quality of the results.

The key benefits of non-combustible FireStrong™ poles are ignition prevention, increased grid resiliency and cost savings. A grid protected by FireStrong™ power poles will be less likely to experience a failure due to fire. As a result, they will not need to be removed and replaced, meaning utility companies will not need to invest time and money into performing these operations, and end customers will not need to suffer through grid downtime.

> "The key benefits of non-combustible FireStrong™ poles are ignition prevention, increased grid resiliency and cost savings."

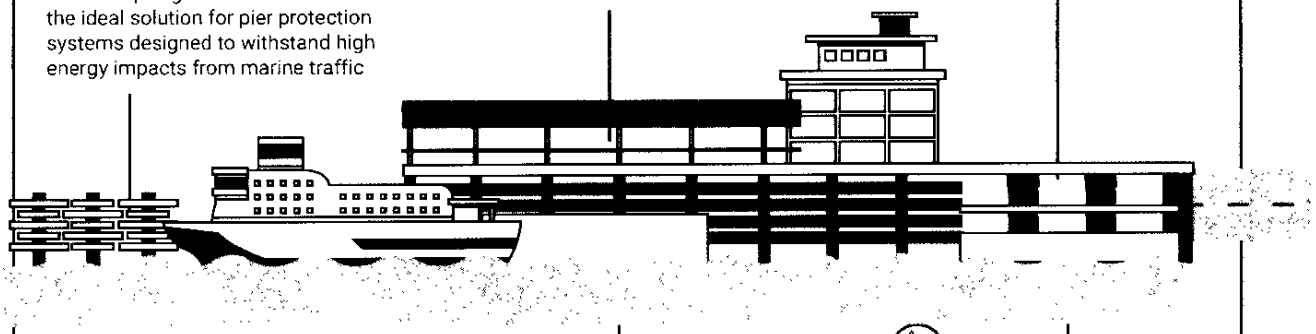
OUR PRODUCTS

Waterways and docklands

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

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

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

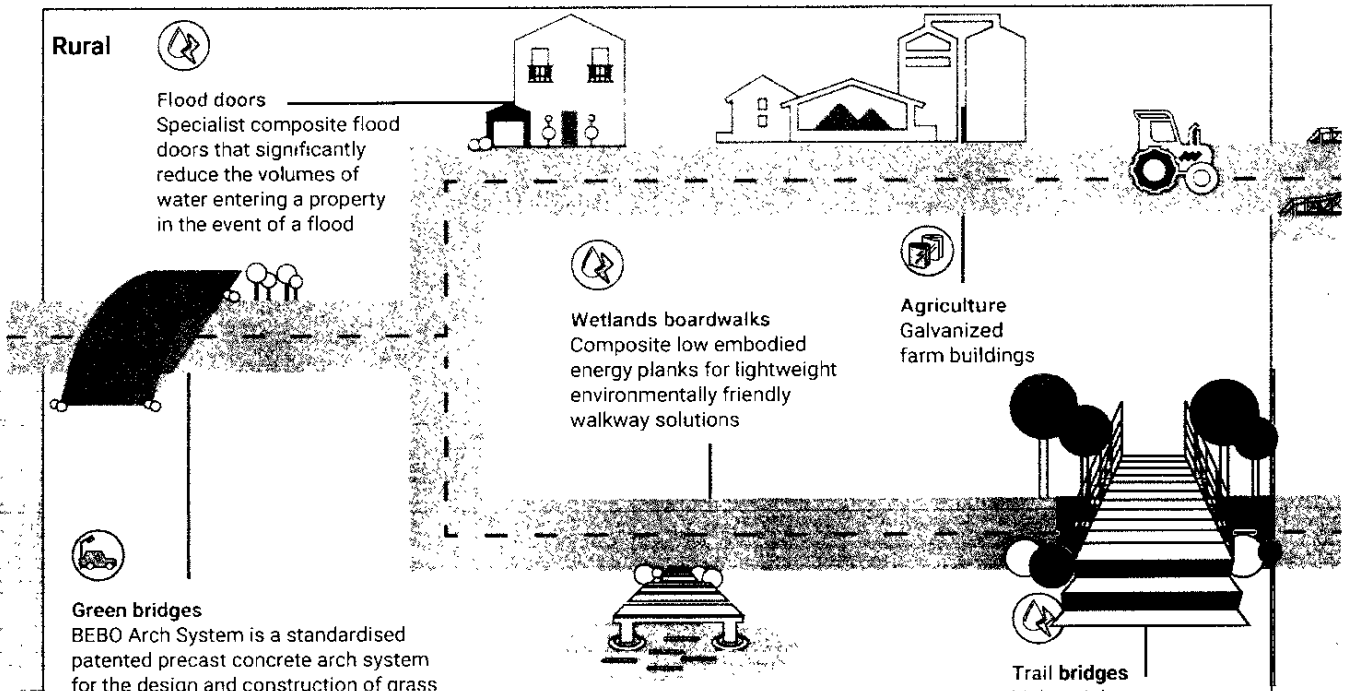


Maritime guide walls
FRP flexible fender system that bends under vessel contact but then recovers without breaking

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

Rural

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



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

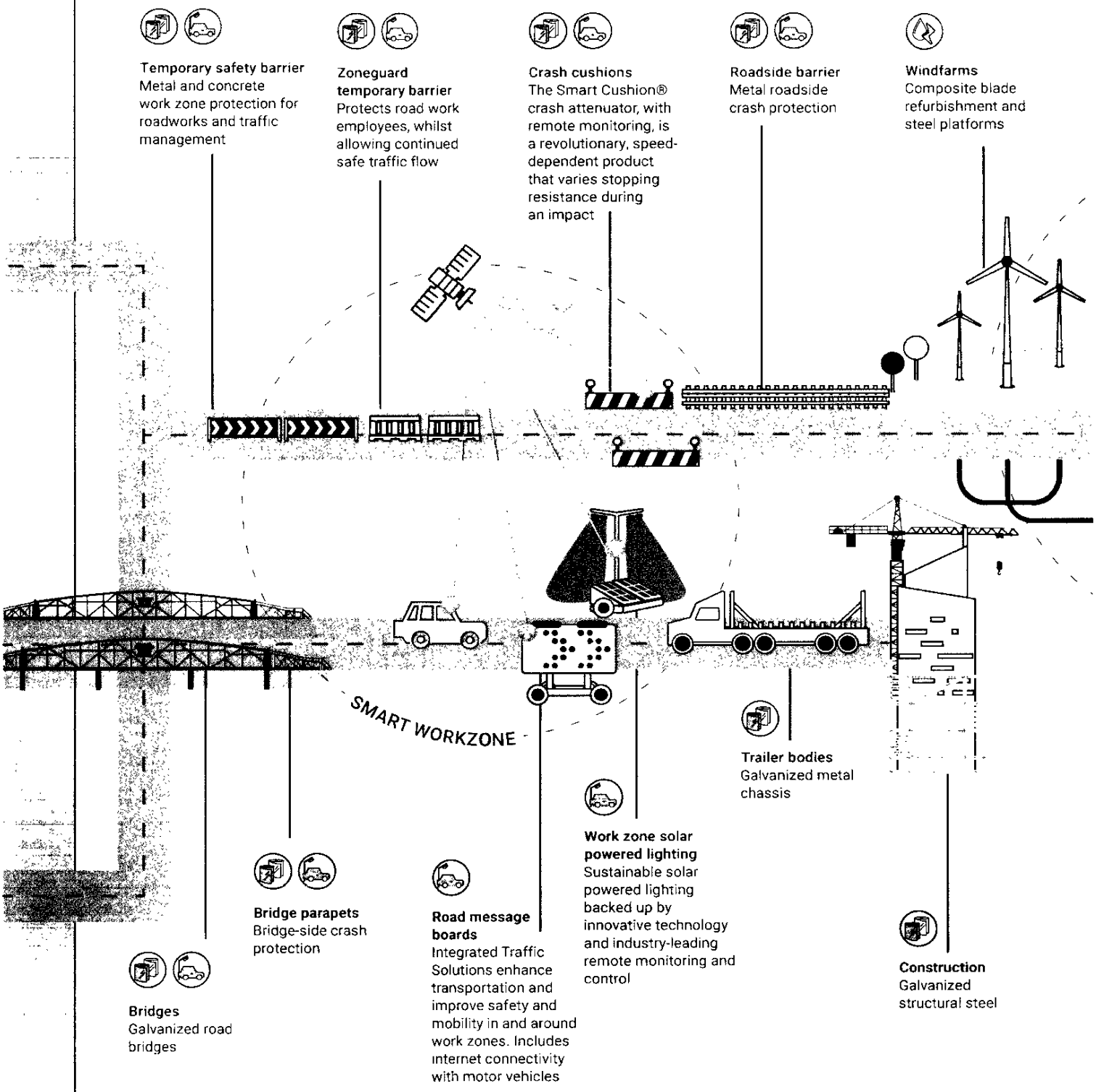
Agriculture
Galvanized farm buildings

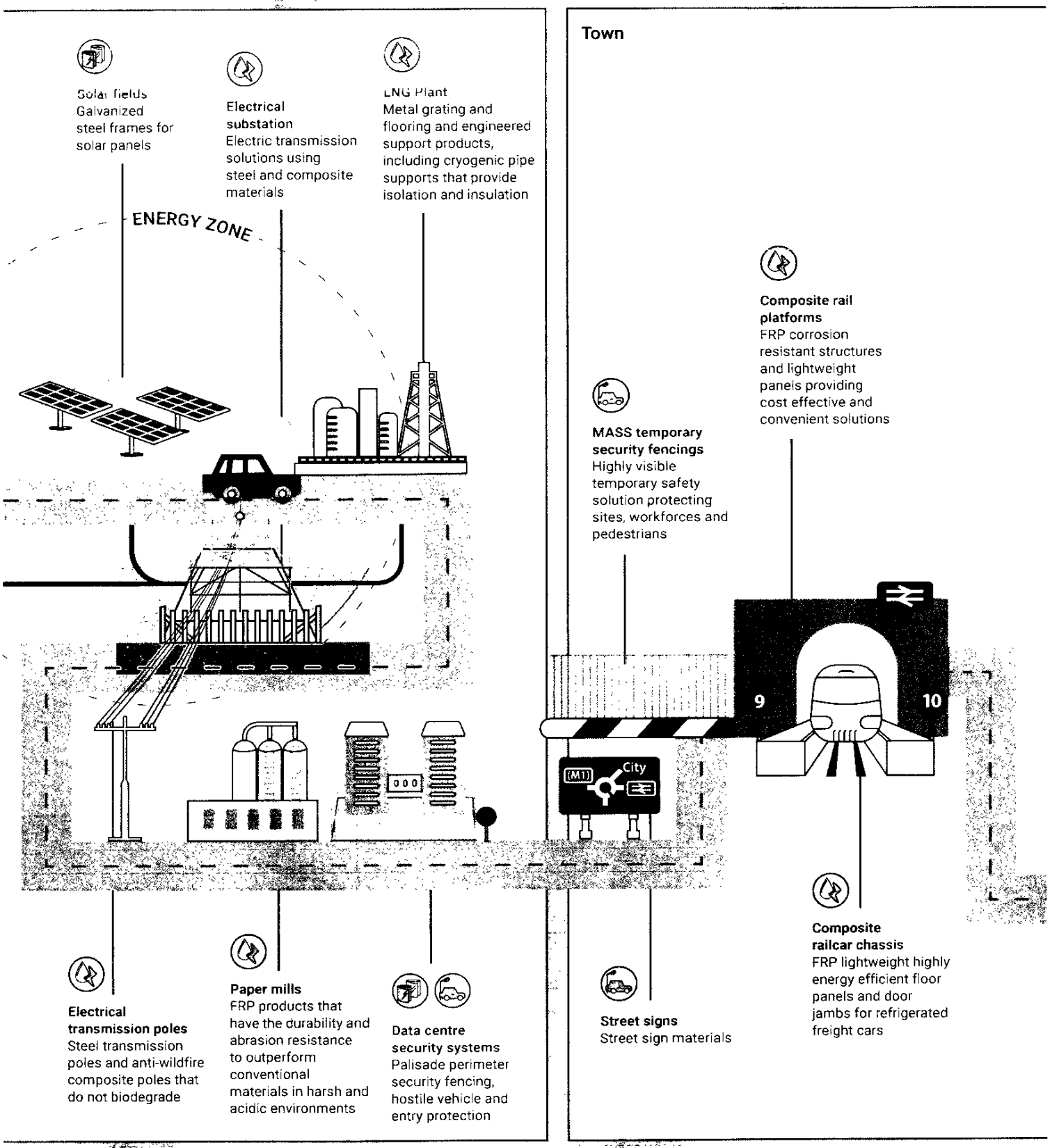
Green bridges
BEBO Arch System is a standardised patented precast concrete arch system for the design and construction of grass covered bridges, tunnels, culverts and other underground structures

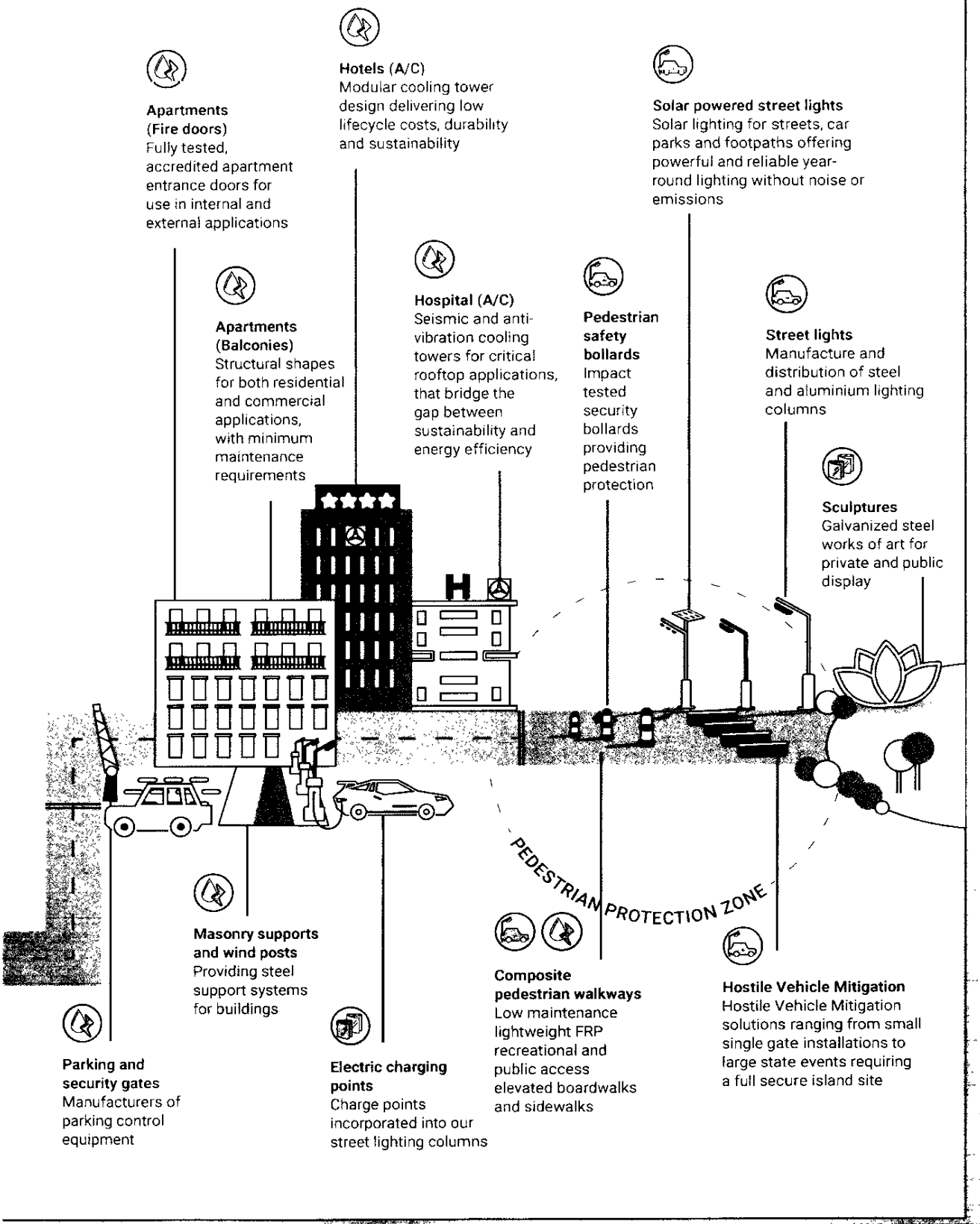
Trail bridges
Lightweight, strong, portable and longlasting low embodied energy FRP bridges for parks and trails

Roads and security · Utilities · Galvanizing

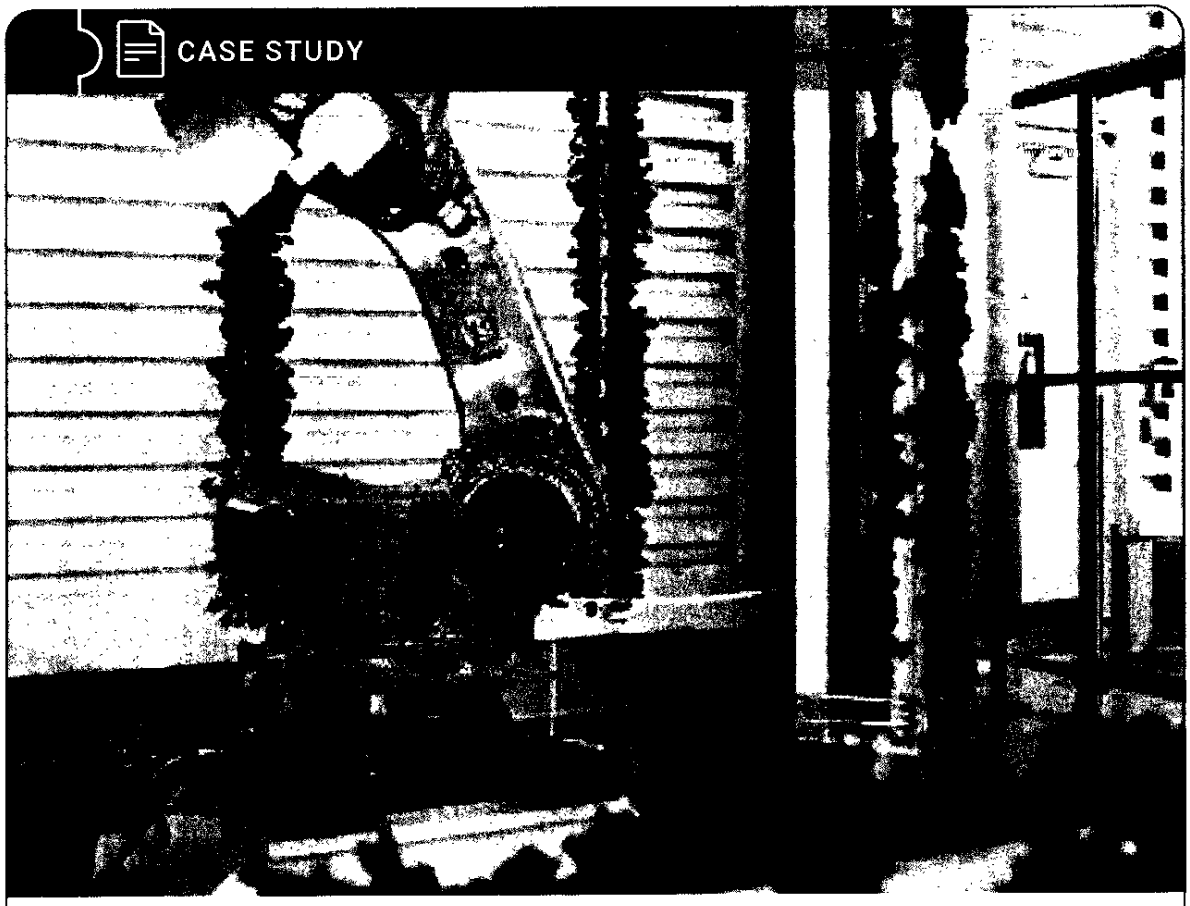
Suburban




Town
Solar fields
Galvanized steel frames for solar panels
Electrical substation
Electric transmission solutions using steel and composite materials
LNG Plant
Metal grating and flooring and engineered support products, including cryogenic pipe supports that provide isolation and insulation
ENERGY ZONE
Composite rail platforms
FRP corrosion resistant structures and lightweight panels providing cost effective and convenient solutions
MASS temporary security fencings
Highly visible temporary safety solution protecting sites, workforces and pedestrians
9
10
City
Electrical transmission poles
Steel transmission poles and anti-wildfire composite poles that do not biodegrade
Paper mills
FRP products that have the durability and abrasion resistance to outperform conventional materials in harsh and acidic environments
Data centre security systems
Palisade perimeter security fencing, hostile vehicle and entry protection
Street signs
Street sign materials
Composite railcar chassis
FRP lightweight highly energy efficient floor panels and door jambs for refrigerated freight cars


Apartments (Fire doors)
Fully tested, accredited apartment entrance doors for use in internal and external applications
Hotels (A/C)
Modular cooling tower design delivering low lifecycle costs, durability and sustainability
Solar powered street lights
Solar lighting for streets, car parks and footpaths offering powerful and reliable year-round lighting without noise or emissions
Apartments (Balconies)
Structural shapes for both residential and commercial applications, with minimum maintenance requirements
Hospital (A/C)
Seismic and anti-vibration cooling towers for critical rooftop applications, that bridge the gap between sustainability and energy efficiency
Pedestrian safety bollards
Impact tested security bollards providing pedestrian protection
Street lights
Manufacture and distribution of steel and aluminium lighting columns
Sculptures
Galvanized steel works of art for private and public display
PEDESTRIAN PROTECTION ZONE
Masonry supports and wind posts
Providing steel support systems for buildings
Composite pedestrian walkways
Low maintenance lightweight FRP recreational and public access elevated boardwalks and sidewalks
Hostile Vehicle Mitigation
Hostile Vehicle Mitigation solutions ranging from small single gate installations to large state events requiring a full secure island site
Parking and security gates
Manufacturers of parking control equipment
Electric charging points
Charge points incorporated into our street lighting columns

CASE STUDY



Galvanizing supports sustainable farming

V&S Galvanizing's Columbus plant supported a farming project for Plenty Unlimited based in San Francisco, California. They use AI and robots to farm, which uses 99% less land and 95% less water compared with conventional farming.

The robotic base needed to be sustainable and durable. The V&S team discussed the design alongside the venting and draining requirements that were necessary to make sure that the robotic base housing would have the best quality appearance, coating durability and corrosion performance and be appropriate for the wet conditions that occur in indoor vertical farming.

The robotic design is attached to the base housing, with the robotic arm grabbing a row of seedlings and placing them into a hydroponic planter. An even larger robot arm then flips the planter vertically and sends it to become one small section of a 20' tall wall of arugula, kale and beet leaves. A galvanized robotic base will last years to come without worrying about the durability of the coating system.

The company's farm is yielding enough produce to fill 720 acres of typical farmland, but they are doing it with just two acres of vertical farming. Plenty Unlimited says their farm produces 400 times more food per acre than the traditional farm. The automated robotic technology also means that besides the clear increase in food production, vegetation can be produced without the use of pesticides and without the risk of extreme weather. Out of season plants can be grown close to home without adding the carbon footprint of transport.

> "The robotic base housing would have the best quality appearance, coating durability and corrosion performance and be appropriate for the wet conditions that occur in indoor vertical farming."

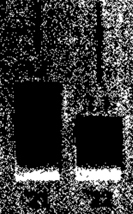
MEASURING OUR PERFORMANCE

Health & Safety

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

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

Performance



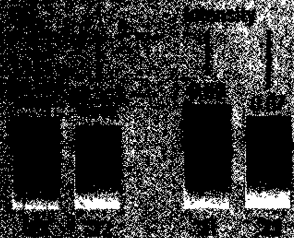
Greenhouse gas emissions

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

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

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

Performance



ROIC

(continuing operations)*

Link to strategy

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

KPI definition

Underlying operating profit divided by average invested capital. Invested capital is defined as the sum of intangible fixed assets, property, plant and equipment, [illegible] assets, stocks and trade receivables [illegible] trade and other payables.

Performance

Commentary

[illegible]

Underlying cash conversion

Link to strategy

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

KPI definition

Adjusted operating cash flow as a percentage of underlying operating profit. The calculation of adjusted operating cash flow excludes cash flows relating to the financial investments.

Performance

Commentary

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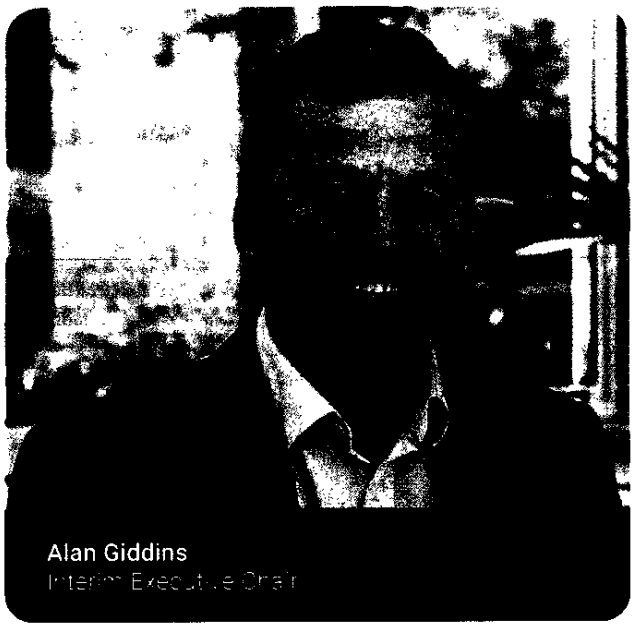
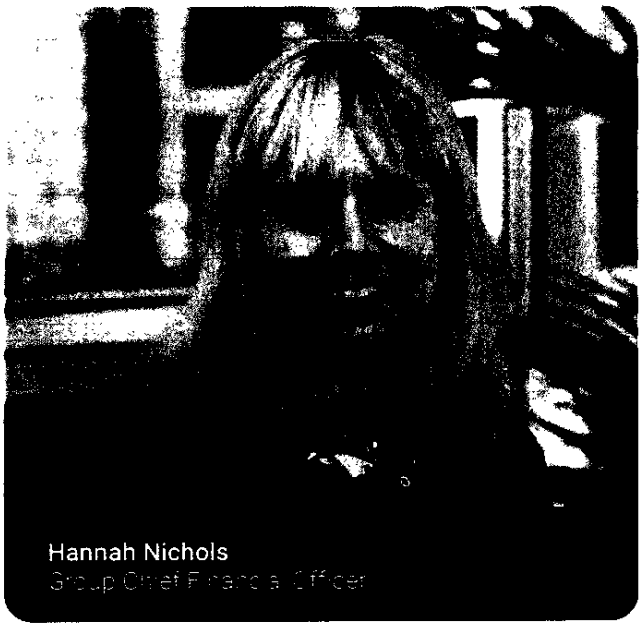
OPERATIONAL AND FINANCIAL REVIEW

EXECUTIVE DIRECTOR REVIEW



Alan Giddins
Interim Executive Chair



Hannah Nichols
Group Chief Financial Officer

REVIEW OF 2022

2022 was a successful year, with the Group achieving record revenue and operating profit. The strong performance demonstrates the resilience of our attractive, long term end markets and the benefits of our portfolio management actions which have placed a focus on higher growth, higher margin businesses. In particular, our US businesses represented 64% of Group operating profit, and this is expected to increase further following our recent acquisitions of National Signal, Enduro Composites and Korns Galvanizing. The results are also testament to our agile operating model and our talented local teams, who have successfully navigated the challenges presented by the external environment.

Organic growth remains a key focus, and we are pleased to report that the Group delivered 14% revenue and operating profit growth from continuing operations, on an OCC basis. In addition, we delivered strong operating margin progression with FY22 margin increasing by 90 basis points to 13.3%, which reflects an improved portfolio mix, operational gearing and our pricing power offsetting input cost inflation.

2022 saw the Galvanizing Services division deliver a standout trading performance, with strong volume growth in the US and both geographies benefiting from pricing actions and a strategic focus on higher margin customers. Our Engineered Solutions division (formerly known as Utilities) also delivered strong growth, underpinned by buoyant demand across the portfolio, particularly in our US based businesses.

In the Roads & Security division, reported revenue and profit were similar to 2021 levels. As previously highlighted, the US roads business experienced certain operational challenges which we have taken action to address, and we expect an improved performance in 2023. In the UK, utilisation of our temporary safety barrier fleet was lower than 2021 due to further delays in strategic road network projects, however this was partly offset by a robust performance in the wider UK roads and security portfolio including good growth in our off grid solar lighting and power business.

The Group delivered much improved cash conversion in the second half of 93%, with year end net debt reducing to 0.7 times EBITDA on a covenant basis. Our strong balance sheet underpins the resilience of the Group and provides us with flexibility to continue to invest in growth. In November, we successfully completed the refinancing of our principal bank debt facility on competitive terms, providing us with certainty of funding to support the Group's growth ambitions.

STRATEGIC UPDATE

Our strategic decision making is guided by our purpose of "creating sustainable infrastructure and safe transport through innovation". Our purpose, alongside consideration of long term macro and market drivers, determines our choice of markets and applications.

Organic growth activities are focused on high value, fast growing, niche opportunities. Our decentralised autonomous operating model drives high levels of accountability, agility and customer intimacy, and allows us to focus on these opportunities in a way that a more centralised, volume-driven organisation could not.

Acquisitions and Disposals

Acquisitions form a key part of the Group's growth strategy. During the year we have made progress in building our M&A pipeline, with a continued focus on high quality businesses with attractive organic growth potential. In 2023, we will develop the pipeline further, the Corporate Development team and Group Presidents will work closely with our operating company management teams to unlock attractive acquisition opportunities. All potential acquisitions are tightly evaluated to ensure they fit with our purpose and core strategic goals. Once acquired, we implement a rigorous and detailed integration plan.

> "The strong performance demonstrates the resilience of our attractive, long term end markets and the benefits of our portfolio management actions which have placed a focus on higher growth, higher margin businesses"

In line with our inorganic growth strategy, we acquired two value enhancing businesses during 2022. In October we were delighted to acquire National Signal, a high growth designer and manufacturer of off grid solar lighting solutions in the US, for £24.2m. The business benefits from the ongoing transition from fossil fuels to a zero-carbon economy and is complementary to our 2021 acquisition of Prolectric, a UK market leader in off-grid solar energy solutions, and will further accelerate our strategy in this attractive growth market. In the same month, we announced our acquisition of Widnes Galvanising for £3.9m, which further expands the geographic footprint of our UK galvanizing business into the north west of the UK.

After the year end, in February 2023, we announced the acquisition of Enduro Composites, a designer, manufacturer and supplier of engineered composite solutions based in Houston, Texas for £28.7m. Enduro is highly complementary to our existing US composites business and will further accelerate our strategy in the exciting and growing composites market. In March 2023, we announced the acquisition of Korns Galvanizing based in Johnstown, Pennsylvania for £9.4m, strengthening our US galvanizing market presence.

During 2022 we completed a number of important and targeted divestments. In October, we completed the disposal of France Galva, our French galvanizing and steel lighting column operations. While France Galva was a profitable part of the Group, the forecast growth rates did not meet the Group's long term growth ambitions and its operating margins were below the Group average. Given our galvanizing operations serve local geographical markets, the disposal has no impact on our higher growth, higher margin galvanizing operations in the UK and US, both of which we remain committed to in the long term. In addition, our US Roads business exited its low margin plastic cones product line and we completed the disposal of two of the three divisions in our loss-making Swedish road business.

Medium Term Financial Framework

Our disciplined financial framework is one of the key foundations of the Group's long term success. Given the significant actions taken during 2022 to enhance the quality of the portfolio, we have reviewed and recalibrated our medium term financial framework. Our refreshed annual performance targets through the cycle are:

- organic revenue growth: 5%-7%
- total revenue growth including acquisitions: 10%+
- operating profit margin: 15%
- return on invested capital: 18%+
- cash conversion: 80%+
- covenant leverage: 1 to 2 times

This organic growth performance through the cycle, alongside value enhancing acquisitions, will deliver superior EPS growth. Our clear focus on cash generation and returns enables the cash generated to be re-invested in high growth, high return opportunities. This is all delivered within a disciplined capital allocation framework while maintaining a strong balance sheet.

ESG

The growth of our business is naturally aligned to our ESG (Environmental Social and Governance) agenda: our products and services make infrastructure more sustainable and increase transport safety.

In 2021 we outlined our ESG strategy which identified our seven priority areas, related action plans and key metrics. This included our commitment to achieve net zero for our Scope 1 and 2 emissions by 2040 and commitment to the Science Based Targets initiative (SBTi) to limit global warming to 1.5°C.

In February 2022, we recruited a Head of Sustainability who has been leading an extensive project to baseline our Scope 3 carbon emissions, and we are pleased to report that we are on track to submit our SBTi targets ahead of the required August 2023 deadline. Alongside this, our teams are continuing to drive local energy saving initiatives and explore green technology options to underpin our carbon reduction plan.

Keeping our employees safe while at work remains our number one priority and in 2022 our operating companies developed local safety improvement plans, alongside Group led initiatives, including the implementation of nine core lifesaving rules and hazard identification training. While we still have more work to do, we are pleased that the actions taken during the year resulted in a 35% reduction in Lost Time Incidents, with LTIR reducing to 1.1, ahead of our target of 1.5.

Talent development and engagement are critical to the success of our autonomous operating model and a key focus area for our ESG strategy. With this in mind, we expanded our talent management programme and introduced a new approach to development for our Managing Directors, with growth mindset, ESG and innovation identified as priority focus areas. We also ran our second innovation forum and have further workshops planned for 2023 to foster innovation and share best practice. Our annual engagement survey showed a good improvement in employee engagement levels to 61% (2021: 55%). During the year we appointed a Head of Talent to work with our operating company teams to further improve engagement in 2023.

As an organisation we want to employ the best people for the job, and we know that we can only do this by considering talented people from the whole community. During the year, we were delighted to appoint our first two female Managing Directors and to see an increase in female senior leaders to 20%. Our established apprenticeship scheme is also a key initiative for attracting more diversity into our business, and in 2022 a third of new apprentices were female.

OPERATIONAL AND FINANCIAL REVIEW continued

BOARD UPDATES

In July 2022 Paul Simmons stepped down from his role as Chief Executive Officer. Alan Giddins, the Group's Chair, has taken over as interim Executive Chair until the process to find a permanent CEO has been completed.

During the year, we appointed Farrokh Batliwala as a US-based Non-executive Director. Farrokh's appointment reflects the Board's careful succession planning to recruit Non-executive Directors with the necessary skills, experience and diversity to support the Group's higher quality growth agenda.

RESULTS FROM CONTINUING OPERATIONS

The Group has delivered a strong set of results for 2022. Revenue was £732.1m (2021: £625.2m), an increase of 17% on a reported basis. Constant currency revenue growth was 12% and OCC revenue growth was 14%. Underlying operating profit was £97.1m (2021: £77.3m), an increase of 26% on a reported basis. Constant currency operating profit growth was 17% and OCC growth was 14%. Operating margins improved to 13.3% (2021: 12.4%). Underlying profit before taxation was £87.9m (2021: £71.2m). Reported operating profit was £78.5m (2021: £48.9m) and reported profit before tax was £69.3m (2021: £42.8m). Underlying earnings per share increased to 85.4p (2021: 70.0p) and reported earnings per share was 66.7p (2021: 35.8p).

The principal reconciling items between underlying and reported operating profit are non-cash charges including the amortisation of acquisition intangibles of £6.0m and the impairment of acquired intangibles associated with one of our security businesses of £4.4m. Note 5 of the financial *statements provides further details on the* Group's non-underlying items.

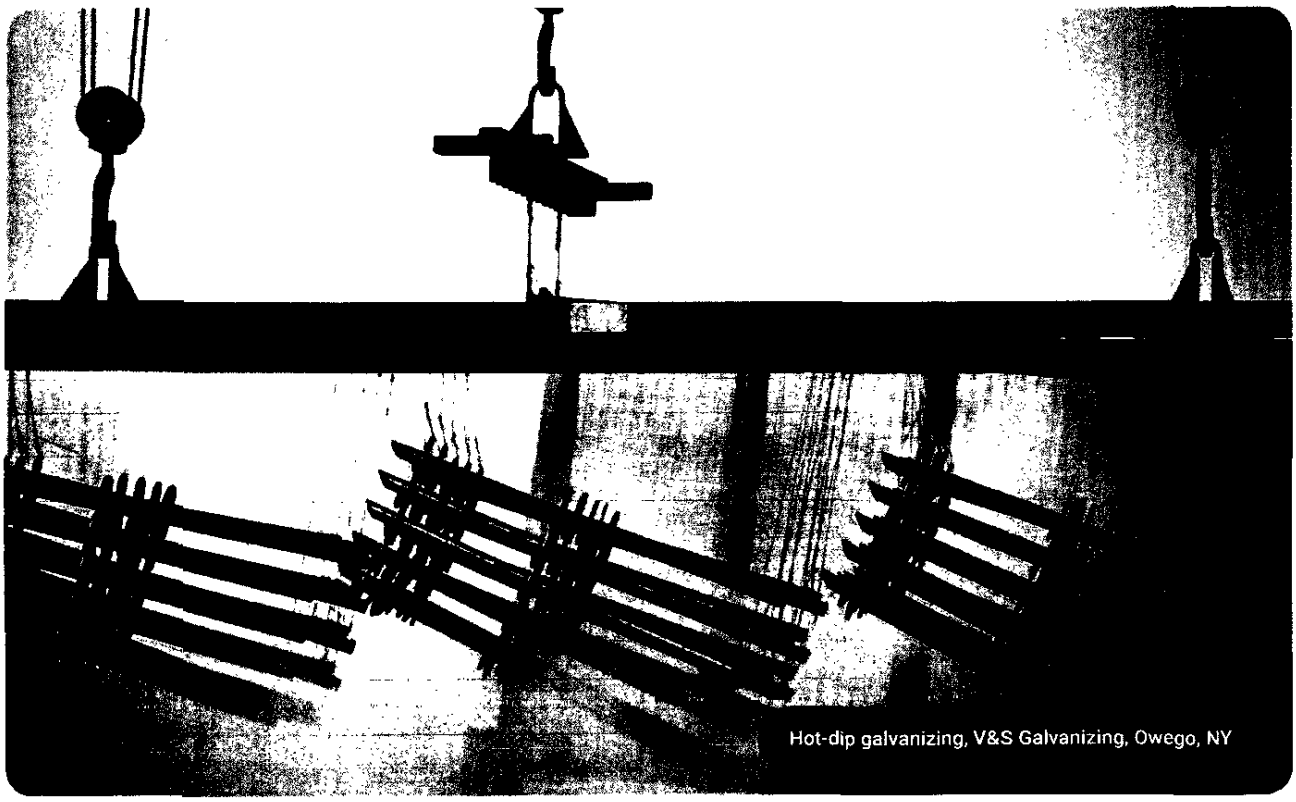
DIVIDEND

Based on the strong trading performance, the Board is recommending a final dividend of 22.0p per share, making a total dividend for the year of 35.0p per share (2021: 31.0p). The final dividend, if approved, will be paid on 7 July 2023 to shareholders on the register on 2 June 2023. Looking forward, we aim to provide sustainable and progressive dividend growth, targeting a prudent dividend cover of around 2.5 times underlying earnings.

OUTLOOK

The Group is well positioned in a range of infrastructure markets with attractive, long term structural growth drivers. The geographic mix of the portfolio has also evolved with a stronger weighting towards US end markets. These factors, alongside the benefits of our agile, autonomous operating model, provide the Board with confidence that Hill & Smith will continue to make good progress in 2023, despite the macro economic headwinds.

In the medium to longer term, the outlook is supported by strong market growth drivers for both sustainable infrastructure and safe transport. In particular, our US businesses are well placed to benefit from the increased levels of infrastructure spend approved under the Infrastructure Investment and Jobs Act (IIJA).



Hot-dip galvanizing, V&S Galvanizing, Owego, NY

CASE STUDY

V&S Galvanizing – Owego, NY Plant

V&S Galvanizing's New York plant, situated in Owego, New York State, has since it opened in 2020, developed a successful local management team that has significantly increased sales volumes and improved the customer experience in 2022.

The team comprises: Famonn McCarthy, previously Operations Manager at V&S' Taunton plant, who as the new Plant Manager was tasked with bringing a positive attitude and strong team building skills to New York; Enrique Vergani, a twenty-year veteran of the galvanizing industry, who also transferred from our Taunton plant and was promoted to Operations Manager; Lora Stadelman, a newly recruited Sales Manager, who despite being new to the galvanizing industry has several years' experience in steel fabrication markets; and Amber Jackson, whose career in the company has progressed from Logistics through Quality Control to Production Manager.

Building on a great foundation of baseload customers that include steel products for the bridge industry, deep foundation piles and highway drainage grates, the management team has driven production and service improvements that allow for greater volumes of steel to move quickly through the facility, resulting in significant volume increases in the second half of 2022. Large contracts recently secured include Great Lakes Cheese Plant expansion (1,400 tons), MMAST Naval Platforms (2,000 tons) and The Castleton Bridge repair project (476 tons). V&S New York is now well-positioned to see its business continue to grow over the coming years, with a strong mix of customer end markets supported by excellent operational performance and high levels of service.

> "V&S New York is now well-positioned to see its business continue to grow over the coming years, with a strong mix of customer end markets supported by excellent operational performance and high levels of service."

OPERATIONAL AND FINANCIAL REVIEW continued

OPERATIONAL REVIEW

GALVANIZING SERVICES

Hot-dip galvanizing, V&S Galvanizing, Owego, NY

	£m			Constant	
Continuing Operations[2]	2022	2021	Reported %	currency %	OCC %
Revenue	180.7	141.8	+27	+20	+20
Underlying operating profit[1]	44.0	33.4	+32	+23	+23
Underlying operating margin %[1]	24.3%	23.6%			
Statutory operating profit	42.7	30.9			

1. [illegible] in note 4 to the financial statements [illegible] underlying items, which are defined in note 5 to the financial statements.

2. Continuing operations excludes a portfolio which has been reported as a discontinued operation as explained in note 13 to the financial statements. [illegible] have been totally [illegible] margin.

The Galvanizing Services division offers hot-dip galvanizing and powder coating services with multi-plant facilities in the USA and the UK. Hot-dip galvanizing is a proven steel corrosion protection solution which significantly extends the service life of steel structures and products. The division benefits from a wide sectoral spread of customers who operate in resilient end markets including road infrastructure, commercial construction, transportation, and energy transmission and distribution. The division represents 45% of 2022 underlying operating profit.

The division delivered an impressive performance in 2022, with revenue 20% higher and underlying operating profit 23% higher than last year on an OCC basis. The division maintained superior margins, with underlying operating margin increasing to 24.3% (2021: 23.6%). The results reflect strong volume growth in the US, successful pricing actions taken to offset input cost inflation and a deliberate focus on higher margin customers.

US

Predominantly located in the northeast and midwest of the country, the US galvanizing business delivered a strong performance, with 23% OCC revenue growth and record operating profit. The strong growth is attributable to an 11% increase in production volumes, improved pricing to offset cost input inflation, favourable product mix and an increased level of value-add coating services. As a result, the business continued to maintain superior operating margins, with customers valuing the excellent quality of service provided by our local teams.

In March 2023, we were pleased to acquire Korns Galvanizing for a consideration of £9.4m. Located in Johnstown, Pennsylvania, Korns specialises in spin galvanizing and has a customer base spread across a broad range of infrastructure related end markets. Korns will be managed by our existing US galvanizing team and will expand our production capacity in the key northeastern market, and broaden the range of galvanizing services we can offer to our existing customer base.

In the medium to longer term, the outlook for US galvanizing is positive, with investment levels expected to grow ahead of GDP in a range of US galvanizing end markets, supported by the IIJA and a more general move to the onshoring of certain activities. We have started to quote on some IIJA related projects and expect to see incremental growth in the bridge and highway market in the second half of 2023.

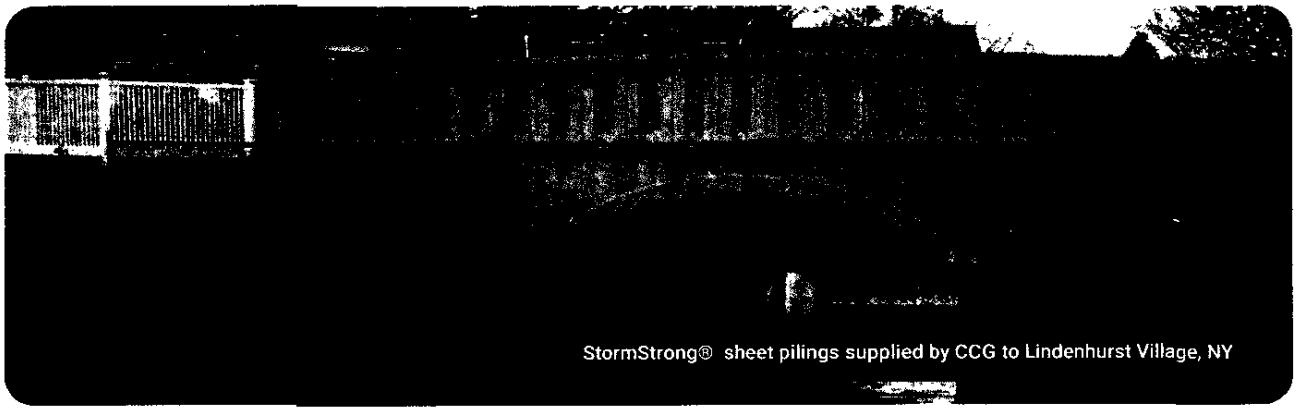
UK

UK galvanizing delivered 17% organic revenue growth and record operating profit in 2022. This reflects a particularly strong first half with swift pricing actions taken to address input cost inflation and a focus on higher margin, service orientated customers. The second half was more challenging as certain customers, particularly in the agricultural sector, have begun to feel the effects of rising energy costs. Total volumes of steel galvanized were 9% lower than 2021.

In October 2022, we were pleased to announce the acquisition of Widnes Galvanising Limited for consideration of £3.9m. The acquisition expands the geographic footprint of our UK galvanizing business into the northwest of the UK and the integration of the business is going well.

While mindful of the wider UK macro economic backdrop, the 2023 outlook for UK galvanizing is cautiously positive. Our team are focused on balancing price and cost management to ensure plant profitability is maximised and planned investments in sales and marketing will further support the increased focus on high margin market sectors.

ENGINEERED SOLUTIONS



StormStrong® sheet pilings supplied by CCG to Lindenhurst Village, NY

	£m			Constant	
Continuing Operations[2]	2022	2021	Reported %	currency %	OCC %
Revenue	289.9	223.7	+30	+21	+21
Underlying operating profit[1]	35.0	26.0	+35	+24	+24
Underlying operating margin %[1]	12.1%	11.6%			
Statutory operating profit	34.1	25.5			

1 [illegible]

2 [illegible]

Our Engineered Solutions division (formerly known as Utilities) provides steel and composite solutions with low embodied energy for a wide range of infrastructure markets including energy generation and distribution, marine, rail and housing. The division also supplies engineered supports for the water, power and liquid natural gas markets, and seismic protection solutions for commercial construction. While the division has been renamed in 2022, there has been no change to the portfolio of operating companies that it includes.

The division continued to deliver good results in 2022, with 21% revenue and 24% profit growth on an OCC basis. With a strong second half performance, operating margins increased to 12.1% (2021: 11.6%), reflecting the quality of our faster growing US businesses.

US

Our US businesses delivered 23% OCC revenue growth and strong profit growth against robust prior year comparators. Operating profit generated by our US businesses represented c. 80% of the total profit for the division in 2022, highlighting the increasing importance of the US to the Group's growth strategy.

Our composites business was the largest company within the division in 2022 and continued to see strong demand for its range of composite engineered solutions including utility poles, waterfront protection and mass transit infrastructure. In February 2023 we were pleased to acquire Enduro Composites for a cash consideration of £28.7m. Located in Texas, Enduro Composites is a designer, manufacturer and supplier of engineered composite solutions and is highly complementary to our existing northeastern and midwestern US business, further accelerating our strategy in the exciting and growing composites market.

Our electricity distribution substation business delivered impressive profit growth and a record level of operating profit, with customer demand increasing as steel price challenges subsided and pricing actions were taken to offset inflation. The business enters 2023 with a record order book supported by high project demand to upgrade electricity infrastructure.

Our engineered supports business also delivered record profits with significant growth due to higher sales volumes in catalogue hardware, improved pricing and a richer product mix of project specific engineered supports for key markets including water treatment and electric vehicle production. During the year, the business successfully navigated supply chain challenges, which enabled market share gain, and is well positioned to make further progress in 2023.

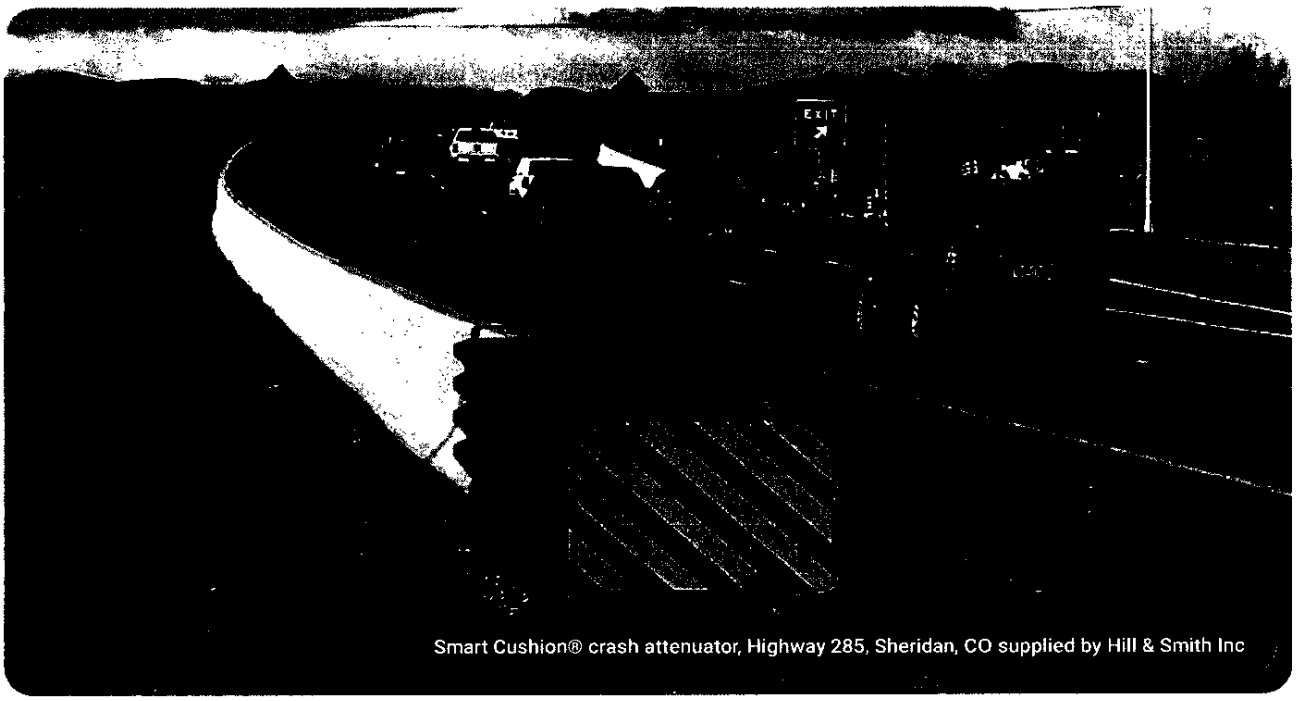
Prospects for future growth in all our US businesses are very encouraging. We expect market demand to be supported by investment to modernise the electricity grid and solutions to protect against extreme weather. The outlook is further supported by multi-year planned government spending on infrastructure via the IIJA, and private investment from US manufacturers and producers to onshore vital components.

UK

Revenue in our UK businesses grew 21% on an organic basis. The industrial flooring business, in particular, delivered a record performance, reflecting buoyant demand from data centre and oil & gas markets and successful pricing actions. This business enters 2023 with a good order book and healthy sales pipeline.

Our lower margin UK only based building product business delivered a performance in line with 2021, having successfully managed inflationary pressures and supply chain challenges. The year started strongly with high levels of customer demand, however markets cooled in the second half with wider concerns around interest rates and house prices. We expect end markets to continue to be challenging in 2023, however the renewed focus on customer service and delivery under a new management team should support sales growth through market share gains.

ROADS & SECURITY



Smart Cushion® crash attenuator, Highway 285, Sheridan, CO supplied by Hill & Smith Inc

Continuing Operations[2]	£m 2022	£m 2021	Reported %	Constant currency %	OCC %
Revenue	261.5	259.7	+1	-1	+5
Underlying operating profit[1]	18.1	17.9	+1	-4	1/
Underlying operating margin %[1]	6.9%	6.9%			
Statutory operating profit/(loss)	1.7	(7.5)			

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

2 Continuing operations exclude the French lighting collection business, which has been reported as discontinued operations as explained in note 10 to the Financial Statements. The prior year comparatives have been restated accordingly.

The Roads & Security division supplies products and services to support the delivery of safe road and highway infrastructure, alongside a range of security products to protect people, buildings and infrastructure from attack. In addition, the division now includes two businesses which are market leaders in the provision of off-grid solar lighting and power solutions.

Revenue and profit were broadly in line with 2021 levels, with revenue 1% lower and underlying operating profit 4% lower on a constant currency basis. Operating margins were also maintained at 6.9% (2021: 6.9%). The 2022 result reflects an underperformance in our US roads business and as expected, lower utilisation of the UK temporary safety barrier fleet, offset by a good performance in the wider UK Roads & Security portfolio.

UK Roads

Revenue was 3% higher than 2021 on an organic basis. In January 2022, the UK Government issued its response to the Transport Committee review on the roll-out and safety of smart motorways, which set out recommendations including pausing the roll-out of further all lane running schemes until sufficient safety data is available (expected end of 2024) and the retrofit of additional emergency refuge areas. The requirement to redesign projects following this announcement, alongside UK Government uncertainty in H2, resulted in scheme delays and lower average utilisation of our temporary safety barrier during the year. Based on customer discussions, we expect the lower level of project starts to continue into the first quarter of 2023, however our expectation is that overall fleet utilisation will increase in 2023 as central reservation upgrade projects commence after redesign work.

In the year, we saw good demand across the wider UK roads portfolio, particularly for road safe support structures, with the growth partly offsetting the shortfall in the rental barrier fleet. In addition, Prolectric, our off-grid solar energy business, delivered strong growth and enters 2023 with a good order book supported by increasing demand for low carbon and energy cost saving solutions.

US Roads

Revenue was 10% higher than 2021 on an OCC basis. Operating profit was lower than last year, mainly due to operational and cost challenges as previously outlined. Actions have now been taken to address the issues including refreshing the senior management team. In May 2022, the business exited from its low margin plastic drums, cones and channelizers business, which will enable greater focus on higher margin, higher growth opportunities. Overall market demand for roadside safety products remains strong and we expect the business to make progress in 2023.

In October 2022, we were delighted to acquire National Signal for consideration of £24.2m, with further consideration payable of up to £3.3m conditional on achievement of financial performance targets in the three

years post acquisition. National Signal, located in Fullerton, California, is a designer and manufacturer of off grid solar lighting solutions and traffic management products. The business benefits from the ongoing transition from fossil fuels to a zero-carbon economy, as well as the need to reduce noise pollution, driven by government legislation and customer demands. The acquisition is complementary to Prolectric, our market leading UK off grid solar energy business and will further accelerate our growth strategy in this attractive market. Trading since acquisition has been ahead of expectations and the 2023 order book is at a record level.

The outlook for US roads remains encouraging, with demand for tested roadside safety products supported by the introduction of new safety standards and increased levels of state and federal investment to upgrade US road infrastructure. The IIJA includes a five year reauthorisation of the US federal highway programme, and incremental investment of c. $1.10bn in highway and bridge improvements through to 2026. We expect US roads to be one of the first beneficiaries of the IIJA spend.

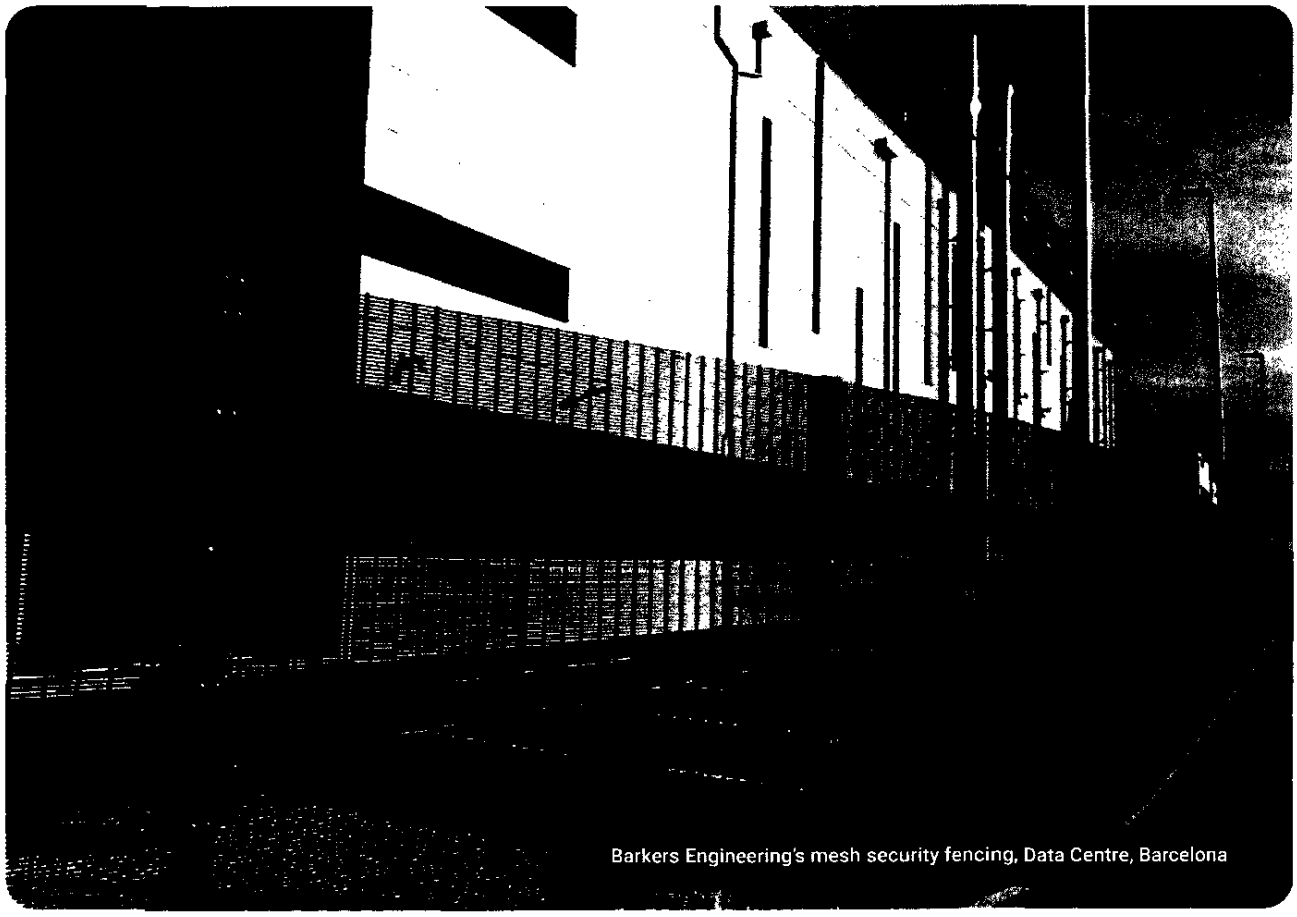
Other International Roads

In Australia, we continue to see good market demand for traffic safety equipment, supported by significant government investment in land transport infrastructure across Australia through its Infrastructure Investment Program. During the year we invested £5.5m in steel and concrete temporary barrier fleet to support market demand. In Sweden, we completed the divestment of the rental and infrastructure divisions of our loss-making road business during the year and we are assessing options for the remaining part of that business.

Security

Our Security businesses are based in the UK and provide a range of perimeter security solutions including hostile vehicle mitigation ('HVM') to both UK and international markets. Revenue was 6% ahead of 2021 on an OCC basis. During the year we have seen an encouraging recovery in UK and international markets for HVM solutions including public place protection, airports, rail stations and ports. Our UK security barrier rental business performed well, particularly in the second half, as our security solutions were deployed to support the Commonwealth Games in Birmingham.

Our perimeter access security business, Parking Facilities, continued to experience challenges during 2022 with increased competition in the market and, having reassessed the value of remaining acquisition intangibles, we have recognised a further impairment charge of £4.4m. A plan is in place to improve customer service and delivery in 2023.



Barkers Engineering's mesh security fencing, Data Centre, Barcelona

FINANCIAL REVIEW

Capital Allocation

The Group follows a disciplined approach to capital allocation. First, we allocate capital to support organic growth, with a focus on *higher return niches and growth markets*. We require our operating companies to manage working capital efficiently, considering their respective growth rates, and we invest in capital projects and innovation to support future organic growth, with around £20m of 2022 capex allocated to growth investments.

Second, we allocate capital to make high quality acquisitions, with a focus on businesses which have a clear alignment with our purpose and have long term growth potential. We follow a structured approach to acquisitions based on a clear set of financial criteria, and we expect acquisitions to achieve returns above our Group WACC within a three year timeframe. Based on our highly cash generative model, we are targeting to reinvest around £50m - £70m each year on value enhancing acquisitions. In 2022 we spent £25.6m on the acquisitions of National Signal and Widnes Galvanizing. Our acquisition pipeline is strong, and is focused on high quality, strategically aligned opportunities.

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

We use return on invested capital (ROIC) to measure our overall capital efficiency, with a target of achieving returns in excess of 18%, above the Group's cost of capital, through the cycle. We are pleased to report that the Group's ROIC from continuing operations in 2022 increased to 19.2% (2021: 17.1%), the improvement reflecting the strong trading, our disciplined approach to capital investment, and the steps we have taken to improve the overall quality of the portfolio.

Cash generation

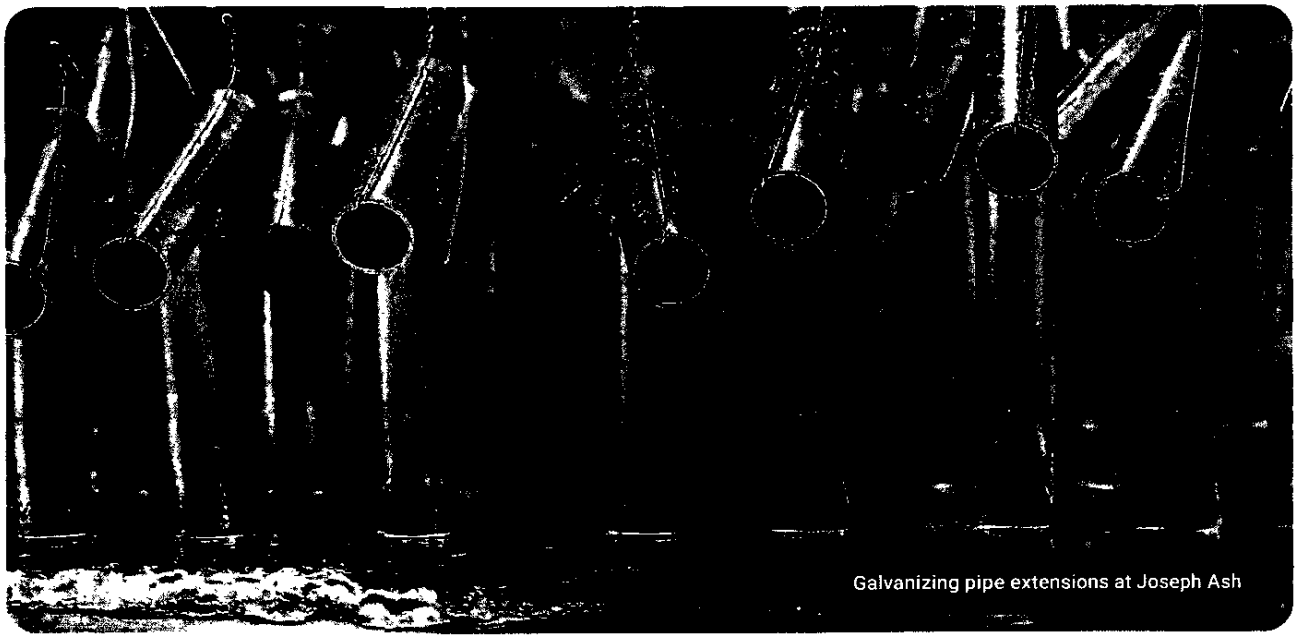
As expected, we saw improved cash conversion in the second half at 93%, compared to 2% in the first half, with overall cash conversion for the year at 51%. Assuming more typical trading patterns, we expect the Group to deliver improved cash conversion in 2023, in line with our target level of 80%+ and consistent with historic levels averaging 83% over the last ten years. The calculation of our underlying cash conversion ratio can be found in note 4 to the financial statements.

Operating cash flow before movement in working capital was £129.8m (2021: £112.8m). The working capital outflow in the year was £42.6m (2021: £6.8m). The outflow partly reflects working capital absorption to support good growth, alongside an increase in inventory due to cost inflation and a tactical increase in stock holding in certain businesses to manage supply chain challenges. The Group continues to focus on maximising working capital efficiency with working capital as a percentage of annualised sales at 18%. Debtor days were in line with expectations at 60 days (2021: 57 days excluding France Galva).

Capital expenditure of £31.5m (2021: £35.9m) represents a multiple of depreciation and amortisation of 1.5 times (2021: 1.6 times). Significant investment in the year included £5.5m on temporary barrier fleet to support growing demand in the Australian roads market and £3.0m on temporary barrier fleet for the US Roads market. We also invested £1.9m on rental assets for Prolectric, our fast-growing UK off-grid solar lighting and power business and £2.4m on purchasing a facility for our US composite business. 2022 spend was below previous guidance because of lower investment in the US temporary barrier fleet due to higher demand for barrier sales in the second half.

Net financing costs for the period from continuing operations were £9.2m (2021: £6.1m), including a charge of £1.6m relating *to costs associated with the Group's* refinancing of its core revolving credit facility during the year (in accordance with IFRS 9). The net cost of pension fund financing under IAS 19 was £0.1m (2021: £0.2m), and the amortisation of costs relating to refinancing activities was £0.8m (2021: £0.8m).

The Group generated £30.4m of free cash flow in the year (2021: £51.6m), providing funds to support our acquisition strategy and dividend policy.



Galvanizing pipe extensions at Joseph Ash

> "The Group generated £30.4m of free cash flow in the year, providing us with funds to support our [illegible] strategy [illegible] dividend policy"

Net debt and financing

Net debt at the end of the period amounted to £119.7m (31 December 2021: £144.7m). Outflows in the year included £24.7m for the 2021 interim and final dividend and £25.6m for the acquisitions of National Signal and Widnes Galvanizing. Net debt at the period end includes lease liabilities under IFRS 16 of £39.3m (2021: £40.6m).

In November 2022, we were pleased to report the successful completion of the refinancing of our principal bank debt facility on competitive terms. The new syndicated revolving credit facility of £250m has an initial maturity of four years with an option to extend for a further year at the first anniversary, providing us with continued certainty of funding to support the Group's growth opportunities. The Group's principal financing facilities also comprise $70m senior unsecured notes with maturities in June 2026 and June 2029, together with a further £11.5m of on-demand local overdraft arrangements. Throughout the period the Group has operated well within these facilities and at 31 December 2022, the Group had £237.9m of headroom (£226.4m committed, £11.5m on demand).

The principal borrowing facilities are subject to covenants that are measured biannually in June and December, being net debt to EBITDA of a maximum of 3.0 times and interest cover of a minimum of 4.0 times. The ratio of covenant net debt to EBITDA at 31 December 2022 was 0.7 times (31 December 2021: 1.0 times) and interest cover was 21.6 times (31 December 2021: 25.4 times).

The Board considers that the ratio of covenant net debt to EBITDA is a key metric from a capital management perspective and targets a ratio of 1.0 to 2.0 times. The Board would be prepared to see leverage above the target range for short periods of time if strategically appropriate.

Tax

The underlying effective tax rate for the period for continuing operations was 22.4% (2021: 21.7%). The tax charge for the year for continuing operations was £16.0m (2021: £14.4m) and includes a £3.4m credit (2021: £1.1m) in respect of non-underlying items, principally relating to the amortisation of acquisition intangibles. Cash tax paid in the period was £15.5m (2021: £15.2m).

Exchange rates

The Group is exposed to movements in exchange rates when translating the results of its overseas operations into Sterling. Retranslating 2021 revenue and underlying operating profit from continuing operations using average exchange rates for 2022 would have increased revenue by £29.5m and underlying operating profit by £5.6m, mainly due to Sterling's depreciation against the US Dollar. A one cent movement in the average US Dollar rate currently results in an adjustment of approximately £2.5m to the Group's annual revenues and £0.6m to annual underlying operating profit.

Non-underlying items

The total non-underlying items charged to operating profit from continuing operations in the Consolidated Income Statement amounted to £18.6m (2021: £28.4m). The items were mainly non-cash related and included the following:

- Impairment charges of £6.4m, including £4.4m in respect of acquired intangible assets of Parking Facilities, one of the Group's security businesses.
- Amortisation of acquired intangible assets of £6.0m.
- Further costs associated with the closure of the UK variable message signs business of £1.5m.
- Loss on disposal and restructuring of the divisions in our Swedish business of £1.3m.
- Costs relating to our exit from low-margin US road traffic control product operation of £1.1m.
- Expenses related to acquisitions and disposals of £2.3m.

The non-cash element of these charges was £13.4m. Further details are set out in note 4 of the Financial Statements.

Pensions

The Group operates defined benefit pension plans in the UK and the USA. The IAS 19 deficit of these plans at 31 December 2022 was £7.2m, a reduction of £5.1m from 31 December 2021 (£12.3m, which included £4.1m in respect of our French pension scheme that was disposed of with the France Galva business during the year). The deficit of the UK scheme, the largest employee benefit obligation in the Group, was lower than the prior year end at £6.5m (31 December 2021: £7.7m) due to the Group's deficit recovery payments and an increase of 310 basis points in the discount rate during the period, in line with increases in bond yields, being partly offset by lower asset returns.

The triennial valuation for the UK scheme as at April 2022 was finalised at the end of 2022 and confirmed that the current cash contribution level (£3.7m per annum) was appropriate to deliver the deficit recovery plan. The Group continues to be actively engaged in dialogue with the UK schemes' Trustees with regards to management, funding and investment strategies including buy in options.

Going concern

After making enquiries, the Directors have reasonable expectations that the Company and its subsidiaries have adequate resources to continue in operational existence for the foreseeable future and for the period to 30 June 2024. Accordingly, they continue to adopt the going concern principle.

When making this assessment, the Group considers whether it will be able to maintain *adequate liquidity headroom above the* level of its borrowing facilities and to operate within the financial covenants on those facilities. The Group has carefully modelled its cash flow outlook for the period to June 2024, considering the ongoing uncertainties in global economic conditions. In this "base case" scenario, the forecasts indicate significant liquidity headroom will be maintained above the Group's borrowing facilities and financial covenants will be met throughout the period, including the covenant tests at 30 June 2023, 31 December 2023 and 30 June 2024.

The Group has also carried out "reverse stress tests" to assess the performance levels at which either liquidity headroom would fall below zero or covenants would be breached in the period to 30 June 2024. The Directors do not consider the resulting performance levels to be plausible given the Group's strong trading performance in the year and the resilience of the end markets in which we operate.

Alan Giddins
Interim Executive Chair

Hannah Nichols
Group Chief Financial Officer

8 March 2023

OUR APPROACH TO SUSTAINABILITY

Following our purpose of creating sustainable infrastructure and safe transport through innovation, we are committed to ensuring that our Environment Social & Governance ('ESG') strategy provides the foundation for the successful delivery of our Group strategy and business model.

Our sustainability priorities were identified following a comprehensive materiality assessment carried out in 2021, which also included comparing the results to the relevant Sustainability Accounting Standards Board ('SASB') materiality maps, see page 33 for more details. We have maintained the same sustainability priorities for 2022, however we will continue to review and adapt as our sustainability strategy evolves.

Our Executive Chair, Alan Giddins, has Board responsibility for ESG and is also a member of the ESG Committee. The ESG Committee works with our operating companies to create common sense, actionable plans with measurable near and medium term targets. We were delighted that Lucinda Farrington Parker joined as Group Head of Sustainability in February 2022. Lucinda is a key member of the ESG Committee and is leading on the Group's carbon reduction plans including establishing a baseline for the Group's Scope 3 emissions. The ESG Committee also includes the Group CFO and the Group Company Secretary, alongside a number of other Group employees who are passionate about our ESG focus areas. The Committee reports directly to the Board on a six-monthly basis, providing updates on progress made against targets.

We have identified seven key priorities for our sustainability plans, across three key focus areas:

Protecting the world

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

02 Sustainable products – infrastructure

Saving and enhancing lives

02 Sustainable products – safe transport

03 Health & Safety

04 Talent development and engagement

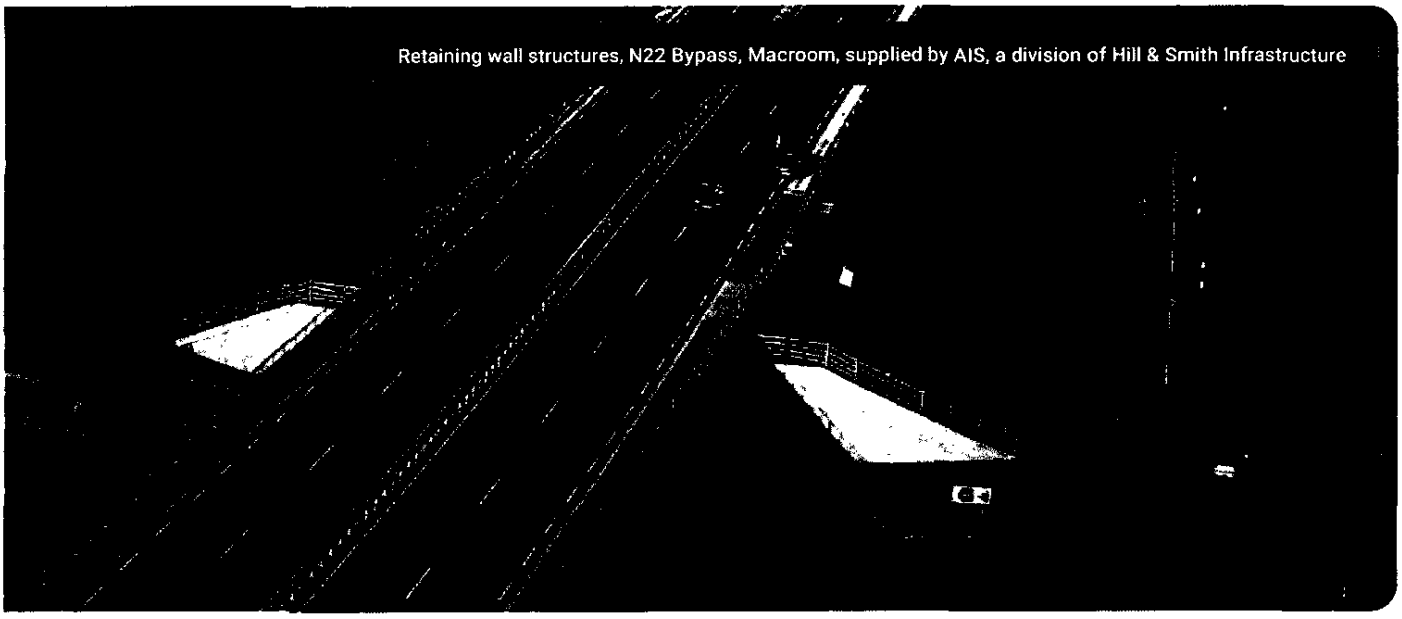
05 Diversity and inclusion

Sustainable Governance

06 Climate risks

07 Ethical conduct

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



Retaining wall structures, N22 Bypass, Macroom, supplied by AIS, a division of Hill & Smith Infrastructure

Dimension	Category	SASB matrix		H&S materiality study	ESG focus
		Engineering & construction	Road transport		
Environment	Ecological impacts	●			
	Waste and hazardous materials management				
	Waste and wastewater management				
	Air quality			●	
	Energy management		●		
	GHG emissions		●	●	●
Social Capital	Selling practices and product labelling				
	Customer welfare				
	Product quality and safety	●			
	Access and affordability				
	Data security				
	Selling practices				
	[illegible]				
Human Capital	[illegible]			●	
	[illegible]	●			
	[illegible]				
Business Model and Innovation	[illegible]				
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Leadership and governance	[illegible]				
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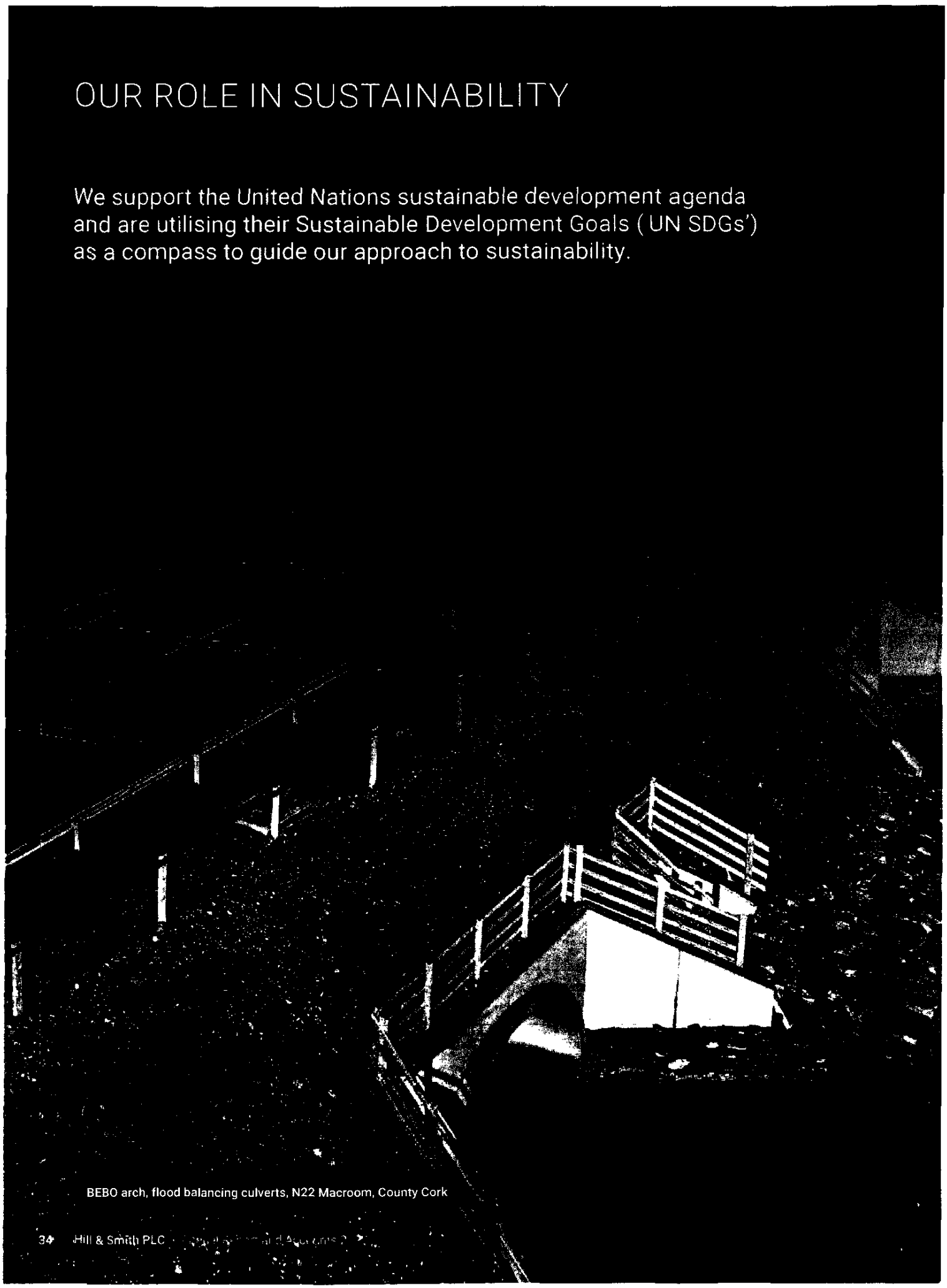
OUR ROLE IN SUSTAINABILITY

We support the United Nations sustainable development agenda and are utilising their Sustainable Development Goals (UN SDGs') as a compass to guide our approach to sustainability.



BEBO arch, flood balancing culverts, N22 Macroom, County Cork

PROTECTING THE WORLD

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

ESG Focus Areas

- GHG emissions and energy efficiency
- Sustainable products – Infrastructure

UN SDGs 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE · 11 SUSTAINABLE CITIES AND COMMUNITIES · 13 CLIMATE ACTION

SAVING AND ENHANCING LIVES

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

ESG Focus Areas

- Sustainable products – Safe transport
- Health & Safety
- Talent development and engagement
- Diversity and inclusion

UN SDGs 5 GENDER EQUALITY · 8 DECENT WORK AND ECONOMIC GROWTH · 11 SUSTAINABLE CITIES AND COMMUNITIES

SUSTAINABLE GOVERNANCE

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

ESG Focus Areas

- Climate risks
- Ethical conduct

UN SDGs 13 CLIMATE ACTION · 16 PEACE, JUSTICE AND STRONG INSTITUTIONS

PROTECTING THE WORLD

GREENHOUSE GAS EMISSIONS AND ENERGY EFFICIENCY

Why does it matter?

We recognise that greenhouse gases are a major contributor to the climate crisis and are committed to managing and reducing the Group's emissions to support the Paris Agreement goals.

What have we done?

In 2021 we committed to develop science-based targets to reduce our greenhouse gas emissions under the SBTi 'Business Ambition' for 1.5°C'. Having already established a baseline for Scope 1 and 2 emissions in 2020, we have been collating our baseline Scope 3 emissions during 2022 across the full scope of our organisation, in line with the International Greenhouse Gas Protocol guidance. This comprehensive baselining project, led by our Head of Sustainability working closely with our operating companies, has been very successful. We are pleased to report that we are on track to submit our targets ahead of the required SBTi deadline of August 2023.

Alongside measuring and understanding Scope 3, we have also further developed our carbon reduction plans and taken action to reduce Scope 1 and 2 emissions.

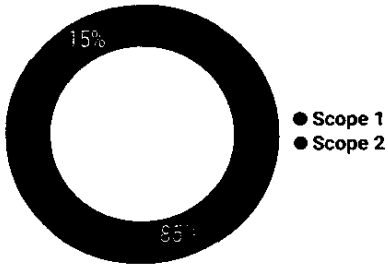
Scope 1 & 2 Emissions (tonnes CO_2e)

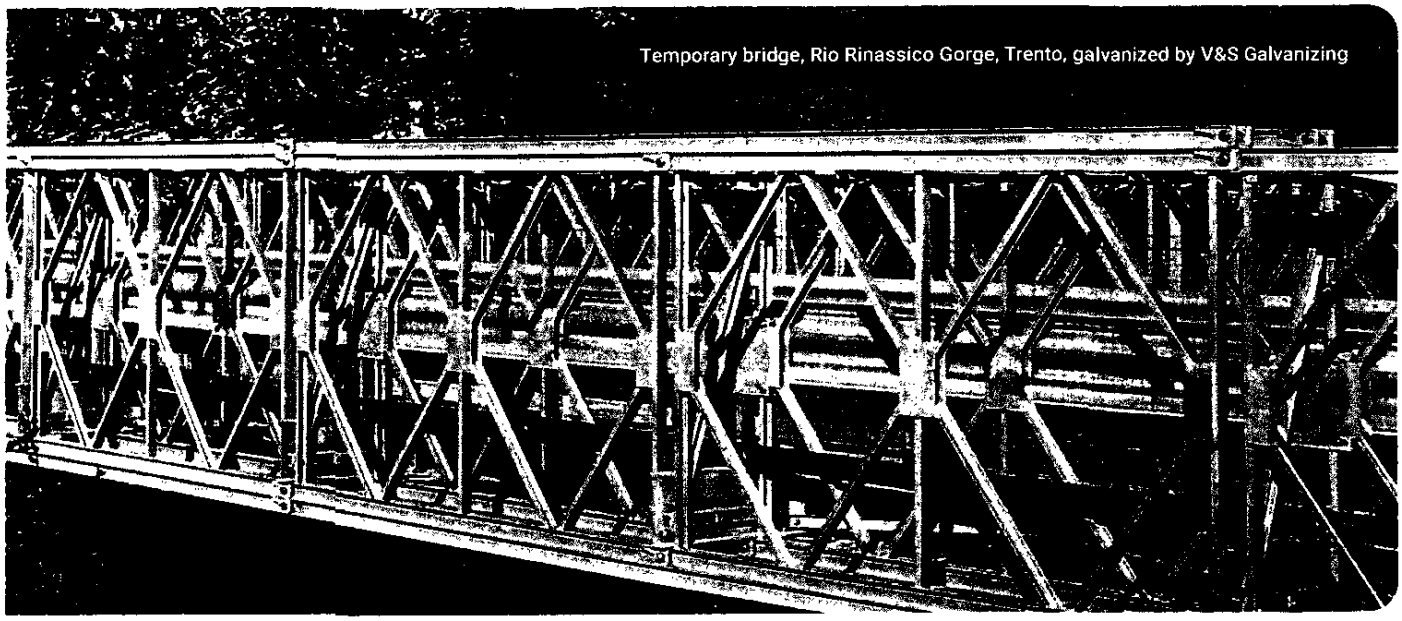
	2022	2021	2020
Scope 1	49,388	53,712	52,066
Scope 2	8,917	10,885	14,708
Total	58,305	64,597	66,774
Reduction %	10%	3%	n/a

The 10% reduction in our 2022 emissions has been driven by various local carbon reduction initiatives (such as installation of solar panels, switching forklift trucks to electric and use of HVO in place of diesel) as well as the disposal of France Galva. We were pleased that 94% of our UK electricity requirements were from renewable sources in 2022 and we are currently working with our US businesses on state by state plans to move towards renewable electricity in the next two to five years.

A further breakdown of the Group's 2022 emissions is set out below:

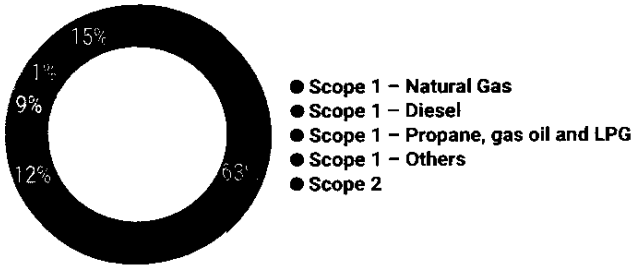
2022 GHG Emissions



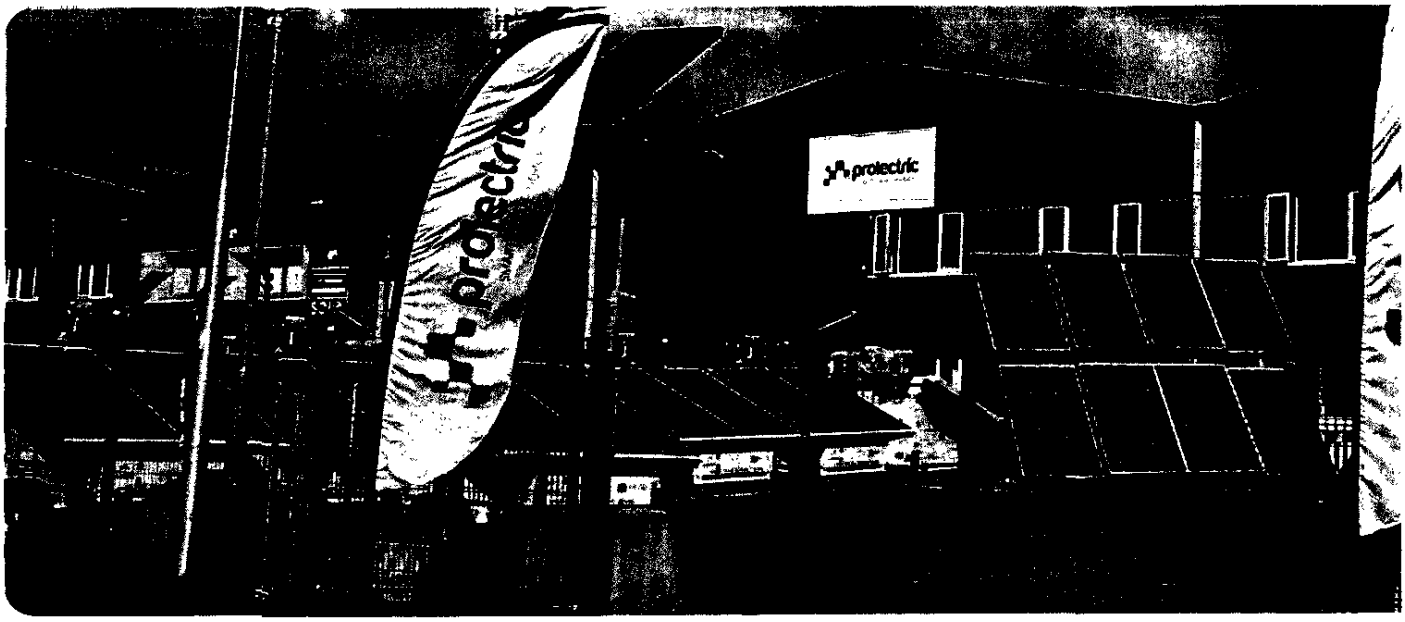

Temporary bridge, Rio Rinassico Gorge, Trento, galvanized by V&S Galvanizing

Consumption of natural gas for use in heating in the galvanizing process contributes 62% of the Group's total natural gas consumption and therefore the use of energy in the galvanizing process is a key focus area for the Group's carbon reduction plan. In 2022, we implemented energy efficiency measures in both our UK and US galvanizing operations including heat recovery systems, kettle covers and variable frequency drives, which will all contribute to our emissions reduction plan. In addition, during the year we investigated options to convert galvanizing natural gas burners to green electricity using our UK galvanizing site in Telford as a specific case study. Our findings, based on this case study, suggest that while electric gas burner technology is viable, further upgrades to UK electricity infrastructure or technology modifications will be required before this can be considered a feasible option and we continue to explore possible solutions. Alongside this, we are investigating the viability of hydrogen as a potential technology, working with Cadent and National Gas Transmission on their Hydrogen Valley project.

Breakdown by Energy Type



PROTECTING THE WORLD continued



GREENHOUSE GAS EMISSIONS AND ENERGY EFFICIENCY

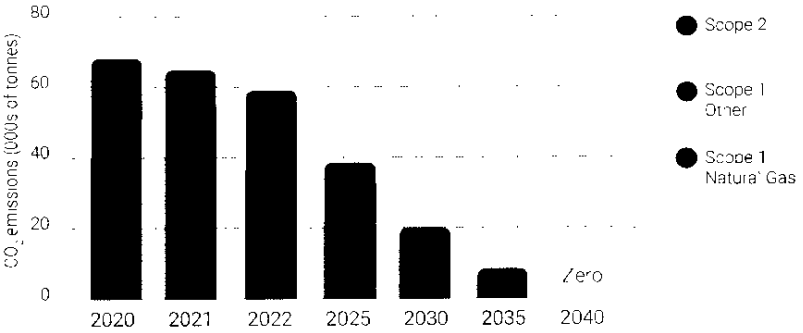
During 2022 we established a Group-wide Sustainability Forum with representatives from each of our operating companies, to collaborate on emissions reduction projects, share ideas and best practice and provide feedback on Group initiatives. We also produced a quarterly ESG newsletter to share updates with all employees across the Group, and held our first ESG Week in June to raise awareness of sustainability issues in a fun and engaging way.

We have continued to refine our costed plan which includes an assessment of the incremental capital, energy, carbon taxes and other operating costs to support our carbon reduction plan. The result continues to provide us with the confidence to commit to achieving a carbon net zero target for Scopes 1 and 2 by 2040. Our current expectations are that the financial impact of achieving this will not have a material impact on the growth prospects for the Group, with modest levels of incremental capital investment required.

What will we achieve?

In 2023 we will submit emission reduction targets for Scopes 1, 2 and 3 to SBTi. In 2021 we committed to achieve net zero for our Scope 1 and 2 emissions by 2040. The high level steps we will take to deliver on this commitment are outlined below.

Net Zero scope 1 and 2 emissions by 2040



2020-2025

Implementation of galvanizing energy efficiency measures. Trial alternative galvanizing burner technologies.

Replace forklift truck gas oil with renewables

UK to renewable electricity.
US start to move to renewable electricity

2026-2030

10 galvanizing plants to alternative burner technology

Replace forklift truck LPG oil with renewables

US moved to renewable electricity

2031-2035

5 galvanizing plants to alternative burner technology

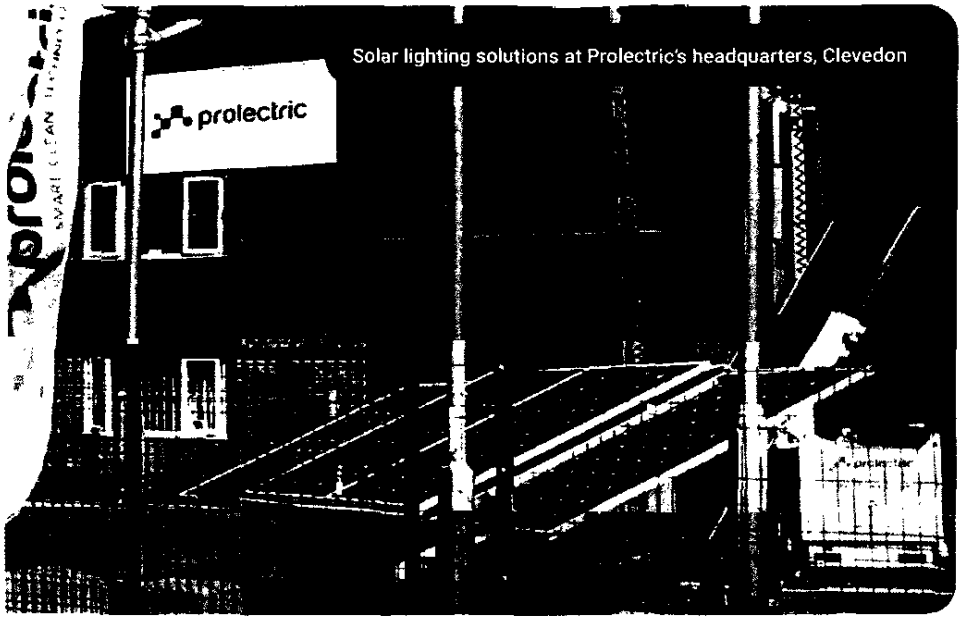
Replace forklift truck LPG oil with renewables

Remaining businesses moved to renewable electricity

2036-2040

Remaining galvanizing plants to alternative burner technology

Replace diesel in commercial vehicle with renewables



Solar lighting solutions at Prolectric's headquarters, Clevedon

Each of our operating companies is also developing a local carbon reduction plan to address their own emissions. This includes Scope 3 which comprises 97% of our overall GHG emissions. During 2023 we will start to develop a more detailed strategy to reduce our Scope 3 emissions, now we have *established our baseline*.

How will we measure progress?

We have invested in a sustainability software solution that we are using to record our GHG emissions. This will provide greater visibility of our emissions and allow us to set targets and measure performance at both a Group-wide and individual operating company level.

While our longer term commitment is to achieve net zero (for Scopes 1 and 2) by 2040, *we are measuring our near-term* progress through both reduction in our carbon intensity ratio and the number of tonnes of CO_2e removed. Our near-term targets and progress against these targets are set out opposite.

Hot-dipped galvanized canopy, Newark Airport, NJ

TARGETS AND ACTUALS

Intensity Ratio (Market-based)

2022 Actual
0.07

2022 Target
0.09

2025 Target
0.08

2030 Target
0.06

No. of tonnes of CO_2 removed (vs. 2020 – the base year)

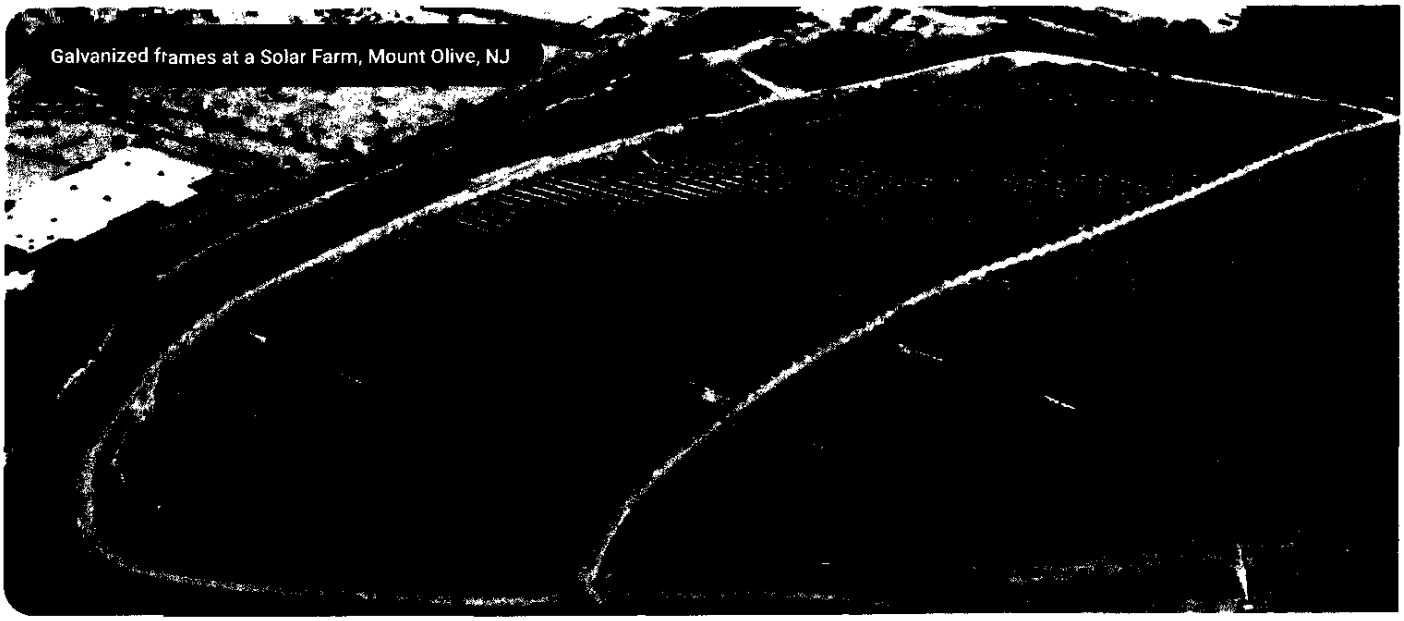
2022 Actual
8,469

2022 Target
4,000

2025 Target
11,000

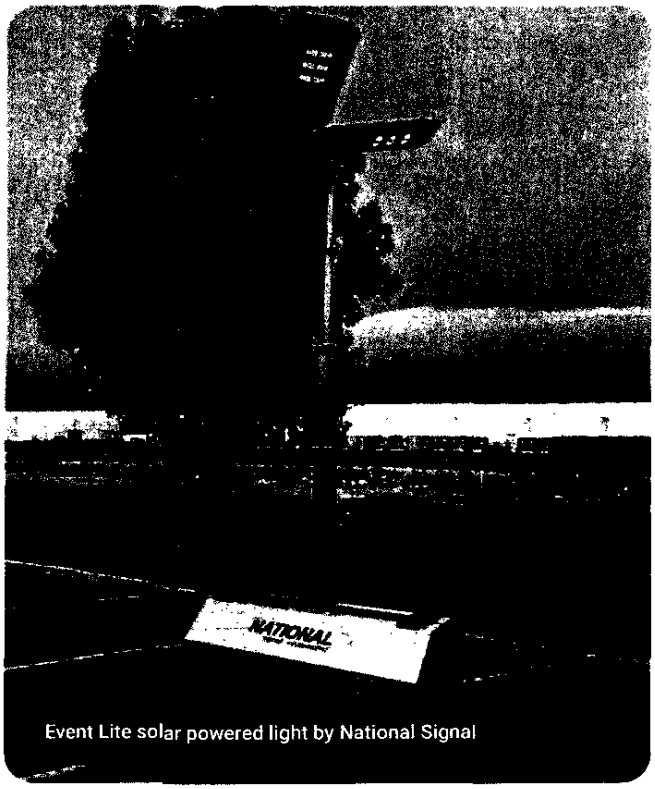
2030 Target
30,000

PROTECTING THE WORLD continued



Galvanized frames at a Solar Farm, Mount Olive, NJ

SUSTAINABLE PRODUCTS



Event Lite solar powered light by National Signal

Why does it matter?

The world's population is forecast to be c. 9.0bn by the late-2030s and this will drive extraordinary demand for climate friendly solutions in our daily lives. The Paris Agreement and the UN Climate Panel have defined specific sustainability goals and measures within areas such as access to raw materials, energy, and infrastructure. Our sustainable infrastructure products and services can play an important role in addressing the great challenges associated with increasing population and urbanisation, climate change and decarbonisation.

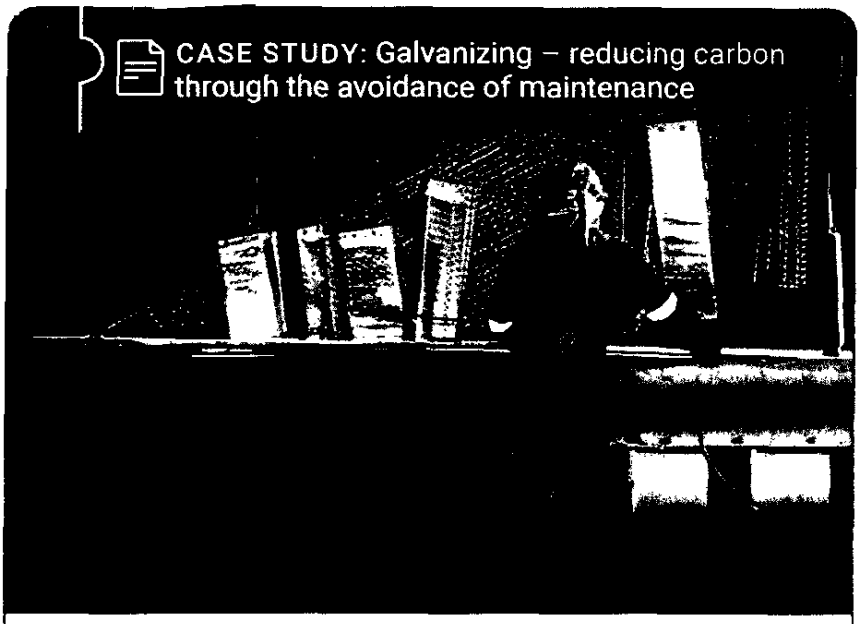
What have we done?

During 2022, we have built on the work we did in 2021, and supported by a third party, Route 2, using an autonomous framework tool, we have assessed the sustainability and value to society of c. 55% of the Group's products and services by revenue. This analysis uses a Six Capitals framework to assess the value to society of our products, looking first at our supplier base, then our own manufacturing plants and finally, downstream when our products are in use. The Six Capitals are financial, human, intellectual, manufactured, natural and social and are used to understand how we create value for customers, investors, employees, communities and other stakeholders.

According to our analysis, for every £1 of revenue generated, our products contribute c. £2 of value to society. The results show a balanced distribution of economic, human, and environmental impacts. In each step of the value chain, the benefits of our business activities substantially exceed the costs to society.

Alongside this, our operating companies have started to undertake Life Cycle Assessments and we expect this to be an increasing focus area for our customers going forward.

CASE STUDY: Galvanizing – reducing carbon through the avoidance of maintenance



What will we achieve?

During 2023 we will continue to assess the sustainability impacts of our products, to provide our stakeholders confidence that our products have an environmental, or economic, or social benefit

How will we measure progress?

We have disclosed the results of our 2022 work opposite and will continue to disclose work done to assess the sustainability impacts of our products on an annual basis

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

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

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

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

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

SAVING AND ENHANCING LIVES

HEALTH & SAFETY

Why does it matter?

Keeping our employees, customers, and suppliers safe is our number one priority. Ensuring that our employees work in a safe environment and can return home to their loved ones at the end of their working day is of paramount importance.

What have we done?

We are pleased to report that our 2022 Lost Time Injury Rate ('LTIR') has reduced by 35% to 1.1 (2021: 1.7). Managing Directors are required to present the investigation and findings of all LTIs to the Executive Board, reinforcing the importance of keeping employees safe and sharing learning.

During the year, we have introduced nine lifesaving rules that will create an environment within our operating companies of zero tolerance for unsafe acts or conditions, where behaviours will be recognised and reinforced, and training is provided to all. We also introduced hazard identification training, machine guarding audits, and automated external defibrillator equipment ensuring that we can keep ourselves and others free from harm.

What will we achieve?

Our aim is to significantly reduce the number of lost time incidents we have across the organisation. To support this objective, we will:

- Increase our Near Miss reporting and Safety Observation activity
- Continue to improve the identification of key risk areas as well as our culture and approach to Health & Safety in our operating companies
- Move to a three-tiered auditing approach: introducing self-assessments against our Group-wide standards, peer-to-peer site audits and external behavioural audits that focus on risk
- Continue to drive campaigns focusing on those areas that represent major risks for the Group's operating companies
- Run a Health and Safety survey in 2023

How will we measure progress?

We will use LTIR as the key indicator to track and monitor our progress in Health & Safety.

Our LTIR for 2022 was 1.1, well ahead of our 2022 target and a testimony to the work put into improving health and safety across our operating companies, particularly those who implemented safety improvement plans.

TARGETS AND ACTUALS

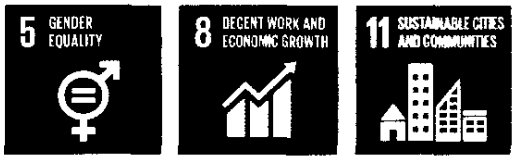
Lost Time Injury Rate

2022 Actual
1.10

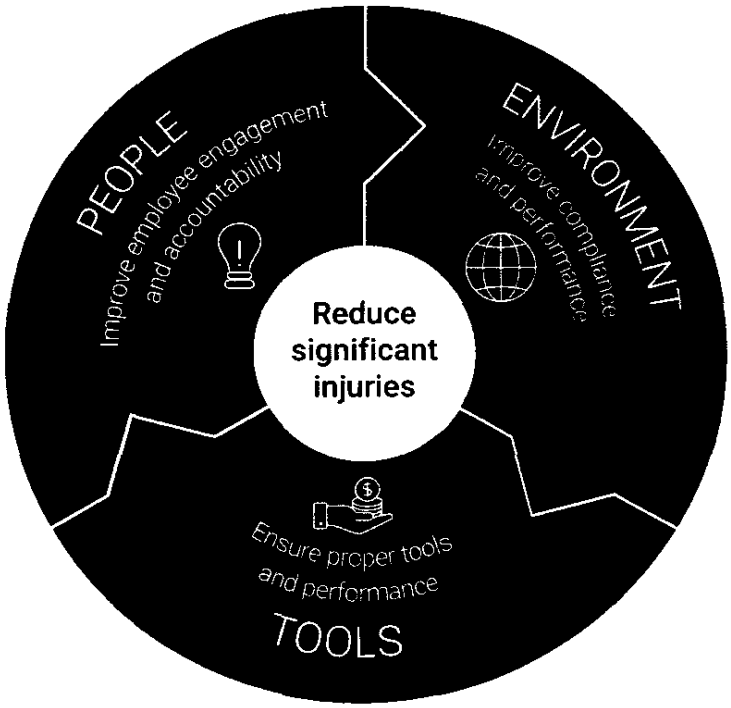
2022 Target
1.50

2025 Target
0.75

2030 Target
0.25



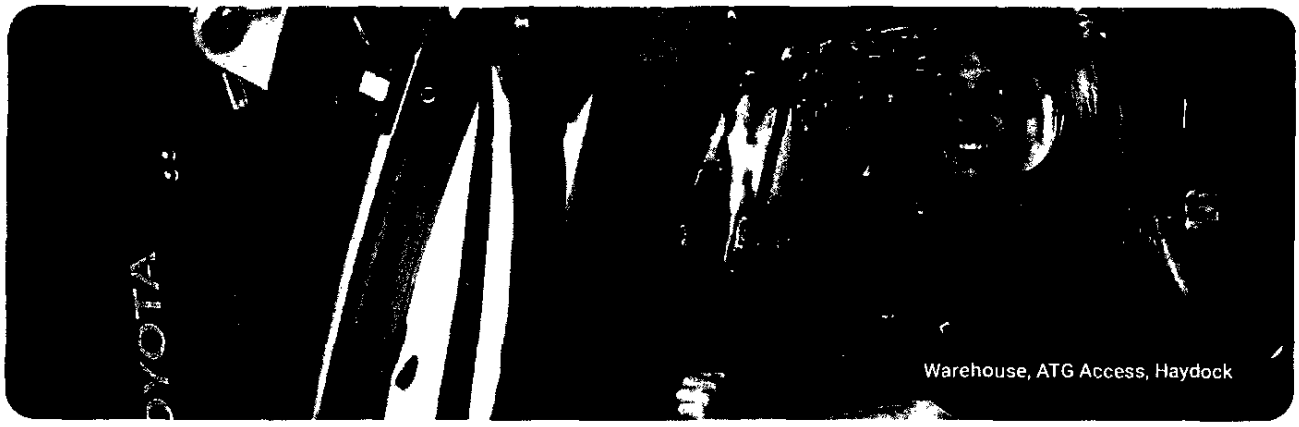
Welders at work, Birtley, County Durham



Nine core lifesaving rules:

- Plant Mobile Equipment
- Work From Heights
- Line of Fire
- Access & Egress (Includes Confined Space)
- Lock Out Tag Out ('LOTO')
- Hazardous Chemical Control
- Personal Protective Equipment ('PPE')
- Lifting & Rigging
- Driving Safety

SAVING AND ENHANCING LIVES
continued


Warehouse, ATG Access, Haydock

TALENT, DEVELOPMENT AND ENGAGEMENT

Why does it matter?

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

Positive employee engagement and offering great careers for people and helps increase our productivity, enhance our reputation, and deliver our growth plans.

What have we done?

Our engagement levels increased to 61% in 2022 (2021: 55%), with an improved 80% *participation rate in our annual employee* engagement survey. The results indicated a strong improvement in leadership qualities, as evidenced through responses relating to line managers. We also saw progression within diversity and inclusion, with the result on this index increasing to 69% (2021: 63%). The feedback indicated that reward and recognition is a universal priority focus area, and this is something that we have been proactively reviewing in light of the cost of living crisis.

In 2022 we expanded our Succession Planning and Talent Management ('SPTM') programme to include more employees. This enabled us to gain a deeper view of talent, identify where we have employees who could potentially move between operating companies as part of their career development and identify and mitigate succession risks. We have seen an increase in the potential of our senior leadership population, reflecting the efforts being placed on developing our leaders, as well as refreshing this population with high quality *external hires*.

We continued to provide management and leadership development, with programmes starting at supervisor level, then moving to first line manager level and finally a leadership programme for more experienced managers. 64 supervisors and managers completed the programme in 2022. The programme *content and delivery approach were reviewed* in 2022 and improvements have been identified for implementation in 2023. We piloted a new approach to development for our Managing Directors. They self-selected onto workstreams covering our ESG agenda, developing an innovative mindset, and cultivating a growth culture.

What will we achieve?

Local employee engagement survey action plans have been developed, focusing on the key areas identified for improvement in each operating company. Recognising the importance of acting on the feedback and openly sharing progress, greater emphasis will be placed on keeping the communication process ongoing during the year.

We plan to complete a further SPTM review, as well as closing out the actions identified from the 2022 review. These include *holding career conversations with high* performing senior leaders, increased focus on personal development planning, identifying opportunities for moves between operating companies and identifying mitigation for succession risks.

How will we measure progress?

We will continue to measure progress through our engagement survey against our targets set in 2021. We will also listen to the feedback that we continue to get from our employees during the year.

LEVERAGING ESG AND CSR

"I'm really passionate about my role. In an era of climate change, widening inequality and increasing stakeholder pressure, ESG remains an often underutilised, yet critical resource.

My passion is for people and the planet. Looking after our planet, and the people on it, is not only the right thing to do, but engaging with individuals proactively acts as a catalyst to increasing efficiency and effectiveness in other focus areas."

Kathryn Cooper, Head of ESG
Hill & Smith Infrastructure

As Head of ESG at Hill & Smith Infrastructure, a business that sits within the Group's Roads & Security division, I have been responsible for introducing ESG across all Hill & Smith Infrastructure's divisions. This has proved to be an exciting project and has been more about uncovering activities that were already taking place naturally, and being able to celebrate and report the business' sustainable and socially responsible accomplishments.

I am responsible for unlocking ESG opportunities in the areas of people, planet and purpose for Asset VRS, Hardstaff Barriers, Hill & Smith Barriers and Varley & Gulliver – four of the UK's leading vehicle restraint system manufacturers.

Incorporating ESG factors into day-to-day business activities allows us to meet clients' needs too, supporting their own actions to reduce the impact of their activities, ensuring a long term and sustainable benefit to the environment and the communities they serve. Environmental protection, equality, social impact and ethics are at the forefront of everything, more than ever before.

As a result of recent achievements, the level of service provided to customers across Hill & Smith Infrastructure has been strengthened, while a consistent and collaborative approach to Corporate Social Responsibility ('CSR') and sustainability has been created throughout the business.

In recent months, colleagues have led and participated in several projects that have benefited the environment and local communities.

Major accomplishments include:

- Achieving CSR Gold Accreditation for Hill & Smith Infrastructure Limited
- Leading a long term biodiversity and wellbeing initiative in conjunction with the SMP Alliance (who support delivery of National Highways construction and maintenance programmes), which has pledged to prevent the net loss of biodiversity through its activities
- Supporting Apprentices and committing to being members of the 5% Club that resulted in being invited to the House of Lords to accept the accreditation
- Over 10% of staff now trained as Mental Health First Aiders and this is increasing each month

Social value projects include a company-wide challenge to walk the distance from Nottingham to Ukraine, which raised over £5,000 for the Humanitarian Appeal, and donating more than 300 Easter Eggs collected by staff to vulnerable children in the Midlands.

Other regular employee activities include food bank and clothing donations, volunteering opportunities and tree planting.

An increasing number of young people in the workplace are keen to work for a company that is ethical and we as an organisation are working towards becoming an employer of choice, head and shoulders above its competitors when it comes to contributions to the local environment, workforce and communities.

DIVERSITY AND INCLUSION

Why does it matter?

As an organisation, we aim to employ the best people for the job and help them thrive. We know that we can only do this by considering talented people from the whole community, making our business attractive for them to join and by providing an environment where they can be themselves and give their best. If we can provide attractive opportunities for our people, and ensure we have a workforce that is truly diverse, our business will perform to its absolute potential and achieve our ambitious economic growth plans, as well as deliver individual success.

As an employer working across a range of cultures and countries, we endeavour to replicate the diversity of the communities where our companies are based, in the profile of our own workforce.

Everyone is actively encouraged to communicate and share information with colleagues. It is important to us that we create an inclusive culture, where all voices and perspectives have an opportunity to be heard.

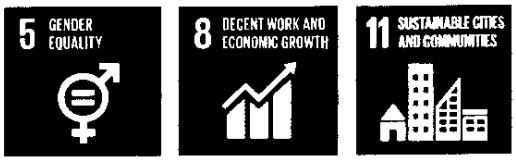
What have we done?

We have continued to focus on attracting more females into our business, which has led to an increase in female senior leaders in 2022, now at 20%, and in January 2023, we were delighted to appoint our first two female Managing Directors, Rachel Preen in the UK and Rose Mary Clyburn, based in the US. We will continue to focus on how we can improve diversity, whilst sticking to our commitment to always recruit the best candidate for the role. Progress is also reflected in the improvement in our 2022 Gender Pay Gap.

Our apprenticeship scheme is another method of attracting more diversity into our business. In 2022, our gender splits for new hire apprentices were 33% female, 67% male. This includes recruiting females as welding apprentices, traditionally a role that has attracted more males. Of our apprenticeship hires between August 2021 through to June 2022, 16% have a disability, 34% are young people (being under the age of 24), 3% are from ethnic minority groups and 11% live in disadvantaged post codes.

Examples where our operating companies have taken proactive steps to improve diversity include Hill & Smith Infrastructure being part of the 5% Club, a movement committed to providing 'earn and learn' skills-led training opportunities. Lionweld Kennedy, one of our UK Engineered Solutions businesses, is now recognised as one of the top 50 SME apprenticeship employers in the UK.

We continued with our Workforce Advisory Panels in 2022, running one face to face session in the UK and one in the US during May. We then ran virtual sessions in November. We changed the format to include interactive sessions that were led by colleagues from our operating companies or internal subject matter experts, rather than senior management. Topics included Health and Safety, ESG, Diversity and Inclusion, as well as business updates on performance. We gained valuable feedback and insights from the process.



Production team at Hill & Smith Infrastructure

What will we achieve?

We will focus locally and at a Group level on increasing levels of diversity, so that we represent the communities that we serve. We will continue to bring together HR leaders from across our operating companies so that we can share best practice and learn from each other.

We will be building on the success of our US Women's Network, extending it to all female colleagues, to raise awareness of the challenges and barriers that some women may face and to champion them and their current and future careers.

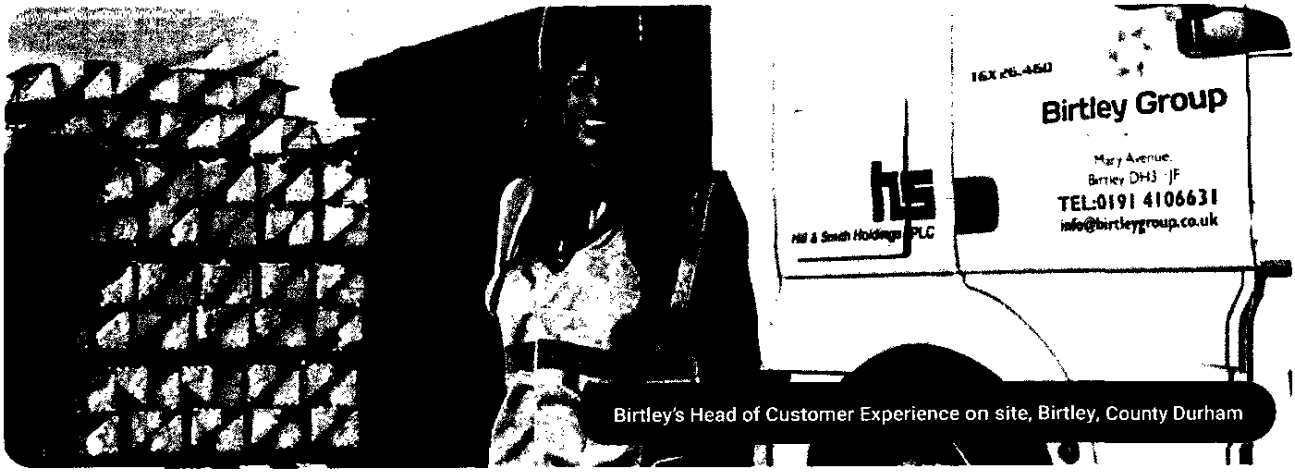
We will arrange further Workforce Advisory Panels, where we will be seeking further feedback on what is working well and where we can improve. We will provide business updates, invite colleagues from across the business to present on important topic areas, and also encourage sharing of good practice that is happening within our operating companies.

We want to build on the success of our apprenticeships scheme, recognising it is an important way of attracting and retaining diverse talent. We will recruit additional apprentices and upskill existing colleagues though apprenticeships where feasible to do so. We will provide managers with additional information and support, to encourage increased usage of apprentices in the UK. We will produce an annual newsletter to celebrate apprenticeship achievements.

How will we measure progress?

We will continue to measure gender and ethnic diversity at a senior level and review the engagement survey scores for the Inclusion and Diversity index to track progress.

SAVING AND ENHANCING LIVES continued



Birtley's Head of Customer Experience on site, Birtley, County Durham

DIVERSITY AND INCLUSION continued

CASE STUDY: Diversity

Wendy Dollete: Supply Chain Manager at the Carpenter and Paterson Group (USA)

Wendy joined the company in 1999, initially in an administrative role in the Engineering department. She has since undertaken a number of roles, spanning Project Management and Procurement. Her current role is Supply Chain Manager which involves overseeing purchasing and inventory control for all branches as well as leading the warehouse operations at the Waggaman site in New Orleans.

Wendy is focused on improving processes and performance. She is also an active member of the Empowerment Group, a Women in Leadership network within Hill & Smith that encourages development and discusses some of the barriers that women may face.

Wendy says:
"Hill & Smith is a great company to work for and has actively supported my career development. I would definitely recommend working within the Hill & Smith family to other women, and encourage them to be open to opportunities, wherever they may be."

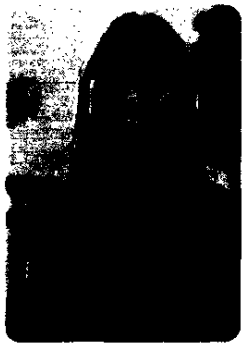
Rachel Preen: Managing Director at Prolectric Services (UK)

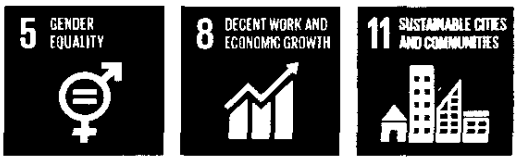
Rachel joined Prolectric in 2021 as Commercial Director, having been inspired during the interview process by the compelling vision shared with her by Chris Williams, Prolectric's founder. Over the past ten years, Prolectric has led the way in sustainable lighting, power and security solutions for the construction, infrastructure, rail, and utilities sectors. Prior to joining the Group, Rachel was working in the renewables sector, making this an excellent fit for her experience and passion for sustainability.

In January 2023 Rachel was promoted to Managing Director, where she is excited to lead the business in delivering Prolectric's ambitious five year growth plan.

Rachel says:
"Hill & Smith's sustainability agenda was an important consideration for me when I was considering taking the role at Prolectric."

She goes on to say that she feels *"supported and lifted by the Group" with her recent promotion. Her advice to others in building their careers is to "be yourself, do your best and trust in the people around you to recognise your strengths and help you go further."*





TARGETS AND ACTUALS

Gender diversity

PCC Board	Executive Board	Senior Executives
2022 Actual	2022 Actual	2022 Actual
38%	33%	20%
2022 Target		2022 Target
33%		40%
2023 Target		
40-60%		20%
2024 Target		
40-60%		40%
2025 Target		
40-60%		
2026 Target		
40-60%		
2027 Target		
40-60%		
2028 Target		
40-60%		
2029 Target		
40-60%		
2030 Target		
75%	+90%	

SUSTAINABLE GOVERNANCE

We recognise that to play a positive role in society, we need to act responsibly. Not just to our employees, customers, suppliers and other stakeholders but also to the environment and wider society.

Hostile vehicle mitigation barriers, London

CLIMATE RISKS AND TCFD

Why does it matter?

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

What have we done?

The TCFD recommendations encourage companies to disclose information on their financial risks and opportunities due to climate change, and how they are being managed. During 2022 we further developed our approach to assessing the impact of climate change on our business operations, strategy, and financial planning.

How do we ensure good governance?

The Board views oversight and effective management of environmental, social and governance related risks as essential to the Group's ability to execute its strategy and achieve long term sustainable growth. The Board receives quarterly updates on progress around ESG focus areas including climate related risks and opportunities. In addition, the annual budget process now includes consideration of operating company level carbon reduction plans, and we will be introducing a similar focus into the 2023 strategic planning process which covers a five year timeframe. The evaluation of potential acquisitions also includes assessment of the impact on our carbon reduction targets. The Audit Committee is responsible for overseeing the management of climate related risks and opportunities and associated metrics and targets. In addition, the Risk Committee is responsible for identifying and assessing climate related risks and opportunities and during the year we developed and implemented an approach to support this assessment.

PLC Board

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

ESG Committee

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

Risk Committee

- Responsible for the methodology to identify and assess climate related risks and opportunities
- Agrees TCFD metrics and targets with ESG Committee
- Reports significant climate related risks and opportunities and corresponding mitigation plans to the Audit Committee for consideration
- Further details about the Risk Committee can be found on page 61.

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

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

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

During 2021 a risk assessment workshop was held with PwC to determine which risks could have a material impact after considering both potential financial impact and likelihood. The assessment of climate-related transition risks and opportunities was completed on a sub-divisional and geographic basis, with physical climate risk vulnerability analysis completed for our operational sites. *In 2022, we completed physical climate vulnerability analysis for all new sites acquired during* the year. The 2021 climate vulnerability analysis run for existing sites remains valid given there has been no change in the underlying climate analysis tool data since last year. The assessment of transitional risk considered emerging regulatory requirements, such as carbon pricing.

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

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

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

Global warming scenario: 1.5°C and 2°C

Risk

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

- The availability of greener technology to adapt to lower emissions
- Increased demand for renewable energy may lead to reduced supply or an increase in the cost of purchase
- The introduction of carbon pricing across our key geographies increases both our manufacturing costs and the costs of raw materials
- Potential opportunities for the Group given the existing focus on sustainable infrastructure products, for example galvanizing and certain composite applications. Further innovation in new products and services, in line with our purpose, will present further growth opportunities. See case studies on page 53.

Other risks identified, but not considered significant at this stage, include the reputational damage to the Group's brand due to climate inaction or negative climate impact from production / supply chain.

Impact analysis

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

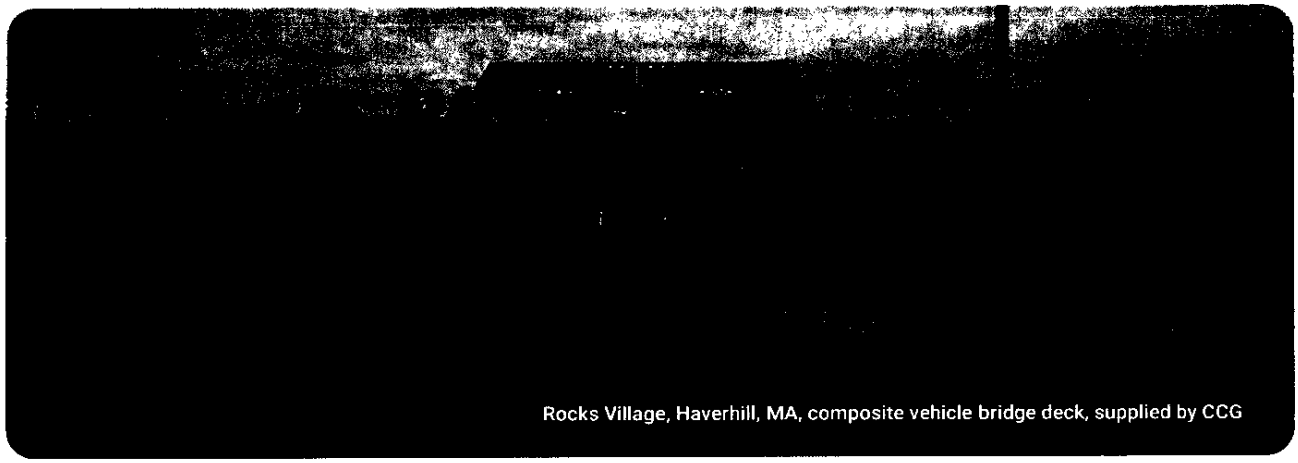
Carbon Pricing* Gross Risk Impact (Scope 1 & 2)

Annual Impact by 2025	1.5°C	2.0°C
Average annual operating cost increase assuming no proactive carbon reduction plans are undertaken based on 2022 exit run rate emissions. Figure as at end of 2021 in brackets	£4.7m (£6.1m) Based on $130 per tonne	£4.3m (£5.6m) Based on $120 per tonne
Annual Impact by 2030	**1.5°C**	**2.0°C**
Average annual operating cost increase assuming no proactive carbon reduction plans are undertaken based on 2022 exit run rate emissions. Figure as at end of 2021 in brackets	£7.4m (£9.6m) Based on $205 per tonne	£6.1m (£8.0m) Based on $170 per tonne

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

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

We have completed the assessment of our Scope 3 emissions during 2022 with a view to disclosing them in our 2023 Annual Report in accordance with the SBTi target. Once more is known about likely carbon pricing regimes we will be in a better position to estimate the potential impact on our supply chain costs.



Rocks Village, Haverhill, MA, composite vehicle bridge deck, supplied by CCG

CLIMATE RISKS AND TCFD continued

Global warming scenario: 4°C

Risk

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

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

There are also potential growth opportunities relating to Group products and services, which provide solutions for extreme weather See case studies on page 53

Impact analysis

This scenario may include costs relating to the repair of assets, increased volatility, business discontinuity and needed resiliency investments for addressing more severe and frequent natural disasters that would occur under a warming of 4°C. Working alongside PwC, we have analysed the Group's exposure to climate hazards at 53 of the Group's sites (2021: 67 sites). A summary of the results is as follows.

	Sites at higher risk**				
Hazard	**2021 No of sites**	**2022 No of sites**	**2022 % total sites**	**2040 No of sites**	**2040 % total sites**
Flood	1	1	2%	3	6%
Wind	3	3	6%	3	6%
Rainfall	5	5	9%	6	11%
Heat	6	6	11%	9	17%
Hail/Thunderstorms	4	4	8%	4	8%
Drought	3	2	4%	4	8%
Wildfire	4	4	8%	4	8%
Total unique sites with one or more high risk hazards	**13**	**12**	**23%**	**18**	**34%**

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

** PwC's climate analysis tool assigned each site, for each hazard, an absolute hazard score from 1 to 100. Sites with hazard scores greater than 70 were deemed higher risk

Based on the above analysis, at the end of 2022, the Group had 12 sites at higher risk of one or more climate hazards with heat being the most significant threat (6 sites, 11%). The number of sites at higher risk of one or more climate hazards has reduced compared to 2021 (13 sites). In 2040 heat is predicted to remain the most significant threat to the Group (9 sites, 17%) with heat also seeing the most significant increase in risk from 2022 to 2040 (3 additional sites). Overall, 34% of sites have been identified to be at higher risk from one or more climate hazards by 2040. These sites represent c. 20% of 2022 Group revenues, however the revenue at risk is much lower as the complete loss of annual revenue from a site following a climate hazard event is highly unlikely and the sites also have mitigations in place. During 2022 operating companies with sites identified as higher risk progressed their business continuity measures. In 2023 we will work with them to further develop their business continuity measures and to ensure that the necessary insurance remains in place.

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

How do we manage risk?

The Risk Committee is responsible for identifying, assessing, and managing climate related risks and opportunities and reporting significant risks to the Board. This includes consideration of emerging regulatory requirements, such as carbon pricing. Based on the scenario analysis and impact assessment outlined above, the Board does not currently consider the impact sufficiently material over the next five years to be deemed a Group Principal risk, however we are considering climate change as an emerging risk and will monitor accordingly.

The impact assessment has however identified that some of our operating companies may be more severely impacted by future climate change scenarios. The Risk Committee is responsible for actively working with our operating companies to ensure that appropriate mitigation strategies are in place using our established Risk Management process (refer to page 60 for further details).

How will we measure progress? – Group metrics and targets

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

- We are committed to reducing our Scope 1 and Scope 2 CO_2e emissions to achieve our net zero target by 2040. In the near term, we are measuring progress through reduction in our CO_2e intensity ratio. Refer to page 39 for further details of progress to date.
- During 2022, we undertook work to establish our baseline Scope 3 CO_2e emissions and we are on track to submit our SBTi targets ahead of the required August 2023 deadline.
- In addition, we currently measure water usage and waste management and continue to look at ways of minimising our environmental impact.

We note the guidance issued on cross industry climate related metric categories and this is an area we are planning to broaden going forward.

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

CASE ST

'StormStrong' Products – Creative Composites Group, US

StormStrong products include utility poles, utility crossarms, light poles, waterfront sheet piles, waterfront pipe piles and FRP cooling towers. They provide resilience, durability and corrosion resistance in both grid and shoreline applications to ensure structural integrity in extreme weather conditions such as hurricane-force winds, blizzards and deep freezes. Creative Composites Group also manufacture 'FireStrong' fire resistant utility poles that can protect the grid from the excessive heat generated by brush/grass fires (see page 14 for further details).

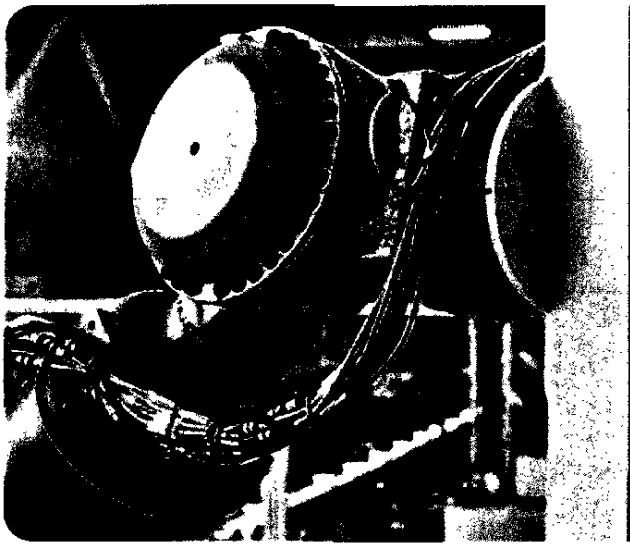
Rail Track Flood Resilience – Asset International Structures, UK

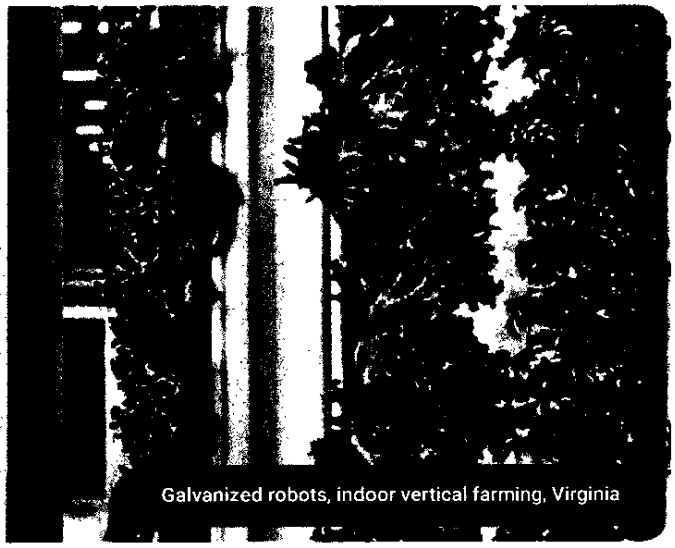
The "Asset BaFix" track ballast shoulder retention system adds stability to rail tracks and provides flood resilience to ensure remote areas of rail networks are not cut off during flooding and extreme weather.

HVAC vibration isolation systems – Novia, US

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

SUSTAINABLE GOVERNANCE
continued





Galvanized robots, indoor vertical farming, Virginia

ETHICAL CONDUCT

Why does it matter?

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

The Group is committed to treating all people, whether employed directly by the Group or its subsidiaries or employed in its supply chain, fairly and equitably and we are committed to upholding their human rights. The Group recognises all individuals' basic human rights and is committed to respecting the Universal Declaration for Human Rights. The Group and all its worldwide subsidiaries respect the human rights of all those working for or with us, and of the people in the communities where we operate. We will not knowingly do business with companies, organisations, or individuals that we believe are not working to at least basic human rights standards. Our Group companies will also comply with all applicable wage and working-time laws *and other laws or regulations affecting the* employer/employee relationship and the workplace. We oppose the exploitation of all workers, children and young people, we will not tolerate forced labour, or labour which involves physical, verbal, or psychological harassment or intimidation of any kind, and we will not employ child labour in any of our operations. Nor will we permit the exploitation of, or discrimination against, any vulnerable group.

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

What have we done?

The Group is committed to conducting its business activities responsibly and ethically and in accordance with the laws and regulations applicable to the jurisdictions in which we operate and we have a series of policies that support this objective. These are supported by training and educational programmes for employees, together with a Group Code of Business Conduct ('CoBC') which underpins all our activities and presides over areas such as health & safety, fair, honest and ethical business practice, gifts and entertainment, conducting international business, protection of individuals, resources and assets and at a high level summarises the Group's legal and compliance responsibilities in areas such as anti bribery and corruption, export laws and regulations and international fair and open competition. For employees who wish to raise concerns without fear of reprisal or victimisation, we provide an external confidential, independent compliance hotline and email facility, which is available in local languages, or they can contact senior managers within their business, the Group Company Secretary, or the Chair of the Audit Committee, without fear of reproach. During 2022, 12 such issues were reported and investigated (2021: 2).

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

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

What will we achieve?

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

We will act in accordance with our CoBC, upholding a zero-tolerance approach to bribery and corruption. There were zero incidents of bribery and corruption reported in 2022 (2021: nil).

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

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

We conduct our dealings with tax authorities with honesty, integrity, respect, and fairness and in a spirit of co-operative compliance.

How do we ensure we are compliant?

- Annual Modern Slavery audits
- Board oversight of all Whistleblowing Reports
- Annual approval of all ethical policies by the PLC Board or Executive Board
- Continual monitoring of online training to ensure compliance with relevant legislation
- Annual certification by Group operating subsidiaries that they have complied with policies issued by the Group, and in particular with the CoBC

CASE STUDY: Modern Slavery audit

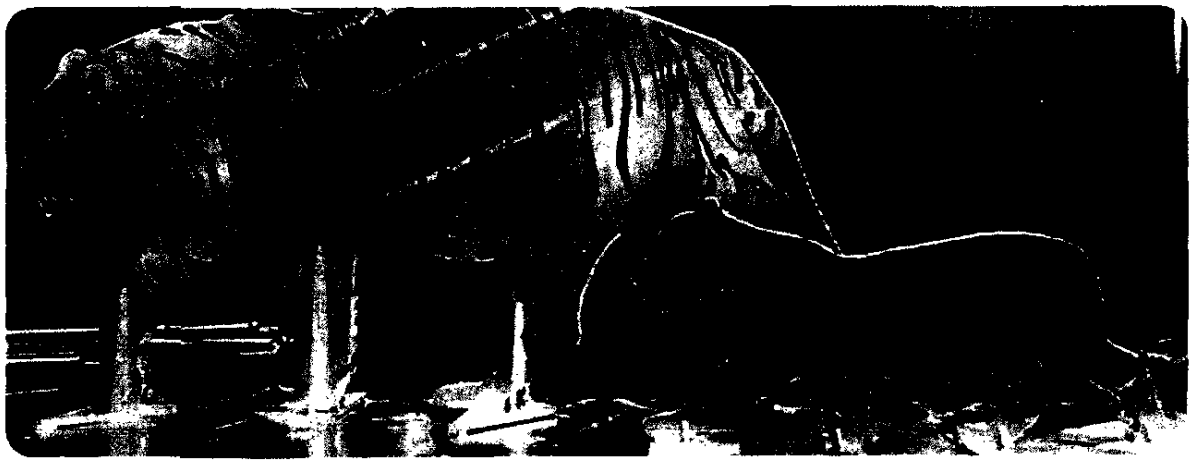
Management undertook a focused audit in the second half of the year on selected zinc and resin suppliers relating to its Galvanizing and Engineered Solutions operating companies in the UK and USA. Arrangements were made for the Group's Head of Legal and a local representative of the relevant operating company to meet with the major zinc suppliers to the galvanizing businesses and the principal resin supplier to the Creative Composites Group.

The audit consisted of a pre-interview questionnaire together with questions and observations made during the interview, and the historic dealings of the suppliers with the operating companies.

Notable outcomes concerned the integration and geographical location of supply chains, and the appropriateness of diligence processes, policies and functions.

The suppliers had a high percentage of integrated material supply sourced from countries that were ranked in the top half of the Global Transparency Index.

No major concerns were identified during the audit, with suppliers also demonstrating that they had appropriate and robust on-boarding due diligence processes, and their own internal and supplier policies e.g., codes of conduct, whistleblowing, and training, and appropriate internal audit functions.



SUSTAINABLE GOVERNANCE
continued

Sustainability Data

	2022	2021	2020	2019	2018
Sustainable Products					
Spend on R&D	£2.8m	£1.9m	£2.0m	£1.4m	£1.2m
Percentage of revenue	0.4%	0.3%	0.3%	0.2%	0.2%
GHG Emissions					
Environmental penalties	£nil	£nil	£nil	£nil	£nil
Location-based consumption (tCO2e)					
Scope 1	49,388	53,712	52,066	53,478	56,469
Scope 2	12,404	14,383	15,335	19,803	24,449
Market-based consumption (tCO2e)					
Scope 1	49,388	53,712	52,066	53,478	56,469
Scope 2*	8,917	10,385	14,708	19,803	24,449
Intensity Ratio**	0.07	0.09	0.10	0.11	0.13

* In November 2022 the Group entered into a two year contract to supply all UK electricity requirements from renewable sources. This was backed by Renewable Energy Guarantees of Origin (REGO). The Scope 2 market data excludes data relating to this source of electricity.

** Intensity Ratio is defined as total scope 1 & 2 (GHG emissions) as a ratio to £000s of revenue.

	2022	2021	2020	2019	2018
Health and Safety					
No. of workplace fatalities	0	0	0	0	0
No. of lost time injuries	85	142	109	119	119
Lost time injury rate ('LTIR') (The number of lost time injuries divided by total hours worked multiplied by 100,000)	1.1	1.7	1.5	1.6	1.6
No. of Near Miss Reports	2,217	2,126	955	n/a	n/a
Percentage of sites with access to online H&S reporting systems	93%	97%	95%	n/a	n/a
Percentage of sites covered by ISO 45001	65%	45%	46%	n/a	n/a
Talent and employment practices					
No. of Group employees (as at 31 Dec)	3,817	4,402	4,398	4,591	4,094
Voluntary (Regrettable) attrition rate	14%	14%	6%	n/a	n/a
Percentage of employees with access to a recognisable Trade Union	11%	18%	18%	n/a	n/a
UK Gender Pay Gap	-2.8%	2.8%	8.4%	12.7%	12.5%
Training spend	£0.8m	£0.6m	£0.4m	n/a	n/a
No. of training days	5,626	4,119	4,000	n/a	n/a
No. of training hours	45,010	32,952	32,000	n/a	n/a
UK Apprenticeships	52	49	34	n/a	n/a
Employees participating in training and development	2,386	156	111	n/a	n/a
Percentage of female employees participating in training and development	10%	17%	10%	n/a	n/a
Percentage of UK sites utilising the Apprenticeship Levy	89%	57%	49%	n/a	n/a
Engagement, Inclusion and diversity					
Engagement Survey participation	80%	62%	n/a	56%	n/a
Engagement Score	61%	55%	n/a	48%	n/a
Inclusion Engagement Score	69%	63%	n/a	58%	n/a

	2022		2021		2020		2019		2018	
Gender diversity										
	M	F	M	F	M	F	M	F	M	F
PLC Directors	5	3	5	3	5	2	5	2	5	1
Executive Board	4	2	4	2	n/a	n/a	n/a	n/a	n/a	n/a
No. of Subsidiary Directors	39	7	49	3	66	5	79	3	59	2
No. of Senior Managers*	78	20	201	38	174	39	221	40	167	19
Percentage of PLC Directors	62%	38%	62%	38%	71%	29%	71%	29%	83%	17%
Percentage of Executive Board	67%	33%	67%	33%	n/a	n/a	n/a	n/a	n/a	n/a
Percentage of Subsidiary Directors	85%	15%	94%	6%	93%	7%	96%	4%	97%	3%
Percentage of Senior Managers*	80%	20%	84%	16%	82%	18%	85%	15%	90%	10%
Total percentage of Group employees	90%	10%	90%	10%	90%	10%	91%	9%	91%	9%

* Senior management is considered to Mark, Sq directors [illegible]

Climate risks to our business					
Carbon Disclosure Project (CPD) Rating	B	D	C	D	D
Environmental fines incurred	£nil	£nil	£nil	£nil	£nil
Group Water Usage (m^3)	84,667	104,795	95,093	91,152	87,485
Solid waste to landfill (Tonnes)	5,138	3,600	5,165	4,678	5,038
Recycled waste (Tonnes)	18,870	13,755	19,145	22,514	33,817
Percentage of recycled waste	78%	79%	79%	83%	85%
Scope 3 (tCO_2e) – from water and waste	3,257	2,040	2,735	521	529
Other GHG emissions – CH_4 (tCO_2e)	65*	87	81	n/a	n/a
Other GHG emissions – N_2O (tCO_2e)	114*	213	194	n/a	n/a

* Market-based analysis

Ethical conduct					
Charitable donations	£62,000	£39,000	£21,000	£39,000	£30,000
Whistleblowing reports made by employees	12	2	3	19	11
Modern Slavery audits carried out	Yes	Yes	Yes	Yes	n/a

Sustainability Policies

The Group has a number of policies that support its Sustainability Plan. These are listed below, and these can be found at https://hsgroup.com/

- Product Responsibility Policy,
- Conflicts Mineral Policy;
- Supply Chain Policy,
- Energy Policy;
- Environmental Policy,
- Health & Safety Policy,
- Equal Opportunities & Diversity Policy,
- Talent & Development Policy,
- Tax Strategy Policy

STAKEHOLDER ENGAGEMENT

Our People	What matters to our people	What we did in 2022
As an employer committed to providing the right environment in which to work, we insist that people connected with the Group can work safely, are trained correctly, behave in the right way, and comply with all local legal and regulatory requirements, thus ensuring the sustainability of the business	• Brand • Safe working environment • Remuneration • Wellbeing • Job security • Career development	• Carried out our third all employee engagement survey – a 6pts increase in our engagement score • Appointed a Group Head of Sustainability • Developed plans for talent development and inclusion and diversity as part of our ESG response (see pages 46 to 48 for details)

Our Companies	What matters to our companies	What we did in 2022
Our decentralised autonomous model places our companies close to their end markets and under the management of their own board of directors, providing agility, customer intimacy and entrepreneurial activities. Our companies are able to respond rapidly to opportunities and to changes in their competitive environment and are responsible for the delivery of our organic growth and the success of our Group strategy	• Operational and financial performance • Cash allocation • Product Innovation • Talent and development	• Acquired a US-based solar-powered lighting business, National Signal, building on the domain knowledge acquired with Prolectric Services in 2021 • Acquired a UK based galvanizing business, Widnes Galvanising, increasing our presence in UK sustainable infrastructure • Monitored operating company performance • Regular site visits by Board members • Provided cash to facilitate capital projects • Continued our innovation workshops

Customers	What matters to our customers	What we did in 2022
Our subsidiaries engage with their customers on an individual business unit basis. Most businesses are accredited with a number of ISO quality standards to provide comfort to our customers that we are able to deliver solutions which meet their exacting requirements	• Quality products delivered on time and to the correct specification • ESG • A strong health & safety culture • Being treated with respect • Working as a partnership	• Invested in product development • Increased our ESG focus to set a baseline for our Scope 3 carbon emissions • Conducted health & safety audits across 80% of our sites

Suppliers	What matters to suppliers	What we did in 2022
We actively engage with our suppliers, working closely to ensure that they provide the right quality of raw materials and services to support our commitment to quality products and to maintaining fair cashflow requirements.	• Mutual beneficial arrangements • Long-term relationships • Quality	• Operating companies regularly met with existing and potential suppliers to review continuity and quality of supply • Maintained the Group's payment terms at 61 days (2021: 64)

Governments and Industry	What matters to governments and industry	What we did in 2022
We engage with the Government and our peers by participating in industry bodies and meetings to discuss emerging policy, regulation, innovation and threats in relation to infrastructure markets	• Development of road infrastructure • Development of utilities infrastructure • Tested products • Sustainable products • Environmentally friendly solutions	• Tested Road products to Manual for Assessing Safety Hardware (MASH) in the US and Australia and Standard EN 1317 in the UK • Represented the Group on Government and industry safety and product committees, including the British Standards Institute (BSI), the Vehicle Restraint Manufacturers Association, Perimeter Security Suppliers Association; and the Transport Research Board in the USA • Discussed the use of composite materials with US Government officials

Local Communities	What matters to our local communities	What we did in 2022
Our operating companies engage with their local communities on a business-by-business basis supporting local charities as well as engaging with local authorities when seeking to develop their businesses	• Environmental issues • Employment • Health & Safety	• Supported our operating companies to develop local ESG initiatives • Matched funding for Ukrainian support charities • Encouraged our operating companies to engage with their local communities, supporting local charities on a business-by-business basis

Investors	What matters to our investors	What we did in 2022
Our Executive Chair and CFO engage with our investors through a series of meetings, site visits and presentations, ensuring that they set out our strategy for delivering long term sustainable profit growth. Investors also feed back their views on the major corporate governance issues of the day	• Solid dividend performance and long term share price growth, and long term sustainable profit growth • Operational efficiency • ESG • Robust corporate governance and business ethics	• Appointed a Group Head of Sustainability • Improved our response to ESG, resulting in – increasing our CDP ('Carbon Disclosure Project') ranking from D to B, and – increasing our MSCI rating score from A to AA • The Executive Chair and CFO met regularly with investors and analysts • Held an Investor site visit at our Hill & Smith Infrastructure Limited/Joseph Ash Limited galvanizing joint site in Bilston, West Midlands.

RISK MANAGEMENT

The Group has an established Enterprise Risk Management Framework that identifies, evaluates, manages, and monitors risk. Several enhancements have been implemented during 2022 to further improve and embed the risk management process.

Risk Management

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

Responsibilities

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

Enterprise Risk Management Framework

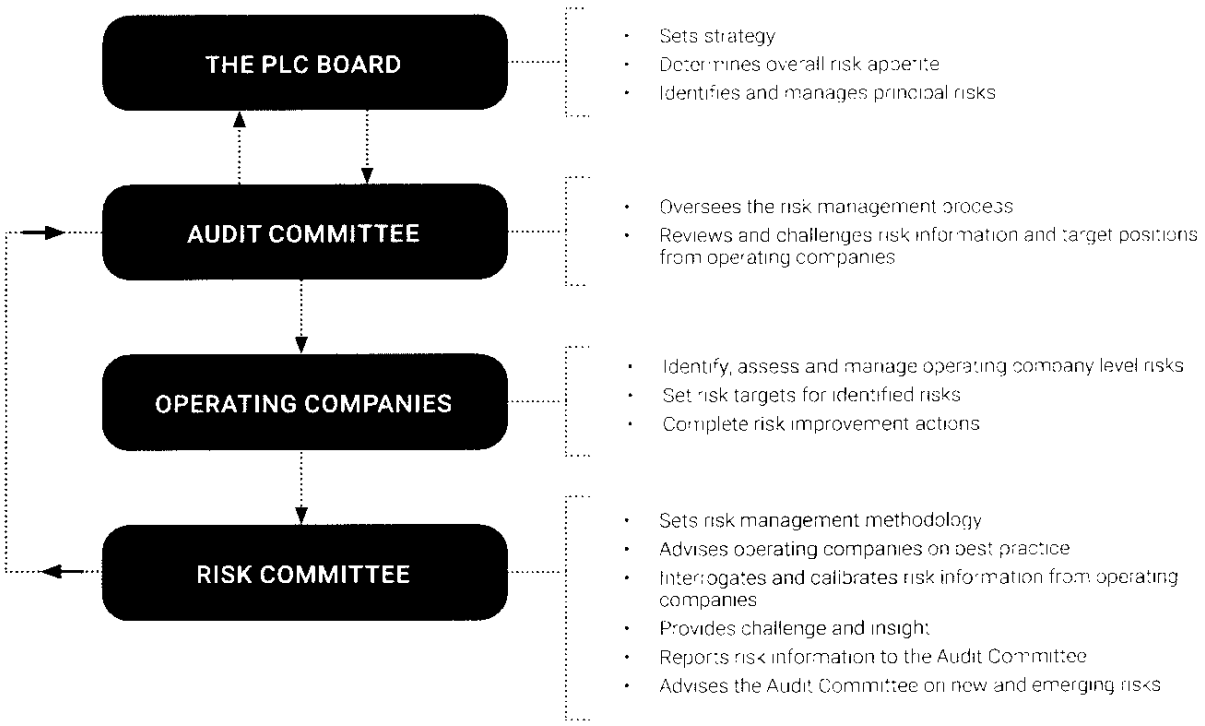
The Group operates an Enterprise Risk Management Framework that ensures a consistent and proportionate approach is used to identify, evaluate, manage, and monitor risks across all our operating companies. The Framework integrates with the Group's internal controls and compliance policies and is supported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

Within the framework the following roles and responsibilities exist:

The Board

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

Figure 1 Risk Management Process



The Audit Committee

Supports the Board by

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

The Risk Committee

Supports the Audit Committee by

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

The Executive Board

Supports the Board by

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

Risk Appetite

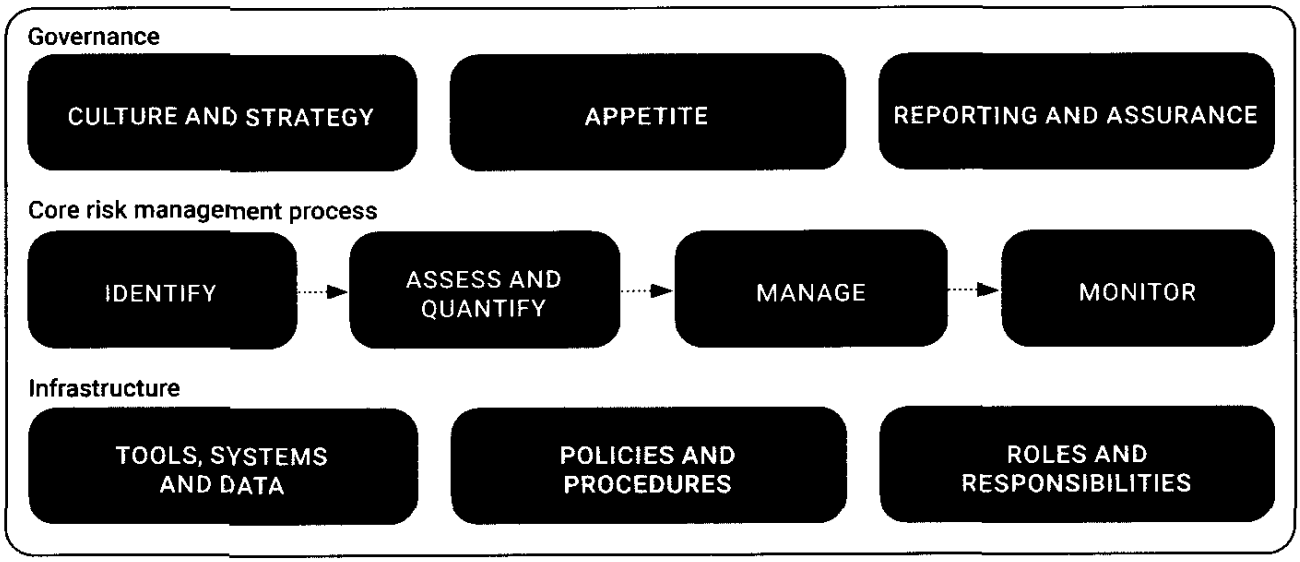
The Enterprise Risk Management Framework clarifies how risk is to be managed in a way that satisfies the decentralised operating model of the Group (see Figure 2 below). The approach has allowed the Board to consider its appetite in the light of the Group's business model and carry out a robust assessment during 2022 of the Principal Risks and Uncertainties that might threaten the Group's business model, future performance, solvency and liquidity (see pages 64 to 68 for the Group's Principal Risks).

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

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

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

Figure 2 Risk Management Framework



Risk in 2022

Risk Committee

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

Risk Analysis

The Board reviewed in depth feedback from the operating companies and the Risk Committee on the Group's Principal Risks. Following detailed debate, the Board concluded that the Group's Principal Risk Register continued to reflect the Principal Risks the Group faced. An increase to the exposure from two of our Principal Risks has been highlighted: Global economic outlook and IT systems failure. One of our Principal Risks has seen reduced exposure: Talent, development, diversity, recruitment, and retention of key employees. The remaining Principal Risks have remained stable. For further details see pages 64 to 68.

Risk Activities

Activities undertaken to enhance the Group's approach to risk in 2022 included:

- further integration of the Group IT Controls Manual into the assessment of the IT Systems Failure Principal Risk;
- revision of the 'Risk Playbook' to provide a guide to operating companies on best practice preventative (to reduce likelihood of risks occurring) and reactive (to reduce impact if risks do occur) mitigating controls; and
- virtual seminars and one to one sessions to introduce methodology revisions and to provide ongoing training on the principles of risk management and use of the risk management software.

TCFD

During the year we further developed the risk management approach to understand our exposure from physical and transitional risks due to climate change. The details of this can be found on pages 50 to 53. During 2022 specific climate change risks were added at an operating company risk register level.

Emerging Risks

As part of our commitment to continuously evaluate our strategy and product offering, the Risk Committee thoroughly considers emerging risks in the context of future opportunities and threats to the Group's business model. During 2022 the Risk Committee continued the approach developed in 2021 to identify, assess and monitor emerging risks. A revised list of potential emerging risks the Group could face, derived from risk and audit discussion papers and reports, industry papers and internal input was compiled. A materiality exercise was then completed with input from the Risk Committee, Executive Board and the Chair of the Audit Committee to produce a group of prioritised threats and opportunities from the initial list. Analysis was then completed to determine which threats and opportunities are already being managed through existing strategic initiatives and which require action now to mitigate/maximise future impacts. The results from the emerging risks analysis were presented at the March 2023 Audit Committee and the prioritised emerging risks will be monitored throughout 2023.

Emerging Risk	Timescale
Gas or electricity outage / rationing / security of supply	Short (0-2yrs)
Step change in public infrastructure strategy resulting in reduced spend (e.g., Political regime change or fiscal policy rethink)	Medium (3-10yrs)
Declining interest in manual labour employment and competition with other employers/industries	Medium (3-10yrs)
Industrial action / strikes (either our own workforce or suppliers / customers)	Short (0-2yrs)
Future pandemics and our ability to respond effectively	Short (0-2yrs)
Global trade disputes (e.g., tensions between China and Taiwan and implications for operating company supply chain and customer impact e.g., silicon chip supply)	Medium (3-10yrs)
Ageing workforce	Medium (3-10yrs)
Cyber security controls are outstripped or rendered obsolete by increasingly sophisticated and frequent attacks	Medium (3-10yrs)
Increasing expectation for corporates to achieve net zero on a reducing timescale	Medium (3-10yrs)
Decarbonisation of the economy and the technology to achieve this	Long (10yrs+)

Risk in 2023 and beyond

The key focus during 2023 will include

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

Distribution bay substation, New Philadelphia, OH, supported by V&S Utilities

GROUP PRINCIPAL RISKS 2022

Risk	Description and Potential Impact	Mitigation
Reduction in public infrastructure spending	Demand for sustainable infrastructure and transport is underpinned by Government spending plans. Changes to these plans could have a detrimental impact on Group revenues The Infrastructure Investment and Jobs Act ('IIJA'), enacted into law in November 2021, confirmed a substantial increase in US federal government spending across a range of infrastructure areas and is likely to benefit demand for the Group's products and services in the US. Despite the current macro economic uncertainty and recent delays in strategic road network projects, we are confident the UK Government is committed to the Road Investment Strategy, presenting future opportunity for our UK roads businesses	• Our existing entity portfolio contains diverse products, markets and territories and we will continue with this approach • Market and product development initiatives • Co-operation between Group businesses, leveraging the Group's size/international footprint and exploiting synergies • Exposure to the benefits from longer term infrastructure investment programmes
Changes in global economic outlook and geopolitical environment	The Group operates in a range of end-user markets around the world and may be affected by political, economic or regulatory developments in any of these countries Material adverse changes in the political and economic environments in the countries in which we operate, have the potential to put at risk our ability to execute our strategy As a result of continued global macro economic uncertainty and the threat of recession, an increase in the risk has been recognised	• The Group has a diverse portfolio of operating companies with exposure to a range of markets and geographies, limiting exposure to any one country or market sector • Current and future financial performance is continuously monitored, facilitating rapid response to changes in market conditions • In line with our entrepreneurial model, our decisions are made close to our markets and our businesses are agile and responsive to changes in their competitive landscape • Co-operation between Group businesses, leveraging the Group's size/international footprint and exploiting synergies
Increase in competitive pressure	Increased volatility, uncertainty and slowdown in our markets could result in increased prices and the emergence of new technologies, leading to a loss of customers and/or pricing pressure and consequently a loss of sales and reduced profits	• Holding leading positions in niche markets of sustainable infrastructure and transport safety with high barriers to entry. • In line with our entrepreneurial model, our decisions are made close to our markets and our businesses are agile and responsive to changes in their competitive landscape • Our operating companies aim to provide superior products and high service levels to customers, whilst aiming to ensure there is no dependency on any one customer

No change Increase Decrease

Risk	Description and Potential Impact	Mitigation
Product failure	The Group operates in infrastructure markets where it is critical that its products meet customer and legislative requirements and where the consequences of product failure are potentially significant. Product failure arising from component defects or warranty issues may require remediation including the replacement of defective components or complete products, resulting in direct financial costs to the Group and/or wider reputational risk.	• Products tested, approved and accredited by regulatory bodies • Quality control protocols fully implemented and continuously monitored • Contractual controls in place to minimise economic impacts • Insurance cover maintained globally with insurance partners • Litigation supported/managed by external legal specialists
Contractual failure	The Group delivers its commitments to its customers through a variety of contractual arrangements of both a short and medium term nature. Weaknesses in the contract tendering process, inappropriate pricing, misalignment of contract terms, ineffective contract management or failure to comply with contractual conditions could result in loss of revenues, pressure on operating margins and wider reputational damage to the Group.	• Thematic Internal Audit review completed across the Group during 2021 with recommendations implemented during 2022 • Group material contract review process ensures specialist central oversight of key contractual arrangements • Contracts training for key staff • Dedicated quantity surveyors and contract managers in operating companies to control contracts and mitigate risk • Litigation supported/managed by external legal specialists • Insurance cover maintained globally with insurance partners
Supply chain failure	The Group's businesses depend on the availability and timely delivery of raw materials and components, which could be affected by disruption in its supply chain. Supply chain failures because of performance, cost inflation, quality and/or insolvency may have an adverse impact on the Group's production capacity and lead to an inability to meet customer requirements, resulting in a reduction in revenues, potential loss of market share and possible reputational damage. Global warming could place further stress on our supply chain, with extreme weather events impacting supply becoming more likely and chronic changes to heat/rainfall averages potentially impacting where we source certain materials. Climate change transition costs could also inflate the price of the goods we purchase. During the year, our operating companies continued to take appropriate action to manage supply chain headwinds. Actions taken included implementing price increases to offset significant input cost inflation, securing supply of raw materials and ensuring the continuity of operations with a backdrop of labour shortages in certain businesses.	• Supply chain resilience has been a focus of the Risk Committee during 2022 with ongoing monitoring of operating companies' ability to respond to the continued challenges • Group wide thematic Internal Audit review of Supply Chain completed during 2022 with recommendations to be implemented during 2023 • Group procurement standards, including robust due diligence of supply chain partners and the requirement for dual sourcing where available • Regular interaction and assessment of performance/financial status of key suppliers • Group oversight of material procurement contracts ensuring robust contractual protections. • Goods inwards and stock management processes in place to reduce the likelihood of defects or a shortage of raw materials • Contingency plans in place throughout the supply chain, such as purchasing additional stock of key raw materials and securing additional supply chain capacity.

PRINCIPAL RISKS continued

Risk	Description and Potential Impact	Mitigation
IT systems failure	The Group relies on the information technology systems used in the daily operations of its operating companies. A failure or impairment of those systems or any inability to effectively implement new systems could cause a loss of business and/or damage to the reputation of the Group, together with significant remedial costs. Poor security controls and procedures could lead to our operating companies being susceptible to cyber attack, potentially resulting in significant IT failure and associated disruption. During the year the global cyber threat has continued to evolve, with increasing numbers of organised criminal groups undertaking increasingly sophisticated ransomware and other cyber attacks. As a result of the conflict in Ukraine, the UK's National Cyber Security Centre ('NCSC') has warned of heightened cyber risk across UK, US and European businesses. While there has been a marked enhancement of the Group's IT security controls during 2022, the Board consider the risk to be heightened due to the increasing sophistication and frequency of cyber threats across the world.	• The Board maintains a watching brief on IT and cyber risk, and has overseen significant investment across the Group to enhance IT security controls and maturity covering areas such as identity management, IT asset management, backup, endpoint protection, incident response and vulnerability management. • *Wholesale network security improvements planned for 2023.* • IT controls manual setting out a robust set of information security controls covering basic cyber hygiene, system back-up procedures and hardware/software protection. Reviews of IT controls compliance were completed by Internal Audit during 2022, with action plans agreed and monitored. • Quarterly updates established to brief operating company leadership teams on their responsibilities relating to IT management and information security. • Segregated business processing systems within each *operating company means that any disruption due* to illegal external activity is unlikely to jeopardise the Group as a whole.
Portfolio Management	The Group's growth strategies include the acquisition of businesses around the world that complement or supplement its existing activities. Failure to execute an effective acquisition and integration programme would have a significant impact on the Group's ability to generate sustainable profitable growth for shareholders.	• All potential acquisitions are tightly evaluated to ensure they fit within our purpose and core strategic goals. • Due diligence protocols deployed in relation to assessment of target businesses, including financial, commercial, and legal etc. • Board approval required for Group acquisitions, in line with its Schedule of Matters Reserved. • Contractual protections and assurances sought from sellers to mitigate subsequent identification of risks. • Post-acquisition integration plans established for all acquisitions with regular performance monitoring and reporting to the Board.

No change · Increase · Decrease

Risk	Description and Potential Impact	Mitigation
Lack of investment in product development and innovation	The Group operates in global infrastructure markets where continuous innovation is integral to the Group's product offering and where a failure to innovate could result in product obsolescence, the entry of new competitors and/or loss of market share. The development of new products and technologies carries risk including the failure to develop a commercially viable offering within an acceptable timeframe.	• Group wide Innovation Framework launched during 2021 to encourage and stimulate more innovation across the Group. Workshops were run during 2022 to foster innovation and share best practice and these will continue into 2023 • Entrepreneurial culture fostered through a decentralised management structure, ensuring that Group businesses are agile and responsive to changes in their competitive environments • Acquisitions add innovare products and technology to our portfolio • Executive Board approval of product development *proposals within the Group's capital spend approval* policies • Active Intellectual Property management within individual operating companies overseen by Group • Dedicated quality compliance resources in place across operating companies, ensuring responsiveness to regulator and/or customer approval requirements • Board monitoring of emerging risks alongside external specialist support, where both the risks identified and the potential opportunities arising are considered
Talent, development, diversity, recruitment and retention of key employees	The changing nature of the demographics from which we source our employees and the ways in which they like to work can make it difficult to attract and retain both skilled and unskilled labour. We need to ensure effective recruitment channels and make the necessary investment to develop and retain high quality individuals in key positions to guarantee the long term success of the business. We need to ensure the diversity of our workforce reflects the communities in which we work. Without talented employees we will be unable to deliver our strategic aims. Competitive local labour markets and the aftermath of COVID-19 led to challenging recruitment conditions for our operating companies in the first half of the year. In the second half of the year these pressures eased due to rising unemployment and a more difficult economic *climate, subsequently time to recruit and the number of* vacancies across the Group have both reduced. The issue does remain though for certain skillsets that are more challenging to find and retain, e.g., Welders. Our senior leadership gender diversity has improved in 2022 to 20%, due to both internal promotions and external hires. An increased focus on engagement and corrective actions following the 2021 engagement survey has led to an improved score for the 2022 engagement survey, increasing from 55% to 61%. The process to find a permanent CEO is underway. Overall, a reduction in the risk has been recognised for the period.	• Two of our ESG focus areas (talent development and engagement & diversity and inclusion) directly address the risk, with improvement initiatives and metrics overseen by the ESG Committee • Refreshed People Strategy with a greater focus on internal talent • Head of Reward and Head of Talent roles recruited during 2022 • Contractual protections and retentions in employment contracts of senior management and other key employees • Training and development of employees, which includes a programme of IOD and ILM courses for senior management and identified potential successors, and apprenticeship and other vocational courses for specialist and technical roles • Appropriate remuneration and benefits, together with bonus opportunities and incentive plans offered to employees • Recruitment process developed to include competency requirements and skills gap analysis. • Talent review process extended in scope to cover more employees, increasing our visibility of talent

PRINCIPAL RISKS continued

No change · Increase · Decrease

Risk	Description and Potential Impact	Mitigation
Prevention of harm or injury to people	The Group is committed to preventing all health & safety incidents and ensuring the health, safety and wellbeing of all employees and third parties. The Group operates multiple manufacturing facilities around the world. A failure in the Group's health & safety procedures could lead to injury or to the death of employees or third parties. LTIR has reduced from 1.7 in 2021 to 1.1 in 2022. Further improvement is required to reach the 2030 Health & Safety target of 0.25 and health & safety remains a key focus area for the Group.	• Culture of zero tolerance in respect of health & safety violations promoted by the Board and disseminated throughout Group businesses • Reduction of the Group's LTI rates is a key focus for Management and the Board, with improvement metrics now established through the ESG Committee. • Monthly health & safety reporting for all operating companies via online tools • Monitoring and review of LTI rates by Group with all LTI events followed up and investigated thoroughly using the 'five whys' root cause analysis and presented to the Executive Board. Improvement recommendations are implemented to minimise any reoccurrence • Development and roll out (Jan 2023) of our 'nine life-saving rules' and 'non negotiable safety behaviours' • Programme to add defibrillators to all sites commenced in 2022 • Regular health & safety site audits • Health & safety forums to monitor performance and share best practice • External health & safety accreditations and relationships maintained with regulatory bodies • Health & safety is a priority area of focus for new acquisitions
Violation of applicable laws and regulations	The Group's global operations must comply with a range of national and international laws and regulations including those related to modern slavery, anti-bribery and corruption, human rights, and employment, GDPR, trade/export compliance and competition/anti trust. A failure to comply with any applicable laws and regulations could result in civil or criminal liabilities and/or individual or corporate fines and could also result in debarment from Government-related contracts, restrictions on ability to trade or rejection by financial counterparties as well as reputational damage. Our exposure to breaching sanctions placed on Russia is low due to the Group having no current direct Russian customers or suppliers. Our export compliance software performs daily screening of our customer and supplier databases against global sanctioned and denied party lists with any changes in status flagged.	• Group Code of Conduct sets out required approach for all staff • Staff training provided on Modern Slavery red flags, Anti Bribery and Corruption and Competition compliance • Programme of audits undertaken on a cyclical basis to review operating companies' compliance with regulatory requirements, including for example simulated 'dawn raids' • Software solutions implemented globally to ensure compliance with trade and export legislation • Externally hosted whistleblowing hotline available to all employees to allow them to raise concerns in confidence or anonymously, if preferred • Modern Slavery compliance programme continued through 2022 • Toolkits issued to all UK operating companies to aid compliance with GDPR

NON-FINANCIAL INFORMATION STATEMENT

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

Those policies marked with an asterisk can be found on the Company's website hsgroup.com/who-we-are/governance/our-policies/

Reporting requirement	Policies and standards which govern our approach	Additional information	See Page No.

Environmental matters	• Environment policy*
	• Energy policy*
		• Sustainability Plan including
		  • Our Approach
		  • Protecting the World
		  • Saving and enhancing lives
		  • Sustainable Governance
		• Risk: TCFD
		• Non-financial KPIs
			32 to 57

Employees	• Group Code of Business Conduct*
	• Training and development policy*
	• Senior management salary policy
	• Health & Safety policy*
		• Sustainability Plan including
		  • Health & Safety
		  • Succession planning and talent management
		  • Group learning and development
		  • Wellbeing
		• Risk: Talent, diversity, recruitment and retention of key employees
		• Non-financial KPIs
			32 to 57

Human rights	• Recruitment of employees policy
	• Employment references policy
	• Equal opportunities and diversity policy*
	• Board diversity statement*
	• Data protection policy*
	• Modern slavery policy*
		• Sustainability Plan including
		  • Diversity & Inclusion
		  • Gender Pay
		  • Human rights
			32 to 57

Community	• Individual subsidiary approach	• Non-financial KPIs	20 to 21
Anti-bribery and corruption	• Anti-bribery & corruption policy* • International competition law policy • Gifts & Entertainment policy • Whistleblowing policy*	• Sustainability Plan including • Sustainable Governance • Risk: Violation of applicable laws and regulations	32 to 57
Description of the business model	• Our Purpose and Business Model • Our Strategy • Our Markets	–	2 to 12
Description of the principal risk and uncertainties and impact of business activities	• Our Business Model • Our markets • Risk Framework • Principal Risks and Uncertainties	–	2 to 12 60 to 65
Non-financial key performance indicators	• Employee Engagement • Diversity • Lost time injury rate • Greenhouse gas emissions • Water and waste	–	56 to 57

BOARD OF DIRECTORS

Alan Giddins
Interim Executive Chair

N

Appointed to the Board
3 October 2017

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

In July 2022 Alan was asked by the Board to take on the role of Executive Chair while a search was undertaken for a new Chief Executive.

Hannah Nichols
Group Chief Financial Officer

Appointed to the Board
16 September 2019

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

Tony Quinlan
Senior Independent Non-executive

A N R

Appointed to the Board
2 December 2019

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

Annette Kelleher
Independent Non-executive

A N R

Appointed to the Board
1 December 2014

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

(A) Audit Committee
(N) Nomination Committee
(R) Remuneration Committee
● Chair

Mark Reckitt
Independent
Non-executive
A N R

Appointed to the Board
1 June 2016

Mark is a Chartered Accountant and was Group Strategy Director of Smiths Group plc from February 2011 to April 2014, Divisional President of Smiths Interconnect from October 2012 to April 2014 and Non-executive Director of JD Wetherspoon plc from May 2012 to May 2015. Prior to joining Smiths, Mark was Interim Managing Director of Green & Black's Chocolate and before that he held a number of finance and strategy roles at Cadbury plc before being appointed its Chief Strategy Officer from 2004 to 2010. He is Senior Independent Non-executive Director and Chairman of the Audit Committee at Cranswick plc, where he is also a member of the Nomination and Remuneration Committees. Mark was also a Non-executive Director of Mitie Group PLC until July 2018.

Pete Raby
Independent
Non-executive
A N R

Appointed to the Board
2 December 2019

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

Leigh-Ann Russell
Independent
Non-executive
A N R

Appointed to the Board
1 April 2021

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

Farrokh Batliwala
Independent
Non-executive
A N R

Appointed to the Board
1 April 2022

Farrokh was formerly President of the Connect and Control Technologies division of ITT Inc ("ITT"), a US listed industrials group. Farrokh has significant international operational and leadership experience, combined with having held senior roles in both Strategy and M&A. Prior to joining ITT, Farrokh held senior management roles at both Eaton Corporation and Pratt & Whitney. Farrokh lives on the East Coast of the US and has a degree in Mechanical Engineering from Vanderbilt University and an MBA from Kellogg School of Management, Northwestern University.

INTRODUCTION TO GOVERNANCE

Alan Giddins
Interim Executive Chair

> "We will keep risk high on the Board agenda, recognising that a number of the market challenges the Group faced in 2022 have flowed through into 2023."

Dear Stakeholder

I am pleased to introduce this Governance Report, setting out how the business has discharged its responsibilities during 2022 and its compliance with the UK Corporate Governance Code 2018.

Governance is the third strand of ESG and plays a crucial role in the evolution of any business. At its best, good governance enables better, more agile decision-making, adds value to the business, manages informed risk taking within appropriate parameters and, ultimately, protects shareholder interests.

The full Governance report can be found on pages 74 to 83.

Basis of Report

We have used the UK Corporate Governance Code 2018 (the "Code") to assess our governance arrangements during 2022. As a premium listed issuer on the London Stock Exchange and in accordance with the listing rules, Hill & Smith PLC has assessed its application of the Code under the headings of

- Board Leadership and Company Purpose;
- Division of Responsibilities;
- Composition, Succession and Evaluation;
- Audit, Risk and Internal Control; and
- Remuneration.

Compliance with the UK Corporate Governance Code

The Board has evaluated its compliance with the Code and confirms that Hill & Smith PLC complied with the requirements of the Code, except in relation to the requirement that the roles of chair and chief executive should not be exercised by the same individual. Since July 2022 these roles were performed by myself, in the capacity of Interim Executive Chair, following Paul Simmons stepping down from the Board in July 2022.

After careful consideration of alternative options, the Board felt that my appointment as Executive Chair was appropriate. A search for Paul's successor was started and several additional governance safeguards around this dual role have been implemented. More information on this can be found in the Governance Report on page 76.

Board Dynamics

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

At 31 December 2022, the Board comprised six Non-executive Directors, myself as Executive Chair, and one Executive Director. More information can be found on the Board's effectiveness in the Governance Report on page 80.

Board Committees

Throughout the year, the Board was supported by an Audit Committee, a Nomination Committee and a Remuneration Committee. Outside of the formal Board structure, an ESG Committee, Risk Committee and Executive Board all provided input into the Board decision making framework.

Board Activities

During 2022 Board members visited 12 of our sites to meet with the local management teams and to expand their knowledge of the relevant operating company's activities and end markets. We also undertook our Group Strategy Day in the US. I will be encouraging my Board colleagues to continue to take the opportunity to arrange informal visits to our operations wherever possible during 2023.

The Board spent time reviewing the M&A pipeline and portfolio management activities, ultimately leading to the disposal of our French galvanizing operations in October as well as a partial exit of our Swedish roads operations. The Board also approved the acquisitions of Widnes Galvanizing and National Signal, both of which are highly complementary to our existing portfolio of businesses.

Health & safety continued to be a priority focus for the Board, and we were pleased to see an improved trend in relation to our health & safety KPIs over the course of the year. The Board receives an update at each meeting on health & safety performance and holds the business to account for any areas of improvement.

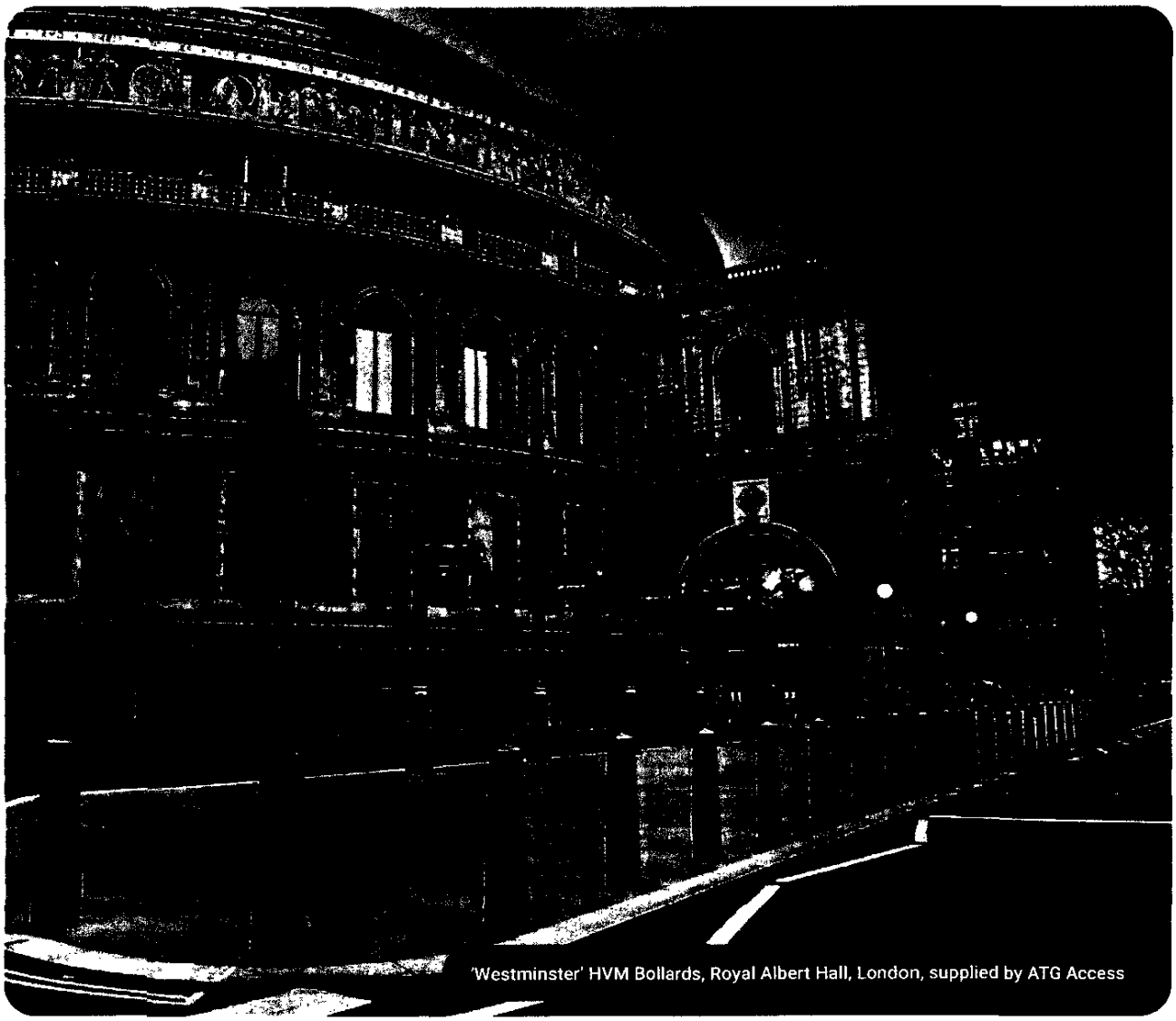
I am pleased to report that ESG is a topic that has gained significant momentum within Hill & Smith during the year. The Board received a number of ESG updates from our Group Head of Sustainability and the Board has been pleased with the enthusiasm shown by our businesses in embracing the changes necessary to make our business more sustainable. You can read more about our ESG progress on pages 32 to 57 of this report.

Looking Ahead

The Board will continue to prioritise good governance within the Group. We will keep risk high on the Board agenda, recognising that a number of the market challenges the Group faced in 2022 have flowed through into 2023. Health & safety will also remain a priority. The Board will continue to challenge management to ensure that we have the appropriate level of resource across our businesses and that where issues arise appropriate actions and learnings are taken.

Alan Giddins
Interim Executive Chair

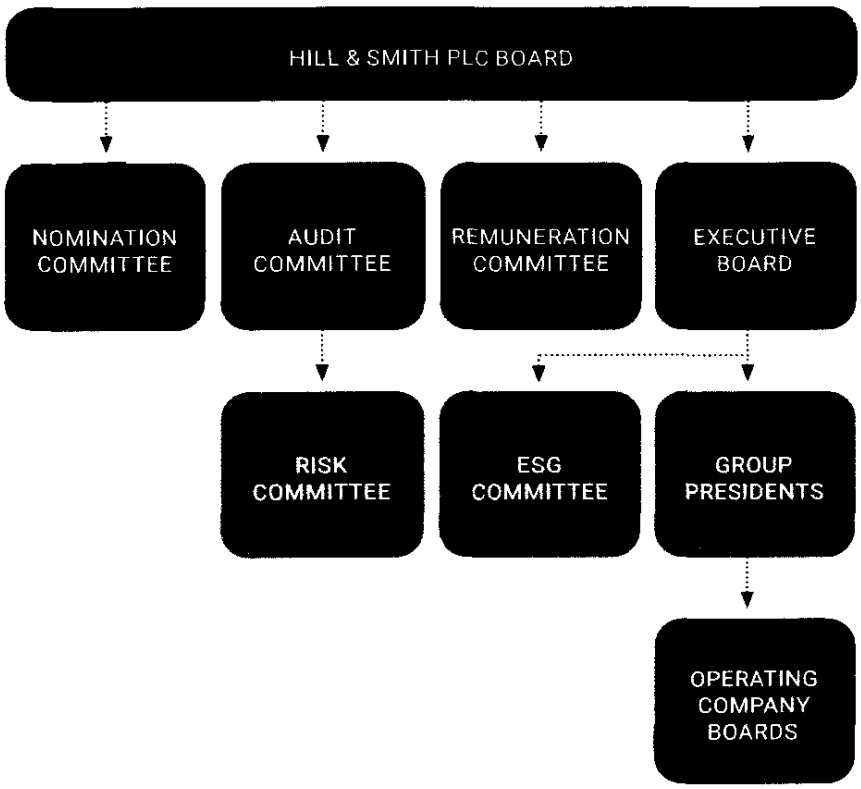
8 March 2023



'Westminster' HVM Bollards, Royal Albert Hall, London, supplied by ATG Access

GOVERNANCE REPORT

Hill & Smith PLC is a company with a premium listing on the London Stock Exchange. During 2022, the Company fully complied with the provisions of the UK Corporate Governance Code 2018, with the exception of the requirement that the roles of chair and chief executive should not be performed by the same person. Following Paul Simmons stepping down from the Board of Hill & Smith in July 2022, Alan Giddins was appointed Executive Chair while a search for Paul's successor was undertaken.

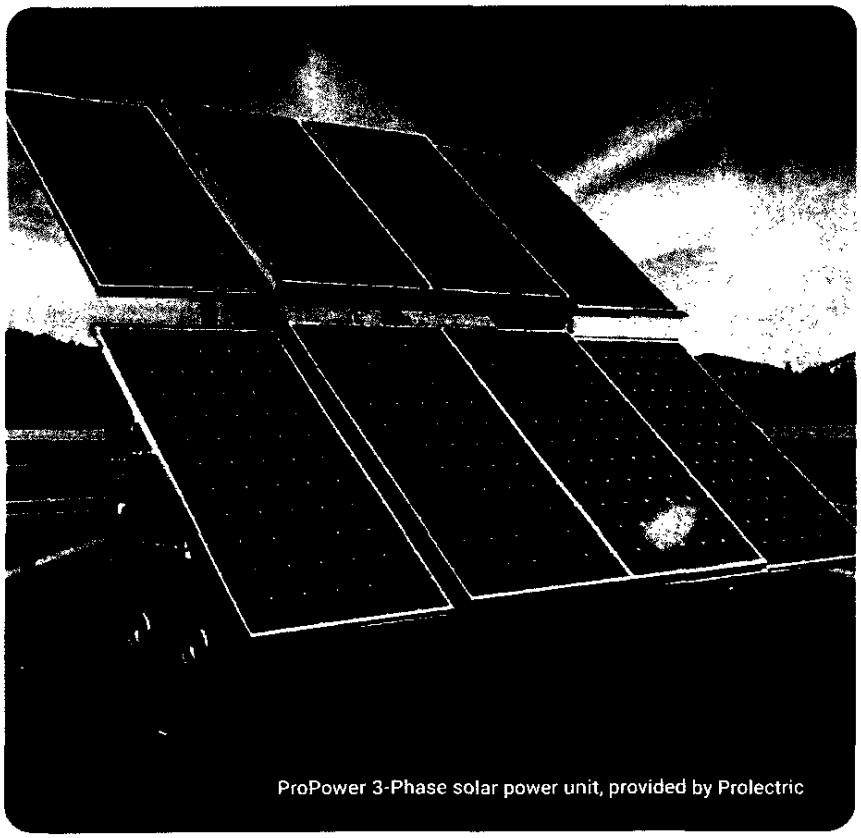


BOARD LEADERSHIP

The Board sets the entrepreneurial culture within which our businesses operate and is collectively responsible for the long term success of the Company. The Hill & Smith PLC group comprises the holding company and its principal operating companies, listed on pages 196 to 198. The Group's businesses are directly supervised by local operating boards. There are clear lines of delegated authority and businesses are given a high degree of autonomy to promote their activities in an entrepreneurial fashion.

The Managing Directors of our businesses report to the Group through a Group President operating model. The Group Presidents are members of the Executive Board alongside other senior executives, the Chief Financial Officer, the Group Corporate Development Director and the Executive Chair. Details of the Group's business model can be found on pages 10 to 11.

The Executive Chair and Chief Financial Officer receive regular reports on the performance of the operating companies, and the Group Presidents are responsible for ensuring a consistent application of governance, operational procedures, risk management, and Group policies and practices.



ProPower 3-Phase solar power unit, provided by Prolectric

Board framework

The Board operates within a framework of Board meetings, discussions and site visits. The Board is supported by three committees: Nomination, Audit, and Remuneration. Membership of these committees is set out on pages 84, 88 and 94 of this report. The Board considered whether the Company's ESG Committee should be classed as a 'Board Committee'. In deciding that it should not be, the Board noted that both the Executive Chair and the Chief Financial Officer both sat on the Committee and that the Board, as a whole, received regular updates from the Committee.

STRATEGY
- Group strategy and operating plans
- Business development including acquisitions and divestments
- Major capital investments and divestitures

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE
- Corporate Governance
- Ethical standards
- Health & Safety
- Environmental Matters
- Succession Planning
- Compliance with the Company's Code of Business Conduct

The scope of Board decisions

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

Our Section 172 Statement

All Board members are aware of their obligations under s.172 of the Companies Act 2006 and their decisions and considerations that have s.172 implications are accurately reflected in Board minutes. The Board's 2022 s.172 Statement can be found on page 78 of this report.

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

Engagement with shareholders

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

Feedback and dialogue

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

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

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

The Hill & Smith PLC AGM was held in person last year, following two years of government restrictions on indoor gatherings due to COVID. While the existence of the virus continues, the absence of restrictions on gatherings means we anticipate being able to welcome shareholders again in person in 2023. The details of the 2023 AGM can be found on page 115 and in the Notice of Meeting.

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

DIVISION OF RESPONSIBILITIES

Summary

There is a clear division of responsibilities between the Chair and the Chief Executive which is set out in writing and available at www.hsgroup.com. During 2022 additional measures were implemented following the appointment of Alan Giddins as Executive Chair.

2022 Key Points

- Reviewed the role of the Chair
- Since July 2022 Alan Giddins assumed the role of Executive Chair while the search for Paul Simmons' successor was undertaken and
- Reviewed the terms of reference for our Committees and the Matters Reserved for the Board

Role of Executive Chair (since July 2022)

Following Paul Simmons stepping down in July 2022, *Alan Giddins assumed the role* of interim Executive Chair while a search for Paul's successor was undertaken. The Board agreed that a number of governance safeguards be implemented, including i) a formal session at the end of every Board meeting for Non-executive Directors, which the Executive Chair is not a part of, and ii) that the Senior Independent Director should review all M&A papers independently before submission to the Board. Since the start of 2023 the Executive Chair has also stepped down from membership of the Remuneration Committee.

A formal review of the Chair's role was undertaken in October by the Senior Independent Director with all recommendations being implemented.

Role of Chair (January 2022 – July 2022)

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

Role of Chief Executive

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

Role of Non-executive Directors

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

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

Executive Board

The Executive Board takes it authority from the Chief Executive (or their substitute). It is not a committee of the PLC Board, nor a decision-making body, but provides a valuable forum for senior executives to discuss matters of importance.

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

Fabrication welding, Lionweld Kennedy, Middlesbrough

Board Committees

HILL & SMITH PLC BOARD

Nomination Committee

Currently comprises the Executive Chair (who chairs the Committee), and the six Non-executive Directors

The Committee leads the process of Board appointments and supports the Board in succession planning for the Board and senior management, making recommendations to the Board. The terms of reference of the Nomination Committee can be found at www.hsgroup.com and more information on the work of the Committee can be found in the Committee Chair's report at page 84

Audit Committee

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

Has responsibility for planning and reviewing the Company's audit processes, interim and full year results, internal controls and risk management systems (See pages 86 to 91 for more information)

The Audit Committee is additionally supported by the Risk Committee, comprising employees from across the Group and representatives from some of our operating companies, including those in the US

The terms of reference of the Audit Committee can be found at www.hsgroup.com and more information on the work of the Committee can be found in the Committee Chair's report at page 86

Remuneration Committee

Currently comprises the Chair of the Committee, and five Non-executive Directors. The Executive Chair is invited to attend meetings

Has responsibility for the creation, approval and implementation of the Company's Remuneration Policy in respect of Executive Directors, Company Secretary and senior executives

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

Frequency of meetings

During 2022, the Board met on 10 occasions, the Audit Committee on four occasions, the Nomination Committee met four times and the Remuneration Committee met on six occasions. All directors were in attendance at all meetings of the Board to which they were entitled

	Board	Audit Committee	Nominations Committee	Remuneration Committee
Alan Giddins	10/10	–	4/4	6/6
Tony Quinlan	10/10	4/4	4/4	6/6
Pete Raby	10/10	4/4	4/4	6/6
Mark Reckitt	10/10	4/4	4/4	6/6
Annette Kelleher	10/10	4/4	4/4	6/6
Leigh Ann Russell	10/10	4/4	4/4	6/6
Farrokh Batliwala*	7/7	3/3	3/3	4/4
Paul Simmons*	5/5	–	1/1	–
Hannah Nichols	10/10	–	–	–

* Paul Simmons and Farrokh Batliwala attended all meetings they were entitled to

Board visits to operations

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

During the year, the Non-executive Directors visited 12 different sites in the UK and US, giving them a detailed insight into the culture and operations of each business.

Board decision making (S.172)

The Board's interaction with key stakeholders is set out on pages 58 to 59. The principal decisions taken by the Board during the year, along with how the Directors considered stakeholder interests when discharging their duties under section 172 of the Companies Act 2006, are set out below.

Principal decision and stakeholders considered	Board's decision making process	Longer term considerations
Dividend Shareholders, potential investors and lenders.	Consideration of the financial resources required to execute our strategy, including organic investment and acquisition opportunities; the Group's medium term rate of organic constant currency growth; and compliance with borrowing covenants.	Ensuring that the Company's progressive Dividend Policy is consistent with the Company's financial performance without detriment to the strength of the balance sheet and future sustainability.
Capital allocation Shareholders, potential investors, lenders, employees, customers and operating companies.	The Group's budget, approved by the Board, sets the allocation of capital to deliver our growth strategy through product innovation, capital expenditure, acquisitions, targeted disposals and sustainability	Balancing investment for future growth and improving the quality of the Group against the longer term interests of operating companies and their employees and shareholders.
Acquisitions and disposals Shareholders, potential investors, lenders, operating companies, customers and future employees.	The Board receives detailed proposals from the Corporate Development Director on the long term implications of disposals and acquisitions and their effect on the Group's stakeholders. The Board balances the financial commitment required against the risks and anticipated returns, together with the management and control requirements, while considering the strategic fit with our purpose, and the opportunities for geographic or market expansion.	The Group's portfolio management criteria both for existing operating companies and potential acquisition targets requires a structured discipline. We consider acquisitions which are aligned to our purpose, and which are in market niches with long term growth drivers ensuring that we can continue to grow sustainable profits for the benefit of all our stakeholders.
Greenhouse Gas Emissions Targets Shareholders, lenders, employees, operating companies, customers, suppliers, government, and society.	The Board recognises the importance of a low carbon economy and the role that the Group has to play in achieving this, and is mindful that this is a high priority for multiple stakeholder groups. Accordingly, the Board focuses on areas where the Group could make the most impact. The new Group Head of Sustainability has focused on establishing a Scope 3 baseline for our carbon emissions reduction plan.	The Board recognises the effect that climate change is having on the natural and business world and, in keeping with regulation, committed to TCFD scenario analysis. This analysis presents both risks and strategic opportunities for the Group. The Board also considered the value to society as a whole of the Group's operations and products, recognising that it must act to minimise the negative impact from its operations, to ensure a sustainable future for all, whilst being mindful of the effect on the Group's cost base.

Board conflicts

The Board has agreed an approach and adopted guidelines for dealing with conflicts. The Board confirms that it was not aware of any situations that conflicted with the interests of the Company, other than those that may arise from directors' other appointments, as disclosed in their biographies on pages 70 to 71. In accordance with the Articles, the Board authorised the Company Secretary to receive notifications of conflicts of interest on behalf of the Board and to make recommendations as to whether the relevant matters should be authorised by the Board. The Company has complied with these procedures.

Support available to the Board

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

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

All directors have access to the advice and services of the Company Secretary and are able to take independent professional advice, when necessary, at the Company's expense, although no director felt it necessary to seek such advice in the year ended 31 December 2022.

COMPOSITION, SUCCESSION AND EVALUATION

Summary

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

2022 Key Points

- Appointment of Farrokh Batliwala to the PLC Board in April 2022
- Reviewed succession plans at both the Board and senior executive level
- Commenced the search for Paul Simmons' successor

Composition of the Board

The individual biographies of the Board members can be found on pages 70 to 71. At 31 December 2022, three quarters of the Board comprised independent Non-executive Directors.

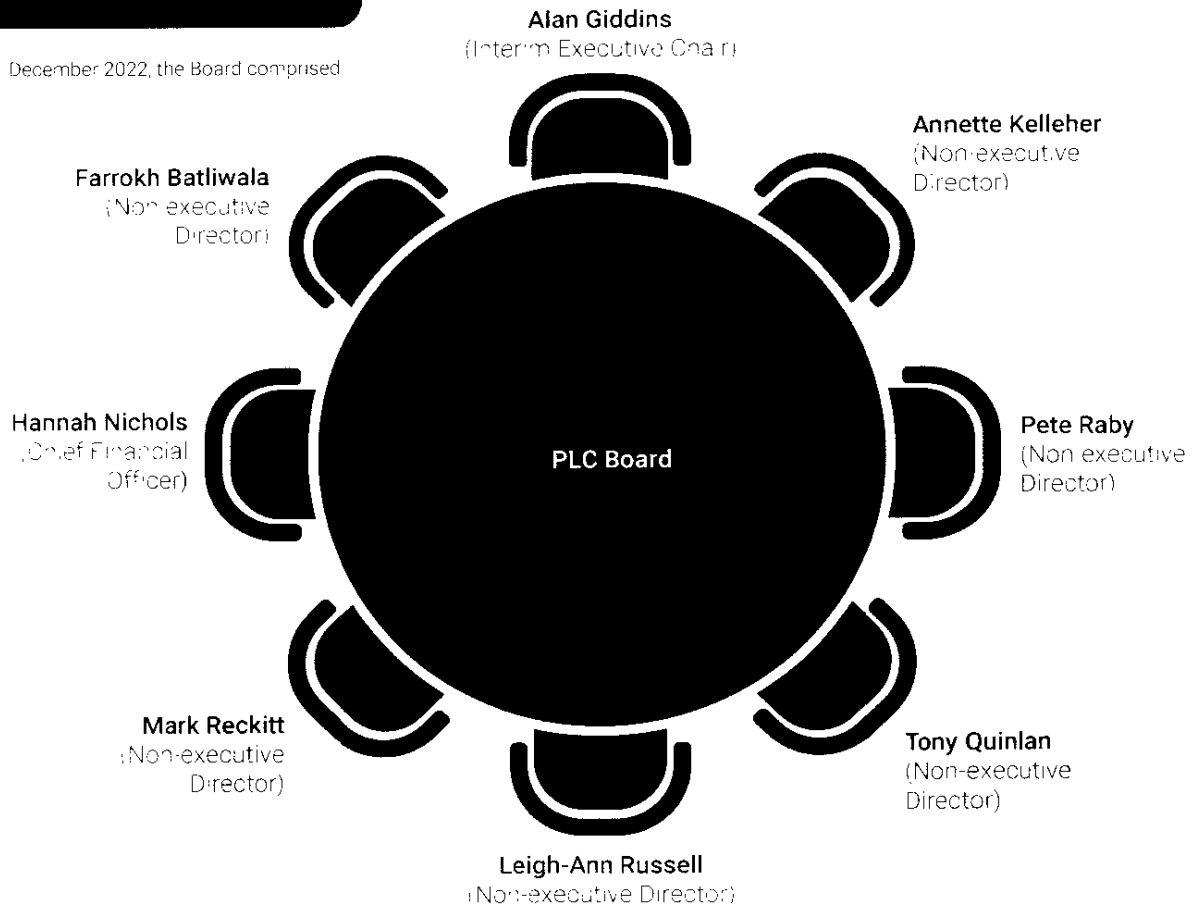
In compliance with the Code and the Company's Articles of Association, directors retire at every Annual General Meeting ('AGM') and, if deemed appropriate by the Board, directors are proposed for re-appointment by shareholders at the forthcoming AGM. Following this evaluation of the performance of the Board, and on the recommendation of the Nomination Committee, the Board is proposing that all Directors, with the exception of Annette Kelleher, who is stepping down from the Board following the AGM, should stand for re-election at the Group's forthcoming AGM in May 2023.

Board Profile

Our directors come from a broad range of backgrounds across industry, investment management and professional services. Their diverse and balanced mix of skills and business experience (see page 80), are key to the effective functioning of the Board and its Committees, ensuring matters are fully and effectively debated and challenged and no individual or group dominates the Board's decision making processes.

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

At 31 December 2022, the Board comprised



Succession planning

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

A review of talent was undertaken across the Group, identifying potential future leaders and their development needs. A formal 360 degree PDP process was instigated and the results were presented to the Board.

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

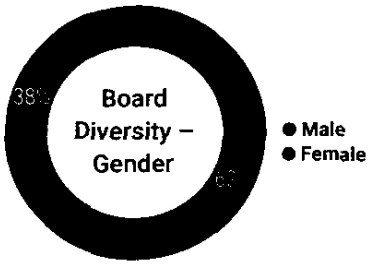
Group Diversity

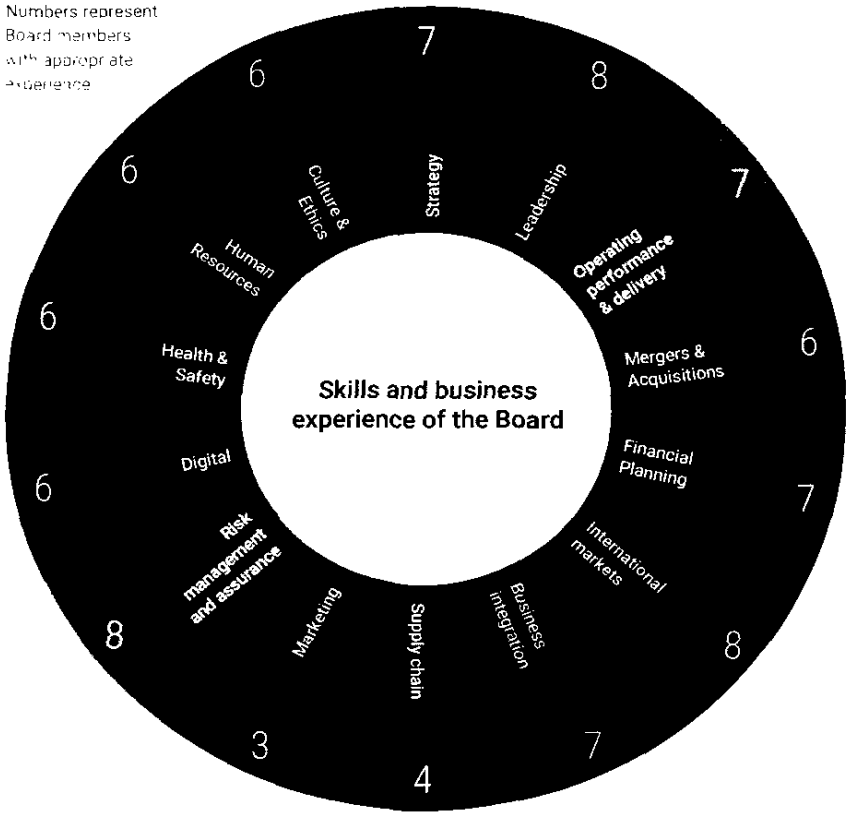
The Board is committed to ensuring that recruitment into the Group is undertaken based on merit, regardless of age, disability, marital or civil partner status, pregnancy and maternity, race, colour, nationality, ethnic or national origin, religion or belief, gender or sexual orientation. The Board places significant emphasis on ensuring that greater diversity is brought into the workforce, to enhance the quality of decisions through differing views and backgrounds.

As part of this commitment, the Group includes in the annual report, details of the numbers of men and women at board level, the number of men and women who are 'senior managers' (i.e., those employees who report directly to the Managing Directors of our operating companies); and the number of men and women across the organisation as a whole. See page 49 for more details.

Board diversity

The Board is committed to ensuring that it has the right balance of skills, views and experience. The Board is cognisant of the Hampton Alexander Review and the Parker Review regarding gender and ethnic diversity within the Board. On 31 December 2022, the Board membership comprised 38% female and 62% male, and was 13% ethnically diverse.





Director training and development

All directors are provided with the opportunity and are encouraged to attend regular training to ensure they are kept up to date on relevant legal developments or changes, best practice and changes to commercial and financial risks. Typical training experiences for directors include attendance at seminars, forums, conferences and working groups, as well as the provision of information from the Company Secretary.

Evaluating the Board's performance

This year, the Board performed an internal evaluation in compliance with the UK Corporate Governance Code. The results showed that Board members were satisfied with how meetings were conducted, that appropriate attendees and information were available to them in order to make decisions and that the Group's strategy and execution was kept under appropriate review.

The results of the evaluation were considered at the March 2023 Board meeting and any material actions arising will be referred to in subsequent annual reports.

AUDIT, RISK AND INTERNAL CONTROL

Internal Audit

Our Internal Audit team conducted audits across the breadth of our business, including a review of compliance with the Group Financial Controls Manual and Group IT Controls Manual. The Audit Committee additionally received updates on actions arising from prior audits.

The Audit Committee also reviewed and approved the annual audit plans for 2023, as prepared by the Head of Risk and Internal Audit.

Risk Management

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

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

This process has been in place throughout 2022, and up to the date of approving the Annual Report and Financial Statements. The key elements of this process are:

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

More information on the Group's Principal risks is shown on pages 64 to 68.

Internal Controls

The Board maintains overall responsibility for embedding key controls within the Group. Together with the Audit Committee, the Board reviewed the effectiveness of the Group's risk *management and internal control systems* in accordance with the UK Governance Code for the year ended 31 December 2022, and up to the date of approving the Annual Report and Financial Statements.

Additionally, the Board:

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

Going Concern

After making enquiries, the Directors have reasonable expectations that the Company and its subsidiaries have adequate resources to continue in operational existence for the foreseeable future and for a period of at least 12 months following the approval of these Financial Statements. Accordingly, they continue to adopt the going concern principle.

When making this assessment, the Group considers whether it will be able to maintain adequate liquidity headroom above the level of its borrowing facilities and to operate within the financial covenants on those facilities. The Group has carefully modelled its cash flow outlook for the period to December 2024, considering the ongoing uncertainties in global economic conditions. In this "base case" scenario, the forecasts indicate significant liquidity headroom will be maintained above the Group's borrowing facilities and financial covenants will be met throughout the period, including the covenant tests at 30 June 2023 and 31 December 2023.

The Group has also carried out "reverse stress tests" to assess the performance levels at which either liquidity headroom would fall below zero or covenants would be breached in the period to 31 December 2023. The Directors do not consider the resulting performance levels to be plausible given the Group's strong trading performance in the first half and the resilience of the end markets in which we operate.

Summary

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

2022 Key Points

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

Viability Statement

The directors have considered the prospects of the Group over the four-year period immediately following the 2022 financial year. This longer-term assessment process supports the Board's statements on both viability, as set out below, and going concern, as set out on page 81. A four-year period was determined as the most appropriate as it is the remaining period covered by the Group's annual strategic planning process, which sets the long term direction of the Group and is reviewed at least annually by the directors. The Board concluded that a period of longer than four years would not be meaningful for the purpose of concluding on longer term viability.

The strategic planning process considered metrics which enable assessment of the Group's key performance indicators (see pages 20 to 21) in addition to net debt, liquidity and financing requirements. In conducting the review of the Group's prospects, the directors assessed the four-year plan alongside the Group's current financial position, the Group's strategy and the principal risks facing the Group (all of which are detailed in the Strategic Report on pages 64 to 68). This robust assessment considered the impact of the principal risks on the business model and on future performance, liquidity and solvency. Stress tests were applied to the Group's four-year plan, whereby factors associated with the economic risks faced by the Group were applied to the plan in a number of diverging scenarios. The developed scenarios were designed to be plausible, yet severe:

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

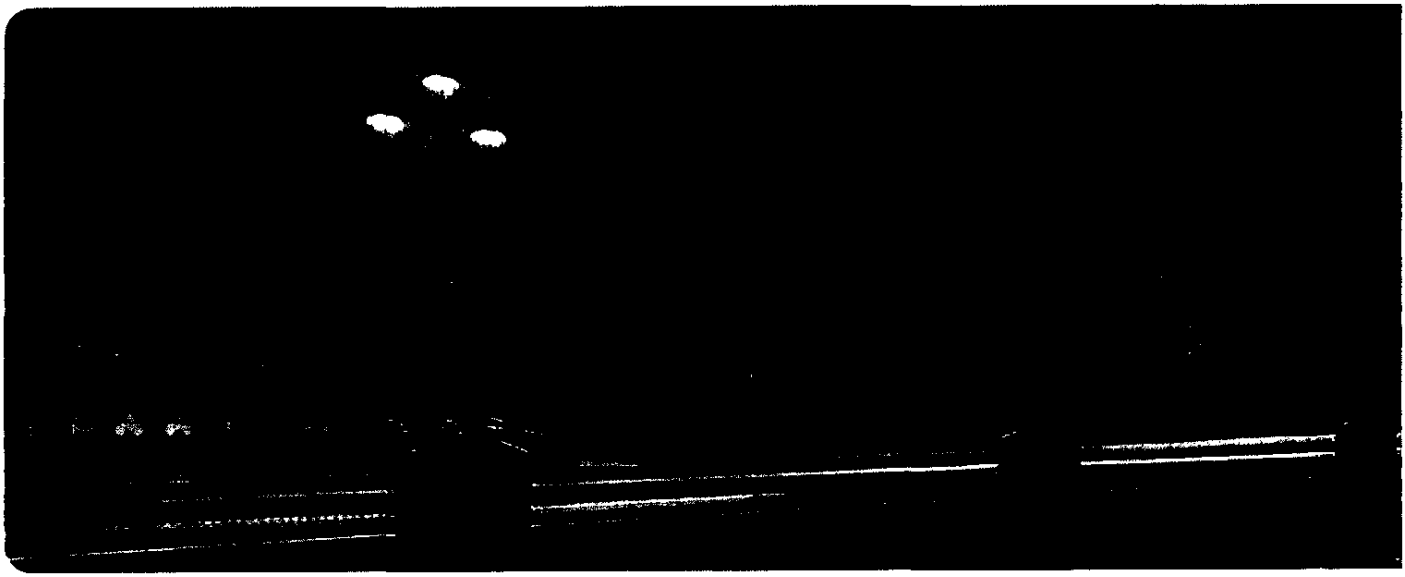
In making this viability statement, the directors considered the mitigating actions that would be taken by the Group in the event that the principal risks of the Company become realised. The Directors also took into consideration the Group's financial position at 31 December 2022 with a borrowing facility headroom of £237.9m and a history of strong cash generation, with cash conversion averaging in excess of 80% over the last ten years. The Directors noted that the Company had refinanced its core revolving credit facility in 2022, entering into a new agreement with a value of £250m and an initial maturity of November 2026, shortly before the end of the four-year assessment period. However, the facility has an option to extend the maturity by one year at the first anniversary and based on past experience and normal market practice, the Directors have a reasonable expectation that the extension will be taken. Taking this information into account, the Directors have assessed the viability of the Group and, based on the procedures outlined above in addition to activities undertaken by the Board in its normal course of business, confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to 31 December 2026.

Fair, Balanced and Understandable Financial Reporting

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

- that the process by which the allocation of responsibility for the preparation of certain sections of the Annual Report to individuals in the central team and their review by external advisors was fit for purpose;
- that the information given represented the whole story of the business' performance in 2022 and did not mislead the reader by excluding appropriate bad news. That the disclosures of the Group's business segments, and key messages are consistently delivered throughout the document, KPIs are clear and appropriate and linked to both the Group's strategy and remuneration incentives;
- that it was a suitable document to inform both existing and prospective shareholders about the financial and non financial performance of the business, with the messages delivered in the Directors' Report, including the Operating and Financial Review and the Financial Statements being balanced and consistent and that the report set out a detailed and fair representation of the Group's activities and performance and that certain matters have been identified and discussed between management, the Audit Committee and the EY in order to correctly disclose the performance, controls and prospects of the Group; and
- that the document allowed shareholders to follow the whole story of the Group's financial and non financial performance in 2022 giving them a clear and understandable picture of the Group's business model, key drivers and commercial operations.

The respective responsibilities of the directors and External Auditor in connection with the Financial Statements are explained in the Statement of Directors' Responsibilities on page 116 and the Independent Auditor's Report on pages 118 to 125.



REMUNERATION

About our Remuneration Policy

Summary

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

2022 Key Points

- Mitigation of cost of living pressures on our employees
- Consideration of Gender Pay reporting
- 2022 LTIP Grant for senior employees and
- Approved the change to our remuneration advisors following a competitive tender process

The current Director's Remuneration Policy was last approved by shareholders at the 2020 AGM and will be presented to shareholders for approval in 2023. The purpose of this policy is to be able to recruit and retain Executive Directors of sufficient calibre to develop and deliver our business strategy and create shareholder value, to ensure remuneration arrangements are in the best interests of the Group, in line with the wider workforce and do not pay more than is appropriate, and do not reward failure. More information on the Group's proposed Remuneration Policy is available in the Policy Table on pages 105 to 109

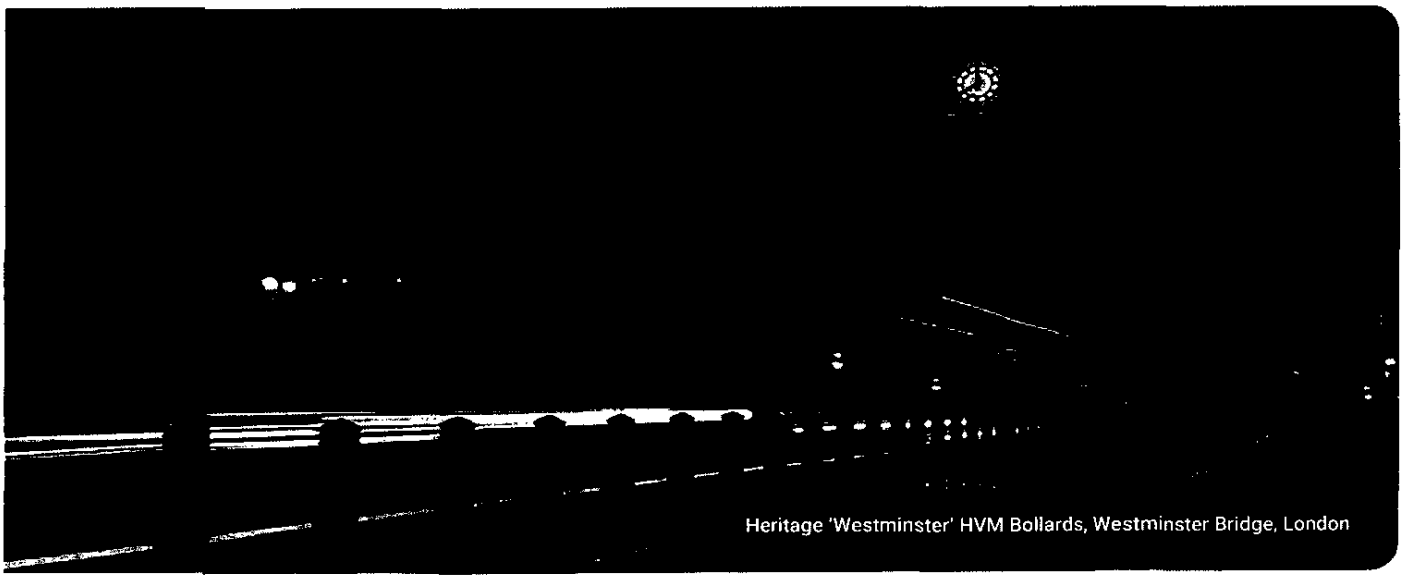
Executive Director salary package

Executive Director pay arrangements are made up of three fundamental elements as you can see from the graphic above

The Group's Remuneration Committee Report on pages 94 to 104 sets out the remuneration of the Executive Directors for 2022

Pay increases

The Remuneration Committee is acutely aware of the pressures facing many employees as a result of high inflation. While each operating company sets their own pay policy, the Committee has been impressed with the thought and care our businesses have taken in supporting our employees. These include in-year pay reviews, 'one off' cost of living awards, crisis loans and also variable uplifts, meaning that those on lower incomes receive a greater uplift in salary than higher earners. More information is available on page 101 of the Group's Remuneration Committee Report



Heritage 'Westminster' HVM Bollards, Westminster Bridge, London

NOMINATION COMMITTEE REPORT

Alan Giddins
Interim Executive Chair

"The Committee is committed to ensuring that the Board, Executive Board and senior management team have the right mix of skills, experience, knowledge and background."

Dear Stakeholder

It is my pleasure to make my report as Chair of the Nomination Committee. This report is intended to give an account of the Committee and its activity. The core responsibilities of the Committee are succession planning and appointments at Board level, oversight of appointments and succession planning to the Executive Board and making recommendations to the Board on the composition of the Board's committees.

The full terms of reference of the Committee can be found on the Company's website *www.hsgroup.com*.

Committee membership

Throughout the year the Committee comprised myself as the Chair, and subsequently Executive Chair, and the Non-executive Directors Annette Kelleher, Leigh-Ann Russell, Tony Quinlan, Pete Raby and Mark Reckitt. Farrokh Batliwala joined the Committee on his appointment on 1 April 2022.

The Committee met four times in the financial period under review with all eligible members of the Committee being present on each occasion.

Non-executive Directors

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

	Date of appointment	Length of service	Expected end date
Alan Giddins	3 October 2017	5 years 3 months	30 September 2026
Annette Kelleher	1 December 2014	8 years 1 month	30 November 2023
Farrokh Batliwala	1 April 2022	9 months	31 March 2031
Leigh-Ann Russell	1 April 2021	1 year 9 months	31 March 2030
Mark Reckitt	1 June 2016	6 years 7 months	31 May 2024
Pete Raby	1 December 2019	3 years 1 month	30 November 2028
Tony Quinlan	1 December 2019	3 years 1 month	30 November 2028

Chief Executive Appointment

In July 2022 Paul Simmons stepped down from the Board and as Chief Executive of the Group. I was asked by the Board to take on the role of interim Executive Chair while a search was undertaken for a new Chief Executive. Prior to the appointment of a search firm, the Nomination Committee spent time evaluating the key skills and characteristics required of a successful Chief Executive at Hill & Smith. A search process is currently ongoing.

Board Composition and Succession

During the year the Committee has spent time evaluating medium and long term Board composition and succession and the skills and experience needed to deliver the Group's Strategic Plan. A key recommendation from this evaluation was the need to add a US based Non-executive to the Board. On the Committee's recommendation the Board appointed Farrokh Batliwala as a Non-executive Director, effective from 1 April 2022. Farrokh was formerly President, Connect and Control Technologies, ITT Inc, prior to which he held senior management roles at Eaton Corporation and Pratt & Whitney. Having grown up in India, Farrokh now lives on the East Coast of the US.

Annette Kelleher, Chair of the Remuneration Committee, joined as a Non-executive Director in December 2014 and is stepping down from the Board following the May 2023 AGM. In considering an appropriate individual to replace Annette as Remuneration Committee Chair, the Board felt that it would be beneficial to consider whether this role could be undertaken by an existing Board member. Following appropriate consideration, Tony Quinlan, who has served on the Remuneration Committee since December 2019, has been invited to take over from Annette Kelleher as Chair of the Committee.

Mark Reckitt, who is Chair of the Audit Committee is to step down from the Board following the May 2024 AGM. Towards the end of this year the Committee will begin the process of looking for a new Non-executive Director who could take on the Audit Committee Chair role, while ensuring that *there is an appropriate handover period.*

Executive Board and Succession

During the year the Committee undertook a review of the Executive Board and the skills required to ensure that the Group is able to deliver on its Strategic Plan. While there was appropriate succession in place for certain roles, the review highlighted the importance of developing the next generation of senior leaders within the business, and this will be a key focus for the Committee during 2023.

Diversity and inclusion

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

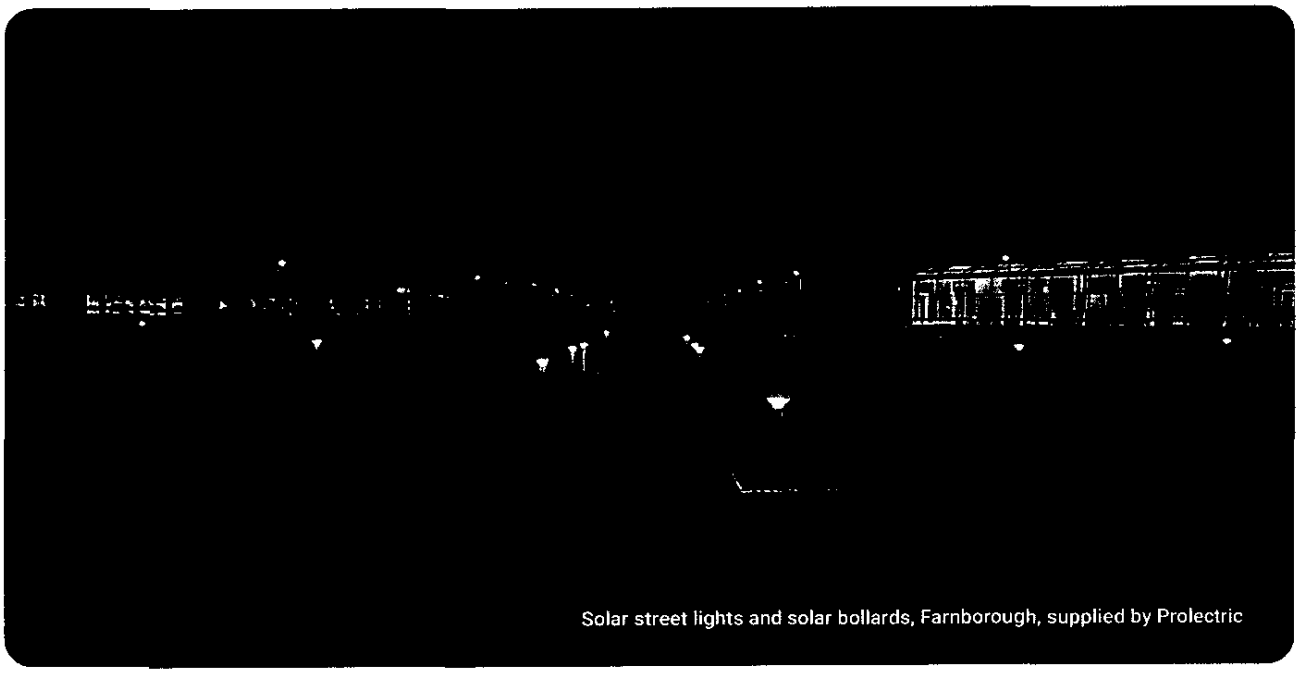
As at 31 December 2022 and the date of this report, the Board will comprise three female directors (38%) and five male directors (62%), with one Board director from an ethnic minority background (13%).

Plans for the year ahead

The Committee's focus in 2023 will be to *conclude the search for a Group Chief* Executive and to ensure the Board is organised to meet its listed company obligations. The Committee will also give particular emphasis in the current year towards ensuring appropriate development plans are in place for each member of the Executive Board and that appropriate consideration is being given to succession planning at the Managing Director level within our operating companies.

Alan Giddins
Interim Executive Chair

8 March 2023



Solar street lights and solar bollards, Farnborough, supplied by Prolectric

AUDIT COMMITTEE REPORT

Mark Reckitt
Chair

"Each operating company is responsible for ensuring that it has an effective set of internal controls and control environment, which places responsibility on the Managing Director and Finance Director of each operating company."

Dear Stakeholder

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

The business model of Hill & Smith delegates substantial authority to the business units, which enables an entrepreneurial approach. Each operating company is responsible for ensuring that it has an effective set of internal controls and control environment, which places responsibility on the Managing Director and Finance Director of each operating company. The Group Financial Controls Manual was launched in 2020 and provides detailed guidance on the nature and frequency of the internal controls required at each operating company. This was supplemented in 2021 with the launch of the Group IT Controls Manual, which sets out the minimum level of IT controls required at each operating company to ensure IT resilience and cyber security. IT infrastructure and related controls remains a key focus area for the Committee, resulting in the current investment plan in IT and cyber security.

During 2021 internal audit work was completed remotely for overseas operating companies and on-site for UK operating companies. Internal Audit were able to recommence the completion of on-site fieldwork for overseas operating companies during 2022 due to the removal of COVID travel restrictions. In December 2022, the Audit Committee approved an internal audit plan for 2023 which includes a Purchase Contracts thematic review and development of an Audit and Assurance Policy, while continuing the primary work of monitoring our business units' compliance with our Group policies and controls.

The Risk Committee, as requested by the Audit Committee, has continued to build upon the risk assessment methodology using the online risk management and reporting tool which was implemented across the Group in 2020. The Committee is building a clear picture of the risks being considered by the operating companies as well as the actions to mitigate these risks, which is facilitating risk appetite discussion. More information on the risk management process adopted by the Group can be found on pages 60 to 63.

Following Ernst & Young LLP's ('EY') audit of the Group's financial statements in relation to the year-ended 31 December 2021, the Committee met EY's lead partner to assess the lessons learned and the improvements that might be implemented for this year's audit. In July 2022, we discussed and agreed the plan for their year-end audit procedures and the fee for their work in 2022. The audit of our 2022 financial statements is the third audit that EY have conducted, and the Committee remain satisfied with their levels of independence, objectivity and professional judgement and the oversight they give to our financial statements. The FRC'S Audit Quality Review team reviewed the audit of the Group's 31 December 2021 consolidated financial statements. No findings arose from this review.

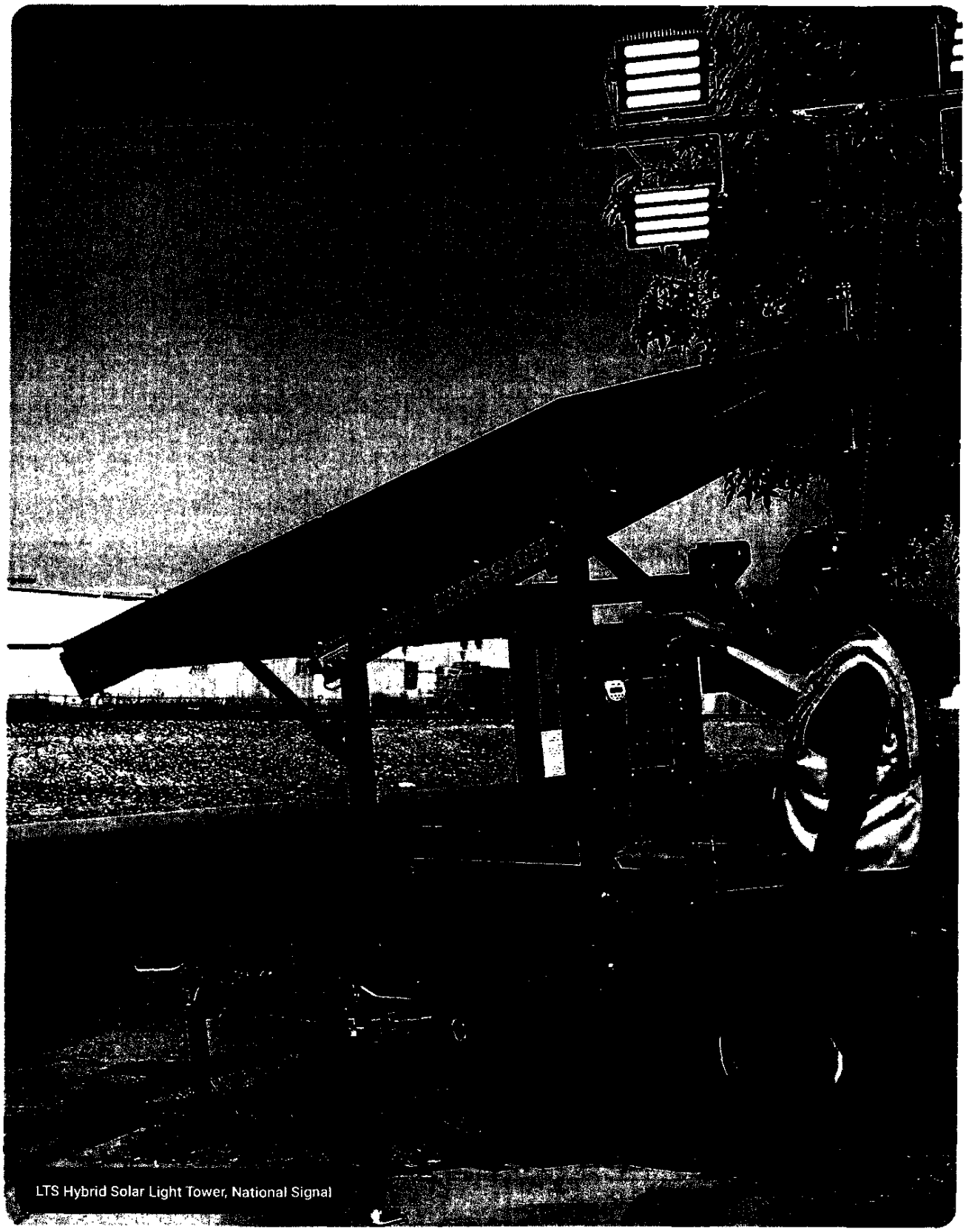
This Audit Committee Report explains how the Committee has discharged its responsibilities during 2022, and considers the specific topics of:

- Primary areas of judgement considered by the Committee in relation to the 2022 financial statements;
- Internal controls;
- Risk assessment, management, and mitigation; and
- Assessment of effectiveness of external audit.

I trust you will find this report a helpful insight into the activities undertaken on your behalf. I should be delighted to answer any questions you might have and hope to see you at our AGM on 25 May 2023.

Mark Reckitt
Chair

8 March 2023



LTS Hybrid Solar Light Tower, National Signal

Committee membership and purpose

During the year, and to the date of this report the Audit Committee comprised
Mark Reckitt,
Annette Kelleher
Pete Raby,
Tony Quinlan,
Leigh Ann Russell, and
Farrokh Batliwala (appointed 1 April 2022).

Attendees at each of the meetings included by invitation, the Chair of the PLC Board, the Group Chief Executive (and the Executive Chair following CEO's departure), the Group Chief Financial Officer, the Group Financial Controller, the Group Head of Risk & Internal Audit, the external auditor, EY, and, where appropriate, other advisors. Time is also allowed for the Committee to speak with the external auditor and the Group Head of Risk & Internal Audit without the presence of the executive management.

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

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

Governance

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

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

Primary areas of judgement considered by the Committee in relation to the 2022 accounts

To discharge its responsibility to consider accounting and financial reporting integrity, the Committee carefully considers key judgements applied in the preparation of the Consolidated Financial Statements, which are set out on pages 126 to 180. The Committee's review included consideration of the following key accounting judgements:

Valuation of goodwill and indefinite life assets

The value of goodwill and indefinite life assets amounted to £139.9m at 31 December 2022. The review of such assets is based on a calculation of value in use, using cash flow projections based on financial budgets and strategic plans prepared by senior management and approved by the PLC Board of Directors. The current uncertain economic conditions around the world increase the risk of impairment and the Committee addresses this by performing half yearly and annual impairment testing on the carrying value of goodwill and other intangible assets across the relevant cash generating units. In 2022, the Committee reviewed the results of these calculations and considered and challenged management's assessment of the sensitivities to these assumptions and the impact that those sensitivities may have. Business plans are signed off by the PLC Board and assessment models are reviewed and challenged as part of the audit, for which the external auditor, EY, provides reporting to the Committee. As part of this review the Committee paid particular attention to the assessments made in respect of Parking Facilities Ltd, ATG Access Ltd, and Hill & Smith Inc.

Parking Facilities – the COVID pandemic resulted in a weak trading period in 2020 as several customer contracts were cancelled or postponed and whilst the business saw a marginal improvement in revenue and profitability in 2021, ongoing constraints on customer budgets continued to weigh on demand. In 2022, customer activity continued to be weak and supply chain challenges, input cost inflation and operational issues led to a deterioration in margins. Management's impairment assessment identified supply chain and raw material price inflation pressures as being likely to continue to impact demand and margins in the short term, while new market entrants in 2021 were noted as being likely to lead to increasing competition in the medium to longer term. Management's assessment concluded that following the impairment charge of £5.2m recognised in 2021, a further deterioration in the outlook meant that an additional charge of £4.4m in respect of the remaining intangible assets relating to the acquisition was required in 2022. After reviewing management's forecasts for future performance and challenging the assumptions adopted, the Committee agreed with management's conclusions.

ATG Access – in 2021, management's impairment assessment concluded that the pace of ATG's post-pandemic recovery was likely to be slower than had previously been anticipated, mainly due to the expectation of prolonged inactivity in several of its key sectors and also reflecting increased competition in the market. As a result, an impairment charge of £10.8m was recognised in the 2021 results. Trading in 2022 improved on 2021 and ATG's outturn for the year was marginally ahead of previous expectations, with robust order intake rates and consistent order backlogs. Taking this performance into account, management's impairment assessment in 2022 concluded that there had been no significant change in the market outlook since the prior year.

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

March 2022

- Key risks and judgements relating to the 2021 Financial Statements
- Report from External Auditors on the Financial Statements for the year ended 31 December 2021
- Financial Statements and Annual Report for the year ended 31 December 2021, including the statements on Going Concern, Viability, and Fair, Balanced and Understandable
- Internal Audit update
- Group Risk and Principal Risks review
- Review of the 2021 TCFD disclosure
- Potential impacts of the Russia-Ukraine conflict

July 2022

- Key Issues and Judgements relating to the Interim Results
- External Audit planning report including results of early audit procedures
- External Auditor quality and independence
- Interim Results for the six months ended 30 June 2022
- Internal Audit update

September 2022

- External Auditor update on audit planning
- Internal Audit update
- Group Risk and Principal Risks review

December 2022

- Internal Audit update, including Supply Chain Resilience thematic review
- 2023 Internal Audit Plan
- 2023 Internal Audit Charter
- External Auditor verbal update on audit progress

and therefore that no impairment was recommended in the year to 31 December 2022. Management acknowledged, however, that the cash flow projections were sensitive to the assumed rates of revenue and profit growth post 2022 and that there were plausible scenarios that could result in a further impairment in the future. After challenging management on aspects of the business plan and the sensitivity disclosures in the financial statements, the Committee supported management's view.

Hill & Smith Inc. – whilst underlying US roads market conditions remain healthy, Hill & Smith Inc's performance in 2022 was impacted by operational and cost input challenges. The new MD, who joined the business in January 2023, prepared an updated business plan which was presented to the PLC Board in March 2023. Board members reviewed the plan and challenged management, in particular on aspects of market segmentation, customer focus and operational execution. The Board also received and reviewed the output of an independent study that management had commissioned to assess the outlook for the US temporary road safety barrier market over the next 5-10 years, which was considered when preparing the updated business plan. The financial projections included in the updated plan assume that actions taken to address the operational issues will be successful, and that short to medium term revenue growth will be above long term averages due to the anticipated federal and state highway spend over the next five years. The resulting impairment calculations indicated headroom of £9.6m (2021: £21.3m). The Committee further challenged management on the basis for the projections included in the updated plan and in conclusion, concurred with management's view that no impairment was required. The Committee also studied the sensitivities to the forecasts and the impact of possible changes in assumptions, and reviewed the disclosures of those sensitivities in the financial statements, concluding that they were appropriate.

The disclosures made in respect of the sensitivities around impairment calculations can be found in note 13 to the Financial Statements on pages 152 to 158.

Defined benefit pension scheme valuation

Net defined benefit pension obligations under IAS19 amounted to £7.2m at 31 December 2022. The Committee reviews benchmarks and assumptions that are provided by the Group's actuaries and used to value the pension liabilities for the Group's defined benefit schemes. The underlying assumptions based on market conditions and the characteristics of the schemes are reviewed by management and the external auditor and reported on to the Committee.

Taxation

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

Going Concern

The Committee advises the PLC Board on whether it believes it appropriate to adopt the going concern principle in preparing the Group's financial statements. In making this assessment, the Committee received and reviewed management forecasts for the Group's future cash flow performance, challenging the assumptions on which those forecasts are based. For 2022, the Committee received forecasts based on various scenarios and considered what would be required for the Group to breach its borrowing covenants or extinguish its borrowing facilities in the next 18 months. Following a robust assessment of the forecasts, the Committee concluded that adoption of the going concern principle was appropriate for both the interim and full year results. The Committee also reviewed and approved the going concern disclosures that are included in the financial statements.

Whilst not considered to be primary areas of judgement, the Committee's discussions in relation to the 2022 accounts also included the following:

- Given the relatively significant value of non-cash underlying items in 2022, the Committee challenged management on the presentation of those items. The discussion focused largely on the costs of the Group's activity on acquisitions and disposals, and costs relating to restructuring actions taken in the VMS, ATA and Hill & Smith Inc businesses. The Committee concurred with management's view, noting that the work of the external auditor in this area also supported that view.
- Following the acquisitions of National Signal and Widnes Galvanising during the year, the Committee challenged management on the acquisition accounting, focussing on the appropriateness of fair value adjustments and the approach taken to valuation of acquisition intangibles. The Committee concurred with management's approach, noting the work of independent valuations experts in relation to the purchase price allocation under IFRS 3.

Internal audit

Internal audit function

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

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

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

Internal control

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

- the proposed internal audit plan, ensuring that it is aligned to the Principal Risks of the business, adjusted to respond to unexpected events, and receives regular progress updates on the delivery of the objectives of the plan;
- the 22 internal audit reports and findings presented throughout the year together with the progress made by management in addressing the issues identified on a timely basis;
- executive management reports and presentations including updates on specific areas provided at the request of the Committee;
- accounting judgements including the carrying value of goodwill and intangible assets of ATG Access Ltd, Parking Facilities Ltd, and Hill & Smith Inc; and
- external audit reports, including the results of early audit procedures and the audit findings in relation to the year end audit.

The 2022 Internal Audit Plan balanced the focus of the function between Group wide Principal Risks and operating company level risks. It included a Group-wide thematic review of supply chain resilience. The review concluded that while operating companies, generally, responded well to supply chain pressures over the last 18 months and continued to fulfil customer orders, the approach was reactive and that the operating companies needed to be more proactive in their planning around supply chain vulnerability and risk mitigation.

Operating company-level reviews, focusing on baseline internal controls were conducted at 21 business units during the year (seven in relation to financial controls and 14 in relation to IT controls). Where internal audit work found instances of control weakness, or non-compliance with Group Policy, the findings were discussed at the Audit Committee. Such control weaknesses are taken seriously by management and the Audit Committee seek to ensure that their cause is understood, and mitigating actions are taken to limit the potential for recurrence. Plans are discussed and timelines agreed with the relevant businesses, and these are monitored by the internal audit function to ensure compliance. Where operating companies fail to implement such corrective actions within a reasonable period as agreed, the Audit Committee is informed, and further escalation measures are taken.

In view of the work of internal audit, external audit, and Group management it is considered unlikely that a weakness at an individual operating company would have a material impact when taken in the context of the Group as a whole.

Effectiveness of internal audit

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

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

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

Risk management

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

Risk management process

Every year the Committee seeks to improve the Group's risk management processes to ensure that the Group's Principal Risks are correctly identified by virtue of a top-down / bottom-up approach using the experiences of the Audit Committee and the Group's operating companies. In this, the Audit Committee is supported by the Group's Risk Committee, whose membership can be found on page 62.

The Risk Committee oversees the risk management process, which is one of continual improvement. The risk management and reporting tool, launched in 2020, was further developed during the year supported by a programme of training that was delivered to all management teams across the Group, via online webinars and training manuals.

The Risk Committee reviews, discusses, and validates the risk submission data received from the operating companies. Any risks submitted by operating companies that do not align with the Group's Principal Risks are individually reviewed and considered in current and subsequent reviews of the Group Principal

Risks. The Audit Committee has monitored the resultant key risks on the corporate risk register and during the year received reports and minutes from the Risk Committee detailing the Group-wide risk assessment process and the movements in major risks and updates on operating companies' risk mitigation activity, together with their attitude to risk as measured by a target risk score. The Committee uses this information to determine the risk appetite within the Group's operating companies and help inform the PLC Board's overall risk appetite.

During 2022, the Committee directed that particular attention be paid to the Principal Risks around Health & Safety, IT Failure, Recruitment and Retention, and Product Failure. The Committee noted that the prevention of harm or injury to employees was a major area of focus across the Group and that it was a regular topic of discussion within the Executive Board as well as the PLC Board itself. While the LTIR performance has seen an improvement across the Group during 2022, health & safety remains a key focus area for the Committee and the appetite for improvement remains.

During the year the Committee received regular updates regarding IT resilience and cyber security from the Group IT Director and the Chief Information Security Officer. Regular updates on operating company compliance with the Group IT Controls Manual were provided by internal audit.

More information on the activities of the Risk Committee and the Group's Principal Risks can be found on pages 60 to 68.

TCFD

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

In 2021 the Group engaged PwC to perform analysis to enable a better understanding of our climate related risks, by identifying transitional and physical risks and opportunities in future climate scenarios. In 2022 PwC were engaged to perform assessment of the physical risks for operational sites acquired in the year. The results from PwC's work were reviewed at the March 2023 Audit Committee, following which the Committee approved the 2022 disclosures relating to TCFD which can be found in the Group's Sustainability Plan on pages 32 to 57.

Whistleblowing

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

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

Assessment of effectiveness of external audit

There are several areas that the Committee considers in relation to the external auditor performance in discharging the audit and interim review of the Financial Statements, independence and objectivity, and *reappointment and remuneration*.

External auditor performance

The external auditor, EY, provided the Committee with their plan for undertaking the 2022 year-end audit during the Committee meeting in July 2022. This highlighted the proposed approach and scope of the audit and identified the key issues in detail, being the valuation of goodwill in relation to Parking Facilities, ATG Access Ltd and France Galva S.A, the risk of fraud in revenue recognition, and inventory valuation. The Committee debated, and appropriately challenged the basis for these areas before agreeing the proposed approach and scope of the external audit. As events evolved through the year, the audit risks have accordingly been re-visited by EY. This led to the inclusion of an additional key audit risk regarding the valuation of goodwill in relation to Hill & Smith Inc being reported on, and the exclusion of the risk relating to France Galva's goodwill following its disposal in October 2022.

The external auditor prepared a detailed report of its findings in respect of the 2022 audit. The Committee discussed the issues raised in the report, particularly in relation to the areas highlighted, at their meeting in March 2023. The Committee questioned and challenged the work undertaken, the findings and the key assumptions made, paying particular attention to the areas of audit risk identified.

Auditor independence and rotation

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

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

Audit and Non-audit fees

At the December 2022 meeting the Committee discussed and approved the proposed audit fee for 2022.

The Committee maintained the approach of minimising the non-audit work carried out by the external auditor. The Committee's *Non-audit Services Policy meets the detailed* requirements of audit legislation, which restrict the use of the external auditor for activities including compiling accounting records, certain aspects of internal audit, IT consultancy, tax services except in exceptional circumstances, and advice to the Remuneration Committee.

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

During 2022, there were fees of £3,000 (2021: £4,000) paid to the auditor for non-audit services relating to other assurance services. In 2022, non-audit fees represented 0.2% of audit fees of £1.6m (2021: 0.2%). Further details of these amounts are included in note 8 of the Financial Statements on page 148.

Mark Reckitt
Chair

8 March 2023

REMUNERATION COMMITTEE REPORT

Annette Kelleher
Chair

> "The Group has delivered record revenue and profits in 2022, which demonstrates the business' resilience to the challenging headwinds of supply, inflation and a post COVID marketplace."

Dear Stakeholder

As Chair of the Remuneration Committee and on behalf of the Board, I am pleased to share with you our report on Directors' remuneration for the year ended 31 December 2022.

During 2022, the Committee had a full agenda including the triennial review of the Directors' Remuneration Policy, which will be presented to our shareholders for approval at our 2023 Annual General Meeting ('AGM') on 25 May 2023.

The Annual Report on Remuneration (pages 94 to 104), describes how the current Remuneration Policy (the 'Policy') has been operated during 2022 and the proposed operation in 2023 (subject to approval of the updated Policy). The updated Policy is set out pages 105 to 113. Shareholders will be asked to approve both the Annual Report on Remuneration, and the updated Policy at our 2023 AGM.

Business context

The Group has delivered record revenue and profits in 2022, which demonstrates the business' resilience to the challenging headwinds of supply, inflation and a post COVID marketplace. The Group is reporting, from continuing operations, revenues of £732.1m and operating profits of £97.1m. In addition to delivering robust financial performance, 2022 has been a year of solid progress in improving the quality of our portfolio of businesses. We successfully disposed of our lower growth, lower margin French galvanising and lighting column business, exited our Swedish rental and infrastructure contract businesses and the low margin road traffic control product portfolio in the US. At the same time, we have successfully completed acquisitions in high growth markets to complement our existing businesses. National Signal specialises in off-grid solar lighting solutions and Widnes Galvanising expands the geographic coverage of our galvanising business in the UK.

A number of Board changes have also been made during the year, including Paul Simmons stepping down from his role as Chief Executive Officer ('CEO') and from the Board on 18 July and then ceasing employment with the Group following a period of garden leave. Alan Giddins, our Non-Executive Chair took over as Executive Chair and will remain so until a permanent CEO is appointed.

In respect of the period Alan Giddins has served as Executive Chair he has received a fee equivalent to the previous CEO's base salary of £562,071 per annum with the role being undertaken on a full time basis. This will be increased by 4% to £584,544 for 2023, and until a CEO is appointed, at which point his fee will revert to the typical Non-executive Chair fee. Alan Giddins was not eligible to participate in any variable remuneration arrangements during 2022 and will also not participate during 2023. Details of exit arrangements for Paul Simmons can be found on page 100.

2022 remuneration outcomes

Annual bonus

The 2022 annual bonus for the Executive Directors was based on financial measures (80% weighting) and personal objectives (20% weighting). The formulaic outturn ranged between 70% and 80% of the maximum bonus available.

Details of the outturns against the financial performance measures are set out on page 97.

The Committee assessed achievements against personal objectives as set out on page 97. Half of the bonus earned by each Executive Director will be deferred into shares for two years, to ensure long term alignment with the interests of shareholders.

The Group has a history of focusing on financial performance measures, however recently, to recognise specific focus on key matters we have introduced personal objectives into the Executive Directors' annual bonus plans. In particular these included the continued development of the Group's ESG strategy and implementing the Group's IT and cyber risk strategy with milestones appropriate to 2022. The Committee was of the view that these objectives should form part of a non-financial series of activities since they are initiatives that will strengthen our underlying business, support the Company's overall strategy and facilitate the delivery of long term sustainable growth. More information can be found on page 97. Progress against both the financial metrics and the relevant milestones is measured using our KPIs, which are embedded within the executive remuneration framework as illustrated by the information on page 97.

The Committee considered the outturn for these elements against the formulaic targets and agreed that these were appropriate having regard to overall performance and experience of stakeholders.

Long term incentive outcomes

With regard to our long term performance, our 2020 long term incentive award is eligible to vest based on performance from 1 January 2020 to 31 December 2022. The portion of this award vesting was determined based on performance against Earnings Per Share (EPS) and Relative Total Shareholder Return (TSR) targets.

Based on EPS growth of 14.5% over the performance period, and delivering a TSR that placed the Company between median and upper quartile versus the FTSE 250 constituents (excluding Investment Trusts and financial services companies), the award will vest at 43% of the maximum.

In determining vesting, the Committee considered the potential for windfall gains and concluded that the value on vesting of the 2020 award did not benefit from windfall gains. In reaching this conclusion the Committee noted that the granting of the 2020 award was delayed until 25 September 2020, by which time the Company's share price had largely recovered from the market wide fall that took place in the first half of 2020 (the 2020 share awards were granted based on a September share price of £12.01 versus the March COVID low of £9.31 and the 2019 award price of £11.60). Furthermore, the Company's share price was broadly consistent with the grant price at the end of the 2022 financial year (i.e. it had not benefitted from a post Covid bounce from September 2020). As a result of the share price at the end of the three year performance period, and noting the number of shares comprised in the award at grant, the Committee was comfortable that there was no windfall gain associated with the vesting of the 2022 long term incentive plan award and that vesting was consistent with the performance of the Company through the period.

Given the combination of financial performance and non-financial progress achieved during the year, the Committee awarded variable pay awards in line with the formula based outcomes. The Committee is satisfied that the Remuneration Policy has operated as intended and in reaching this conclusion took into account overall Company performance and other information such as internal pay ratios and shareholder feedback.

Our new Directors' Remuneration Policy

Our current Policy was approved by shareholders at the 2020 AGM receiving 95.4% support. The 2023 AGM will mark the third anniversary of the existing Policy and as a result we will seek shareholder approval for an updated Policy at the AGM.

During 2022, the Committee conducted a review of the existing Policy and how effectively it had operated during the current Policy cycle. The Committee concluded that the existing Policy, subject to minor refinements, remains appropriate considering the Group's remuneration philosophy and will continue to support the long term sustainable growth strategy of the Group. The other factors noted by the Committee in reaching the decision to roll over our Policy included that (i) the current Policy takes account of current institutional investor 'best practice' expectations and aligns with relevant corporate governance requirements, (ii) the Policy provides market consistent flexibility to refine the future choice of performance metrics as strategy evolves, and (iii) the Policy is expected to provide the appropriate flexibility to facilitate the appointment of a new permanent CEO.

In the event there was a need to make any changes to the Policy within the next three-year Policy period recognising a new CEO will be appointed, the Committee would in the first instance undertake appropriate dialogue with investors at that time.

To date, shareholders who provided feedback understood the rationale for the proposed roll forward of the Policy and were supportive of the Committee's approach. However, feedback also indicated that the Group's Policy was not fully aligned to some of our investors' expectations concerning our post employment shareholding guidelines. Our current guidelines were structured so that shares were held equivalent to 200% of final year salary (or if less to the maximum held) for at least one year before the requirement reduced to 100% of salary. In light of the feedback received, the stepdown to 100% of salary after a year post cessation of employment will be removed and so the 200% of salary guideline (or less to the maximum held) will operate for two years post cessation of employment bringing the guideline into full IA compliance. This updated guideline applies to shares acquired (after tax) through vested LTIP and deferred bonus awards granted in and from 2020.

Employee pay and stakeholder engagement

With exceptionally high levels of inflation, especially in our major markets in the UK and US, we took a range of actions to support our employees in 2022. Our responses varied by location based on our understanding of local needs. The actions taken included lump sum payments, targeted salary adjustments and voucher programmes as well as increased financial education. In light of the exceptionally high levels of inflation in 2022, the Company has set salary increase budgets at between 5% and 10% for 2023, depending on country and local circumstances.

Our Board visited 12 of our operating sites during the year and solicited feedback on the Company and discussed a broad range of topics that included remuneration and how our structures align with strategy. These visits, allied to the operation of our annual engagement survey, ensure the Board understands the views of all employees and can act as needed to ensure we continue to have an engaged and motivated workforce.

With regards to engagement with shareholders, as detailed above, we concluded a wide-ranging shareholder consultation process from late 2022 as part of our 2023 remuneration Policy renewal.

Looking forward to 2023

Our usual practice is to review Executive Directors' salaries on an annual basis. In December, the Committee considered their annual salary increases, effective January 2023. The Committee, recognises that when Hannah Nichols was appointed in 2019 it was her first PLC CFO role and she started on a below market rate. Since then Hannah has grown significantly in her role and in addition she has taken responsibility for the delivery of the Company's IT and Cyber strategy. To reflect this she has been awarded a 5% pay increase and her annual long term incentive award opportunity is to be increased. The salary increase is at the bottom end of the majority of wider workforce pay rises of between 5% and 10%. The Committee felt it was also appropriate also to increase her long term incentive arrangement grant from 125% of salary to 150% of salary for 2023 and on an ongoing basis. The above changes both of which can be accommodated within our existing Policy, will move her towards the market rate for an experienced FTSE 250 Chief Financial Officer which is considered appropriate in light of her calibre, her performance in post and current experience.

With regard to the operation of the annual bonus plan in 2023, there will be no change to the maximum opportunity for the CFO at 125% of salary. However, we have refined our choice of performance metrics to better reflect our increased focus on profitability, cash and efficiency in 2023. As a result, the performance metrics will be underlying operating profit (50%), operating cash conversion (30% and replacing Return on Invested Capital) and personal objectives set against a basket of ESG measures (including carbon reduction and health and safety) and individual key responsibilities (20%).

The long term incentive awards granted in 2023 will remain subject to an equal split of earnings per share growth targets and relative total shareholder return targets. Having considered internal plans and external market expectations for our future performance, plus the higher annual award level for the CFO for the 2023 award, the Committee increased the range of EPS growth targets from 3% - 11% p.a. to 4% - 12% p.a. With the share price at the time of writing within 5% to 10% of the 2022 grant price the Committee does not envisage there to be the potential for windfall gains arising from the 2023 award. However, it will undertake a final review of the terms of the award prior to granting and retains discretion on vesting to adjust formula-based outcomes (e.g. in the event of a perceived windfall gain).

The Non-executive Director fees, including additional fees, have been increased by 3% with effect from January 2023. See page 104 for more details.

On a personal note, 2023 will mark the end of my third term as Non-executive Director with Hill & Smith and therefore I will be stepping down from the Board following the 2023 AGM. Our Senior Independent Director, Tony Quinlan, will succeed me in the role as Committee Chair. I wish Tony the best of luck in this role and thank our shareholders for their support during my tenure as Committee Chair.

I believe our approach to remuneration will help to enable long term sustainable growth while ensuring a responsible approach to executive pay, and I look forward to receiving your support on Resolutions 2 and 3 at our 2023 AGM.

Annette Kelleher
Chair
8 March 2023

REMUNERATION COMMITTEE REPORT continued

Area of focus in 2022

During the year to 31 December 2022 the Remuneration Committee consisted of Annette Kellehe as Chair, Alan Giddins, Mark Reckitt, Pete Raby, Tony Quinlan, Leigh-Ann Russell, and Farrokh Batliwala, who was appointed from 1 April 2022. During the year the Committee considered the following

January and March

- Confirmation of the Executive Directors' annual bonus targets and objectives for 2022.
- Determination of variable pay outturns for the 2021 bonus and 2019 LTIP as reported in last year's Directors' Remuneration Report.
- Approval of LTIP 2022 award.
- Amendment of the Company's Deferred Bonus Plan rules to cover awards made to senior non-UK based executives.
- Consideration of the Group's Gender Pay statement.

July and September

- Approval of the ex-CEO's Settlement Agreement and S430(B) Statement. Details can be found on page 100.
- Appointment of Korn Ferry as new advisors to the Remuneration Committee.
- Approval of SAYE 2022 award.
- Consideration of remuneration trends as provided by Korn Ferry.

November and December

- Approval to roll over existing Remuneration Policy and consideration of shareholder consultation letter (see pages 105 to 113 for more details).
- Consideration of possible variable pay outturns for the 2022 bonus and 2020 LTIP. The bonus outturns are set out on pages 97 to 98.
- 2023 salary review for Executive Directors and members of the Group's Executive Board
- Executive Directors' bonus plan for 2023, including personal objectives.
- Consideration of remuneration trends as provided by Korn Ferry.

Reward linked to performance

Operating Profit (at budgeted FX rates) – outcome against target

Actual

£87.8m

Target £84.9m

Return on Invested Capital (at budgeted FX rates) – outcome against target

Actual

18.7%

Target 17.9%

Total annual bonus plan – Outcome, including achievement of personal objectives, see page 97.

Paul Simmons

72%

of maximum opportunity

(prorated to 18 July 2022)

Hannah Nichols

77%

of maximum opportunity

Remuneration at a glance

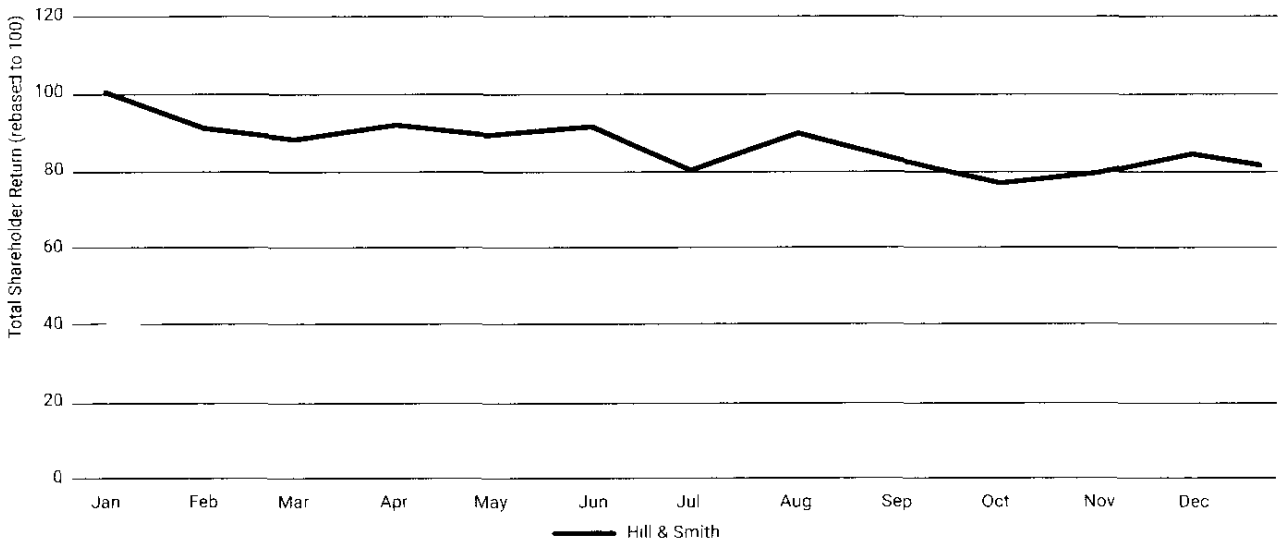
To incentivise our employees to achieve our strategy, we provide market competitive remuneration which is aligned with our shareholders' experience

Remuneration Policy and structure summary

(More details can be found on pages 96 to 104)

Element	Purpose/structure	Operation for 2023
Base Salary and benefits	Enables the Company to recruit and retain Executive Directors.	**CFO** - £374,525 (5% increase) **Executive Chair** £584,554 (4% increase)
Pension	To provide post-retirement benefits for Executive Directors	**CFO** – 6.5% of salary **Executive Chair** - n/a
Annual Bonus	Performance measures and targets are reviewed and set annually by the Remuneration Committee. At least 50% of bonus will be based on financial measures 50% of any bonus is deferred into shares for two years	**2023 performance measures:** Budgeted underlying operating profit (50%), budgeted cash conversion (30%), and individual personal objectives (20%). **Maximum opportunity:** CFO, 125% of salary. Executive Chair, n/a
LTIP	Three year performance period, with a further two-year holding period	**2023 performance measures:** Relative TSR (50%) and growth in UEPS (50%) **Grant size:** CFO, 150% of salary. Executive Chair, n/a
Shareholding guidelines	To encourage shareholder alignment both during and after employment	200% shareholding for Executive Directors during employment and for two years after employment ends

The following chart shows Hill & Smith's Total Shareholder Return during 2022



Financial performance

Organic revenue growth

14%

Underlying operating profit margin

13.3%

Cash conversion

51%

Dividends payable to shareholders in respect of 2022

£28.0m

Alignment with shareholders

Proportion of annual bonus received in shares

50%

Shareholding guidelines

200%

Group Presidents have a 100% Shareholding guideline

Performance Executive LTIP awards subject to a mandatory two year holding period

100%

No. of Group employees with an interest in long term share awards

121

Alignment with the wider workforce

Salary increase for Executive Directors

5.0%

(See page 103 for more details)

Salary increases for the majority of the wider workforce

5%–10%

Pension contributions for Executive Directors

6.5%

Maximum available for UK employees

6.5%

Implementation of the Remuneration Policy during 2022

Single remuneration figure

	Year	Base Salary / fees [1]	Taxable Benefits [2]	Pension	Total Fixed Pay	Annual Bonus [3]	LTIP	Total Variable Pay	Total "single figure"
Alan Giddins	**2022**	**257,241**	**–**	**–**	**257,241**	**–**	**–**	**–**	**257,241**
	2021	–	–	–	–		–	–	–
Hannah Nichols	**2022**	**356,689**	**12,639**	**23,185**	**392,513**	**345,213**	**213,002**	**558,215**	**950,728**
	2021	346,300	12,608	22,509	381,417	376,601		376,601	758,018
Paul Simmons [11]	**2022**	**304,005**	**15,639**	**36,535**	**356,179**	**330,758**	**110,991**	**441,749**	**797,928**
	2021	545,700	15,608	35,471	596,779	720,324	463,766 [4]	1,184,090	1,780,869
Totals	**2022**	**917,935**	**28,278**	**59,720**	**1,005,933**	**675,971**	**323,993**	**999,964**	**2,005,897**
	2021	892,000	28,216	57,980	978,196	1,096,925	463,776	1,560,691	2,538,887

[1] The amount of base salary received in the year

[2] The taxable value of benefits received in the year. Members up at the Company's healthcare scheme, income protection scheme, personal accident insurance, car (or cash allowance), ill health and life assurance. A total of £Nil (2021: £Nil) was paid to P Simmons in the form of subsistence, which is subject to PAYE and NIC deduction

[3] Pension contributions for eligible Executive Directors represent 6.5% of their base salary

[4] Annual Bonus is the value of the bonus earned in respect of the financial period under review, including the amount deferred into shares. A description of how the bonus pay out was determined can be found on page 97

[5] The LTIP figure for Paul Simmons for 2022 reflects the vesting on 29 July 2022 of Buy Out Award 2 granted to him over 12,364 shares in connection with an LTIP award forfeited when he joined Hill & Smith, as set out in the 2020 Directors' Remuneration Report. During 2022, it was confirmed that 31.8% of the award would lapse and therefore that 8,434 shares would vest. The value of £110,991 is the product of the number of vested shares and the share price of £13.16 on the date of vesting

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

[7] Following Paul Simmons stepping down from the Board on 18 July 2022, the Non-executive Chair, Alan Giddins, became Executive Chair. To reflect the additional responsibilities associated with the role of Executive Chair, his annual fee was increased from £181,990 to £562,071. He was not eligible to receive any variable remuneration in respect of 2022

[8] These amounts relate to the period which Alan Giddins served as Executive Chair

[9] Alan Giddins served as Non-executive Chair in 2021 and the fees paid to him for his services amounted to £176,690. See page 100 for more details

[10] Paul Simmons stepped down as CEO and from the Board on 18 July 2022. In the 2022 table above, remuneration earned to that date is included, except that for consistency with the other Executive Directors, the full amount of the 2022 bonus, taxable benefits and pension are included in this table. Other payments made to him are disclosed on page 100

2022 annual bonus

Paul Simmons and Hannah Nichols were eligible to earn a bonus for 2022 of up to 150% and up to 125% of salary respectively. In line with the Policy, 50% of any bonus is paid upfront in cash and the remaining 50% is deferred into shares for two years, with no performance conditions, and subject, ordinarily, to continued employment

Any bonus paid to Paul Simmons in respect of 2022, is pro-rated to his date of stepping down from the Board, being 18 July 2022

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

Measure	Weighting	Target – 50% of maximum	Maximum – 100% of maximum	Actual performance	Actual bonus earned (% of maximum)
Underlying operating profit	50%	£84.9m	£92.9m	£87.8m	34.1%
Return on invested capital [1]	30%	17.9%	18.9%	18.7%	26.9%
Personal objectives	20%	The bonus earned by reference to the satisfaction of personal objectives was determined by the Committee based on its assessment of the extent to which the objectives were achieved, as described below			

[1] Underlying operating profit and return on invested capital are calculated at budgeted rates of exchange for the purposes of calculating the annual bonus

[2] The targets were restated to include the impact of material acquisitions and divestments during the year so that the targets were based on continuing operations and were no more or less challenging than when originally set

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

Executive Director	Objectives	Key achievements
Paul Simmons	Cause a step change in the Group's health and safety performance and culture. Improve the Group's LTIR to 0.90 for accident rates across the Group. Ensure the implementation of Health & Safety training programme for all Executive Board members and MDs	Objective substantially achieved with good progress made during the year, with clear and improved reporting up to the Executive Board and PLC Board. LTIR decreased by 35% in 2022
	Ensure progress against the Group sustainability plan as disclosed in last year's Annual Report	Objective substantially achieved with good progress made against the Group's ESG agenda, including reporting a baseline for Scope 3 carbon emissions. See pages 36 to 38 for more details
	Work with the Group Presidents to develop an M&A map aligned with the Group's strategy. Ensure the Group sees a strong pipeline of high-quality opportunities and puts itself in a position to execute on the most attractive opportunities. Ensure a successful disposal of France Galva	Objective partly achieved. An M&A map being developed but with a pipeline that was only somewhat progressed. France Galva exit completed in the year
	Work with the Group President to ensure that there is a clear plan to assure delivery of the strategy for the US roads sub-division. Ensure that the sub-division is set up for long term success through the existence of (i) a well thought through strategic plan (ii) a strong management team (iii) a number of new product development initiatives, and (iv) strong M&A pipeline	This objective was not achieved. Operational issues identified post Paul's departure giving rise to a number of senior management changes at Hill & Smith Inc., and necessitating a detailed strategic review in H2
Achievement	**57.5%**	
Hannah Nichols	Cause a step change in the Group's health and safety performance and culture. Improve the Group's LTIR to 0.90 for accident rates across the Group. Ensure the implementation of Health & Safety training programme for all Executive Board members and MDs	Objective substantially achieved with good progress made during the year, with clear and improved reporting up to the Executive Board and PLC Board. LTIR decreased by 35% in 2022
	Ensure progress against the Group sustainability plan as disclosed in last year's Annual Report	Objective substantially achieved with good progress made against the Group's ESG agenda, including reporting a baseline for Scope 3 carbon emissions. See pages 36 to 38 for more details
	Drive further improvement in the Group's ability to accurately forecast out on a three-month and six-month basis, thereby providing the Board with a high level of confidence in the forecasts contained within the Board pack	Objective achieved between target and maximum. The month end reporting requirements have been further enhanced. Introduced a monthly risk and opportunity assessment vs forecast for each operating company. Greater degree of forecast accuracy evidenced
	Provide clear leadership in the delivery of the Group's information security and ERP strategy. Ensure that the six-monthly IT update presentations are focused on hard deliverables. Ensure specific delivery against i) information security roll out plan (with completion of critical Email and Web Filtering workstreams by end 2022) ii) Microsoft 365 programme delivery by end H1 2022 and iii) ERP strategy development: complete a full assessment of the Group ERP estate to provide a clear road map for future change requirements based on business need and cost/benefits	Objective achieved between target and maximum. Strong IT leadership demonstrated throughout the year. End point management tools introduced across the Group. Secure Access Service Edge ('SASE') project agreed, to be rolled out in 2023. Individual operating company ERP assessments undertaken and project plans produced
Achievement	**82.5%**	

In assessing the key achievements set out above in relation to personal objectives, the Committee determined that Paul Simmons should receive 87.5% of this part of the bonus, being 11.5% of his maximum opportunity (pro rated to the date he stepped down from the Board, being 18 July 2022), and that Hannah Nichols should receive 82.5% of this part of the bonus, being 16.5% of her maximum opportunity.

The Committee considered the formulaic outturn of the annual bonus for 2022 to be appropriate and reflected the financial and non-financial performance of the business during the year, therefore no discretion was applied.

The cash bonus and deferred bonus earned in respect of 2022 are as follows:

Executive Director	Total bonus earned	Bonus paid in cash (£)	Bonus paid as an award of deferred shares (£)
Paul Simmons	£330,758	£165,379	£165,379
Hannah Nichols	£345,213	£172,607	£172,606

LTIP awards vesting in respect of 2022

Paul Simmons and Hannah Nichols were made LTIP awards in 2020 over 66,819 and 35,335 shares respectively. These vested subject to the achievement of performance conditions based on absolute UEPS growth over the three year performance period ended 31 December 2022 (as regards 50% of the award) and TSR relative to the FTSE 250 excluding investment trusts and financial services companies (as regards 50% of the award).

Paul Simmons' 2020 LTIP award lapsed in totality when he stepped down from the Board on 18 July 2022.

On 2 March 2023, the Remuneration Committee approved the extent to which the awards vested, and the value included in Hannah Nichols' single figure of remuneration table as a result is set out below:

Performance Targets		Vesting	Actual performance	Actual Vesting	Shares subject to the Award	Vesting shares	Vested value [1]
UEPS	Threshold 85p Maximum 100p	20% 100%	UEPS of 91.9p	UEPS 56.80% of maximum	Hannah Nichols 35,335	15,258	213,002
TSR	Median Upper Quartile	20% 100%	TSR Ranked 64 out of 135	TSR 29.55% of maximum			

[1] The value of shares is calculated by reference to the share price on 2 March 2023, being £13.96. In accordance with the rules of the LTIP Hannah Nichols is entitled to a further benefit by reference to the dividends paid over the period from grant to vesting, amounting to £11,056, and delivered as 792 additional shares.

As detailed in the Chair's Introductory Statement, the Committee considered the potential for any windfall gains associated with the vesting of the 2020 award and concluded that this was not the case having considered both the number of shares at grant and the value on vesting. As a result, the Committee did not use any discretion in relation to the vesting of the award.

Executive Director shareholding guidelines

The Company's guidelines are that Executive Directors must hold 200% of their base salary in shares.

In order to meet this requirement Directors are required to build up such by retaining at least half of any shares earned through incentive arrangements until that shareholding requirement is met. Shares awarded as part of the deferred bonus arrangements also count towards this requirement.

Although not subject to shareholding requirements, the Executive Chair, Alan Giddins, has been included in the table below.

	Alan Giddins	Hannah Nichols	Paul Simmons
Shareholding requirement	n/a	200%	Existing unvested options
Current shareholding on 31 December 2022	23,600	3,106	n/a
Deferred shares on 31 December 2022 (amounts net of tax and social security)	-	9,966	16,904
Total shares	23,600	13,072	16,904
Share value based on share price on 31 December 2022	£276,592	£153,204	£198,115
Current % of salary (based on salary on 31 December 2022)	n/a	43%	n/a

Hannah Nichols will be required to retain at least 50% of any shares earned under the LTIP and the deferred bonus scheme until the shareholding guideline is achieved. There was no change in these beneficial interests between 31 December 2022 and 8 March 2023.

Under the Company's current Remuneration Policy, Paul Simmons is required to maintain a post-employment shareholding in respect of shares acquired pursuant to LTIP and deferred bonus awards to a value equal to 200% of his base salary for a period of one year after leaving, and 50% of this in-service guideline for a further year after leaving. In either case, the number of relevant shares held at leaving must be retained if this is less than the in-service guideline.

Share awards granted during the year

During the year to 31 December 2022 the Committee approved awards, under the rules of the LTIP, to the Executive Directors as follows

	Date of Award	Type of Award	Number of Shares	Maximum face value of Award [1]	Threshold Vesting	Performance Period end date[3]
Paul Simmons	16 March 2022	Nil cost option	59,541	878,825 [2]	20%	31 December 2024
Hannah Nichols	16 March 2022	Nil cost option	31,487	464,748	20%	31 December 2024

1. Calculated by reference to a share price of £14.76 being the average of the mid-market prices for the three trading days prior to 16 March 2022

2. This award lapsed when Paul Simmons stepped down from the Board on 18 July 2022

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

The performance conditions for these awards are as follows

Vesting amount	Compound annual growth in UEPS over the performance period (50% of the award)	TSR (50% of the award) **
0% Vesting	Less than 3%	Below median
20% Vesting*	3%	Median
Maximum Vesting*	11%	Upper quartile

* Straight line vesting will apply between these two points

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

SAYE

The interests of the Executive Director at 31 December 2022, in options for ordinary shares in the Company, granted under the Company's SAYE schemes are shown in the following table

	Year	Grant Price	Awards held at 31 December 2021	Granted during the year	Exercised during the year	Lapsed during the year	Awards held at 31 December 2022	Period that option is exercisable From	Period that option is exercisable To
Hannah Nichols	2022	£7.94	-	3,778	-	–	3,778	1 Jan 2028	1 July 2028
	2019	£9.40	3,191	–	–	3,191	–	1 Jan 2023	1 July 2023

Alan Giddins does not participate in the SAYE

Statement of Executive Directors' shareholding and interests in shares

	Type	Owned Outright	Vested but not exercised	Unvested: Subject to performance conditions	Unvested: Not subject to performance conditions	Total at 31 December 2022
Hannah Nichols	Shares	3,106	18,803	97,897	–	119,806
	Market value options [1]		–	2,497	–	2,497
	SAYE Options [2]	–	–		3,778	3,778

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

2. A breakdown of SAYE awards is shown above

Loss of office payments and payments to former directors

Paul Simmons stepped down from the Board on 18 July 2022 and remained an employee until 31 December 2022. His salary, pension allowance and benefits to 18 July 2022 are included in the single figure table on page 96, along with the pro-rated bonus earned in respect of 2022.

As an employee of the Company, Paul Simmons continued to receive his salary, pension allowance and benefits during his period of garden leave (from 18 July 2022 to 31 December 2022). For the period 1 January 2023 to 17 July 2023, being the balance of his 12 months notice period, he will continue to receive his basic salary, paid monthly. This amounts to £304,904. He also received a contribution of £5,000 in relation to any legal fees that may have been incurred.

In terms of any share awards that were made to Mr Simmons, the Remuneration Committee operated the relevant plans in line with the terms of the plans and exercised discretion where awards had been previously earned against performance targets while in employment as follows:

Existing Buy-Out Award: Paul Simmons held an award over 12,364 Hill & Smith shares. The award was granted on commencement of employment to compensate him for the forfeiture of a long term incentive award granted by his previous employer. Mr Simmons retained this award and it vested on its normal release date in July 2022 while Mr Simmons remained in employment. The number of shares which vested was reduced to reflect, in the opinion of the Committee, the level of actual vesting achieved for the underlying former employer award that was bought-out and in July 2022, the Committee determined that only 68.2% of the award should vest.

2022 Annual Bonus: For the period of his active employment to 18 July 2022, noting that Paul Simmons would remain an employee of the Company at the end of the 2022 financial year, the Committee determined that he would be eligible for a pro-rata bonus to 18 July 2022 on the basis of what was earned based on the targets set at the start of the financial year, with 50% paid in cash at the normal time and 50% deferred for the normal two year deferral period.

Existing Deferred Bonus Awards: On the basis that the awards granted under the Deferred Bonus Plan in 2021 and 2022 in respect of bonuses earned in 2020 and 2021 had been previously earned the Committee determined that the awards would be retained and will be released from deferral at their ordinary time, being two years from the date of grant.

Long term Incentive Plan Awards: On the basis that the awards granted under the LTIP in 2020, 2021 and 2022 totalling 185,122 shares had not been earned as at the date of stepping down from the Board, the Committee lapsed the awards.

No further payments are to be made to Paul Simmons in connection with his loss of office or the cessation of his employment. There were no other loss of office payments or payments made to former Directors during the year ended 31 December 2022.

All payments made were permitted within the Remuneration Policy.

Non-executive Directors

Non-executive Director single figure comparison

Director	Role	Board Fees	Other Fees	Taxable Benefits	Annual Bonus	LTIP	Pension	Total "Single Figure" 2022[1]	Total "Single Figure" 2021
Alan Giddins	Chair	98,695[2]	–		–	–	–	98,695	176,690
Annette Kelleher	Chair, Remuneration Committee	62,840	–		–	–	–	62,840	60,675
Farrokh Batliwala[3]	Non-executive Director	40,238	–		–	–	–	40,238	
Leigh-Ann Russell[4]	Non-executive Director	53,840	–	–	–	–	–	53,840	39,206
Mark Reckitt	Chair, Audit Committee	62,840	–	–	–	–		62,840	60,675
Pete Raby	Non-executive Director	53,840	–	–	–	–	–	53,840	52,275
Tony Quinlan	Senior Independent Director	62,840	–	–	–	–	–	62,840	60,675
Total		435,133	–		–	–	–	435,133	450,196

1. As the Non-executive Directors do not participate in any variable arrangements separate sections for fixed and variable pay are not included.
2. The annual fee for the Non-executive Chair for 2022 was set at £181,990. These fees represent those earned by Alan Giddins as Non-Executive Chair from 1 January 2022 – 18 July 2022. He became Executive Chair on 18 July 2022.
3. Farrokh Batliwala was appointed on 1 April 2022.
4. Leigh Ann Russell was appointed on 1 April 2021.

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

Non-executive Director shareholding

	2022	2021
Annette Kelleher	**3,948**	3,948
Farrokh Batliwala	**2,000**	–
Leigh Ann Russell	**2,000**	
Mark Reckitt	**4,000**	4,000
Pete Raby	**3,100**	1,600
Tony Quinlan	**1,200**	1,200

[1] Farrokh Batliwala was appointed to the Board on 1 April 2022

There was no change in these beneficial interests between 31 December 2022 and 8 March 2023. The Non-executive Directors do not hold any share awards or share options

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

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

Annual percentage change in remuneration of Directors and employees

The table below shows the annual percentage change in each Director's salary/fees, benefits and bonus between the year ended 31 December 2021 and the year ended 31 December 2022, and the average percentage change in the same remuneration over the same period in respect of the employees of the Company on a full-time equivalent basis. Although the regulations require us only to show the average percentage change for the employees of the Company, we have provided additional disclosure showing the average change for the Group's wider workforce

The average employee change has been calculated by reference to the mean of employee pay. Farrokh Batliwala was appointed to the Board during the year ended 31 December 2022 and, accordingly, has been excluded from the table below

		Average employee	Wider workforce	Hannah Nichols	Alan Giddins	Annette Kelleher	Leigh Ann Russell	Mark Reckitt	Pete Raby	Tony Quinlan
Salary/ fees	2021–2022	4.1%	2.0% 9.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
	2020–2021	2.9%	2.9%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
	2019–2020	2.9%	2.9%	2.9%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Taxable benefits	2021–2022	n/a	n/a	0.3%	n/a	n/a	n/a	n/a	n/a	n/a
	2020–2021	n/a	n/a	5.0%	n/a	n/a	n/a	n/a	n/a	n/a
	2019–2020	n/a	n/a	n/a%	n/a	n/a	n/a	n/a	n/a	n/a
Annual bonus	2021–2022	n/a	44.5%*	-83.3%	n/a	n/a	n/a	n/a	n/a	n/a
	2020–2021	n/a	340.3%*	454.4%	n/a	n/a	n/a	n/a	n/a	n/a
	2019–2020	n/a	112.0%*	n/a	n/a	n/a	n/a	n/a	n/a	n/a

* The bonus figures were taken from those senior executives operating on similar incentivised arrangements to the CEO and capable of influencing the Group's performance

Single figure of the Chief Executive compared to the wider workforce

This is our fourth year of reporting the CEO pay ratio and the table below sets out our CEO pay ratio figures in respect of 2019, 2020, 2021 and 2022

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

Approach to calculation of CEO remuneration for 2022

Year	Method	25th percentile pay ratio	Median pay Ratio	75th percentile pay ratio
2022	Option B	39:1	37:1	32:1
2021	Option B	68:1	63:1	41:1
2020	Option B	26:1	44:1	33:1
2019	Option B	43:1	39:1	38:1

Pay details for the individuals are set out below

2022	CEO	25th percentile	Median	75th percentile
Salary	£562,071 [1]	£23,256	£28,385	£33,098
Total remuneration	£1,055,169 [2]	£26,797	£28,385	£33,098

[1] Paul Simmons stepped down from the Board on 18 July 2022. This amount represents his annualised base salary

[2] Represents the total of both the CEO's and Executive Chair's single figure (see page 96 for more details)

A significant proportion of the CEO's remuneration is performance related. Therefore, the ratios vary year on year depending upon the extent to which performance related remuneration is earned by reference to the satisfaction of the applicable conditions. The Committee considers that the median ratio for 2022 is consistent with the pay and reward policies for employees as a whole

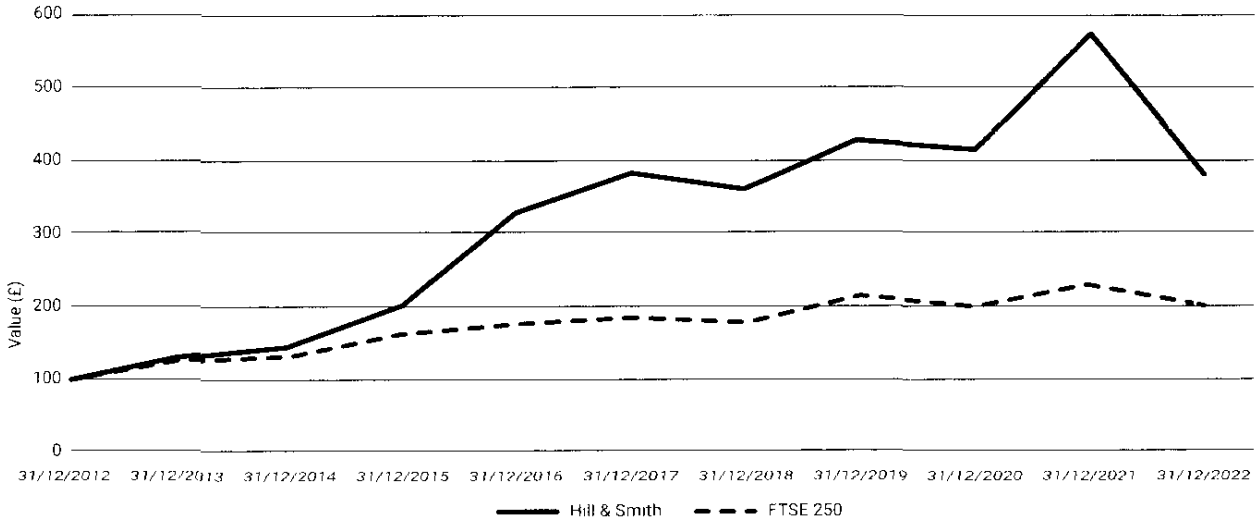
REMUNERATION COMMITTEE REPORT continued

Pay for performance

The graph below shows the Company's TSR performance over the ten years to 31 December 2022 as compared to the FTSE 250. In previous years the Company's performance has been compared with the FTSE250, FTSE Small Cap and the FTSE All-share indices. However, as the Company has been a constituent of the FTSE 250 for six years it was decided that showing performance relative to just the FTSE 250 was the most appropriate metric. It also reflects the Company's LTIP award TSR comparator group.

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

The following chart shows Hill & Smith's Total Shareholder Return during the ten years to 2022.



Director	2013	2014	2015	2016	2017	2018	2019	2020 Derek Muir	2020 Paul Simmons [1]	2021	2022 Paul Simmons	2022 Alan Giddins
CEO single figure (£000)	1,084	1,835	1,894	2,134	2,085	1,506	1,187	980	318	1,781	798	257
Annual bonus (% of max.)	76	100	100	100	94	19	43	19	19	88	72	n/a
LTIP Vesting (% of max)	50	93	98	100	100	100	31	36	n/a	100	Nil	n/a

[1] Paul Simmons joined the board on 1 September 2020 and took over as CEO with effect from 12 November 2020. The CEO single figure for 2020 for P Simmons reflects his remuneration earned from appointment, and not just for that part of the year for which he was CEO.

Relative importance of spend on pay

	2022	2021	% change
Dividends paid in respect of the financial year	£28.0m	£24.7m	+13.4%
Overall spend on pay (continuing operations) [1]	£173.2m	£160.8m	+7.7%

[1] This includes a 1% reduction in the average number of people employed by the Group. See note 6 to the accounts on page 147.

Statement of shareholder voting

The following table shows the results of the vote on the Annual Remuneration Report at the 2022 AGM and the binding vote on the current Remuneration Policy at the 2020 AGM

	For	Against	Withheld
Remuneration Policy (2020)			
% of votes cast	95.43%	4.57%	20,570 votes were withheld in relation to this resolution (0.03%)
Remuneration Report (2022)			
% of votes cast	98.35%	1.65%	3,845 votes were withheld in relation to this resolution (<0.01%)

Advisors

The Committee assesses from time to time whether the appointment of its advisors remains appropriate or should be put out to tender and takes into account the Remuneration Consultants Group Code of Conduct when reviewing Deloitte's ongoing appointment. During the year and following a review of four potential advisors including Deloitte LLP as the incumbent advisors, the Committee determined, in consideration of good governance practises and Deloitte's tenure as advisors to appoint Korn Ferry as the Committee's advisors from 1 October 2022

Korn Ferry provided independent advice to the Committee, having been appointed by the Committee following a competitive tender process during the year. Korn Ferry provided advice on market and best practice as part of supporting the Committee with its review of the Directors' Remuneration policy. The fees paid to Korn Ferry for providing advice to the Committee in relation to Directors' remuneration were £42,413. Korn Ferry provided other human capital related services during the year to a separate part of the business, but these services were carried out by a team separate to the remuneration advisory team. As a result, the Committee is satisfied that the advice received was objective and independent. Korn Ferry is a member of the Remuneration Consultants Group and abides by the voluntary code of conduct of that body, which is designed to ensure objective and independent advice is given to remuneration committees

Deloitte LLP had been retained to provide independent advice to the Remuneration Committee as required for in excess of ten years and they are a member of the Remuneration Consultants' Group and, as such, voluntarily operate that group's Code of Conduct in relation to executive remuneration consulting in the UK. From 1 January 2022 – 30 September 2022 Deloitte provided remuneration advice, share scheme advice, pension advice and corporation tax advice to the Group. Their fees for providing remuneration advice to the Committee amounted to £21,700 for the year ended 31 December 2022

The Group Chief Executive Officer and Executive Chair also attend Remuneration Committee meetings to provide advice and respond to specific questions but are not in attendance when their own remuneration is discussed. The Company Secretary acts as Secretary to the Remuneration Committee but is similarly not in attendance when his own remuneration is discussed

How the Remuneration Policy will be implemented for 2023

Executive Directors

Salary

Base salaries were reviewed on 16 December 2022 and as from 1 January 2023 are

Alan Giddins	£584,544
Hannah Nichols	£374,523

This represents a 4% increase for Alan Giddins. This is in line with other Executive Board members and below the range of increases awarded to the wider workforce

Hannah Nichols received an increase in her base salary of 5%. See page 93 for more details.

Salary budget increases for the majority of the Group's operating companies ranged between 5% and 10% of relevant payrolls

Pension and benefits

Alan Giddins is not eligible to receive a pension. The pension contribution for Hannah Nichols will remain 6.5% of her base salary

Annual Bonus

Alan Giddins will not be eligible to receive an annual bonus during 2023

The maximum opportunity for Hannah Nichols, will be 125%. 50% of the opportunity will be earned for achieving a stretching level of on target performance and any bonus earned will be paid as to 50% in cash and 50% in deferred shares

For the 2023 financial year the annual bonus metrics will be

- Underlying operating profit, and
- Cash conversion

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

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

LTIP

Alan Giddins will not be eligible to receive a grant under the LTIP during 2023.

The annual LTIP award for Hannah Nichols, CFO will be increased from 125% of salary, to 150% of salary for 2023. This award will be subject to performance conditions based on relative TSR and UEPS growth as set out below.

UEPS compound annual growth rate over three years (50% of the award)	TSR* (50% of the award)	Vesting amount
Less than 4%	Below median	0% vesting
4%	Median	20% vesting
12%	Upper quartile	100% vesting

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

Further details relating to the metric choices and 2023 incentives are set out in the Chair's introductory letter.

Non-executive Directors

The fees of the Non-executive Directors are reviewed regularly to ensure they are in line with the market and so the Company can attract and retain individuals of the highest calibre. Any change to the Chair's fees will be approved by the Remuneration Committee with other Non-executive Director fees being approved by the Board as a whole, following a recommendation from the Chief Executive. In December 2022, the Board approved a 3% increase in the fees for the Chair and Non-executive Directors.

	2023	2022
Chair	**£187,450**	£181,990
Non-executive Director	**£55,455**	£53,840
Senior Independent Director	**£9,270**	£9,000
Audit Committee Chair	**£9,270**	£9,000
Remuneration Committee Chair	**£9,270**	£9,000

Upon appointment of a replacement CFO, the Executive Chair will revert to being the Non-executive Chair, with fees reducing accordingly.

Annette Kelleher
Chair

8 March 2023

DIRECTORS' REMUNERATION POLICY

to be approved by shareholders at the 2023 AGM

The Directors' Remuneration Policy has been subject to a full review by the Committee in 2022 and will be put to shareholders at the 2023 AGM for approval. As outlined in the Chair's Statement, the Committee feel that given the current Policy has delivered a fair relationship between performance and reward it remains fit for purpose with the only changes limited to minor amendments to the Policy wording to take account of market developments, best practice, and feedback from a recent shareholders' consultation. As a result, with flexibility included in the Policy to evolve performance metrics with the Company's strategy, the intention is to roll over the existing Policy. In the event that there was considered a need to make any changes to the Policy within the next three-year Policy period, the Committee would undertake appropriate dialogue with investors at that time.

The table below sets out how the proposed Policy specifically addresses the provisions of the UK Corporate Governance Code

Alignment of the Remuneration Policy to the provisions of the 2018 Corporate Governance Code

Clarity	Simplicity	Risk
• The Policy aligns delivery of our strategic goals to the remuneration outcomes of Executive Directors • Remuneration rewards long term and sustainable growth in shareholder value	• The Policy aligns with standard FTSE market practice and is made up of – ***Fixed remuneration*** - *base salary appropriate benefits and pension* – **Short-term element** – annual bonus based on performance during the financial year against financial and non-financial measures – **Long term incentive** – vests over three years according to the achievement of stretching performance measures	• The long term incentive provides a link between the performance of Executive Directors and long term sustainable growth • Executive Directors are subject to shareholding requirements during and post-employment • Malus and clawback provisions mitigate behavioural risks by enabling payments to be reduced or reclaimed in specific circumstances
Predictability	**Proportionality**	**Alignment to culture**
• Maximum opportunity levels for each component of variable remuneration are defined within the Policy • Transparent performance measures and targets make clear the possible range of remuneration outcomes and these potential outcomes are illustrated in the Policy	• Performance measures are linked to the Company's strategy and aligned with long term creation of value for shareholders • Stretching targets ensure that payments are only made for strong financial and non-financial performance • The Committee has discretion to override formulaic outcomes to ensure that remuneration appropriately reflects overall performance	• Variable remuneration is based on the achievement of financial and non-financial measures which link to the overall business strategy, culture and values. As demonstrated through the inclusion of ESG within the Annual Bonus

DIRECTORS' REMUNERATION POLICY continued

Directors' Remuneration Policy Report (not audited)

This part of the Report sets out the proposed Directors' Remuneration Policy, which, subject to shareholder approval at the 2023 AGM, shall take binding effect from the close of that meeting. Note, the Policy applies only to permanent Executive Directors. The policy has been determined by the Company's Remuneration Committee.

All Policy changes are considered to be minor / administrative and therefore a tabular summary of Policy changes is not provided.

Base Salary

To recruit and retain Executive Directors. Provides fixed remuneration for the Executive Directors, which reflects the individual's experience and the size and scope of the Executive's responsibilities.

Operation

Normally reviewed annually and fixed for twelve months. Salaries are determined by the Remuneration Committee taking into account a range of factors, which may include but are not limited to:

- the size and scope of the role,
- individual and Group performance,
- the range of salary increases (in percentage terms) applied to the wider workforce,
- total organisational salary budgets, and
- pay levels for comparable roles in companies of a similar size and complexity.

Any salary increases may be implemented over such time as the Remuneration Committee deems appropriate.

Maximum opportunity

Ordinarily salary increases will not exceed the range of salary increases awarded to other employees in the Group (in percentage of salary terms). However, salary increases may be above this level in certain circumstances as required, for example to reflect:

- increase in scope or responsibility,
- performance in role, or
- an Executive Director being moved to market positioning over time.

No maximum salary opportunity has been set out in this policy report to avoid setting expectations for executive Directors.

Performance measures

Not applicable.

Benefits

To recruit and retain Executive Directors. Ensures the overall package is competitive. Participation in the SAYE promotes staff alignment with the Group and a sense of ownership.

Operation

Executive Directors are entitled to various benefits including but not limited to, membership of the Group's healthcare scheme, personal accident insurance, ill health, life assurance and car (or equivalent cash allowance).

Other benefits may be provided based on individual circumstances. Such benefits may include but are not limited to expatriate, housing, relocation allowances or overseas tax support.

The SAYE is a tax qualifying monthly savings scheme facilitating the purchase of shares at a discount as permitted by the applicable legislation (currently up to a maximum discount of 20%). SAYE options may be exercised in the event of a change of control to the extent permitted by the rules of the scheme.

Executive Directors may also participate in any other all employee share plan adopted by the Company, on the same basis as other qualifying employees.

Maximum opportunity

Whilst the Remuneration Committee has not set an absolute maximum on the level of benefits Executive Directors receive, the value of benefits is set at a level which the Remuneration Committee considers is appropriately positioned against companies of a similar size and complexity in the relevant market and at rates competitive in the area of life, accident and health insurance. SAYE scheme contribution as permitted in accordance with the relevant tax legislation. The level of participation in any other all-employee share plan will be determined in accordance with the rules of that plan and will be the same for Executive Directors as for other qualifying employees.

Performance measures

Not applicable.

Pensions

To recruit and retain Executive Directors and to provide post retirement benefits

Operation
The Group may make a payment either into a defined contribution plan or as a separate cash allowance. Group contributions or cash allowances are determined as a percentage of base salary

Maximum opportunity
An amount as a percentage of base salary not exceeding the typical contribution available in respect of the location of employment of the Director (e.g., currently the typical rate available to the UK based workforce is 6.5% of salary)

Performance measures
Not applicable

Annual Bonus

Rewards the achievement of annual financial targets and/or the delivery of strategic/individual objectives

Operation
Performance measures and targets are reviewed and set annually by the Remuneration Committee

Bonus pay out is determined by the Remuneration Committee after the year end, based on audited performance, where appropriate against those targets.

The Committee has the discretion to amend the bonus pay out should any formulaic output not produce an appropriate result for either the Executive Directors or the Company, taking account of overall performance, or because the formulaic output is inappropriate in the context of circumstances that were unexpected or unforeseen at the start of the performance period

Where an annual bonus is earned, 50% will be delivered in the form of shares in the Company, deferred for a period of two years. Deferral of any bonus is subject to a de minimis limit of £5,000

At its discretion, the Remuneration Committee may award dividend equivalents to reflect dividends that would have been paid over the deferral period on shares awarded under the deferred bonus plan. These dividend equivalents will ordinarily be paid in shares and may assume the reinvestment of dividends

Deferred bonus plan will vest in the event of a change of control

Malus and clawback provisions apply to the annual bonus as described below this table

Maximum opportunity
The maximum bonus opportunity is up to 150% of base salary for the CEO and up to 125% of base salary for any other Executive Director

Performance measures
The bonus will be based on the achievement of targets related to key business objectives, with the measures and respective weightings each year dependent on the Group's strategic priorities. Financial performance measures may include, for example

- measures based on earnings per share,
- budgeted profit,
- operating margins, or
- return on capital

At least 50% of bonus will be based on financial measures.

Subject to the Remuneration Committee's discretion to amend formulaic outputs, for financial targets, normally 0% of the maximum is payable for achieving the threshold performance target (0% below threshold), 50% at the target level of performance and 100% at maximum. For strategic and individual performance measures, bonus will be earned between 0% and 100% of the opportunity based on the Remuneration Committee's assessment of the extent to which the relevant measure has been achieved

Long Term Incentive Plan

Incentivises Executive Directors to achieve higher returns for shareholders over a longer time frame. A clawback applies to unvested awards enabling the Company to mitigate risk. The post-vesting holding period aligns Executive Directors with the interests of shareholders over a further period.

Operation

The Remuneration Committee may grant awards as conditional share awards, nil cost share options or forfeitable shares or such other form as has the same economic effect.

Awards are typically granted annually, and vesting is subject to achievement of performance measures, normally assessed over at least three years. The Remuneration Committee has the discretion to adjust the vesting outcome should any formulaic output not reflect overall performance, or because the formulaic output is inappropriate in the context of circumstances that were unexpected or unforeseen at the grant date, or if there exists any other reason why an adjustment is appropriate.

Vested shares are subject to an additional two-year holding period before they are released (so that they can exercise the award and acquire them). Alternatively, the Remuneration Committee may grant an award on the basis that the Executive Director can acquire shares following vesting but that, other than as regards sales of shares to cover tax liabilities, the Executive Director is not permitted to dispose of shares until the end of the holding period.

Unvested LTIP awards will vest and be released early on a change of control (or other relevant events), taking into account the extent to which the performance conditions have been satisfied and pro-rating to reflect the proportion of the performance period that has elapsed, although the Remuneration Committee has discretion not to apply time pro-rating. Vested LTIP awards which are subject to a holding period are released, to the extent vested, in the event of a change of control.

At its discretion the Remuneration Committee may award dividend equivalents to reflect dividends that would have been paid over the vesting period and holding period on shares that vest. These dividend equivalents will ordinarily be paid in shares and may assume the reinvestment of dividends.

Malus and clawback provisions apply to the LTIP as described on page 109.

The Remuneration Committee may, at its discretion, structure awards as approved LTIP awards comprising both a tax qualifying option granted under the Executive Share Option Scheme ('ESOS') and an LTIP award. Approved LTIP awards enable the participant and the Company to benefit from tax qualifying option treatment in respect of part of the award, without increasing the pre tax value delivered to the participant. The approved LTIP awards consist of a tax qualifying option and an LTIP award with the vesting of the LTIP award scaled back to take account of any gain made on exercise of the tax qualifying option. Other than to enable the grant of up to £60,000 (from April 2023) in value of HMRC approved options as part of an approved LTIP award, the Company will not grant awards to Executive Directors under the ESOS.

Malus and clawback provisions apply to the entire LTIP as described on page 109.

Maximum opportunity

The annual LTIP maximum in respect of any financial year is:

- CEO: 175% of base salary, and
- Any other Executive Director: 150% of base salary.

Shares subject to a tax qualifying option granted as part of an approved LTIP award are not taken into account for the purposes of this limit because, as referred to in the box above under the heading 'Operation', the unapproved LTIP option is scaled back to reflect the gain made on the exercise of the tax qualifying ESOS option.

Performance measures

Awards vest subject to the achievement of performance measures assessed over the performance period (normally three financial years). The performance measures are reviewed annually to ensure they remain relevant and aligned to the Group's strategy.

Performance measures will be based on financial metrics, and/or share price growth related metrics, and/or strategic metrics.

Subject to the Remuneration Committee's discretion to amend formulaic outputs, for achievement of the threshold level of performance (the minimum level of performance for vesting to occur) up to 20% of the maximum opportunity will vest for each element.

For achievement of maximum performance 100% of the maximum opportunity will vest; there is usually straight-line vesting between these performance points.

Where an option under the ESOS is granted as part of an Approved LTIP award, the same performance condition applies to the ESOS option as applies to the LTIP award, save as required by the applicable tax legislation.

Shareholding requirements

To encourage strong shareholder alignment both during and after employment with the Company

Operation
Each Executive Director is required to hold 50% of the shares acquired through the LTIP and any deferred bonus plan award (after sales to cover tax and any exercise price) until the value of their total shareholding is equal to 200% of their annual base salary

Shares subject to award under the deferred bonus plan and vested shares subject to awards under the LTIP which are subject to a holding period count towards the shareholding requirement on a net of assumed tax basis.

Shares subject to LTIP awards which are capable of exercise count towards the limit on a net of assumed tax basis

In addition, a post-employment shareholding requirement will apply only to shares acquired pursuant to LTIP and the deferred bonus plan granted in respect of 2020 and future years but will not apply to shares purchased or acquired pursuant to all employee share plans and will not apply to LTIP or deferred bonus plan awards granted in respect of earlier years

Post employment each Executive Director is expected to maintain such of their shares which are subject to the post employment shareholding policy as have a value equal to the in-service shareholding guideline (which requires the holding of shares during employment with a value equal to 200% of salary) for a period of two years after leaving. In either case, the number of relevant shares held at leaving must be retained if this is less than the in-service guideline

Share ownership guidelines only apply to permanent Executive Director positions and in exceptional circumstances the Committee may disapply the post-employment share ownership guideline (e.g. death)

Maximum opportunity
Not applicable

Performance measures
Not applicable

Recovery provisions

The Committee may, at any time within two years following the determination of the annual bonus, or two years following vesting of the LTIP, determine that malus and / or clawback shall apply in the event of

(i) a material misstatement in the Group's financial results for the bonus year,

(ii) the remuneration committee reasonably determining that the participant has been guilty of gross misconduct,

(iii) an error in assessing any applicable performance condition,

(iv) reputational damage to the Group,

(v) corporate failure, or

(vi) a failure of acceptable health and safety standards

Before the vesting of an LTIP award, the Remuneration Committee may also decide to reduce or cancel the award if any of the above events occur

Explanation of chosen performance measures and how targets are set

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

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

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

The Remuneration Committee retains the discretion to adjust the performance targets and measures where it considers it appropriate to do so

DIRECTORS' REMUNERATION POLICY continued

Operation of share plans

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

Statement of considerations elsewhere in the Company

When setting the policy for Directors' remuneration, the Remuneration Committee has regard to the pay and employment conditions elsewhere within the Group, although employees are not formally consulted on the Directors' remuneration policy.

When developing this Policy, the Remuneration Committee considered the general workforce remuneration, related policies, and the alignment of incentives and rewards with the Group's culture and values.

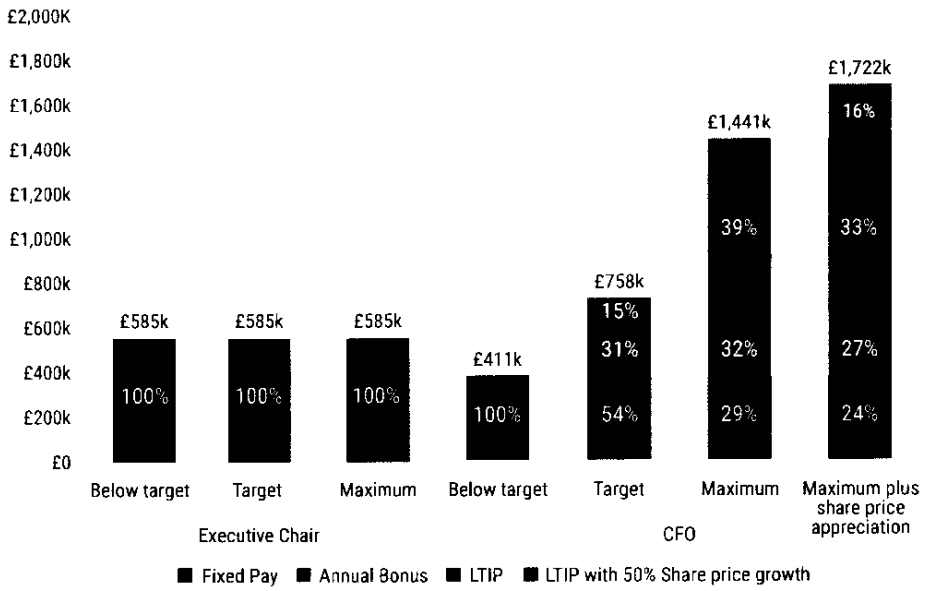
Differences in the group's policy for the remuneration of employees generally

The Group's remuneration principles underpin remuneration across the Group, including the remuneration structures below Executive Director level.

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

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

Illustrative performance scenarios for 2023 (all £000s)



The illustrative performance charts above are based on the proposed Remuneration Policy as set out on pages 105 to 113. Note, the Executive Chair who is not subject to the Remuneration Policy, has been included. Upon appointment of a new CEO an updated scenario chart will be presented.

In developing the scenarios, the following assumptions have been made for the CEO

[redacted]	Consists of total fixed pay – i.e., base salary, benefits and pension • Base salary is the latest salary effective at 1 January 2023 • Taxable benefits as per single figure table for the year ended 31 December 2022 • Pension is 5.5% of salary in the case of the CEO
	Consists of • Total fixed pay, as set out above • Annual bonus pays out at 50% of maximum for target performance (i.e., 62.5% of base salary based on a maximum potential for 2023 of 125% of base salary) • LTIP pays out at 20% of maximum for threshold vesting (i.e., 30.0% of base salary based on a maximum for 2023 of 150% of base salary)
	Consists of • Total fixed pay, as set out above • Full pay-out of annual bonus – i.e. 125% of base salary • Full vesting of LTIP awards – i.e., 150% of base salary
	Consists of • Total fixed pay, as set out above • Full pay-out of annual bonus – i.e., 125% of base salary • Full vesting of LTIP awards – i.e., 150% of base salary and an assumed 50% increase in the share price for the purposes of the LTIP award valuation

Approach to recruitment remuneration

The objective of this policy is to allow the Remuneration Committee to offer remuneration packages which

- facilitate the recruitment of individuals of sufficient calibre to develop and deliver the business strategy and shareholder value,
- offer a remuneration package that reflects the key principles of the Group's wider remuneration philosophy, and
- seek to ensure that arrangements are in the best interests of the Company and not to pay more than is appropriate

Individuals will be subject to a remuneration package that is consistent with the policy set out above. However, the Remuneration Committee retains the discretion to provide the following elements for inclusion in a recruitment package for an Executive Director

[redacted]	The Remuneration Committee may make awards on hiring an external candidate to compensate the candidate for the forfeiture of any award entered into with a previous employer. In determining any such 'buy-out' the Remuneration Committee will consider all the relevant factors regarding the forfeited arrangements which may include the likelihood of the awards vesting should the external candidate have remained in their previous employment, the form in which they were granted (e.g., cash or shares) and the time over which they would have vested. Generally, buy-out awards will be made on a comparable basis to those remuneration arrangements forfeited Where considered appropriate, buy-out awards will be subject to forfeiture or claw back on early departure
	Subject to the overall maximum variable remuneration limit set out below and to the overall plan LTIP limits set out under the policy elements on page 108, incentive awards may be granted within the first twelve months of appointment above the normal maximum annual award opportunity set out on page 108. The Remuneration Committee will ensure that any such awards are linked to the achievement of appropriate and challenging performance targets (that may differ from those set as part of ongoing policy having had regard to the circumstances of their appointment) and will be forfeited if performance or continued employment conditions are not achieved The Remuneration Committee may also alter the performance measures, performance period and any deferral arrangements or holding period applying to the annual bonus and LTIP if the circumstances of the recruitment merit such an alteration, the rationale will be clearly explained in a subsequent Directors' Remuneration Report
	The maximum level of variable remuneration which may be awarded to the CEO, is 325% of base salary (consisting of 150% annual bonus and 175% LTIP) The maximum level of variable remuneration which may be awarded to any other Executive Director, is 275% of base salary (consisting of 125% annual bonus and 150% LTIP).

The Remuneration Committee would seek to implement any share awards referred to in this section under the Company's existing share plans. However, in connection with the recruitment of an Executive Director, the Remuneration Committee may implement a new arrangement in accordance with paragraph 9.4.2 of the Listing Rules.

Where a position is filled internally, any ongoing remuneration obligations or outstanding variable pay elements shall be allowed to continue according to the original terms, with the exception of pension contributions which will be reduced in line with this policy. Where necessary, the Group will pay appropriate relocation costs and the Remuneration Committee will seek to ensure that no more than necessary is paid.

Fees payable to a newly appointed Chairman or Non-executive Director will be in line with the fee policy in place at the time of appointment.

Service contracts and loss of office payments

The policy on Executive Director service contracts and payment for loss of office is summarised below. For the avoidance of doubt, the leaver provisions summarised below in relation to the LTIP apply to LTIP awards in respect of 2023 and later years, with earlier awards being subject to the policy applying at the date of the award.

	Each current Executive Director is entitled to 12 months' notice. The Remuneration Committee may set a notice period of between six months and 12 months for any future Executive Director.
	Each current Executive Director is required to give 12 months' notice of termination. The Remuneration Committee may set a notice period of between six months and 12 months for any future Executive Director.
	Base salary, pension contributions and benefits for the duration of the notice period.
	The Remuneration Committee also has discretion to incorporate payments under the performance-linked elements of the package under "good leaver" scenarios. • If the Executive Director leaves during the annual bonus performance year, a bonus payment may be made at the Remuneration Committee's discretion. Typically for "good leavers", bonus amounts (as determined by the Remuneration Committee) will be pro-rated for time in service during the bonus year and will, subject to performance, be paid at the usual time, although the Remuneration Committee retains discretion not to apply time pro-rating and to accelerate the payment of bonuses in appropriate circumstances. Where bonus deferral would otherwise apply, the Remuneration Committee retains discretion to pay the whole of the bonus for the year of cessation in cash. • Under the Company's LTIP: – If a participant leaves as a "good leaver" before an award has vested, that award will ordinarily continue until the ordinary vesting date, when the extent of vesting will be determined by reference to the extent to which the performance conditions have been satisfied, although the Remuneration Committee retains discretion to vest the award sooner (and assess performance conditions accordingly). The extent to which the award vests will ordinarily be reduced to reflect the proportion of the performance period for which the Executive Director was employed, but the Remuneration Committee has discretion not to apply this proportionate reduction. The award will ordinarily be released to the participant at the end of the originally anticipated holding period, although the Remuneration Committee retains discretion to release the award sooner but would do so only in exceptional circumstances (including cessation due to death or ill-health). – If a participant leaves for any reason (other than summary dismissal, in which case the award will lapse) after an award has vested but before it has been released (i.e., if the participant leaves during that holding period), the award will ordinarily be released to them on the ordinary release date, although the Remuneration Committee retains discretion to release the award sooner. • Where a deferred bonus plan is granted, if the participant leaves as a "good leaver" during the deferral period, the award will ordinarily continue and be released at the ordinary release date, although the Remuneration Committee retains discretion to release the award at the date of cessation or to shorten the deferral period. Otherwise, the award shall lapse. • For the purposes of the LTIP and any deferred bonus plan, "good leaver" means cessation due to death, injury, ill-health, redundancy, or any other circumstance that the remuneration committee deems appropriate. • Were an award to be made in accordance with Listing Rule 9.4.2, then the leaver provisions would be determined at the time of the grant.
	In appropriate circumstances, other payments may be made in the event of a termination of an Executive Director's employment in respect of, for example, accrued holiday and legal and outplacement fees. SAYE options may be exercised on termination of employment to the extent permitted by the rules of the scheme, which do not provide discretion for the Remuneration Committee in respect of the treatment on termination. Awards under any other all employee share plan would be treated in accordance with the rules of that plan. If H K Nichols service agreement is terminated within one year of a change of control, she shall be paid her salary and an amount equal to the value of her benefits for a 12 month period (less the period of any notice given).

Appointments for Non-executive Directors are governed by letters of engagement. Under the terms of their engagement, the notice period to be given by the Non-executive Directors to the Company is three months and the Company is obliged to give the same length of notice. Discretion is retained to terminate with or without due notice or paying any payment in lieu of notice dependent on what is considered to be in the best interests of the Company in the particular circumstances.

Where the Remuneration Committee retains discretion, as outlined above, it will be used to provide flexibility in certain situations, taking into account the particular circumstance of the Directors departure and recent performance of the company.

Discretion and existing contractual arrangements

The Remuneration Committee reserves the right to make any remuneration payments and payments for loss of office (and to exercise any discretion in respect of any such payment) notwithstanding that they are not in line with the policy, set out above, where the terms of the payment were agreed

(i) before the policy came into effect, provided that the terms of the payment were consistent with any applicable shareholder approved directors' remuneration policy in force at the time they were agreed or were otherwise approved by shareholders, or

(ii) at a time when the relevant individual was not a Director of the Company (or other person to whom the policy set out above applies) and, in the opinion of the Remuneration Committee, the payment was not in consideration for the individual becoming a Director of the Company (or other such person)

For these purposes "payments" includes the Remuneration Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are "agreed" at the time the award is granted

Statement of consideration of shareholder views

The Company is committed to ongoing dialogue and seeks shareholder views ahead of making significant changes to its remuneration policies. The Remuneration Committee consulted with major shareholders in connection with the determination of this policy and took into account feedback received when finalising its approach

DIRECTORS' REPORT

(Other statutory information)

Principal activities and strategic report

The Company acts as a holding company to all the Group's subsidiaries.

During 2022 the principal activities of the Group comprised the manufacture and supply of:

- Galvanizing Services
- Engineered Solutions
- Roads & Security products and services

Pages 1 to 69 contain further details of these areas of the business and the principal subsidiaries operating within them are set out on pages 196 to 198.

The Executive Chair's letter and the Directors' Strategic Report include:

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

Future development

An indication of likely future developments in the Group is given in the Strategic Report on pages 1 to 69.

Statement on corporate governance

The Directors' Report for the year ended 31 December 2022 comprises sections of the Annual Report referred to under 'Strategic Report', and 'Governance Report', which are incorporated into the Directors' Report by reference.

Results (from continuing operations)

The Group profit before taxation for the year amounted to £69.3m (2021: £42.8m). Group revenue at £732.1m, was 17% up on 2021, (£625.2m). Operating profit at £78.5m, was up 61% on 2021 (£48.9m).

Share capital summary

Exchange trade	The Company's ordinary shares are listed on the Main Market of the London Stock Exchange
Class	Single class of ordinary shares of 25p each
Issued share capital 1 January 2022	79,792,883
Total new ordinary shares issued during the year	224,700
Issued share capital 31 December 2022	80,017,583
Rights and obligations	All issued shares rank equally. Rights and obligations attaching to the Company's shares are set out in the Company's Articles of Association

Further details can be found in note 25 on pages 172 and 173 of the Group Financial Statements.

Details of the results for the year are shown on the Consolidated Income Statement on page 126 and the business segment information is given on pages 139 to 141.

Dividends

The Directors recommend the payment of a final dividend of 22p per ordinary share (2021: 19.0p) which, together with the interim dividend of 13.0p per ordinary share (2021: 12.0p per ordinary share) paid on 6 January 2023, makes a total distribution for the year of 35p per ordinary share (2021: 31.0p per ordinary share). Subject to shareholders approving this recommendation at the AGM, the final dividend will be paid on 7 July 2023 to shareholders on the register at the close of business on 2 June 2023. The latest date for receipt of Dividend Re-investment Plan elections is 16 June 2023.

Share capital

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

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

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

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

Articles of Association

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

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

- The authority for making market purchases of shares greater than 5% of the Company's then issued share capital is limited by the resolution of the 2022 AGM and will be limited by the resolution to be put to the 2023 AGM. The prices to be paid for such purchases must be a minimum price of 25 pence per ordinary share (the nominal value) and a maximum price of 5% above the average of the middle market quotations for ordinary shares derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which any such purchase takes place.

- The Companies (Shareholders' Rights) Regulations 2009 provide that a company can reduce the notice period for calling meetings to the shorter period of 14 clear days on two conditions: firstly that the Company offers a facility for shareholders to vote by electronic means and secondly that there is an annual resolution of shareholders approving such reduction in the required minimum notice period. Approval to the calling of general meetings other than AGM's on 14 clear days' notice was approved at the AGM on 24 May 2022 to assist the Company in conducting its business and subject to any necessary matters being put to shareholders promptly. This approval remains effective until the earlier of the Company's next following AGM or 22 August 2023.

Substantial shareholdings

As at 31 January 2023, the Company had been notified in accordance with Rule 5 of the Disclosure and Transparency Rules of the Financial Conduct Authority of the following voting rights of the Company:

Shareholder	Number of ordinary shares	% of issued share capital
Aberdeen Standard Investments	7,299,529	9.12%
Blackrock	5,027,312	6.28%
Royal London Asset Management	4,212,710	5.26%
AXA Framlington	3,695,955	4.62%
Vanguard Group	3,608,240	4.51%
Invesco	3,534,625	4.41%
Mondrian Investment Partners	3,384,450	4.23%
Charles Stanley	2,915,602	3.64%

Directors

The names of the Directors of the Company who served throughout the year, including brief biographies, are set out on pages 70 to 71.

Directors' interests

The interests of the Directors in the share capital of Hill & Smith PLC as at 31 December 2022 are set out on page 101.

Appointment and replacement of Directors

The appointment and replacement of Directors of the Company is governed by its Articles of Association, the UK Corporate Governance Code, the Companies Acts and related legislation. Directors can be appointed by ordinary resolution at a general meeting or by the Board. If a Director is appointed by the Board, such Director will hold office until the next AGM and shall then be eligible for election at that meeting.

Conflicts

Under the Companies Act 2006 and the provisions of the Company's Articles of Association, the Board is required to consider potential conflicts of interest. The Company has established formal procedures for the disclosure and review of any conflicts, or potential conflicts, of interest which the Directors may have and for the authorisation of such conflict matters by the Board. To this end the Board considers and, if appropriate, authorises any conflicts, or potential conflicts, of interest as they arise and reviews any such authorisation annually. New Directors are required to declare any conflicts, or potential conflicts, of interest to the Board at the first Board meeting after his or her appointment. The Board believes that the procedures established to deal with conflicts of interests are operating effectively.

Directors' and officers' liability

The Company maintains an appropriate level of Directors' and Officers' insurance whereby Directors are indemnified against liabilities to third parties to the extent permitted by the Companies Act 2006.

Financial instruments

The financial risk management objectives and policies are detailed in note 24 on pages 167 to 172.

Research and development

During the year, the Group spent a total of £2.8m (2021: £1.9m) on research and development.

Political and charitable donations

Charitable donations amounting to £67,000 (2021: £39,000) were made in the year principally to local charities serving the communities in which the Group operates. There were no political contributions.

Employment policies

Details of the Group's employment policies are available on the Company's website.

Change of control/significant agreements

There are no agreements between the Group and its Directors or employees providing for compensation for loss of office or employment that occurs because of change of control, other than revised notice periods and termination payments for H K Nichols.

The Group has a revolving credit facility and unsecured notes, which include change of control provisions. Under these provisions, a change in ownership/control of the Company could result in withdrawal of these facilities.

All of the Company's share schemes contain provisions relating to a change in control. Outstanding options and awards normally vest and become exercisable on a change of control subject to the satisfaction of any performance conditions at that time.

The Directors consider that there are no contractual or other arrangements, such as those with major suppliers, which are likely to materially influence, directly or indirectly, the performance of the business and its values. Furthermore, there are no contracts of significance subsisting during the financial year between any Group undertaking and a controlling shareholder or in which a Director is or was materially interested.

Disclosure of information to auditor

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware, each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and has established that the Company's auditor is aware of that information.

Events since 31 December 2022

On 17 February 2023, the Group acquired Enduro Composites, Inc for cash consideration of £28.7m. Located in Houston, Texas, Enduro is a designer, manufacturer and supplier of engineered composite solutions focused on industrial and infrastructure market segments.

On 6 March 2023, the Group acquired Korns Galvanizing for cash consideration of £9.4m. Located in Johnstown, Pennsylvania, Korns offers hot dip galvanizing services for steel fabricators and iron foundry products.

Annual General Meeting

The Annual General Meeting of the Company will be held at 11.00 a.m. on Thursday 25 May 2023 at Cranmore Park Conference, Event & Exhibition Centre, Cranmore Avenue, Shirley, West Midlands, B90 4LF, United Kingdom. Notice is sent to shareholders separately with this Report, together with an explanation of the special business to be considered at the meeting and is also available on the Company's website at www.hsgroup.com.

Other important dates can be found in the Financial Calendar on page 194.

By order of the Board

Alex Henderson
Company Secretary

8 March 2023

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Statement of Directors' Responsibilities in respect of the Annual Report, Strategic Report, the Directors' Report and the Financial Statements

The Directors are responsible for preparing the Annual Report, Strategic Report, the Directors' Report and the Group and Parent Company Financial Statements in accordance with applicable law and regulations. Company law requires the Directors to prepare Group and Parent Company Financial Statements for each financial year. Under that law they are required to prepare the Group Financial Statements in accordance with UK adopted International Accounting Standards and applicable law and have elected to prepare Parent Company financial statements in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework. Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company Financial Statements the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable, relevant, reliable and prudent,
- for the Group Financial Statements, state whether they have been prepared in accordance with UK adopted international accounting standards,
- for the Parent Company Financial Statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Parent Company Financial Statements,
- assess the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern, and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its Financial Statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities. Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

Responsibility statement of the Directors in respect of the Annual Financial Report

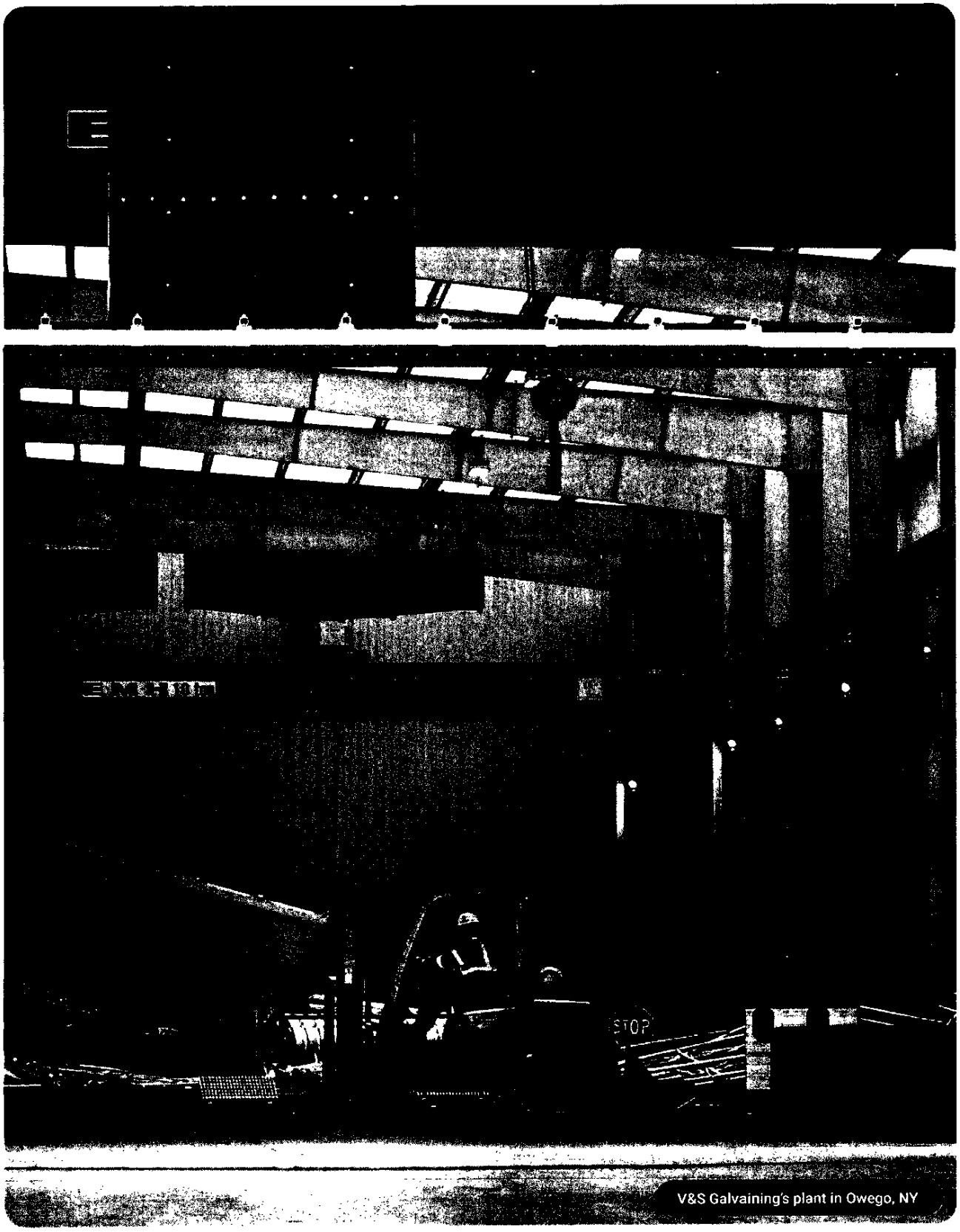
We confirm that to the best of our knowledge

- the Financial Statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole, and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face. We consider the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

By order of the Board

Alex Henderson
Group Company Secretary

8 March 2023



V&S Galvaining's plant in Owego, NY

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF HILL & SMITH PLC

Opinion

In our opinion

- Hill & Smith PLC's group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2022 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Hill & Smith PLC (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2022 which comprise:

Group	Parent company
Consolidated Income Statement	*Company Balance Sheet*
Consolidated Statement of Comprehensive Income	Company Statement of Changes in Equity
Consolidated Statement of Financial Position	Related notes 1 to 16 to the financial statements including a summary of significant accounting policies
Consolidated statement of Changes in Equity	
Consolidated Statement of Cash Flows	
Related notes 1 to 29 to the financial statements, including a summary of significant accounting policies	

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and UK adopted international accounting standards. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework".

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

The non audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company and we remain independent of the group and the parent company in conducting the audit.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the group and parent company's ability to continue to adopt the going concern basis of accounting included:

- We understood the process undertaken by management to perform the going concern assessment, including the evaluation of the ongoing impact of the cost of living crisis and other current global macro-economic factors on the Group and the Group's access to available sources of liquidity.
- We obtained management's going concern assessment, including the cash flow forecasts and covenant calculations for the going concern period to 30 June 2024. We verified these forecasts were consistent with the Board approved forecasts ensuring the operating profit, working capital adjustments and resultant cashflows in the going concern assessment matched those in the forecasts. The Group has modelled a base case, which is consistent with the assumptions used in the Group's impairment assessments. Additionally, two summary reverse stress tests have been modelled, which determine a) the additional revenue downside which could be absorbed before the Group runs out of liquidity and b) the revenue downside which would be required for the Group to breach its financial covenants under its core borrowing facilities.
- We obtained the signed agreements, including for the new revolving credit facility signed during the year, for the Group's credit facilities and read these to confirm the terms of these, including the level of facilities and basis of covenants were consistent with those considered in management's assessment.
- We assessed the reasonableness of the key assumptions underpinning the Group's forecasts in the context of other supporting evidence gained from our audit procedures on goodwill impairment reviews including trends in Group performance and other external market studies and data, such as analyst and industry forecasts. In particular, we assessed the achievability of the revenue projections in management's base case and downside scenario to the Group's performance and external industry forecasts.
- We assessed the historical accuracy of management's forecasting for the past six years, by comparing the Group's actual results to Board approved budgets and re forecasts to further challenge the prospective financial information included in the going concern assessment.
- We sensitised management's assessments using our own independently developed assumptions for a severe but plausible downside impact and confirmed these sensitivities did not give rise to any breach of covenants or the Group running out of liquidity.

- We scrutinised the results of management's reverse stress test scenario and assessed whether the changes to key assumptions which resulted in the Group either exhausting all of its liquidity or breaching covenants on the Group's borrowing facilities were plausible. This was achieved by considering the drop in revenues required for the Group to either run out of liquidity or breach covenants and comparing this reduction to the fall in the Group's actual results achieved through the course of the pandemic. We also considered mitigating actions, assessing whether they were within management's control and whether they were supported by historical actual mitigation achieved.
- We tested the clerical accuracy of the models used to prepare the Group's going concern assessment through re-computation of the models, and
- We ensured the appropriateness of the Group's disclosures concerning the going concern basis of preparation by verifying these met regulatory and legislative requirements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group and parent company's ability to continue as a going concern for a period to 30 June 2024.

In relation to the group and parent company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

Overview of our audit approach

AUDIT SCOPE	• We performed an audit of the complete financial information of 5 trading components and 1 non-trading component and audit procedures on specific balances for a further 13 components • The components where we performed full or specific audit procedures accounted for 88% of adjusted operating profit, 94% of Revenue and 71% of Total assets
KEY AUDIT MATTERS	• Revenue recognition – the risk of management override through inappropriate manual journals to revenue or inappropriate revenue cut off • Carrying value of goodwill in relation to ATG Access, Parking Facilities and Hill & Smith Inc • Risk of inappropriate inventory valuation
MATERIALITY	• Overall Group materiality of £4.1m which represents 5% of adjusted operating profit

An overview of the scope of the parent company and group audits

TAILORING THE SCOPE

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each company within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the group and effectiveness of group wide controls, changes in the business environment, other factors such as recent internal audit results when assessing the level of work to be performed at each company.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, we selected 19 components covering entities within the UK, US, France, Sweden and India which represent the principal business units within the Group.

Of the 19 components selected, we performed an audit of the complete financial information of 6 components ("full scope components") which were selected based on their size or risk characteristics. For the remaining 13 components ("specific scope components"), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

The reporting components where we performed audit procedures accounted for 98% (2021: 99%) of the Group's adjusted operating profit, 99% (2021: 99%) of the Group's Revenue and 99% (2021: 99%) of the Group's Total assets.

For the current year, the 6 full scope components contributed 57% (2021: 79%) of the Group's adjusted operating profit, 48% (2021: 53%) of the Group's Revenue and 42% (2021: 43%) of the Group's Total assets.

The 13 specific scope components contributed 31% (2021: 16%) of the Group's adjusted operating profit, 46% (2021: 40%) of the Group's Revenue and 29% (2021: 28%) of the Group's Total assets. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group. For a further 6 trading components, we performed specified procedures which as a minimum, included procedures over revenue and cash at all 6 components.

Of the remaining 3 trading components that together represent 2% of the Group's adjusted operating profit, none are individually greater than 1% of the Group's adjusted operating profit. For these components, we performed other procedures, including analytical review, testing of consolidation journals and intercompany eliminations and foreign currency translation recalculations to respond to any potential risks of material misstatement to the Group financial statements.

The charts below illustrate the coverage obtained from the work performed by our audit teams

	Components		Adjusted operating profit		Revenue		Total assets	
	2022	2021	**2022**	2021	**2022**	2021	**2022**	2021
Full scope	**6**	6	**57%**	79%	**48%**	53%	**42%**	43%
Specific scope	**13**	14	**31%**	16%	**46%**	40%	**29%**	28%
Specified procedures over trading components	**6**	5	**5%**	7%	**8%**	10%	**12%**	7%
Specified procedures over non trading components and consolidation adjustments	**23**	23	**5%**	(3%)	**(3%)**	(4%)	**16%**	20%
Overall coverage			**98%**	99%	**99%**	99%	**99%**	99%

The audit scope of the specific scope components included in the table above may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group

Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction. Of the 6 full scope components, audit procedures were performed on 2 of these directly by the primary audit team. Of the 13 specific scope components, audit procedures were performed on 10 of these directly by the primary audit team

For the remaining 4 full scope and 2 specific scope components, where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole

The Group audit team continued to follow a programme of planned visits that has been designed to ensure that the Senior Statutory Auditor visits the full scope component locations. During the current year's audit cycle, visits were undertaken by the primary audit team to the component teams in France and the US. These visits involved discussing the audit approach with the component team and any issues arising from their work, meeting with local management, attending closing meetings and reviewing key audit working papers. For France, the visit occurred earlier in the year given the component was being disposed of, to align with the planned audit procedures

The primary team interacted regularly with the component teams where appropriate during various stages of the audit, reviewed relevant working papers and were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements

Climate change

Stakeholders are increasingly interested in how climate change will impact the Group. The Group has determined that the most significant future impacts from climate change on their operations will be from transitioning to a lower-carbon economy (transition risk) and the physical risk resulting from climate change, whether event driven or longer-term shifts in climate patterns (physical risk). These are explained on pages 50 to 53 in the required Task Force for Climate related Financial Disclosures and on pages 60 to 68 in the principal risks and uncertainties. All of these disclosures form part of the "Other information," rather than the audited financial statements. Our procedures on these unaudited disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated, in line with our responsibilities on "Other information"

In planning and performing our audit we review management's assessment of the potential impacts of climate change on the Group's business and any consequential material impact on its financial statements

The group has explained in their Group Accounting Policies note how they have reflected the impact of climate change in their financial statements and in their Sustainability Plan and how this aligns with their commitment to the aspirations of the Paris Agreement to achieve a carbon net zero target by 2040 for Scopes 1 and 2 Governmental and societal responses to climate change risks are still developing with likely larger impact felt in the future as these crystallise, and, as a result, the Group currently continues to monitor the future economic impact on their business model, operational plans, suppliers and customers to achieve this. Therefore, as set out above, the potential future impacts are currently determined to be of low risk in these financial statements for the current year

Our audit effort in considering the impact of climate change on the financial statements was focused on evaluating management's assessment of the impact of climate risk, physical and transition, their climate commitments, the effects of material climate risks disclosed on pages 50 to 53 and whether these have been appropriately reflected in judgements and estimates following the requirements of UK adopted international accounting standards. As part of this evaluation, we performed our own risk assessment, supported by our climate change internal specialists, to determine the risks of material misstatement in the financial statements from climate change which needed to be considered in our audit

We also challenged the Directors' considerations and completeness of climate change risks in their assessment of going concern and viability and associated disclosures

Based on our work we have not identified the impact of climate change on the financial statements to be a key audit matter or to impact a key audit matter

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Revenue recognition – the risk of management override through inappropriate manual journals to revenue or inappropriate revenue cut-off (£732.1m, 2021: £625.2m) Cut-off **There is a risk of inappropriate revenue recognition if deliveries or revenue from the provision of services are recorded in the wrong period. This includes any estimation of revenue recorded over time and completion of projects.**	Procedures to respond to this risk were performed by both the primary audit team and component teams. **Cut-off** We performed the following audit procedures at 5 full and 13 specific scope locations where revenue is in scope. Revenue at these locations represents 94% of the total revenue balance of £732.1m. These procedures were additionally performed at the 6 trading components at which we performed specified procedures, representing a further 7% of the total revenue balance before intra-group eliminations. We performed walkthroughs of the process by which revenue is recognised and recorded at the 5 full and 13 specific scope locations. For all trading components at which we performed specified procedures, data analytics procedures were performed over the correlation of sales and cash receipts to test the existence and occurrence of revenue being recorded in the correct period. We performed cut-off testing procedures at each of the full and specific scope locations to confirm the transactions had been appropriately recorded in the income statement with reference to IFRS 15 and corroborated that control of the products had been transferred to the customer by: • analysing the contract and terms of the sale to determine that the Group had fulfilled the requirements of the contract and earned the right to revenue at the balance sheet date; • confirming revenue could be reliably measured by reference to underlying documentation; and • obtaining third party evidence such as delivery documentation and evidence of customer acceptance at the year-end date to verify the revenue had been recorded in the correct period. For utilities revenue earned on provision of installation services, for a sample of items we obtained evidence from the customer to confirm the stage of completion of the installation at the year-end to corroborate revenue was recognized in the correct period and reflective the level of installation that has taken place in the year. Where the Group recognises revenue over time on non-standard products, we confirmed for a sample of transactions the Group's right to payment for these products by agreeing to the terms and conditions of the signed sales contract to ensure the requirements of IFRS 15 had been met to recognise revenue in the current period. We also enquired of manufacturing personnel and inspected inventory ledgers and bill of materials to confirm the products were non-standard and that significant re-work would be required for the product to be sold via other means. We examined post year end credit notes to assess any evidence of inappropriate revenue recognition cut-off for the year ended 31 December 2022. For all locations we performed analytical procedures to compare revenue recognised with our expectations, management's forecasts and, where possible, external market data.	Our audit procedures did not identify evidence of material misstatements related to revenue recognition and we found no evidence of management bias
Management override As revenue is a key performance indicator for both external communication and a key input into management incentives, we also identified a risk of management override through inappropriate manual topside revenue journal entries being processed. The level of risk associated to this key audit matter is unchanged from the prior year.	**Management override** At all in scope components we obtained and reviewed break downs of all material journals and for all material revenue journals and a sample of non-material revenue journals we agreed the journal entries to underlying documentation to verify the appropriateness of the revenue being recognised. We assessed for evidence of management bias by testing all material manual journals either side of the year end and agreeing journal entries to appropriate supporting evidence. Revenue at these in scope components represents 94% of the total revenue balance. For all components we performed analytical procedures to compare revenue recognised with our expectations, management's forecasts and, where possible, external market data.	Our procedures performed did not identify any unsupported manual adjustments to revenue or any unexplained anomalies from our revenue analytics

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Carrying value of goodwill in relation to ATG Access (£4.7m, 2021: £4.7m), Parking Facilities (£nil, 2021: £4.4m), and Hill & Smith Inc. (£9.2m, 2021: £8.6m) Subsequent to Covid-19 and a substantial reduction in demand for ATG Access security solutions there was initial uncertainty in the ability of the entity to recover resulting in historic impairments. Management have assessed no further impairment is necessary in the current year. Parking Facilities manufactures and sells a range of perimeter access security products which have been impacted by increased commercial competition and reduced gross margins. As a result of their impairment testing in the current year, management recorded a £4.4m impairment of the goodwill related to the Parking Facilities cash generating unit (CGU). Hill & Smith Inc. manufactures and sells a range of traffic management solutions as well as the sale and rental of crash prevention products. The Hill & Smith Inc CGU performance was not line with management's forecasts for market expectations during 2022. Actions have been taken to improve future trading performance but the impact on short term cash flows means there is reduced headroom and increased sensitivity applicable to this CGU. The estimated recoverable amount for CGUs is subjective due to the inherent uncertainty involved in forecasting future growth and profitability of the CGUs and the rate at which the cash flows generated by the CGUs should be discounted. A relatively small change in key assumptions could give rise to a material change in the estimated recoverable amount of goodwill. The effect of these matters is that, as part of our risk assessment, we determined that the value in use of goodwill has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the Financial Statements as a whole. The Financial Statements (Note 13) disclose the sensitivity estimated by the Group. Whilst the audit effort in relation to Hill & Smith Inc has increased year on year, we consider the overall level of audit risk associated to this key audit matter is unchanged from the prior year.	We performed detailed testing with support from our valuation specialists to critically assess and corroborate the key inputs of the forecast cash flows including: • independently constructing our own expectation of the discount rates for a market participant from first principles using input from our internal specialist valuations team; • analysing the historical accuracy of budgets versus actual results to determine the reliability of cash flow forecasting based on past experience; • assessing the achievability of the budget and strategic plan results by considering factors including historic results, and performance since lockdowns, drivers of growth, reasonableness of margins, etc.; • challenging the medium and long term forecast growth rates used by considering evidence available such as industry and country forecasts and inflation data; and • analysed available information to identify any contrary evidence, including consideration of competitor performance and views provided in analyst reports, and specifically for Hill & Smith Inc., market studies. Specifically for each CGU, we further focussed on: • For ATG Access, we understood and assessed the key trading assumptions; • For Parking Facilities, we challenged whether there were any indications of impairment on the tangible fixed assets subsequent to the full impairment of intangible assets; and • For Hill & Smith Inc. we benchmarked expectations around future growth rates with externally produced market studies, and challenged if it was feasible for these growth rates to be applied to the business. • We further challenged the achievability of management's planned turnaround actions and considered the timing and feasibility of completing these. We assessed the disclosures in respect of goodwill and intangibles with reference to the requirements of IAS 36 and confirmed their consistency with the audited impairment models. We challenged the completeness of range of scenarios considered in the sensitivity analysis undertaken by management. We assessed whether the disclosures in relation to the key assumptions around Hill & Smith Inc were adequate given the sensitivity of the level of headroom to possible changes in these key assumptions. The audit procedures performed to address this risk have been performed by the primary audit team.	Of the Group's assets, the CGU which remains most sensitive to reasonably possible changes in key assumptions is Hill & Smith Inc. Management describes those sensitivities appropriately in the intangible asset Note 13 in accordance with the requirements of IAS 36.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Risk of inappropriate inventory valuation (£113.8m, 2021: £108.1m) The valuation of inventory across the Group is dependent on establishing appropriate valuation processes. The establishment of standard costing bases and the assessment of how much excess and obsolete inventory exists requires judgement to be applied in finalising the inventory valuation and level of provisioning required. If these judgements are not appropriate then there is a risk that inventory is incorrectly valued. The level of risk associated to this key audit matter is unchanged from the prior year.	Procedures to respond to this risk were performed by both the primary audit team and component teams. We performed the following audit procedures at 5 full, 8 specific scope, and 1 specified procedures component where inventory is in scope. Inventory at these components represents 90% of the total inventory balance. We performed walkthroughs of inventory valuation methods at each of the 5 full, 8 specific scope components where inventory was in scope. We performed tests of detail for a sample of inventory items at all components to check the accumulation of cost within inventory and to confirm the valuation reflected the products' stage of completion. We agreed our samples from the year-end inventory counts which we attended to the inventory subledger and performed roll forward procedures to year end. Of the components in scope for inventory, we were able to physically attend all counts. We obtained evidence to support the standard costs used and performed procedures to assess whether only normal production variances had been capitalised in the year-end inventory balance and material abnormal inefficiencies had been appropriately expensed. This included comparing actual production rates to budget. We obtained evidence to support that inventory is held at the lower of cost and net realisable value by assessing the adequacy of excess and obsolete provisions held against inventory. This included comparing forecast product usage to customer orders, considering historical usage, historical accuracy of provisioning and understanding management's future plans to utilise the inventory. We performed clerical procedures on the formulaic calculations to evaluate the accuracy of the inventory provisioning. On occasion, management makes adjustments to the formulaic provision calculations. We evaluated the assumptions and judgements applied by management in determining the provision recorded in the Financial Statements.	The basis for the year end inventory valuation and the assumptions used in assessing the adequacy of the excess and obsolete inventory provisions across the Group is considered appropriate. Our audit procedures confirmed variances between standard and actual costs and the overheads absorbed in the inventory valuation had been appropriately calculated and accounted for.

In the prior year, our auditor's report included a key audit matter in relation to the carrying value of goodwill for the France Galva CGU. In the current year, the France Galva division was disposed of with no year end balances remaining related to goodwill or intangible assets.

Given the current sensitivities surrounding the headroom as disclosed in Note 13, this year, more audit effort has been focussed on the Hill & Smith Inc. CGU. Therefore, this CGU has specifically been included in the key audit matter relating to the carrying value of goodwill and intangible assets where more audit attention was focussed.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

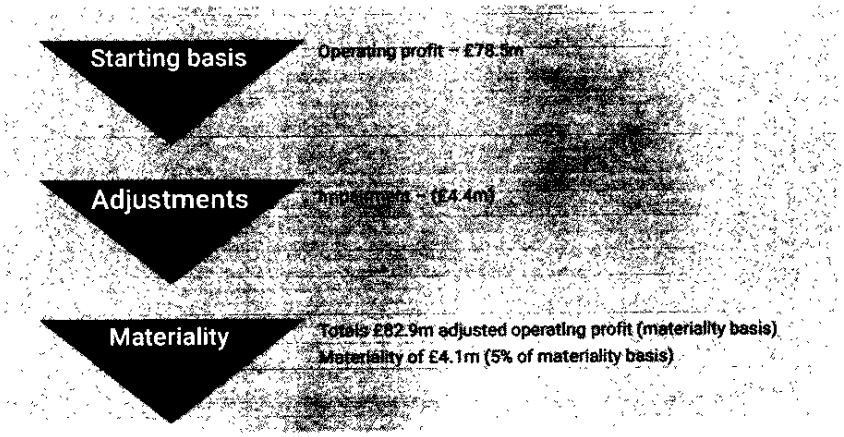
MATERIALITY

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £4.1 million (2021: £3.7 million), which is 5% (2021: 5%) of adjusted operating profit. We believe that adjusted operating profit provides us with the most relevant performance measure to the stakeholders of the Group as it excludes material non-recurring items and therefore have determined materiality based on this number.

We determined materiality for the Parent Company to be £4.9 million (2021: £4.9 million), which is 1.5% (2021: 1.5%) of equity.

We initially calculated materiality to be £3.8m based on 5% of forecast adjusted operating profit. The final results were higher than management's initial forecast. Therefore, we reassessed final materiality to be £4.1m based on 5% of actual adjusted operating profit.



PERFORMANCE MATERIALITY

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% (2021: 75%) of our planning materiality, namely £3.0m (2021: £2.8m). We have set performance materiality at this percentage due to our expectation of misstatements being low.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £0.3m to £1.8m (2021: £0.2m to £1.8m).

REPORTING THRESHOLD

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.2m (2021: £0.19m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report set out on pages 1 to 115, other than the *financial statements and our auditor's report* thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or *returns adequate for our audit have not* been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Corporate Governance Statement

We have reviewed the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the group and company's compliance with the provisions of the UK Corporate Governance Code specified for our review by the Listing Rules.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 81;
- Directors' explanation as to its assessment of the company's prospects, the period this assessment covers and why the period is appropriate set out on page 82;
- Director's statement on whether it has a reasonable expectation that the group will be able to continue in operation and meets its liabilities set out on page 82;
- Directors' statement on fair, balanced and understandable set out on page 82;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 81;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 81; and
- The section describing the work of the audit committee set out on page 86.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 116, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the

audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant frameworks which are directly relevant to specific assertions in the Financial Statements are those that relate to the reporting framework (UK adopted international accounting standards, the Companies Act 2006 and the UK Corporate Governance Code). In addition, we concluded that there are certain significant laws and regulations which may have an effect on the determination of the amounts and disclosures in the Financial Statements being the Listing Rules of the UK Listing Authority, the US Foreign Corrupt Practices Act, Swedish, French and Indian Companies Act legislation, and those laws and regulations relating to health & safety and employee matters.
- We understood how Hill & Smith PLC is complying with those frameworks by making enquiries of management, Internal Audit, those responsible for legal and compliance procedures and the Company Secretary. We corroborated our enquiries through our review of Board minutes, papers provided to the Audit Committee and correspondence received from regulatory bodies. We also observed the oversight of those charged with governance, the culture of honest and ethical behaviour and whether a strong emphasis is placed on fraud prevention and deterrence, which may reduce opportunities for fraud to take place.
- We assessed the susceptibility of the Group's Financial Statements to material misstatement, including how fraud might occur, by meeting with management from various parts of the business to understand where it considered there was susceptibility to fraud. We also considered performance targets and their influence on efforts made by management to manage earnings or influence the perceptions of analysts. We considered the programmes and controls that the Group has established to address risks identified, or that otherwise prevent, deter and detect fraud, and how senior management monitors those programmes and controls. Where the risk was considered to be higher we performed audit procedures to address each identified fraud risk. These procedures included testing manual journals and were designed to provide reasonable assurance that the Financial Statements were free from fraud or error.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved journal entry testing, with a focus on manual consolidation journals and journals indicating large or unusual transactions based on our understanding of the business, enquiries of internal and external legal counsel, Group management, Internal Audit, full and specific scope component management, and focused testing, as referred to in the key audit matters section above.
- Component teams reported any non-compliance with laws and regulations through their audit deliverables based on the procedures detailed in the previous paragraph. Further, the Group team communicated any instances of non-compliance with laws and regulations to component teams through regular interactions with local EY teams. There were no significant instances of non-compliance with laws and regulations.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

- Following the recommendation from the audit committee we were appointed by the company on 19 October 2022 to audit the financial statements for the year ending 31 December 2022 and subsequent financial periods.

The period of total uninterrupted engagement including previous renewals and reappointments is 3 years, covering the years ending 31 December 2020 to 31 December 2022.

- The audit opinion is consistent with the additional report to the audit committee.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Helen McLeod-Jones
(Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

Birmingham

8 March 2023

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2022

	Notes	2022 Underlying £m	2022 Non-underlying* £m	2022 Total £m	2021 Underlying £m	2021 Non-underlying* £m	2021 Total £m
Continuing Operations							
Revenue	3	**732.1**	–	**732.1**	625.2	–	625.2
Cost of sales		**(461.6)**	–	**(461.6)**	(389.2)	–	(389.2)
Gross profit		**270.5**	–	**270.5**	236.0	–	236.0
Distribution costs		**(31.7)**	–	**(31.7)**	(32.5)	–	(32.5)
Administrative expenses		**(142.0)**	**(18.6)**	**(160.6)**	(126.9)	(28.4)	(155.3)
Other operating income		**0.3**	–	**0.3**	0.7	–	0.7
Operating profit	3, 4	**97.1**	**(18.6)**	**78.5**	77.3	(28.4)	48.9
Financial income	7	**0.5**	–	**0.5**	0.6		0.6
Financial expense	7	**(9.7)**	–	**(9.7)**	(6.7)	–	(6.7)
Profit before taxation		**87.9**	**(18.6)**	**69.3**	71.2	(28.4)	42.8
Taxation	9	**(19.7)**	**3.7**	**(16.0)**	(15.5)	1.1	(14.4)
Profit for the year from continuing operations		**68.2**	**(14.9)**	**53.3**	55.7	(27.3)	28.4
Discontinued Operations							
Profit from discontinued operations	10	**5.2**	**(1.8)**	**3.4**	6.4	(0.6)	5.8
Profit for the year attributable to the owners of the parent		**73.4**	**(16.7)**	**56.7**	62.1	(27.9)	34.2
Basic earnings per share	11			**71.0p**			43.0p
Basic earnings per share – continuing	11			**66.7p**			35.8p
Diluted earnings per share	11			**70.4p**			42.5p
Diluted earnings per share – continuing	11			**66.2p**			35.4p

* The Group's definition of non underlying items is included in the Group Accounting Policies on page 137 and further details on non underlying items are included in note 5

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2022

	Notes	2022 £m	2021 £m
Profit for the year		**56.7**	34.2
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of overseas operations	24	**27.4**	(2.3)
Exchange differences on foreign currency borrowings designated as net investment hedges	24	**(4.8)**	0.6
Items that will not be reclassified subsequently to profit or loss			
Actuarial (loss)/gain on defined benefit pension schemes	27	**(2.8)**	3.5
Taxation on items that will not be reclassified to profit or loss	9	**0.7**	
Other comprehensive income for the year		**20.5**	1.8
Total comprehensive income for the year attributable to owners of the parent		**77.2**	36.0

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2022

	Notes	2022 £m	2021 £m
Non-current assets			
Intangible assets	13	**182.6**	177.4
Property, plant and equipment	14	**186.3**	193.3
Right-of-use assets	16	**38.7**	38.2
Corporation tax receivable	9	**1.6**	1.6
Deferred tax assets	17	**0.1**	1.4
		409.3	411.9
Current assets			
Assets held for sale	15	**1.8**	3.6
Inventories	18	**113.8**	108.1
Trade and other receivables	19	**144.3**	130.2
Current tax assets		**0.3**	0.7
Cash and cash equivalents	20	**24.8**	18.8
		285.0	261.4
Total assets	3	**694.3**	673.3
Current liabilities			
Liabilities held for sale	15	**–**	(1.9)
Trade and other liabilities	21	**(120.8)**	(132.7)
Current tax liabilities		**(8.6)**	(4.3)
Provisions	23	**(3.7)**	(4.0)
Lease liabilities	16	**(8.7)**	(8.8)
Loans and borrowings	21	**(0.3)**	(1.9)
		(142.1)	(153.6)
Net current assets		**142.9**	107.8
Non-current liabilities			
Other liabilities	22	**(0.2)**	(1.5)
Provisions	23	**(2.7)**	(2.4)
Deferred tax liabilities	17	**(11.6)**	(12.8)
Retirement benefit obligations	27	**(7.2)**	(12.3)
Lease liabilities	16	**(30.6)**	(30.1)
Loans and borrowings	22	**(104.9)**	(121.0)
		(157.2)	(180.1)
Total liabilities		**(299.3)**	(333.7)
Net assets		**395.0**	339.6
Equity			
Share capital	25	**20.0**	20.0
Share premium		**42.8**	40.9
Other reserves		**4.9**	4.9
Translation reserve		**28.1**	15.5
Retained earnings		**299.2**	258.3
Total equity		**395.0**	339.6

Approved by the Board of Directors on 8 March 2023 and signed on its behalf by

A C Giddins
Director

H K Nichols
Director

Company Number: 671474

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2022

	Notes	Share capital £m	Share premium £m	Other reserves £m	Translation reserve £m	Retained earnings £m	Total equity £m
At 1 January 2021		19.9	38.4	4.9	17.2	240.1	320.5
Comprehensive income							
Profit for the year		–		–	–	34.2	34.2
Other comprehensive income for the year		–	–	–	(1.7)	3.5	1.8
Transactions with owners recognised directly in equity							
Dividends	12	–	–	–	–	(21.2)	(21.2)
Credit to equity of share-based payments	25	–	–	–	–	2.5	2.5
Own shares held by employee benefit trust		–	–	–	–	(1.5)	(1.5)
Satisfaction of long term incentive and deferred bonus awards		–	–		–	(0.3)	(0.3)
Tax taken directly to the Consolidated Statement of Changes in Equity	9		–		–	1.0	1.0
Shares issued	25	0.1	2.5		–	–	2.6
At 31 December 2021		**20.0**	**40.9**	**4.9**	**15.5**	**258.3**	**339.6**
Comprehensive income							
Profit for the year		–	–	–	–	**56.7**	**56.7**
Other comprehensive income for the year		–	–	–	**22.6**	**(2.1)**	**20.5**
Transactions with owners recognised directly in equity							
Dividends	12	–	–	–	–	**(24.7)**	**(24.7)**
Credit to equity of share-based payments	25	–	–	–	–	**2.4**	**2.4**
Own shares held by employee benefit trust		–	–	–	–	**0.5**	**0.5**
Satisfaction of long term incentive and deferred bonus awards		–	–	–	–	**(0.9)**	**(0.9)**
Tax taken directly to the Consolidated Statement of Changes in Equity	9	–	–	–	–	**(1.0)**	**(1.0)**
Shares issued	25	–	**1.9**	–	–	–	**1.9**
At 31 December 2022		**20.0**	**42.8**	**4.9**	**38.1**	**289.2**	**395.0**

† Other reserves represent the premium on shares issued in exchange for shares of subsidiaries acquired and £0.2m (2021: £0.2m) capital redemption reserve

At 31 December 2021 a total of 111,084 shares were held in an employee benefit trust for the purpose of settling awards granted to employees under equity-settled share based payment plans. The cost of these shares, amounting to £1.8m, was included within retained earnings at that date. During 2022, 35,646 shares have been issued in settlement of awards to employees, leaving 75,438 shares held at 31 December 2022, at a cost of £1.3m included within retained earnings

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2022

	Notes	2022 £m	2022 £m	2021 £m	2021 £m
Profit before tax from continuing operations			**69.3**		47.8
Profit before tax from discontinued operations	10		**4.9**		8.1
Add back net financing costs	7, 10		**9.3**		6.1
Operating profit – Total Group	3, 4, 10		**83.5**		57.0
Adjusted for non cash items					
Share based payments	6, 25	**2.0**		2.8	
Loss on disposal of subsidiaries	5	**1.4**		0.4	
Loss/(gain) on disposal of non-current assets	8	**0.3**		(1.1)	
Depreciation of owned assets	8, 14	**19.1**		20.9	
Amortisation of intangible assets	8, 13	**8.3**		7.5	
Right-of-use asset depreciation	8, 16	**8.8**		10.3	
Gain on lease termination	16	**–**		(0.1)	
Release of accrued contingent consideration	5	**–**		(0.9)	
Impairment of non current assets	5, 8, 13	**6.4**		15.0	
			46.3		55.8
Operating cash flow before movement in working capital			**129.8**		112.8
Increase in inventories		**(21.0)**		(13.6)	
Increase in receivables		**(19.1)**		(7.9)	
(Decrease)/increase in payables		**(2.5)**		14.7	
Decrease in provisions and employee benefits		**(4.3)**		(2.9)	
Net movement in working capital			**(46.9)**		(9.7)
Cash generated by operations			**82.9**		103.1
Purchase of assets for rental to customers			**(10.6)**		(16.7)
Income taxes paid			**(15.5)**		(15.2)
Interest paid			**(6.4)**		(4.7)
Interest paid on lease liabilities			**(0.8)**		(0.8)
Net cash from operating activities			**49.6**		65.7
Interest received		**0.5**		0.6	
Proceeds on disposal of non-current assets		**0.4**		3.7	
Purchase of property, plant and equipment		**(18.4)**		(17.8)	
Purchase of intangible assets		**(2.5)**		(1.4)	
Acquisitions of subsidiaries	13	**(24.6)**		(117.8)	
Disposals of subsidiaries	5	**58.6**		7.6	
Net cash used in investing activities			**14.0**		(25.1)
Issue of new shares	25	**1.9**		2.6	
Purchase of shares for employee benefit trust		**(0.4)**		(1.8)	
Dividends paid	12	**(24.7)**		(21.2)	
Costs associated with refinancing during the year		**(2.1)**		–	
Repayment of lease liabilities		**(9.5)**		(10.3)	
New loans and borrowings		**160.8**		55.3	
Repayment of loans and borrowings		**(184.8)**		(61.0)	
Net cash used in financing activities			**(58.8)**		(36.4)
Net increase in cash and cash equivalents net of bank overdraft			**4.8**		4.2
Cash and cash equivalents net of bank overdraft at the beginning of the year			**18.1**		13.9
Effect of exchange rate fluctuations			**1.9**		–
Cash and cash equivalents net of bank overdraft at the end of the year	20		**24.8**		18.1

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Group Accounting Policies

Hill & Smith PLC ("formerly "Hill & Smith Holdings PLC") is a company incorporated in the UK. The consolidated financial statements of Hill & Smith PLC and its subsidiaries (the "Group") are presented for the year ended 31 December 2022.

The Group Financial Statements have been prepared and approved by the Directors in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and UK adopted International Financial Reporting Standards. The Company has elected to prepare its Parent Company Financial Statements in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"), these are presented on pages 181 to 191.

The Accounting Policies set out below have, unless otherwise stated, been applied consistently in all periods presented in these Group Financial Statements. Judgements made by the Directors in the application of these Accounting Policies that have a significant effect on the Group Financial Statements and estimates with a significant risk of material adjustment in the next year are discussed in note 2.

BASIS OF PREPARATION

The consolidated financial statements comprise the financial statements of the Company, Hill & Smith PLC, and its subsidiaries as at 31 December 2022. Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the Group Financial Statements from the date that control commences until the date that control ceases.

In preparing the consolidated financial statements, management has considered the impact of climate change, taking into account the relevant disclosures in the Strategic Report, including those made in accordance with the recommendations of the Taskforce on Climate-related Financial Disclosures. This included an assessment of assets with indefinite and long lives and how they could be impacted by measures taken to address global warming. As outlined in the Operational and Financial Review on page 23, physical climate change presents a relatively low risk to the Group's future business operations. As such, no issues were identified that would impact the carrying values of such assets or have any other impact on the financial statements.

MEASUREMENT CONVENTION

The Group Financial Statements are prepared on the historical cost basis except where the measurement of balances at fair value is required as explained below. The Group Financial Statements are presented in Sterling and all values are stated in million (£m) rounded to one decimal place, except where otherwise indicated.

GOING CONCERN AND LIQUIDITY RISK

In determining the appropriate basis of preparation of its financial statements, the Directors are required to assess whether the Group can continue in operational existence for the foreseeable future. When making this assessment, the Group considers whether it will be able to maintain adequate liquidity headroom above the level of its borrowing facilities and to operate within the financial covenants on those facilities.

At 31 December 2022, the Group had £309.0m of committed borrowing facilities, of which only £0.3m matures before June 2026 at the earliest, and a further £11.5m of on demand facilities. The Group refinanced its revolving credit facility in November 2022, *entering into a new facility with* a value of £250m that is committed until November 2026, with an option to extend the maturity by a further year at the one-year anniversary. The Group also holds $70m of Senior Unsecured Notes, and other local committed borrowing facilities of £0.6m. The amount drawn down under these committed facilities at 31 December 2022 was £107.4m, which together with cash and cash equivalents of £24.8m gave total headroom of £237.9m (£226.4m committed, £11.5m on demand). The Group has not made any changes to its principal borrowing facilities between 31 December 2022 and the date of approval of these financial statements. The only significant changes to liquidity headroom during that period were the acquisitions of Enduro Composites, which the Group completed on 17 February 2023 for an initial consideration of £28.7m, and Korns Galvanizing, which the Group acquired on 6 March 2023 for consideration of £9.4m. Substantial headroom against borrowing facilities remains in place post these acquisitions.

The principal borrowing facilities are subject to covenants that are measured biannually in June and December, being net debt to EBITDA of a maximum of 3.0x and interest cover of a minimum of 4.0x, based on measures as defined in the facilities agreements which are adjusted from the equivalent IFRS amounts. The ratio of net debt to EBITDA at 31 December 2022 was 0.7 times and interest cover was 21.6 times. Note 24 to the Financial Statements sets out more information on the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to credit and liquidity risk.

The Group has carefully modelled its cash flow outlook for the period to 30 June 2024, taking account of the current global economic conditions. In this 'base case' scenario, the forecasts indicate significant liquidity headroom will be maintained above the Group's borrowing facilities and financial covenants will be met throughout the period, including the covenant tests at 30 June 2023, 31 December 2023 and 30 June 2024.

The Group has carried out stress tests against the base case to determine the performance levels that would result in a breach of covenants or a reduction of headroom against its borrowing facilities to nil. For a breach of covenants to occur during the relevant period, the Group would need to experience a sustained revenue reduction of 26% compared with current expectations throughout the period from May 2023 through June 2024. A reduction in headroom against borrowing facilities to nil would occur if the Group experienced a sustained revenue reduction of 88% compared with current expectations between May 2023 and June 2024. The Directors do not consider any of these scenarios to be plausible given the generally positive outlook across the infrastructure markets in which the Group operates. The Directors also noted the Group's ability to continue its operations throughout the COVID-19 pandemic, noting that revenues fell by only 22% in the second quarter of 2020, the worst-affected period. Furthermore, the Group has several mitigating actions under its control including minimising capital expenditure to critical requirements, reducing levels of discretionary spend, rationalising its overhead base and curtailing future dividend payments which, although not forecast to be required, could be implemented in order to be able to meet the covenant tests and to continue to operate within borrowing facility limits.

1. Group Accounting Policies continued

After making these assessments, the Directors have reasonable expectation that the Company and its subsidiaries have adequate resources to continue in operational existence for the foreseeable future and for a period of at least 12 months following the approval of these financial statements. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Financial Statements.

NEW IFRS STANDARDS AND INTERPRETATIONS ADOPTED DURING 2022

The following amendments and interpretations apply for the first time in 2022 and therefore were adopted by the Group.

- Amendments to IFRS 3 – Reference to Conceptual Framework
- Amendments to IAS 16 – Proceeds before intended use
- Amendments to IAS 37 – Onerous Contracts – costs of fulfilling a contract

The amendments noted above have not had a material impact on the financial statements.

NEW IFRS STANDARDS AND INTERPRETATIONS TO BE ADOPTED IN THE FUTURE

The following standards and interpretations, which are not yet effective and have not been early adopted by the Group, will, where relevant, be adopted in future accounting periods.

To be adopted for year-ending 31 December 2023

- Amendments to IAS 1 – Classification of liabilities as current or non current
- Amendments to IAS 8 – Definition of Accounting Estimates
- Amendments to IAS 1 – Disclosure of Accounting Policies
- Amendments to IAS 12 – Deferred Tax related to Assets and Liabilities arising from a Single Transaction

There are currently no further standards and interpretations to be adopted for year-ending 31 December 2024.

The above changes are not expected to have a material impact on the Group.

BUSINESS COMBINATIONS

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value. Acquisition-related costs are expensed as incurred and included in non-underlying costs (see accounting policy 'non underlying items'). Fair value adjustments are always considered to be provisional at the first year end date after the acquisition to allow the maximum time to elapse for management to make a reliable estimate.

The Group determines that it has acquired a business when the acquired set of activities and assets include an input and a substantive process that together significantly contribute to the ability to create outputs. The acquired process is considered substantive if it is critical to the ability to continue producing outputs, and the inputs acquired include an organised workforce with the necessary skills, knowledge, or experience to perform that process or it significantly contributes to the ability to continue producing outputs and is considered unique or scarce or cannot be replaced without significant cost, effort, or delay in the ability to continue producing outputs.

INTANGIBLE ASSETS – GOODWILL

Goodwill on acquisition of subsidiaries is initially measured at cost and comprises the excess of the fair value of the purchase consideration paid for subsidiaries over the Group's share of the fair value of the identifiable assets and liabilities acquired. After initial recognition, goodwill is measured at cost less impairment losses (see accounting policy 'Impairment of assets').

INTANGIBLE ASSETS – OTHER

Other intangible assets that are acquired by the Group as part of a business combination, such as brands, patents and customer lists, are stated at cost less accumulated amortisation and impairment losses (see accounting policy 'Impairment of assets'). Cost reflects management's judgement of the fair value of the individual intangible asset calculated by reference to the net present value of future benefits accruing to the Group from the utilisation of the asset, discounted at an appropriate discount rate.

Certain US brands are considered to have an indefinite life and therefore are subject to annual impairment testing (see accounting policy 'Impairment of assets'). In determining that these brands have indefinite lives, consideration was given to the extent of their trading history, which in all cases exceeds 50 years, their prominence in the markets in which they operate and the nature of the products sold under those brands in the context of potential for future development. For other brands, patents and customer lists, amortisation is provided equally over the estimated useful economic life of the assets concerned, currently up to 20 years. Amortisation of such items is recorded as a non underlying item within administrative expenses (note 5).

Where computer software is not an integral part of a related item of computer hardware, the software is treated as an intangible asset. Acquired computer software licences are capitalised on the basis of costs incurred to acquire and bring into use the specific software. An internally generated intangible asset arising from the Group's development of computer systems (including websites) is recognised if, and only if, the costs are directly associated with the production of identifiable and unique software products, controlled by the Group and it is probable that future economic benefits will flow to the Group. Amortisation is provided equally over the estimated useful economic life of the assets concerned, currently up to seven years.

1. Group Accounting Policies continued

Trade licences are amortised over the specific term granted to each individual licence.

An intangible asset is derecognised upon disposal (i.e. at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising upon derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Consolidated Income Statement.

INTANGIBLE ASSETS – RESEARCH AND DEVELOPMENT COSTS

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale;
- Its intention to complete and its ability and intention to use or sell the asset;
- How the asset will generate future economic benefits;
- The availability of resources to complete the asset; and
- The ability to measure reliably the expenditure during development.

The expenditure capitalised includes the cost of materials, direct labour and an appropriate amount of directly attributable overheads. Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses (see accounting policy 'Impairment of assets'). Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. Amortisation is recorded in administrative expenses. During the period of development, the asset is tested for impairment annually.

Other development expenditure is recognised in the Consolidated Income Statement as an expense as incurred.

PROPERTY, PLANT, EQUIPMENT AND DEPRECIATION

Property, plant and equipment are recorded in the Group's Consolidated Statement of Financial Position at cost less accumulated depreciation and any recognised impairment loss. Cost includes, where appropriate, directly attributable costs incurred in bringing each asset to its present condition and location.

Assets in the course of construction are stated at cost, net of any accumulated impairment losses.

Certain of the Group's Roads businesses routinely generate revenue from the rental of assets to customers. Such assets are accounted for as plant and equipment. If an asset that is held for rental is sold, the asset is transferred from property, plant and equipment to inventories at the carrying amount when the asset ceases to be rented. The proceeds from the sale of such assets are recognised as revenue in the Consolidated Income Statement.

Depreciation is provided to write off the cost or deemed cost less the estimated residual value of property, plant and equipment (excluding assets in the course of construction) by equal instalments over their estimated useful economic lives as follows:

Buildings and leasehold improvements	5 to 50 years
Plant, machinery and vehicles	up to 20 years

No depreciation is provided on freehold land.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal (i.e. at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Consolidated Income Statement when the asset is derecognised.

Repair and maintenance costs are recognised in the Consolidated Income Statement as incurred.

IMPAIRMENT OF ASSETS

For goodwill and intangible assets that have an indefinite life, the recoverable amount is assessed at each year end date, or when indicators of impairment exist, and an impairment loss is recognised, where appropriate, for the amount by which the asset's carrying amount exceeds its recoverable amount. Impairment reviews are undertaken at the level of each significant cash generating unit, which are no larger than operating segments as defined in IFRS 8 – Segmental reporting.

The carrying amounts of the Group's other non-financial assets, other than inventories (see accounting policy 'Inventories') and deferred tax balances (see accounting policy 'Deferred taxation'), are reviewed at each year end date to determine whether there is an indication of impairment. If such an indication exists, the relevant asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of the asset or its cash generating unit exceeds its recoverable amount.

The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

1. Group Accounting Policies continued

NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

The Group classifies non-current assets and disposal groups as held for sale if their carrying amount will be recovered principally through sale rather than through continuing use. On initial classification as held for sale non-current assets and disposal groups are measured at the lower of the previous carrying amount and fair value less costs to sell with any adjustments taken to the Consolidated Income Statement. The same applies to gains and losses on subsequent remeasurement. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group) excluding finance costs and income tax expense.

The criteria for held for sale classification are regarded as met only when the sale is highly probable, and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. The Group must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Property, plant and equipment, intangible assets and right-of-use assets are not depreciated or amortised once classified as held for sale.

Assets and liabilities classified as held for sale are presented separately as current items in the Group's Consolidated Statement of Financial Position.

FINANCIAL INSTRUMENTS

Financial assets and liabilities are recognised in the Group's Consolidated Statement of Financial Position when the Group becomes party to the contractual provisions of the instrument.

Trade receivables and trade payables are initially measured at fair value. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method and in the case of trade receivables, less any impairment losses. Impairment losses are measured using an expected credit loss model. The Group uses the simplified approach to measure expected credit losses for trade receivables and therefore does not track changes in credit risk, but instead recognises a loss allowance based on lifetime expected credit losses at each reporting date. Further details are provided in note 24(e).

Derivative financial instruments of the Group are used to hedge its exposure to interest rate and foreign currency risks arising from operational, financing and investment activities.

In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments, as follows:

- Derivative financial instruments are stated at fair value. The unhedged gain or loss on remeasurement to fair value is recognised immediately in the Consolidated Income Statement.
- The fair value of foreign exchange contracts is the estimated amount that the Group would receive or pay to terminate such contracts at the year end date, taking into account the forward exchange rates prevailing at that date.

Where derivative financial instruments are used to hedge cash flow risk, such as interest rate swaps, the effective part of any gain or loss on the fair value of cash flow hedges is recognised in the Consolidated Statement of Comprehensive Income and in the hedge reserve, while any ineffective part is recognised immediately in the Consolidated Income Statement. Amounts recorded in the hedge reserve are subsequently reclassified to the Consolidated Income Statement when the interest expense is actually recognised.

To qualify for hedge accounting the hedging relationship must meet several conditions with respect to documentation, probability of occurrence, hedge effectiveness and reliability of measurement. At the inception of the transaction, the Group documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking the hedge transaction. This process includes linking all derivatives designated as hedges to specific assets and liabilities or to specific firm commitments or forecast transactions. The Group also documents its assessment, at hedge inception and on a half yearly basis, as to whether the derivatives that are used in hedging transactions have been, and are likely to continue to be, effective in offsetting changes in fair value or cash flows of hedged items.

Interest bearing borrowings are recognised initially at fair value. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the Consolidated Income Statement over the period of the borrowings on an effective interest basis.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are, where there is a right of offset, included as a component of cash and cash equivalents for the purpose of the Consolidated Statement of Cash Flows.

FOREIGN CURRENCIES

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Any gain or loss on translation of monetary foreign currency assets and liabilities arising from a movement in exchange rates subsequent to initial measurement is included as an exchange gain or loss in the Consolidated Income Statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

1. Group Accounting Policies continued

The assets and liabilities of overseas subsidiary undertakings, including goodwill and fair value adjustments arising on acquisition, are translated at the closing exchange rate. Income statements and cash flows of such undertakings are translated into Sterling at weighted average rates of exchange, other than substantial transactions that are translated at the rate on the date of the transaction. The adjustments to period end rates are taken to the cumulative translation reserve in equity and reported in the Consolidated Statement of Comprehensive Income. When an overseas operation is disposed of in part or in full, the relevant amount in the translation reserve is transferred to profit or loss.

Foreign currency differences arising on the retranslation of a financial liability designated as a hedge of a net investment in a foreign operation are recognised and reported in the Consolidated Statement of Comprehensive Income, to the extent that the hedge is effective. To the extent that the hedge is ineffective, such differences are recognised in profit or loss. When the hedged part of a net investment is disposed of, the associated cumulative amount in the translation reserve is transferred to profit or loss as an adjustment to the profit or loss on disposal.

The principal exchange rates used were as follows:

	2022		2021	
	Average	Closing	Average	Closing
Sterling to Euro (£1 = EUR)	**1.17**	**1.13**	1.16	1.19
Sterling to US Dollar (£1 = USD)	**1.24**	**1.20**	1.38	1.35
Sterling to Swedish Krona (£1 = SEK)	**12.47**	**12.49**	11.80	12.21
Sterling to Indian Rupee (£1 = INR)	**97.01**	**99.41**	101.71	100.21
Sterling to Australian Dollar (£1 = AUD)	**1.78**	**1.77**	1.83	1.86

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. In determining the cost of raw materials, consumables and goods purchased for resale, either the FIFO or average cost method is used depending on the nature of the inventory. Cost for work in progress and finished goods comprises direct materials, direct labour and an appropriate proportion of attributable overheads.

PROVISIONS

A provision is recognised in the Consolidated Statement of Financial Position when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

In accordance with the Group's environmental policy and applicable legal requirements, a provision for site restoration in respect of contaminated land is recognised as an obligation arises.

LEASES

To the extent that a right of control exists over an asset subject to a lease and with a lease term exceeding one year, the Group recognises a right of use asset, representing the underlying lease asset, and a lease liability, representing the Group's obligation to make lease payments. The right of use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, any initial direct costs incurred and an estimate of the dismantling, removal and restoration costs as required by the terms of the lease contract.

The right-of-use asset is subsequently depreciated using the straight line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to review for impairment (see accounting policy 'Impairment of assets').

The lease liability is measured at the present value of the future lease payments discounted using the Group's incremental borrowing rate, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. Future lease payments include: fixed payments, variable lease payments that depend on an index or a rate (initially measured using the index or rate as at the commencement date), amounts expected to be payable under a residual guarantee and the exercise price of purchased options where it is reasonably certain that the option will be exercised. Finance charges, representing the unwinding of the discount rate, are recognised in the Consolidated Income Statement over the period of the lease.

Lease payments for low value assets and short term leases (less than 12 months) are recognised as an expense on a straight-line basis over the lease term.

1. Group Accounting Policies continued

REVENUE

Revenue is measured based on the consideration specified in a contract with a customer for the provision of goods and services. The amount recognised excludes sales taxes and is adjusted for any discounts or volume rebates that are included in the contract. It includes consideration received from the customer for freight activities only if the transportation activities are required to fulfil a performance obligation. If the transportation activities are determined to be a separate performance obligation, an entity will only recognise the consideration as revenue if the entity is determined to be acting as principal in the agreement, otherwise the consideration received from the customer for transport costs is recognised net of the related cost, rather than as revenue. The Group's contracts with customers do not contain significant financing components and payment terms are generally customary to the jurisdictions in which each subsidiary operates.

The Group recognises revenue when it transfers control over a good or service to a customer. The following information sets out the Group's approach to the nature and timing of the satisfaction of performance obligations in contracts with customers in each of its operating segments and the related revenue recognition policies.

Engineered Solutions (formerly known as 'Utilities') and Roads & Security

For standard products that are manufactured, revenue is recognised when goods are accepted by customers, which is usually on delivery depending on the Incoterms defined in the contract. The Group also enters into certain contracts which require customers to inspect and accept goods that have been manufactured but retained in the Group's facilities; in these cases the customer is deemed to have accepted the product when they have provided evidence of their acceptance and revenue is therefore recognised at that point, assuming that the other criteria set out in IFRS 15 have been met.

Certain of the Group's businesses in the Engineered Solutions and Roads & Security segments manufacture non standard products that are specific to customer requirements and therefore require a high degree of customisation. The Group has determined that in these cases a product with no alternative use is created. Where the contractual terms are such that if the contract is terminated by the customer then the Group has a right to reimbursement of the costs incurred including a reasonable margin, revenue is recognised over time i.e. before the completed goods are delivered to the customer's premises. Progress is generally determined using input methods (such as costs incurred), unless the circumstances of the contract are such that output methods (such as milestones reached) are considered more appropriate.

In some cases the Group provides installation of its products to customers as an additional service. Revenue from installation services is recognised over the period that the installation takes place, which is generally less than one month.

Certain of the Group's businesses in these segments engage in contracts with customers which include variable consideration. This occurs where the Group provides retrospective sales volume rebates to certain customers once, amongst other matters, the quantity of goods purchased during a predetermined period exceeds thresholds specified in the sales contract. To estimate the variable consideration for these expected future rebates, the Group applies the most likely amount method to reflect the consideration that the Group is entitled to. Variable consideration is only recognised to the extent that it is highly probable that the inclusion will not result in a significant revenue reversal in the future.

Certain of the Group's Roads businesses routinely generate revenue from the rental of assets to customers. Revenue from these rental agreements is recognised over the period over which the assets are available to the customer. If an asset that is held for rental is sold, the asset is transferred from property, plant and equipment to inventories at the carrying amount when the asset ceases to be rented. The proceeds from the sale of such assets are recognised as revenue in the Consolidated Income Statement.

The Group classifies proceeds from the sale of scrap products generated in the manufacturing process within revenue.

Galvanizing Services

Contracts with customers in the Galvanizing Services segment are generally simple. Revenue is recognised at a point in time, which is when the galvanized goods are either despatched or collected by the customer.

The Group classifies proceeds from the sale of by-products generated during the galvanizing process within revenue.

CONTRACT ASSETS

Contract assets primarily relate to the rights to consideration for work completed but not billed at the reporting date. Contract assets are transferred to receivables when the rights become unconditional.

CONTRACT LIABILITIES

Contract liabilities arise when the Group receives consideration from customers based on an agreed billing schedule, as established in the contract, which may not correspond with the pattern of performance under the contract. Where consideration has been received but a performance obligation not satisfied at the reporting date, a contract liability is recorded and presented as Deferred Income in the Consolidated Statement of Financial Position.

RETIREMENT BENEFITS

The Group operates pension schemes under which contributions by employees and by the sponsoring companies are held in trust funds separated from the Group's finances.

Obligations for contributions to defined contribution pension schemes are recognised as an expense in the Consolidated Income Statement as incurred.

The Group's net obligation in respect of defined benefit pension schemes is calculated separately for each scheme by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. This benefit is discounted to determine its present value, and the fair value of any scheme assets is deducted. The discount rate is the yield at the year end date on AA rated bonds that have maturity dates approximating to the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit method. Scheme assets are valued at bid price.

1. Group Accounting Policies continued

In the Consolidated Income Statement current and past service costs are recognised in operating profit and the interest cost on the net defined benefit obligations is included in financial expense.

All actuarial gains and losses in calculating the Group's obligation in respect of defined benefit schemes are recognised annually and reported in the Consolidated Statement of Comprehensive Income.

SHARE-BASED PAYMENT TRANSACTIONS

The Group issues equity settled share-based payments to certain employees including those in the form of buy-out awards or deferred bonus awards. The fair value of shares/options granted is recognised as an employee expense with a corresponding increase in equity reserves. The fair value is calculated at the grant date and spread over the period during which the employees become unconditionally entitled to the shares/options. The Black–Scholes model has been adopted as the method of evaluating the fair value of the options where vesting is based on non market conditions, while a Monte Carlo Simulation is used where vesting is based on market conditions. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share based payment is measured to reflect such conditions and there is no adjustment for differences between expected and actual outcomes.

The fair value of amounts payable to employees in respect of share appreciation rights settled in cash is recognised as an employee expense and corresponding increase in liabilities. The fair value of the liability is remeasured at each reporting date and spread over the period during which employees become unconditionally entitled to the payment.

FINANCIAL INCOME AND EXPENSE

Financial income comprises interest income on funds invested and gains on the fair value of financial assets and liabilities at fair value through profit or loss. Interest income is recognised as it accrues in the Consolidated Income Statement using the effective interest method.

Financial expense comprises interest expense on borrowings, interest cost on net pension scheme obligations, unwinding of discounts, losses on the fair value of financial assets and liabilities at fair value through profit or loss, the interest expense on lease liabilities and financial expenses related to refinancing. All borrowing costs are recognised in the Consolidated Income Statement using the effective interest method.

NON-UNDERLYING ITEMS

The Group's accounting policy for non-underlying items is as follows:

Non-underlying items are presented separately in the Consolidated Income Statement where, in the Directors' judgement, the quantum, nature or volatility of such items gives further information to obtain a fuller understanding of the underlying performance of the business. The following are included by the Group in its assessment of non-underlying items:

- Gains or losses arising on disposal, closure, restructuring or reorganisation of businesses that do not meet the definition of discontinued operations.
- Amortisation of intangible fixed assets arising on acquisitions, which can vary depending on the nature, size and frequency of acquisitions in each financial period.
- Expenses associated with acquisitions and disposals, comprising professional fees incurred, any consideration which, under IFRS 3 (Revised) is required to be treated as a post-acquisition employment expense, and changes in contingent consideration payable on acquisitions.
- Impairment charges in respect of tangible or intangible fixed assets, or right of-use assets.
- Changes in the fair value of derivative financial instruments.
- Significant past service items or curtailments and settlements relating to defined benefit pension obligations resulting from material changes in the terms of the schemes.

The non-underlying tax charge or credit comprises the tax effect of the above non-underlying items.

Details in respect of the non-underlying items recognised in the current and prior year are set out in note 5 to the Financial Statements.

INCOME TAX

Income tax on the profit or loss for the year represents the sum of the tax currently payable and deferred tax. Income tax is recognised in the Consolidated Income Statement except to the extent that it relates to items either recognised in other comprehensive income or directly in equity.

Current tax is the expected tax payable on the taxable profit for the year. Taxable profit differs from net profit as reported in the Consolidated Income Statement because it excludes items of income or expense that are not taxable or deductible. The Group's liability for current tax is calculated using tax rates enacted or substantively enacted at the year end date, and any adjustments to tax payable in respect of previous years.

DEFERRED TAXATION

Deferred tax is provided in full using the Consolidated Statement of Financial Position liability method and represents the tax expected to be payable or recoverable on the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets and liabilities not resulting from a business combination that affects neither accounting or taxable profit, and differences relating to investments in subsidiaries to the extent that they will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the year end date.

1. Group Accounting Policies continued

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. The carrying amount of deferred tax assets is reviewed at each year end date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

ORDINARY DIVIDENDS

Dividends are recognised as a liability in the period in which they are approved by the Company's shareholders.

OWN SHARES HELD BY EMPLOYEE BENEFIT TRUST ('EBT')

Transactions of the Group-sponsored EBT are included in the Group Financial Statements. In particular, the Trust's purchases of shares in the Company are debited directly to equity.

GOVERNMENT GRANTS

Government grant income is recognised where there is reasonable assurance that the grant will be received, and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. Government grant income that is linked to capital expenditure is deferred to the Consolidated Statement of Financial Position as Deferred Government Grants in Liabilities and credited to the Consolidated Income Statement over the life of the related asset.

FINANCIAL GUARANTEE CONTRACTS

Where the Group enters into financial guarantee contracts to guarantee the indebtedness of subsidiary companies, the Group considers these to be insurance contracts and treats the guarantee contract as a contingent liability until such time as it becomes probable that the Group will be required to make a payment under the guarantee.

2. Accounting judgements, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of income, expenses, assets and liabilities. Actual results may differ from these estimates.

IMPAIRMENT OF GOODWILL (NOTE 13)

Estimates

The determination of whether goodwill and other indefinite life intangible assets should be impaired requires the estimation of future cash flows and growth factors adopted by each cash generating unit. Furthermore, discount rates applied to these cash flows are determined by reference to the markets in which they operate and are risk adjusted to reflect risks and opportunities existing for each cash generating unit. These factors are all affected by prevailing market and economic factors outside the Group's control. Further information on this issue, including sensitivity analyses, is included in note 13.

ACTUARIAL ASSUMPTIONS ON PENSION OBLIGATIONS (NOTE 27)

Estimates

In determining the valuation of the defined benefit pension deficit, certain estimates and assumptions about the scheme have been made, notably the inflation rates, discount rates, mortality and pension increases. The factors affecting these assumptions are influenced by wider macro-economic factors that are largely outside of the Group's control. A sensitivity analysis of the impact of changes in key assumptions is set out in note 27.

TAXATION (NOTES 9 AND 17)

Judgements

Liabilities for uncertain tax positions require management judgements in respect of tax audit issues and exposures in each of the jurisdictions in which the Group operates. Where management judges that a tax position is uncertain, a current tax liability is held for anticipated taxes that are considered to be probable based on the information available. The key judgement area for the Group is the pricing of intercompany goods and services and other cross border transactions between subsidiaries in different countries.

Estimates

Management is required to make an estimate of the current tax liability together with an assessment of the temporary differences which arise as a consequence of different accounting and tax treatments. Liabilities for uncertain tax positions also require management estimates in respect of the amount of tax that may become payable. Management engages with professional advisors in making its assessment and, if appropriate, will liaise with the relevant taxation authorities to resolve the matter. The tax liability is reassessed in each period to reflect management's best estimate in light of the information available. Included in the current tax payable is a liability of £4.6m (2021: £4.7m) for uncertain tax positions. Depending on the conclusions of any tax audits conducted by the tax authorities in the various jurisdictions in which the Group operates, management estimate the range of possible outcomes to be between £nil and £5.7m (2021: £nil to £6.1m) and therefore it is possible that, if the outcomes are different to those estimated by management, the difference may materially impact the income tax charge / (credit) in the year in which the matter is concluded. Further information is set out in note 9 and note 17.

3. Segmental information

BUSINESS SEGMENT ANALYSIS

The Group has three reportable segments which are Roads & Security, Engineered Solutions and Galvanizing Services. The Group's internal management structure and financial reporting systems differentiate between these segments and, in reporting, management have taken the view that they comprise a reporting segment on the basis of the following economic characteristics:

- **The Roads & Security** segment contains a group of businesses supplying products designed to ensure the safety and security of roads and other national infrastructure, many of which have been developed to address national and international safety standards, to customers involved in the construction of that infrastructure;
- **The Engineered Solutions** 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 and other infrastructure markets; and
- **The Galvanizing Services** segment contains a group of companies supplying galvanizing and related materials coating services to companies in a wide range of markets including construction, agriculture and infrastructure.

Corporate costs are allocated to reportable segments in proportion to the revenue of each of those segments.

SEGMENTAL INCOME STATEMENT – CONTINUING OPERATIONS

	2022			2021		
	Revenue £m	Reported operating profit £m	Underlying operating profit* £m	Revenue £m	Reported operating profit £m	Underlying operating profit* £m
Roads & Security	**261.5**	**1.7**	**18.1**	259.7	(7.5)	17.9
Engineered Solutions	**289.9**	**34.1**	**35.0**	223.7	25.5	26.0
Galvanizing Services	**180.7**	**42.7**	**44.0**	141.8	30.9	33.4
Group	**732.1**	**78.5**	**97.1**	625.2	48.9	77.3
Net financing costs		**(9.2)**	**(9.2)**		(6.1)	(6.1)
Profit before taxation		**69.3**	**87.9**		42.8	71.2
Taxation		**(16.0)**	**(19.7)**		(14.4)	(15.5)
Profit after taxation		**53.3**	**68.2**		28.4	55.7

* Underlying operating profit is stated before non-underlying items as defined in the Group Accounting Policies on page137 and is the measure of segment profit used by the Chief Operating Decision Maker, who is the Chief Executive. The reported operating profit columns are included as additional information.

Transactions between operating segments are on an arm's length basis similar to transactions with third parties. Galvanizing Services sold £6.8m (2021: £6.5m) of products and services to Roads & Security and £2.0m (2021: £1.6m) of products and services to Engineered Solutions. Engineered Solutions sold £1.9m (2021: £3.0m) of products and services to Roads & Security. These internal revenues, along with revenues generated from within their own segments, have been eliminated on consolidation.

3. Segmental information continued

In the following tables, revenue from contracts with customers is disaggregated by primary geographical market, major product/service lines and timing of revenue recognition. Revenue by primary geographical market is defined as the end location of the Group's product or service. The table also includes a reconciliation of the disaggregated revenue with the Group's reportable segments.

Continuing operations	Roads & Security		Engineered Solutions		Galvanizing		Total	
Primary geographical markets	**2022 £m**	2021 £m	**2022 £m**	2021 £m	**2022 £m**	2021 £m	**2022 £m**	2021 £m
UK	**163.5**	165.2	**87.2**	72.0	**81.8**	69.6	**332.5**	306.8
Rest of Europe	**16.7**	29.5	**8.7**	6.0	**–**		**25.4**	35.5
North America	**70.3**	56.8	**187.1**	137.3	**98.9**	72.2	**356.3**	266.3
The Middle East	**4.9**	3.2	**2.4**	0.6	**–**		**7.3**	3.8
Rest of Asia	**1.9**	0.6	**3.9**	7.1	**–**		**5.8**	7.7
Rest of the world	**4.2**	4.4	**0.6**	0.7	**–**		**4.8**	5.1
	261.5	259.7	**289.9**	223.7	**180.7**	141.8	**732.1**	625.2
Major product/service lines								
Manufacture, supply and installation of products	**240.3**	237.4	**289.9**	223.7	**–**	–	**530.2**	461.1
Galvanizing services	**–**	–	**–**	–	**180.7**	141.8	**180.7**	141.8
Rental income	**21.2**	22.3	**–**		**–**	–	**21.2**	22.3
	261.5	259.7	**289.9**	223.7	**180.7**	141.8	**732.1**	625.2
Timing of revenue recognition								
Products and services transferred at a point in time	**210.2**	200.0	**153.8**	120.2	**180.7**	141.8	**549.7**	462.0
Products and services transferred over time	**51.3**	59.7	**136.1**	103.5	**–**		**182.4**	163.2
	261.5	259.7	**289.9**	223.7	**180.7**	141.8	**732.1**	625.2

The Group has no material unsatisfied or partially satisfied performance obligations at the balance sheet date that have an expected duration of more than one year and therefore has taken the practical expedient under IFRS 15 not to disclose such details.

ADDITIONAL SEGMENTAL ANALYSIS

Capital expenditure and amortisation/depreciation

	2022		2021	
	Capital expenditure £m	Impairment losses, amortisation and depreciation £m	Capital expenditure £m	Impairment losses, amortisation and depreciation £m
Roads & Security	**17.0**	**20.5**	24.4	30.3
Engineered Solutions	**6.6**	**4.7**	4.4	3.8
Galvanizing Services	**8.1**	**8.4**	8.3	10.3
Total Group	**31.7**	**33.6**	37.1	44.4
Property, plant and equipment (note 14)	**29.2**	**9.2**	35.7	20.9
Intangible assets (note 13)	**2.5**	**24.4**	1.4	23.5
Total Group	**31.7**	**33.6**	37.1	44.4

The 2022 amounts for impairment losses, amortisation and depreciation relating to the Roads & Security segment include intangible asset impairment losses of £4.4m relating to Parking Facilities Limited. The comparative for 2021 included goodwill and intangible assets impairments of £5.2m in respect of Parking Facilities and £10.8m in respect of ATG Access.

3. Segmental information continued

GEOGRAPHICAL ANALYSIS

Total assets	2022 £m	2021 £m
UK	**280.3**	290.8
Rest of Europe	**9.8**	90.7
North America	**380.2**	273.2
Asia	**11.2**	13.6
Rest of the world	**12.8**	5.0
Total Group	**694.3**	673.3

Non-current assets	2022 £m	2021 £m
UK	**181.7**	192.0
Rest of Europe	**0.8**	43.2
North America	**213.0**	169.8
Asia	**3.3**	3.2
Rest of the world	**10.5**	3.7
Total Group	**409.3**	411.9

Capital expenditure	2022 £m	2021 £m
UK	**9.5**	11.1
Rest of Europe	**3.5**	3.6
North America	**11.8**	20.9
Asia	**0.4**	0.1
Rest of the world	**6.5**	1.4
Total Group	**31.7**	37.1

4. Alternative Performance Measures

The Group presents Alternative Performance Measures ('APMs') in addition to its statutory results. These are presented in accordance with the Guidelines on APMs issued by the European Securities and Markets Authority. The principal APMs are:

- Underlying profit before taxation,
- Underlying operating profit,
- Underlying operating profit margin,
- Organic measure of change in revenue and underlying operating profit,
- Underlying cash conversion ratio,
- Capital expenditure to depreciation and amortisation ratio,
- Covenant net debt to EBITDA ratio, and
- Underlying earnings per share. A reconciliation of statutory earnings per share to underlying earnings per share is provided in note 11.

All underlying measures exclude certain non-underlying items, which are detailed in note 5. References to an underlying profit measure are made on this basis and, in the opinion of the Directors, aid the understanding of the underlying business performance as they exclude items whose quantum, nature or volatility gives further information to obtain a fuller understanding of the underlying performance of the business. APMs are presented on a consistent basis over time to assist in comparison of performance.

4. Alternative Performance Measures continued

RECONCILIATION OF UNDERLYING TO REPORTED PROFIT BEFORE TAX FROM CONTINUING OPERATIONS

	2022 £m	2021 £m
Underlying profit before tax from continuing operations	**87.9**	71.2
Non-underlying items included in operating profit (note 5)	**(18.6)**	(28.4)
Reported profit before tax from continuing operations	**69.3**	42.8

RECONCILIATION OF UNDERLYING TO REPORTED OPERATING PROFIT FROM CONTINUING OPERATIONS BY SEGMENT

	Roads & Security		Engineered Solutions		Galvanizing		Total	
	2022 £m	2021 £m	2022 £m	2021 £m	2022 £m	2021 £m	2022 £m	2021 £m
Underlying operating profit from continuing operations	**18.1**	17.9	**35.0**	26.0	**44.0**	33.4	**97.1**	77.3
Non underlying items								
Amortisation of acquisition intangibles	**(4.6)**	(4.5)	**(0.5)**	(0.5)	**(0.9)**	(0.9)	**(6.0)**	(5.9)
Business reorganisation costs	**(2.9)**	(4.5)	**–**	–	**–**	–	**(2.9)**	(4.5)
Impairment of assets	**(6.4)**	(16.0)	**–**	–	**–**	–	**(6.4)**	(16.0)
Expenses related to acquisitions and disposals	**(1.5)**	–	**(0.4)**		**(0.4)**	(1.6)	**(2.3)**	(1.6)
Loss on disposal of subsidiaries	**(1.0)**	(0.4)	**–**	–	**–**	–	**(1.0)**	(0.4)
Reported operating profit from continuing operations	**1.7**	(7.5)	**34.1**	25.5	**42.7**	30.9	**78.5**	48.9

CALCULATION OF UNDERLYING OPERATING PROFIT MARGIN FROM CONTINUING OPERATIONS

	Roads & Security		Engineered Solutions		Galvanizing		Total	
Continuing operations	2022 £m	2021 £m	2022 £m	2021 £m	2022 £m	2021 £m	2022 £m	2021 £m
Underlying operating profit	**18.1**	17.9	**35.0**	26.0	**44.0**	33.4	**97.1**	77.3
Revenue	**261.5**	259.7	**289.9**	223.7	**180.7**	141.8	**732.1**	625.2
Underlying operating profit margin (%)	**6.9%**	6.9%	**12.1%**	11.6%	**24.3%**	23.6%	**13.3%**	12.4%

4. Alternative Performance Measures continued

MEASURES OF ORGANIC AND CONSTANT CURRENCY CHANGE IN REVENUE AND UNDERLYING OPERATING PROFIT FROM CONTINUING OPERATIONS

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

	Roads & Security		Engineered Solutions		Galvanizing		Total	
Continuing operations	Revenue £m	Underlying operating profit £m	Revenue £m	Underlying operating profit £m	Revenue £m	Underlying operating profit £m	Revenue £m	Underlying operating profit £m
2021	**259.7**	**17.9**	**223.7**	**26.0**	**141.8**	**33.4**	**625.2**	**77.3**
Impact of exchange rate movements from 2021 to 2022	5.4	1.0	15.9	2.2	8.2	2.4	29.5	5.6
2021 translated at 2022 exchange rates (A)	**265.1**	**18.9**	**239.6**	**28.2**	**150.0**	**35.8**	**654.7**	**82.9**
Acquisitions, disposals and closures	(17.6)	2.5	-	–	0.8	–	(16.8)	2.5
Organic growth/(decline) (B)	14.0	(3.3)	50.3	6.8	29.9	8.2	94.2	11.7
2022 (C)	**261.5**	**18.1**	**289.9**	**35.0**	**180.7**	**44.0**	**732.1**	**97.1**
Organic growth % (B divided by A)	**5.3%**	**(17.5%)**	**21.0%**	**24.1%**	**19.9%**	**22.9%**	**14.4%**	**14.1%**
Constant currency change % ((C-A) divided by A)	**(1.4%)**	**(4.2%)**	**21.0%**	**24.1%**	**20.5%**	**22.9%**	**11.8%**	**17.1%**

CALCULATION OF UNDERLYING CASH CONVERSION RATIO

	2022 £m	2021 £m
Underlying operating profit		
Continuing operations	**97.1**	77.3
Discontinued operations	**6.8**	8.7
	103.9	86.0
Calculation of adjusted operating cash flow		
Cash generated by operations	**82.9**	103.1
Less: Purchase of assets for rental to customers	**(18.6)**	(16.7)
Less: Purchase of property, plant and equipment	**(18.4)**	(17.8)
Less: Purchase of intangible assets	**(2.5)**	(1.4)
Less: Repayments of lease liabilities	**(9.5)**	(10.3)
Add: Proceeds on disposal of non-current assets	**0.4**	3.7
Add back: Defined benefit pension scheme deficit payments	**3.7**	3.7
Add back: Cash flows relating to non-underlying items	**[illegible]**	2.7
Adjusted operating cash flow	**[illegible]**	67.0
Underlying cash conversion (%)	**[illegible]**	78%

4. Alternative Performance Measures continued

CALCULATION OF CAPITAL EXPENDITURE TO DEPRECIATION AND AMORTISATION RATIO

	2022 £m	2021 £m
Calculation of capital expenditure		
Purchase of assets for rental to customers	**10.6**	16.7
Purchase of property, plant and equipment	**18.4**	17.8
Purchase of intangible assets	**2.5**	1.4
	31.5	35.9
Calculation of depreciation and amortisation		
Depreciation of property, plant and equipment (note 8)	**19.1**	20.9
Amortisation of development costs (note 8)	**1.1**	1.1
Amortisation of other intangible assets (note 8)	**1.0**	0.3
	21.2	22.3
Capital expenditure to depreciation and amortisation ratio	**1.5x**	1.6x

CALCULATION OF COVENANT NET DEBT TO EBITDA RATIO

	2022 £m	2021 £m
Reported net debt (note 20)	**119.7**	144.7
Lease liabilities (note 16)	**(39.3)**	(40.6)
Amounts related to refinancing under IFRS 9	**2.2**	2.5
Covenant net debt (A)	**82.6**	106.6
Underlying operating profit	**103.9**	86.0
Depreciation of owned assets (note 14)	**19.1**	20.9
Right-of-use asset depreciation (note 16)	**8.8**	10.3
Amortisation of development costs (note 13)	**1.1**	1.1
Amortisation of other intangible assets (note 13)	**1.0**	0.3
Underlying EBITDA	**133.9**	118.6
Adjusted for:		
Lease payments (note 16)	**(10.3)**	(11.1)
Share-based payments expense (note 25)	**2.0**	2.8
Annualised EBITDA of subsidiaries acquired/disposed	**(3.7)**	0.4
Covenant EBITDA (B)	**121.9**	110.7
Covenant net debt to EBITDA (A divided by B)	**0.7**	1.0

5. Non-underlying items

INCLUDED IN OPERATING PROFIT

	2022 £m	2021 £m
Loss on disposal of subsidiaries (a)	**(1.4)**	(3.4)
Business reorganisation costs (b)	**(2.9)**	(4.5)
Impairment of assets (c)	**(6.4)**	(16.0)
Amortisation of acquisition intangibles	**(6.2)**	(6.1)
Expenses related to acquisitions and disposals	**(3.5)**	(2.0)
Total non-underlying items	**(20.4)**	(29.0)
Total non-underlying items – continuing operations	**(18.6)**	(28.4)
Total non-underlying items – discontinued operations	**(1.8)**	(0.6)

Notes

a) In 2022, the Group completed the disposal of the majority of its Swedish roads business. In April we disposed of the rental division and in November we sold the infrastructure contracts division, at a combined loss of £1.0m. Details are set out below:

Disposal of Swedish rental and infrastructure contracts divisions	**£m**
Property, plant and equipment	2.0
Right of use assets	2.1
Inventories	1.1
Current assets	0.2
Current liabilities	(0.2)
Lease liabilities	(2.0)
Net assets disposed	**3.2**
Consideration received	2.5
Cumulative exchange differences	(0.3)
Loss on disposal	**1.0**

The Group also incurred costs of disposal of £0.5m, which are included within 'expenses related to acquisitions and disposals' in the table above. Alongside the disposals, asset impairments of £0.2m and reorganisation costs of £0.3m were incurred in relation to the remaining business. The total of non-underlying net charges relating to the Swedish business is therefore £2.0m.

5. Non-underlying items continued

In October 2022, the Group completed the disposal of France Galva, its French galvanizing and lighting column business at a loss of £0.4m. Details of the disposal are set out below.

Disposal of France Galva	£m
Property, plant and equipment	28.4
Intangibles	13.2
Right of use assets	0.9
Inventories	24.3
Current assets	1.6
Cash and cash equivalents	5.9
Deferred tax	1.4
Lease liabilities	(0.8)
Current liabilities	(20.2)
Loans & borrowings	(0.3)
Provisions	(3.9)
Retirement benefit obligation	(4.6)
Net assets disposed	**64.6**
Consideration received	62.0
Cumulative exchange differences	2.2
Loss on disposal	**0.4**

The Group also incurred costs of disposal of £1.2m, which are included within 'expenses related to acquisitions and disposals' in the table above.

In 2021, the loss on disposal of £0.4m related to the sale of Technocover Limited, the Group's small access covers business.

b) In May 2022, the Group took the decision to exit the low-margin plastic products operations that formed part of our US roads business. Net charges on closure totalled £2.9m, comprising business reorganisation costs of £1.1m and asset impairment charges of £1.8m.

In addition, following the closure of the Group's variable message sign (VMS) business that was announced in March 2021, the Group has incurred a further £1.5m of costs in 2022 in relation to the completion of legacy contracts. The business reorganisation costs of £4.5m in 2021 also related to the VMS closure.

c) Impairment charges of £6.4m in 2022 comprise the portfolio management actions explained above (totalling £2.0m) and a charge of £4.4m (2021: £5.2m) in respect of acquisition intangible assets relating to Parking Facilities, one of the Group's UK security businesses. Parking Facilities manufactures and sells a range of perimeter access security products, predominantly to specialist security installers in the UK. The COVID pandemic resulted in a weak trading period in 2020 as several customer contracts were cancelled or postponed and whilst the business saw a marginal improvement in revenue and profitability in 2021, ongoing constraints on customer budgets continued to weigh on demand. In 2022, customer activity continued to be weak and supply chain challenges, input cost inflation and operational issues led to a deterioration in margins. The Board's reassessment of the future outlook for Parking Facilities, which also took into account the impact on gross margins of developments in the competitive landscape, concluded that there was limited prospect of the business returning to the levels of profitability previously anticipated and therefore that the expected future cash flows were not sufficient to support the carrying value. The resulting impairment charge of £4.0m comprises £4.0m in respect of acquired customer lists and £0.4m in respect of acquired brand names, meaning those assets have been fully impaired as at 31 December 2022. In 2021, impairment charges also included £10.8m in respect of acquisition goodwill and intangible assets relating to ATG Access, another of the Group's UK security businesses.

INCLUDED IN TAXATION

The tax effect of the above items is a credit to the income statement of £3.7m (2021: £1.1m).

6. Employees

	2022 No.	2021 No.
The average number of people employed by the Group during the year		
Roads & Security	**1,078**	1,215
Engineered Solutions	**1,550**	1,515
Galvanizing Services	**1,167**	1,086
Total Group	**3,795**	3,816

	2022 £m	2021 £m
Total employee benefit expense for the year		
Wages and salaries	**145.9**	133.1
Share based payments (note 25)	**2.0**	2.8
Social security costs	**21.0**	20.5
Pension costs (note 27)	**4.3**	4.4
	173.2	160.8

Both the average number of people employed by the Group and the total employee benefit expense in both years above have been presented for continuing operations

	2022 £m	2021 £m
Remuneration of key management personnel		
Remuneration in relation to short term benefits	**3.8**	3.0
Termination benefits	**0.6**	–
Share based payments	**0.7**	1.0
Company contributions to money purchase pension plans	**0.1**	0.2
	5.2	4.2

Key management personnel are those persons having authority and responsibility for planning, directing, and controlling the activities of the Group, directly or indirectly, including any directors (whether executive or otherwise) of the Group. At the beginning of 2021, the Group announced a new senior management structure and the establishment of an Executive Board. The structure includes the Executive Directors, Group Presidents and the Corporate Development Director, who all report into the Chief Executive. Since 1 January 2021, key management personnel are considered to be the Board of Directors of Hill & Smith PLC and the members of the Executive Board who are not also Directors of the Group.

Further details of the Directors' remuneration and share interests are given in the Directors' Remuneration Report on pages 92 to 104.

7. *Net financing costs – continuing operations*

	2022 £m	2021 £m
Interest on bank deposits	**0.5**	0.6
Financial income	**0.5**	0.6
Interest on loans and borrowings	**(0.4)**	(4.9)
Interest on lease liabilities (note 16)	**(0.8)**	(0.8)
Financial expenses related to refinancing activities	**(2.4)**	(0.8)
Interest cost on net pension scheme deficit (note 27)	**(0.1)**	(0.2)
Financial expense	**(3.7)**	(6.7)
Net financing costs	**(3.2)**	(6.1)

8. Expenses and auditor's remuneration

	2022 £m	2021 £m
Income statement charges		
Depreciation of property, plant and equipment	**(19.1)**	(20.9)
Right of use asset depreciation	**(8.8)**	(10.3)
Short term leases	**(0.7)**	(0.4)
Low value leases	**(0.1)**	(0.1)
Loss on disposal of non-current assets	**(0.3)**	
Research and development expenditure	**(0.3)**	(0.7)
Amortisation of acquisition intangibles	**(6.2)**	(6.1)
Amortisation of development costs	**(1.1)**	(1.1)
Amortisation of other intangible assets	**(1.0)**	(0.3)
Impairment losses		
Intangible fixed assets	**(6.1)**	(16.0)
Tangible fixed assets	**(0.1)**	
Right-of-use lease assets	**(0.2)**	–
Income statement credits		
Foreign exchange gain	**–**	0.1
Profit on disposal of non-current assets	**–**	1.2
Grants receivable	**–**	0.1
Sublease income (note 16)	**0.2**	0.6

Amounts relating to discontinued operations included in the table above comprise depreciation of property, plant and equipment of £1.8m (2021: £4.0m), right of-use asset depreciation of £0.4m (2021: £0.7m), and amortisation of acquisition intangibles of £0.3m (2021: £0.4m).

A detailed analysis of the auditor's remuneration worldwide is as follows:

	£m	£m
Audit of the Company's Annual Accounts	**0.5**	0.5
Audit of the Company's subsidiaries	**1.1**	1.0
	1.6	1.5

A description of the work of the Audit Committee is set out in the Audit Committee Report on pages 86 to 91 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditor. Audit-related assurance services totalled £3,000 (2021: £4,000).

9. Taxation

	2022 £m	2021 £m
Current tax		
UK corporation tax	**4.1**	4.1
Overseas tax at prevailing local rates	**14.2**	11.1
Adjustments in respect of prior years	**1.8**	(1.8)
	20.1	13.4
Deferred tax (note 17)		
UK deferred tax	**0.3**	0.1
Overseas tax at prevailing local rates	**0.3**	0.2
Adjustments in respect of prior years	**(3.2)**	0.6
Effects of changes in tax rates and laws	**–**	2.4
	(2.6)	3.3
Tax on profit in the Consolidated Income Statement	**17.5**	16.7
Deferred tax (note 17)		
Relating to defined benefit pension schemes	**(0.7)**	
Tax on items taken directly to other comprehensive income	**(0.7)**	–
Current tax		
Relating to share based payments	**(0.2)**	(0.2)
Deferred tax (note 17)		
Relating to share-based payments	**1.2**	(0.8)
Tax taken directly to the Consolidated Statement of Changes in Equity	**1.0**	(1.0)

The tax charge in the Consolidated Income Statement for the period is higher (2021: higher) than the standard rate of corporation tax in the UK. The differences are explained below.

	2022 £m	2021 £m
Profit before taxation from continuing operations	**69.3**	42.8
Profit before taxation from discontinued operations	**4.9**	8.1
Profit before taxation – total Group	**74.2**	50.9
Profit before taxation multiplied by the effective rate of corporation tax in the UK of 19.0% (2021: 19.0%)	**14.1**	9.7
Expenses not deductible/income not chargeable for tax purposes	**1.2**	0.9
Non deductible goodwill impairment	**–**	2.4
Benefits from international financing arrangements – current and prior years	**(0.3)**	(0.5)
Local tax incentives	**(0.4)**	(0.6)
Overseas profits taxed at higher rates	**3.6**	3.3
Recognition of losses	**[illegible]**	(0.1)
Overseas losses not relieved	**[illegible]**	0.5
Impacts of rate and law changes	**[illegible]**	2.3
Adjustments in respect of prior years	**(1.4)**	(1.2)
Tax charge	**[illegible]**	16.7
Tax charge attributable to continuing operations	**[illegible]**	14.4
Tax charge attributable to discontinued operations	**1.6**	2.3
	17.5	16.7

9. Taxation continued

In October 2017, the European Commission opened a state aid investigation into the Group Financing Exemption in the UK Controlled Foreign Company ('CFC') legislation, announcing in April 2019 that it believed in certain circumstances the CFC regime constituted State Aid. In 2021 the Group received a charging notice from HMRC requiring it to pay £7.6m in respect of state aid that HMRC considers had been unlawfully received in previous years, which was paid in full in February 2021.

Applications to annul the Commission's decision had been made in prior years by the UK Government, the Group and other affected taxpayers. The EU General Court delivered its decision on these applications in June 2022, finding in favour of the Commission. Many of those affected, including the Group, have appealed this decision to the Court of Justice of the EU. Having taken expert advice, we have concluded that our appeal is likely to be successful. As a result, we continue to recognise a tax receivable of £1.0m within non current assets reflecting the Group's view that the amount paid will ultimately be recovered.

10. Discontinued operations

On 25 July 2022 the Group announced the proposed disposal of France Galva SA ('France Galva'), our French galvanizing and lighting column operations, and on that date entered into a put option with the prospective purchasers. On 5 September 2022, the shareholders of the Group approved the plan to sell. The sale of France Galva completed on 4 October 2022 for £62.0m, resulting in a loss on disposal of £0.4m (note 5).

France Galva has been classified as a disposal group as required by IFRS 5 Non current assets held for sale and discontinued operations. As the disposal resulted in the Group's withdrawal from all operations in France and noting that the business accounted for approximately 10% of Group revenues prior to disposal, France Galva's results have been reported within discontinued operations in accordance with IFRS 5.

	2022**			2021		
	Underlying £m	Non-underlying* £m	Total £m	Underlying £m	Non underlying* £m	Total £m
Revenue	**68.7**	–	**68.7**	79.8		79.8
Cost of Sales	**(47.6)**	–	**(47.6)**	(53.5)	–	(53.5)
Gross Profit	**21.1**	–	**21.1**	26.3	–	26.3
Distribution costs	**(3.6)**	–	**(3.6)**	(4.0)		(4.0)
Administrative expenses	**(10.7)**	**(1.8)**	**(12.5)**	(13.6)	(0.6)	(14.2)
Operating profit	**6.8**	**(1.8)**	**5.0**	8.7	(0.6)	8.1
Financing costs	**(0.1)**	–	**(0.1)**			-
Profit before taxation	**6.7**	**(1.8)**	**4.9**	8.7	(0.6)	8.1
Taxation	**(1.5)**	–	**(1.5)**	(2.3)	-	(2.3)
Profit from discontinued operations	**5.2**	**(1.8)**	**3.4**	6.4	(0.6)	5.8

* The Group's definition of non-underlying items is included in the Group Accounting Policies on page 137 and further details on non-underlying items are included in note 5.

** Represents nine months of activity prior to the sale on 4 October 2022.

The net cash flows generated from the sale of France Galva are as follows.

	2022 £m
Cash received from sale	**62.0**
Cash and cash equivalents disposed	**(5.9)**
Net cash inflow on disposal	**56.1**

The net cash flows generated/(incurred) by France Galva included in the consolidated cash flow statement are as follows.

	2022 £m	2021 £m
Net cash flow from operating activities	**3.4**	8.9
Net cash flow from investing activities	**(2.8)**	(2.7)
Net cash flow from financing activities	**(0.4)**	(0.7)
	0.2	5.5

11. Earnings per share

The weighted average number of ordinary shares in issue during the year was 79.9m (2021: 79.6m), diluted for the effects of the outstanding dilutive share options 80.5m (2021: 80.6m). Diluted earnings per share takes account of the dilutive effect of all outstanding share options disclosed in note 25, calculated using the treasury share method. Underlying earnings per share have been shown because the Directors consider that this provides valuable additional information about the underlying performance of the Group.

	2022		2021	
	Pence per share	£m	Pence per share	£m
Basic earnings				
– continuing	**66.7**	**53.3**	35.8	28.4
– discontinued	**4.3**	**3.4**	7.2	5.8
Total basic earnings	**71.0**	**56.7**	43.0	34.2
Non underlying items*				
– continuing	**18.7**	**14.9**	34.2	27.3
– discontinued	**2.2**	**1.8**	0.7	0.6
Total non-underlying items	**20.9**	**16.7**	34.9	27.9
Underlying earnings				
– continuing	**85.4**	**68.2**	70.0	55.7
– discontinued	**6.5**	**5.2**	7.9	6.4
Total underlying earnings	**91.9**	**73.4**	77.9	62.1
Diluted earnings				
– continuing	**66.2**	**53.3**	35.4	28.4
– discontinued	**4.2**	**3.4**	7.1	5.8
Total diluted earnings	**70.4**	**56.7**	42.5	34.2
Non-underlying items*				
– continuing	**18.5**	**14.9**	33.9	27.3
– discontinued	**2.2**	**1.8**	0.7	0.6
Total non-underlying items	**20.7**	**16.7**	34.6	27.9
Underlying diluted earnings				
– continuing	**84.7**	**68.2**	69.3	55.7
– *discontinued*	**6.4**	**5.2**	7.8	6.4
Total underlying diluted earnings	**91.1**	**73.4**	77.1	62.1

* Non-underlying items as detailed in note 5

12. *Dividends*

DIVIDENDS PAID DURING THE YEAR

	2022		2021	
	Pence per share	£m	Pence per share	£m
Interim dividend paid in relation to year ended 31 December 2020	–	–	9.2	7.3
Final dividend paid in relation to year ended 31 December 2020	–	–	17.5	13.9
Interim dividend paid in relation to year ended 31 December 2021	**12.0**	**9.6**	–	–
Final dividend paid in relation to year ended 31 December 2021	**19.0**	**15.1**	–	–
Total	**31.0**	**24.7**	26.7	21.2

12. Dividends continued

DIVIDENDS DECLARED IN RESPECT OF THE YEAR

	2022		2021	
	Pence per share	£m	Pence per share	£m
Interim dividend declared in relation to year ended 31 December 2021	–	–	12.0	9.6
Final dividend declared in relation to year ended 31 December 2021	–	–	19.0	15.1
Interim dividend declared in relation to year ended 31 December 2022	**13.0**	**10.4**	–	
Final dividend proposed in relation to year ended 31 December 2022	**22.0**	**17.6**		–
Total	**35.0**	**28.0**	31.0	24.7

The final dividend for 2022 was proposed after the year end date and was not recognised as a liability at 31 December 2022, in accordance with IAS 10

13. Intangible assets

	Goodwill £m	Brands £m	Customer Lists £m	Capitalised Development Costs £m	Contracts, licences and other assets £m	Total £m
Cost						
At 1 January 2021	169.1	30.0	56.4	17.7	17.5	290.7
Exchange adjustments	(1.7)	(0.2)	(0.2)			(2.1)
Acquisition of subsidiary	5.5	0.7	3.0	–	1.6	10.8
Additions		–	–	1.2	0.2	1.4
Disposal of subsidiary	(1.9)	(0.3)	(3.9)	–	(1.8)	(7.9)
At 31 December 2021	171.0	30.2	55.3	18.9	17.5	292.9
Exchange adjustments	9.0	2.1	2.2	0.2	0.8	14.3
Acquisitions of subsidiaries	9.3	1.2	9.8	–	–	20.3
Additions	–	–	–	2.3	0.2	2.5
Disposals of subsidiaries	(28.9)	(4.9)	(0.5)	–	(0.6)	(34.9)
At 31 December 2022	**160.4**	**28.6**	**66.8**	**21.4**	**17.9**	**295.1**
Amortisation and impairment losses						
At 1 January 2021	35.3	14.2	30.3	13.4	9.0	102.2
Exchange adjustments	(1.7)	(0.2)	(0.3)	(0.1)	–	(2.3)
Disposal of subsidiary	(1.9)	(0.3)	(3.9)		(1.8)	(7.9)
Amortisation charge for the year	–	1.0	3.4	1.1	2.0	7.5
Impairment losses	12.4	0.3	3.3		–	16.0
At 31 December 2021	44.1	15.0	32.8	14.4	9.2	115.5
Exchange adjustments	1.3	1.1	1.3	0.1	0.5	4.3
Disposals of subsidiaries	(16.9)	(3.8)	(0.5)	–	(0.5)	(21.7)
Amortisation charge for the year	–	1.0	3.3	1.1	2.9	8.3
Impairment losses	0.5	0.4	5.2	–	–	6.1
At 31 December 2022	**29.0**	**13.7**	**142.1**	**15.6**	**12.1**	**112.5**
Carrying values						
At 1 January 2021	133.8	15.8	26.1	4.3	8.5	188.5
At 31 December 2021	126.9	15.2	22.5	4.5	8.3	177.4
At 31 December 2022	**131.4**	**14.9**	**24.7**	**5.8**	**5.8**	**182.6**

13. *Intangible assets* continued

2022

NATIONAL SIGNAL INC

On 4 October 2022 the Group acquired the business and assets of National Signal Inc ("National Signal") from its shareholders for an initial cash consideration of £21.5m plus a further £2.7m relating to post completion working capital adjustments payable early in 2023. Further cash consideration of up to £3.3m is payable, conditional on National Signal's achievement of financial performance targets in the three years post acquisition. National Signal, located in Fullerton, California, is a designer, manufacturer and supplier of off grid solar lighting solutions in the USA, and is therefore highly complementary to the Group's 2021 acquisition of Proleptric Services, discussed in detail below, and will further accelerate the Group's strategy in this fast growing market.

Details of the acquisition are set out below:

	Pre-*acquisition* carrying amount £m	Provisional policy *alignment* and fair value adjustments £m	Total £m
Intangible Assets			
Brands	–	1.2	1.2
Customer lists	–	8.9	8.9
Property, plant and equipment	1.5	(0.2)	1.3
Right-of-use assets	–	1.0	1.0
Inventories	3.7	(0.4)	3.3
Current assets	5.8	(0.3)	5.5
Total assets	**11.0**	**10.2**	**21.2**
Lease liabilities	–	(1.0)	(1.0)
Current liabilities	(2.0)	(0.5)	(2.5)
Provisions	–	(0.7)	(0.7)
Total liabilities	**(2.0)**	**(2.2)**	**(4.2)**
Net assets	**9.0**	**8.0**	**17.0**
Consideration			
Total consideration			24.2
Goodwill			**7.2**
Cash flow effect			
Consideration in the year			21.5
Cash acquired with the business			–
Net cash consideration shown in the Consolidated Statement of Cash Flows			**21.5**

Brands and customer lists have been recognised as specific intangible assets as a result of the acquisition. The residual goodwill arising, which has been allocated to the Roads & Security segment, primarily represents the highly skilled workforce, future technological advantages and potential for geographical expansion afforded to the Group. Policy alignment and fair value adjustments have been made to align the accounting policies of the acquired business with the Group's accounting policies and to reflect the fair value of assets and liabilities acquired. In respect of leases, the Group measured the acquired lease liabilities using the present value of the remaining lease payments at the date of acquisition. The right-of-use assets were measured at an amount equal to the lease liabilities and adjusted to reflect the terms of the leases relative to market terms. The fair value of the current assets acquired includes £5.5m of trade receivables, which have a gross value of £5.7m.

As part of the acquisition agreement, additional consideration has been agreed. The amount of additional consideration is dependent on National Signal's gross profit for the three years to 31 December 2025. Below the 'triggers' (as defined in the Asset Purchase Agreement), no additional consideration is due. If the 'triggers' are achieved, additional consideration of £3.3m becomes payable.

Post-acquisition the acquired business has contributed £8.3m revenue and £1.4m operating profit, which are included in the Group's Consolidated Income Statement. If the acquisition had been made on 1 January 2022, the Group's results for the year from continuing operations would have shown revenue of £754.6m, underlying operating profit of £102.0m and reported operating profit of £83.4m.

13. Intangible assets continued

WIDNES GALVANISING LIMITED

On 30 September 2022 the Group acquired 100% of the share capital of Widnes Galvanising Limited ("Widnes") for an initial cash consideration of £3.5m, plus £0.2m relating to post-completion working capital adjustments and a further £0.2m deferred until 2024. The acquisition of Widnes further expands the geographic footprint of the Group's UK galvanizing business into the north west of the UK and is aligned to the Group's growth strategy.

Details of the acquisition are set out below:

	Pre-acquisition carrying amount £m	Provisional policy alignment and fair value adjustments £m	Total £m
Intangible Assets			
Customer lists	–	0.9	0.9
Property, plant and equipment	0.5	–	0.5
Inventories	0.3	–	0.3
Current assets	0.9	–	0.9
Cash	0.4	–	0.4
Total assets	**2.1**	**0.9**	**3.0**
Current liabilities	(0.4)	–	(0.4)
Deferred tax	–	(0.1)	(0.1)
Provisions	–	(0.7)	(0.7)
Total liabilities	**(0.4)**	**(0.8)**	**(1.2)**
Net assets	**1.7**	**0.1**	**1.8**
Consideration			
Total consideration			3.9
Goodwill			**2.1**
Cash flow effect			
Consideration in the year			3.5
Cash acquired with the business			(0.4)
Net cash consideration shown in the Consolidated Statement of Cash Flows			**3.1**

Customer lists have been recognised as specific intangible assets as a result of the acquisition. The residual goodwill arising, which has been allocated to the Galvanizing segment, primarily represents the highly skilled workforce, future technological advantages and potential for geographical expansion afforded to the Group. Policy alignment and fair value adjustments have been made to align the accounting policies of the acquired business with the Group's accounting policies and to reflect the fair value of assets and liabilities acquired. The fair value of the current assets acquired includes £0.8m of trade receivables, which have a gross value of £0.8m.

Post-acquisition the acquired business has contributed £0.8m revenue and £nil operating profit, which are included in the Group's Consolidated Income Statement. If the acquisition had been made on 1 January 2022, the Group's results for the year from continuing operations would have shown revenue of £734.6m, underlying operating profit of £97.6m and reported operating profit of £79.0m.

13. Intangible assets continued

2021

PROLECTRIC SERVICES LIMITED

On 1 March 2021 the Group acquired 100% of the share capital of Prolectric Services Limited ("Prolectric") and its dormant subsidiaries for an initial consideration of £12.0m. Further consideration of up to £5.7m was payable depending on Prolectric's achievement of financial performance targets in the 12 month period to 31 March 2022, which ultimately were not achieved. Prolectric, located in Clevedon, North Somerset, is a UK market leader in off-grid solar energy solutions, aligning closely with the Group's purpose of creating sustainable infrastructure and providing new technology that the Group can leverage in its existing markets. Details of the acquisition are set out below.

	Pre-acquisition carrying amount £m	Policy alignment and fair value adjustments £m	Total £m
Intangible Assets			
Brands	–	0.7	0.7
Customer lists		3.0	3.0
Contracts, licences and other assets	0.1	1.5	1.6
Property, plant and equipment	2.6	(1.5)	1.1
Right-of-use assets	–	2.4	2.4
Inventories	0.4	–	0.4
Current assets	1.9	–	1.9
Cash	0.2		0.2
Total assets	**5.2**	**6.1**	**11.3**
Lease liabilities		(1.8)	(1.8)
Current liabilities	(1.0)		(1.0)
Current interest bearing liabilities	(1.2)	1.2	–
Deferred tax	(0.1)	(1.0)	(1.1)
Total liabilities	**(2.3)**	**(1.6)**	**(3.9)**
Net assets	**2.9**	**4.5**	**7.4**
Consideration			
Consideration in the year			12.0
Fair value of contingent consideration due within one year (initial assessment)			0.9
Goodwill			**5.5**
Cash flow effect			
Consideration in the year			12.0
Cash acquired within the business			(0.2)
Net cash consideration shown in the Consolidated Statement of Cash Flows			**11.8**

Brands, customer lists, contracts, licences and other assets were recognised as specific intangible assets as a result of the acquisition. The residual goodwill arising, which was allocated to the Roads & Security segment, primarily represents the highly skilled workforce, future technological advantages and potential for geographical expansion afforded to the Group. Policy alignment and fair value adjustments were made to align the accounting policies of the acquired business with the Group's accounting policies and to reflect the fair value of assets and liabilities acquired. In respect of leases, the Group measured the acquired lease liabilities using the present value of the remaining lease payments at the date of acquisition. The right-of-use assets were measured at an amount equal to the lease liabilities and adjusted to reflect the terms of the leases relative to market terms. The fair value of the current assets acquired included £1.3m of trade receivables, which had a gross value of £1.3m.

13. Intangible assets continued

CASH GENERATING UNITS WITH SIGNIFICANT AMOUNTS OF GOODWILL

	2022 £m	2021 £m
Engineered Solutions		
US Composites	**17.7**	15.7
V&S Utilities	**6.0**	5.3
Others < £5m individually	**5.4**	5.0
Roads & Security		
National Signal	**7.4**	-
ATG Access	**4.7**	4.7
H&S Inc	**9.2**	8.6
VRS Solutions Group	**10.4**	10.4
Mallatite	**9.6**	9.6
Prolectric	**5.5**	5.5
Others < £5m individually	**0.2**	0.3
Galvanizing Services		
France Galva SA	**–**	11.8
USA	**28.4**	25.2
UK	**24.8**	24.8
Others < £5m individually	**2.1**	-
	131.4	126.9

Goodwill impairment reviews have been carried out on all CGUs to which goodwill is allocated

METHODOLOGY AND ASSUMPTIONS

Impairment tests on the carrying values of goodwill and certain brand names of £8.5m (2021: £7.5m), which are the Group's only other indefinite life intangible assets, are performed by analysing the carrying value allocated to each significant CGU against its value in use. All goodwill is allocated to specific CGUs, which are in all cases no larger than operating segments. Value in use is calculated for each CGU as the net present value of that unit's discounted future cash flows. These cash flows are based on budget cash flow information for a period of one year and strategic plans for 2024 through 2026, both of which are prepared taking into account a range of factors including past experience, the forecast future trading environment and macroeconomic conditions in the Group's key markets. The cash flows beyond the strategic plan period use growth rates which reflect the long term historical growth in GDP of the economies in which each CGU is located, excluding 2020 and 2021 given the sharp economic movements in those years due to COVID-19. The long term growth rates are 2.0% in the UK and 2.5% in the USA.

SUMMARY OF RESULTS OF GOODWILL IMPAIRMENT REVIEWS

The calculated headroom between value in use and carrying value of each of the Group's CGUs with significant amounts of goodwill, together with the pre-tax discount rates applied, are set out below. The pre tax discount rates are derived from a market participant's cost of capital and risk adjusted for individual CGUs' circumstances.

	2022			2021		
	Goodwill £m	Headroom/ (impairment) £m	Discount rate	Goodwill £m	Headroom/ (impairment) £m	Discount rate
US Composites	**17.7**	**[illegible]**	**15.7%**	15.7	106.7	13.1%
V&S Utilities	**6.0**	**[illegible]**	**15.6%**	5.3	70.1	14.0%
VRS Solutions Group	**10.4**	**[illegible]**	**15.5%**	10.4	104.4	13.0%
ATG Access	**4.7**	**[illegible]**	**15.6%**	15.5	(10.8)	13.0%
Mallatite	**9.6**	**[illegible]**	**15.5%**	5.7	27.1	13.0%
Prolectric	**5.5**	**16.3**	**15.4%**	–	–	–
Parking Facilities	**[illegible]**	**(4.4)**	**15.8%**	1.6	(5.2)	13.0%
Hill & Smith Inc	**9.2**	**9.6**	**15.0%**	8.6	21.3	14.1%
Galvanizing Services – USA	**28.4**	**204.3**	**15.5%**	25.2	207.6	14.0%
Galvanizing Services – UK	**24.8**	**59.2**	**15.6%**	24.8	84.3	13.0%

13. Intangible assets continued

Based on the methodology set out above and as explained in note 5, the impairment review for Parking Facilities concluded that while the associated goodwill of £1.6m had been fully impaired in 2021, the remaining carrying value of the business at 31 December 2022 exceeded its recoverable amount and accordingly an impairment charge of £4.4m in respect of the remaining acquisition intangibles has been recognised.

Parking Facilities manufactures and sells a range of perimeter access security products, predominantly to specialist security installers in the UK. The COVID pandemic resulted in a weak trading period in 2020 as several customer contracts were cancelled or postponed and while the business saw a marginal improvement in revenue and profitability in 2021, ongoing constraints on customer budgets continued to weigh on demand. In 2022, customer activity continued to be weak and supply chain challenges, input cost inflation and operational issues led to a deterioration in margins. The Board's reassessment of the future outlook for Parking Facilities, which also took into account the impact on gross margins of developments in the competitive landscape, concluded that there was limited prospect of the business returning to the levels of profitability previously anticipated and therefore that the expected future cash flows were not sufficient to support the carrying value. The resulting impairment charge of £4.4m comprises £4.0m in respect of acquired customer lists and £0.4m in respect of acquired brand names.

SENSITIVITIES

The Group has applied sensitivities to assess whether any reasonable possible changes in assumptions could cause an impairment of the goodwill in any CGU that would be material to these Consolidated Financial Statements. The sensitivity analyses did not identify any potential impairment for any CGU, with the exception of ATG Access and Hill & Smith Inc.

ATG Access

ATG's future performance is largely dependent on the pace of post-pandemic recovery in UK and global security products markets, which itself is inherently dependent on both public/customer behaviour and broader economic conditions. It is plausible that the pace of recovery could be more gradual than that assumed in the impairment tests that have been carried out, in which case a further material impairment could arise. Revenue growth, gross margins, long term cash flow growth and the discount rate are the key assumptions on which the goodwill impairment review is most sensitive. The following table provides information on the impact on calculated headroom of various scenarios for each of those key assumptions (independently in each case).

Input	*Scenario*	Sensitivity applied %	Headroom/ (impairment) £m
Compound annual revenue growth 2022-2027	Base case	5.9%	1.4
	H&S sensitivity 1*	2.0%	(5.8)
	H&S sensitivity 2*	0.0%	(8.9)
Gross margin % 2023-27**	Base case	25.8%	1.4
	H&S sensitised	24.0%	(2.6)
Annual cash flow growth 2027 onwards	Base case	2.0%	1.4
	H&S sensitised	0.0%	(0.3)
Pre-tax discount rate	Base case	15.6%	1.4
	H&S sensitised	18.6%	(1.2)

* Illustrates the impacts of compound revenue growth at 2% (consistent with long term UK growth rates) and 0% (i.e. revenues do not grow from 2022)

** The base case assumes that gross profit margins across the period 2023-27 are slightly below the 27% achieved in 2022. The H&S sensitised case assumes a gross profit margin 2023-27 of 24%, in line with the average gross margin across 2021-22.

Hill & Smith Inc. ('H&S Inc.')

H&S Inc. manufactures, sells and rents a range of work zone protection products including crash attenuators, trailer-mounted message boards, and temporary road safety barriers, to construction contractors and traffic specialists across the US roads market. While underlying market conditions remain healthy, the business' performance in 2022 was impacted by operational and cost input challenges. The carrying value of the H&S Inc. CGU also increased by c. £7.0m during the year as we invested in rental barrier assets and inventories in anticipation of future demand, driven by projected investment in US road infrastructure, supported by increased spend from the IIJA. Consequently, calculated impairment headroom fell to £9.6m (2021: £21.3m), noting that pre-tax discount rates also increased by 90 basis points to 15.0%. The Group's projections for H&S Inc. assume that actions taken to address the operational issues will be successful, and that short to medium term revenue growth will be above long term averages due to the anticipated increase in federal and state highway spend from the IIJA over the next five years. The main drivers of that revenue growth are expected to be temporary road safety barrier rentals, supported by the business' investment in building its rental barrier fleet over the past two years, and crash attenuator sales, where the business has developed a complementary offering to its existing market-leading product that will begin to be marketed in 2023. We recognise, however, that there could be variations in the pace of improvement and growth and therefore we have modelled a range of scenarios for the outlook. Revenue growth, gross margins, long term cash flow growth and the discount rate are the key assumptions on which the impairment calculations are most sensitive. The following table provides information on the impact on calculated headroom of three possible scenarios for each of those key assumptions (independently in each case), the first showing the Board approved projection, the second the assumptions that result in zero headroom and the third a severe but plausible downside scenario.

13. Intangible assets continued

Input	Scenario	Sensitivity applied %	Headroom/ (impairment) £m
Compound annual revenue growth 2023-2027	Base case	**9.9%**	**9.6**
	Zero headroom	**8.6%**	**–**
	H&S sensitivity	**7.5%**	**(5.9)**
Compound annual gross profit margin growth 2023-27*	Base case	**3.6%**	**9.6**
	Zero headroom	**1.1%**	**–**
	H&S sensitivity	**0.0%**	**(13.3)**
Annual cash flow growth 2027 onwards	Base case	**2.5%**	**9.6**
	Zero headroom	**0.2%**	**–**
	H&S sensitivity	**0.0%**	**(0.5)**
Pre-tax discount rate	Base case	**15.0%**	**9.6**
	Zero headroom	**16.6%**	**–**
	H&S sensitivity	**18.0%**	**(7.5)**

* The base case assumes a gross profit margin of 30.3% in 2023 rising to 34.9% in 2027 at a compound annual growth rate of 3.6%. The sensitivity scenario shows the potential impairment if the gross margin of 30.3% remains constant throughout the period 2023-27.

14. Property, plant and equipment

	Land and buildings £m	Plant, machinery and vehicles £m	Total £m
Cost			
At 1 January 2021	127.5	229.7	357.2
Exchange adjustments	(1.6)	(2.7)	(4.3)
Acquisition of subsidiary (note 13)	–	1.1	1.1
Additions	6.6	29.1	35.7
Disposal of subsidiary (note 5)	(1.7)	(1.1)	(2.8)
Transfers from inventories	–	1.6	1.6
Disposals	(1.2)	(13.3)	(14.5)
Transfers to assets held for sale (note 15)	–	(6.6)	(6.6)
At 31 December 2021	129.6	237.8	367.4
Exchange adjustments	8.8	9.3	18.1
Acquisitions of subsidiaries (note 13)	0.3	1.5	1.8
Additions	3.5	25.7	29.2
Disposals of subsidiaries (note 5)	(31.6)	(38.4)	(70.0)
Transfers from inventories	–	0.3	0.3
Disposals	(0.6)	(6.9)	(7.5)
Transfers to assets held for sale (note 15)	(2.9)	–	(2.9)
At 31 December 2022	**107.1**	**229.3**	**336.4**
Depreciation and impairment losses			
At 1 January 2021	43.7	129.9	173.6
Exchange adjustments	(1.1)	(1.7)	(2.8)
Disposal of subsidiary (note 5)	(0.3)	(0.8)	(1.1)
Disposals	(1.0)	(10.9)	(11.9)
Charge for the year	4.9	16.0	20.9
Transfers to assets held for sale (note 15)		(4.6)	(4.6)
At 31 December 2021	46.2	127.9	174.1
Exchange adjustments	2.6	3.8	6.4
Disposals of subsidiaries (note 5)	(19.8)	(21.8)	(41.6)
Disposals	(0.6)	(6.3)	(6.9)
Transfers to assets held for sale (note 15)	(1.1)	–	(1.1)
Charge for the year	4.0	15.1	19.1
Impairment	–	0.1	0.1
At 31 December 2022	**31.3**	**118.8**	**150.1**
Carrying values			
At 1 January 2021	83.8	99.8	183.6
At 31 December 2021	83.4	109.9	193.3
At 31 December 2022	**75.8**	**110.5**	**186.3**

The gross book value of land and buildings includes freehold land of £17.5m (2021: £17.0m). Included within plant, machinery and vehicles are assets held for rental with a cost of £98.6m (2021: £98.9m) and accumulated depreciation of £47.6m (2021: £46.7m).

The gross book value of plant, machinery and vehicles includes assets under construction of £20.6m (2021: £15.3m).

15. Assets and liabilities held for sale

	2022 £m	2021 £m
Land and buildings	**1.8**	
Plant, machinery and vehicles	–	2.0
Right-of-use assets	–	1.6
Total Assets held for sale	**1.8**	3.6
Lease liabilities	–	(1.7)
Other liabilities	–	(0.2)
Total Net Assets held for sale	**1.8**	1.7

Assets held for sale at 31 December 2022 represent the property that was vacated following the Group's exit from its low margin US traffic control products business, further details of which are set out in note 5. The property is expected to be sold in March 2023.

Assets and liabilities held for sale at 31 December 2021 related to the Group's Swedish rental operations, which were disposed of in April 2022 as explained in note 5.

16. Leases

The leases held by the Group can be split into two categories: land and buildings, and plant and equipment. The Group leases various properties for its manufacturing and distribution activities. Plant and equipment includes all other leases, such as vehicles and machinery.

The movements in the carrying value of the right of use assets and lease liabilities in the years ended 31 December 2021 and 31 December 2022 were as follows:

Right-of-use assets	Land and buildings £m	Plant and equipment £m	Total £m
At 1 January 2021	19.5	11.4	30.9
Acquisition of subsidiary	0.6	1.8	2.4
Additions	12.7	4.1	16.8
Disposal of subsidiary	-	(0.1)	(0.1)
Terminations	(0.3)	(0.2)	(0.5)
Charge for the year	(5.2)	(5.1)	(10.3)
Re-measurement	0.9		0.9
Transfers to assets held for sale (note 15)	-	(1.6)	(1.6)
Effect of movements in foreign exchange	(0.2)	(0.1)	(0.3)
At 31 December 2021	28.0	10.2	38.2
Acquisitions of subsidiaries	1.0	-	1.0
Additions	5.1	4.0	9.1
Disposals of subsidiaries	(1.3)	(0.1)	(1.4)
Terminations	-	(0.3)	(0.3)
Charge for the year	(4.1)	(4.7)	(8.8)
Re-measurement	0.1	–	0.1
Impairment	(0.2)	–	(0.2)
Effect of movements in foreign exchange	0.9	0.1	1.0
At 31 December 2022	**29.5**	**9.2**	**38.7**

16. Leases continued

Lease liabilities	2022 £m	2021 £m
At 1 January	**38.9**	32.4
Additions	**9.1**	16.7
Terminations	**(0.2)**	(0.6)
Interest expense	**0.8**	0.8
Disposals of subsidiaries	**(1.1)**	(0.1)
Acquisitions of subsidiaries	**1.0**	1.8
Lease payments	**(10.3)**	(11.1)
Re-measurement	**0.1**	0.9
Transfers to liabilities held for sale (note 15)	**–**	(1.7)
Effect of movements in foreign exchange	**1.0**	(0.2)
At 31 December	**39.3**	38.9

The following table shows the breakdown of the lease expense between amounts charged to operating profit and amounts charged to finance costs

	2022 £m	2021 £m
Depreciation of right of-use assets	**8.8**	10.3
Short-term lease expense	**0.7**	0.4
Low-value lease expense	**0.1**	0.1
Sublease income	**(0.2)**	(0.6)
Charged to operating profit	**9.4**	10.2
Interest expense relating to lease liabilities	**0.8**	0.8
Charged to profit before taxation	**10.2**	11.0

The maturity of the lease liabilities at 31 December was as follows

	2022 £m	2021 £m
Due within one year	**8.7**	8.8
Due between one and two years	**6.6**	7.2
Due between two and three years	**5.2**	5.0
Due between three and four years	**4.1**	3.9
Due between four and five years	**3.0**	2.9
Due after more than five years	**11.7**	11.1
Total lease liabilities	**39.3**	38.9

16. Leases continued

The Group has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the leased asset portfolio and align with the Group's business needs. Management exercise judgement in determining whether these extension and termination options are reasonably certain to be exercised.

Set out below are the:

- Undiscounted potential future rental payments relating to periods following the exercise date of extension that are not included in the lease term; and
- Undiscounted future rental payments relating to periods that are included in the lease term as the break clauses are not expected to be exercised.

	2022			2021		
	Within five years £m	More than five years £m	Total £m	Within five years £m	More than five years £m	Total £m
Extension options expected not to be exercised	**0.2**	**10.1**	**10.3**	0.1	6.5	6.6
Termination options expected not to be exercised	**1.9**	**3.3**	**5.2**	3.0	4.3	7.3

The Group has lease contracts that have not yet commenced as at 31 December 2022. The total future lease payments for these non-cancellable lease contracts are £3.6m (2021: £2.6m).

17. Deferred taxation

	Intangible assets £m	Property, plant and equipment £m	Inventories £m	Retirement obligation £m	Other timing differences £m	Total £m
At 1 January 2021	(9.5)	(7.9)	0.6	4.1	5.1	(7.6)
Exchange adjustments	–	–	–	(0.1)	(0.1)	(0.2)
Acquisition of subsidiary (note 13)	(1.0)	(0.3)	-	-	0.2	(1.1)
Credited/(charged) for the year in the Consolidated Income Statement (note 9)	(0.5)	(1.8)	(0.6)	(0.9)	0.5	(3.3)
Credited for the year in the Consolidated Statement of Changes in Equity (note 9)	–	–	–	–	0.8	0.8
At 31 December 2021	**(11.0)**	**(10.0)**	**–**	**3.1**	**6.5**	**(11.4)**
Exchange adjustments	**(0.4)**	**(0.6)**	**–**	**–**	**0.3**	**(0.7)**
Acquisitions of subsidiaries (note 13)	**(0.2)**	**(0.1)**	**–**	**–**	**0.2**	**(0.1)**
Disposals of subsidiaries (note 5)	**0.3**	**0.3**	**(0.3)**	**(1.2)**	**(0.5)**	**(1.4)**
Credited/(charged) for the year in the Consolidated Income Statement (note 9)	**2.6**	**(2.4)**	**0.2**	**(0.8)**	**3.0**	**2.6**
Credited for the year in the Consolidated Statement of Comprehensive Income (note 9)	**–**	**–**	**–**	**0.7**	**–**	**0.7**
Charged for the year in the Consolidated Statement of Changes in Equity (note 9)	**–**	**–**	**–**	**–**	**(1.2)**	**(1.2)**
At 31 December 2022	**(8.7)**	**(12.8)**	**(0.1)**	**1.8**	**8.3**	**(11.5)**

	2022 £m	2021 £m
Deferred tax assets	**0.1**	1.4
Deferred tax liabilities	**(11.6)**	(12.8)
Deferred tax liability	**(11.5)**	(11.4)

17. Deferred taxation continued

The deferred tax asset of £8.3m (2021: £6.5m) in respect of other timing differences includes £4.0m (2021: £0.9m) in relation to tax losses and £0.8m (2021: £2.4m) in relation to share based payments. The deferred tax asset has been recognised in full as there are expected to be sufficient taxable profits in the foreseeable future against which the deferred tax assets can be utilised.

No deferred tax asset has been recognised in respect of other tax losses of £17.6m net (2021: £16.9m net). The losses are predominantly capital losses. The deferred tax asset has not been recognised as no capital gains are expected to be generated in the foreseeable future and there are no deferred tax liabilities on capital gains against which the deferred tax asset could be offset. There is no time limit on the carrying forward of the losses.

No deferred tax liability is recognised on temporary differences of £0.4m (2021: £1.2m) relating to the unremitted earnings of overseas subsidiaries as the Group is able to control the timings of the reversal of these temporary differences and it is probable that they will not reverse in the foreseeable future. The Group does not expect this to crystallise into a cash expense in the near future.

The UK headline corporation tax rate for the year was 19.0% (2021: 19.0%). In the Spring Budget of 2021, the UK Government announced that from 1 April 2023 the rate of UK corporation tax will increase from 19% to 25%. This rate change was substantively enacted on 24 May 2021. UK deferred tax assets and liabilities have therefore been calculated at a rate of 25% (2021: 25%).

18. Inventories

	2022 £m	2021 £m
Raw materials and consumables	**62.1**	64.3
Work in progress	**8.8**	10.7
Finished goods and goods for resale	**42.9**	33.1
	113.8	108.1

The amount of inventories expensed to the Consolidated Income Statement in the year was £443.7m (2021: £388.8m). The value of inventories written down and expensed in the Consolidated Income Statement during the year amounted to £0.3m (2021: £0.4m). The amount of inventories held at fair value less cost to sell included in the above was £nil (2021: £nil).

19. *Trade and other receivables*

	2022 £m	2021 £m
Trade and other current receivables		
Trade receivables	**126.1**	112.3
Prepayments	**5.8**	7.3
Other receivables	**0.7**	1.2
Fair value derivatives	**0.3**	0.2
Contract assets	**11.4**	9.2
	144.3	130.2

The movements in contract assets, and deferred income (note 21), during the year correspond to the completion of performance obligations partially satisfied as at 31 December 2021 offset by contracts that are in progress at 31 December 2022.

20. Cash and borrowings

	2022 £m	2021 £m
Cash and cash equivalents in the Consolidated Statement of Financial Position		
Cash and cash equivalents	**24.8**	19.8
Bank overdraft (note 21)	**–**	(0.7)
Cash and cash equivalents net of bank overdraft	**24.8**	19.1
Interest bearing loans and other borrowings		
Amounts due within one year (note 21)	**(0.3)**	(1.2)
Amounts due after more than one year (note 22)	**(104.9)**	(121.0)
Lease liabilities classified as liabilities held for sale (note 15)	**–**	(1.7)
Lease liabilities due within one year (note 16)	**(8.7)**	(8.8)
Lease liabilities due after more than one year (note 16)	**(30.6)**	(30.1)
Net debt	**(119.7)**	(144.7)
Change in net debt		
Operating profit		
from continuing operations	**78.5**	48.9
from discontinued operations	**5.0**	8.1
Total Group operating profit	**83.5**	57.0
Non-cash items	**46.3**	55.8
Operating cash flow before movement in working capital	**129.8**	112.8
Net movement in working capital	**(42.6)**	(6.8)
Changes in provisions and employee benefits	**(4.3)**	(2.9)
Operating cash flow	**82.9**	103.1
Tax paid	**(15.5)**	(15.2)
Net financing costs paid	**(5.9)**	(4.1)
Capital expenditure	**(31.5)**	(35.9)
Proceeds on disposal of non-current assets	**0.4**	3.7
Free cash flow	**30.4**	51.6
Dividends paid (note 12)	**(24.7)**	(21.2)
Acquisitions of subsidiaries (note 13)	**(25.6)**	(13.6)
Disposals of subsidiaries (note 5)	**58.6**	1.6
Amortisation of costs associated with refinancing activities (note 7)	**(2.4)**	(0.8)
Purchase of shares for employee benefit trust	**(0.4)**	(1.8)
Issue of new shares (note 25)	**1.9**	2.6
Lease additions, terminations and remeasurements (note 16)	**(9.0)**	(17.1)
Leases disposed of (note 5)	**2.8**	–
Loans and borrowings disposed of (note 5)	**0.3**	–
Interest on lease liabilities (note 16)	**(0.8)**	(0.8)
Net debt decrease	**31.1**	0.5
Effect of exchange rate fluctuations	**(6.1)**	1.0
Net debt at the beginning of the year	**(144.7)**	(146.2)
Net debt at the end of the year	**(119.7)**	(144.7)

20. Cash and borrowings continued

RECONCILIATION OF MOVEMENTS IN FINANCIAL LIABILITIES TO CASH FLOWS ARISING FROM FINANCING ACTIVITIES

	2022 £m	2021 £m
Interest bearing loans and other borrowings and lease liabilities		
At 1 January	**162.6**	160.1
New loans and borrowings	**160.8**	55.3
Repayments of loans and borrowings	**(184.8)**	(61.0)
Payment of lease liabilities	**(9.5)**	(10.3)
Costs of refinancing during the year	**(2.1)**	–
Cash flows used in financing activities	**(35.6)**	(16.0)
Other changes		
Effect of exchange rate fluctuations	**6.9**	(0.8)
Amortisation of costs associated with refinancing activities (note 7)	**2.4**	0.8
Loans and borrowings disposed of (note 5)	**(0.3)**	–
Lease changes		
Effect of exchange rate fluctuations	**1.0**	(0.2)
New leases	**9.1**	16.7
Terminations	**(0.2)**	(0.6)
Re-measurement	**0.1**	0.9
Acquisitions of subsidiaries	**1.0**	1.8
Disposals of subsidiaries	**(2.8)**	(0.1)
Interest expense	**0.8**	0.8
Interest paid	**(0.8)**	(0.8)
At 31 December	**144.2**	162.6

21. Current liabilities

	2022 £m	2021 £m
Interest bearing loans and borrowings		
Loans and borrowings	**0.3**	1.2
Bank overdrafts	**–**	0.7
	0.3	1.9
Trade and other current liabilities		
Trade payables	**67.8**	79.3
Other taxation and social expenses	**4.4**	9.5
Accrued expenses	**41.2**	35.5
Deferred income	**4.5**	4.7
Other payables	**2.9**	3.7
	120.8	132.7

The amount of contract liabilities included in deferred income as at 31 December 2022 was £2.1m (2021: £4.7m). During the year, £4.3m (2021: £6.1m) of revenue was recognised in respect of contract liabilities present as at 1 January 2022.

22. Non-current liabilities

	2022 £m	2021 £m
Interest bearing loans and borrowings		
Loans and borrowings	**104.9**	12[illegible] 0
	104.9	12[illegible] 0
Other non-current liabilities		
Deferred consideration on acquisitions	**0.2**	0 2
Deferred government grants	**–**	[illegible] 0
Accrued expenses	**–**	0 3
	0.2	1 5

23. Provisions

	Environmental £m	Restructuring £m	Other £m	Total £m
At 1 January 2021	2 [illegible]	0 7	3 0	5 8
Exchange adjustments	(0 1)	–	–	(0 [illegible])
Charged during the year	–	4 5	0 4	4 9
Utilised during the year	–	(1.5)	(2 6)	(4 [illegible])
Released during the year		(0 1)	–	(0 [illegible])
At 31 December 2021	**2.0**	**3.6**	**0.8**	**6.4**
Exchange adjustments	**0.1**	**–**	**–**	**0.1**
Acquisitions of subsidiaries	**–**	**–**	**1.4**	**1.4**
Disposals of subsidiaries	**(0.9)**	**–**	**–**	**(0.9)**
Charged during the year	**–**	**1.6**	**–**	**1.6**
Utilised during the year	**–**	**(1.8)**	**(0.4)**	**(2.2)**
At 31 December 2022	**1.2**	**3.4**	**1.8**	**6.4**

	2022 £m	2021 £m
Amounts due within one year	**3.7**	4 0
Amounts due after more than one year and less than five years	**2.7**	2.4
	6.4	6 4

ENVIRONMENTAL PROVISIONS

Environmental provisions recognise the estimated cost of remediating contaminated land at a number of the Group's operating sites, where it is considered probable that the Group will be obliged to carry out the necessary remediation work. Primarily the issues identified relate to sites acquired through acquisitions of businesses. As a consequence of the nature of the liabilities, the timescales are uncertain and the provisions represent the Directors' best estimate of the associated costs. The Group has sought expert external valuations where appropriate.

RESTRUCTURING PROVISIONS

Restructuring provisions represent the cash costs of closing or rationalising operations. The provisions represent the Directors' best estimate of the liabilities arising and are expected to be settled within the next twelve months. The provision of £3 6m at 31 December 2021 included £3 2m relating to the closure of the Group's variable message sign business that was announced in March 2021. £1 8m of this provision has been utilised during 2022 and a further £1 5m charged, as explained in note 5.

OTHER PROVISIONS

Other provisions relate to various obligations including obligations in respect of onerous leases, property dilapidations and claims or disputes.

24. Financial instruments

(A) MANAGEMENT OF FINANCIAL RISKS

Overview

The Group has exposure to a number of risks associated with its use of financial instruments.

This note presents information about the Group's exposure to each of these risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these Consolidated Financial Statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a *disciplined and constructive control environment in which all employees understand their roles and obligations.*

The Group Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. A programme of commercial, operating, financial and third party reviews is in place to assist the Group Audit Committee with its assessment of the effectiveness of risk management and internal control procedures.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises from cash and cash equivalents, derivative financial instruments and principally from the Group's receivables from customers. The maximum exposure to credit risk for receivables and other financial assets is represented by their carrying amount.

The Group has a policy of insuring a substantial majority of receivables in its UK businesses, which account for 43% (2021: 49%) of the Group's trade receivables. Any residual uninsured risk is spread across a significant number of customers. In our US businesses, which account for 48% (2021: 30%) of the Group's trade receivables, our operating companies have a policy of taking out trade references before granting credit limits and selectively insuring against credit risk where it is deemed appropriate by management. Purchase limits are established for each customer and are reviewed regularly. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis. The Group's other overseas businesses operate on a similar basis to the US. As a result of these policies, impairment losses are not significant.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

It is the Group's policy to minimise its liquidity risk in terms of limiting the amounts of loans and borrowings maturing within the next 12 months. As at 31 December 2022 all such debt was covered by cash and cash equivalents netting to £24.5m positive current liquidity (2021: £16.9m).

The Group's principal UK revolving credit facility was refinanced in November 2022. The new facility is unsecured, has a value of £250m and an initial maturity in November 2026, with an option to extend this maturity by one year at the first anniversary. Along with various other secured and on demand lines of credit, including bank overdrafts, the Group has access to bank borrowing facilities of £262.2m at 31 December 2022 (2021: £287.3m).

In addition, in 2019 the Group signed an agreement with an institutional investor for a private placement of $70m new senior unsecured notes ("Senior Unsecured Notes"). The issue consisted of two equal tranches with maturities in June 2026 and June 2029 respectively.

At 31 December 2022, the Group's total committed borrowing facilities were £309.0m (2021: £327.6m) and the amount undrawn at this date was £201.6m (2021: £202.4m).

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and commodity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. The Group buys and sells derivatives in the ordinary course of business, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Board. Refer to note 24(f) for further details.

Counterparty risk

A group of relationship banks provides the bulk of the banking services, with pre-approved credit limits set for each institution. Financial derivatives may be entered into with these core banks and the underlying credit exposure to these instruments is included when considering the credit exposure to the counterparties. At the end of 2022 credit exposure including cash deposited did not exceed £6.8m with any single institution (2021: £6.2m).

Currency risk

The Group publishes its Consolidated Financial Statements in Sterling, but conducts business in several foreign currencies, including significant operations based in the US. This results in foreign currency exchange risk due to exchange rate movements, which will affect the Group's transaction costs and, more significantly, the translation of the results and net assets of its foreign operations. The Group's translation reserve *includes a gain of £27.4m (2021: loss of £2.3m), principally as a result of Sterling's depreciation against the US Dollar in 2022, representing this* translation effect on overseas earnings and net assets.

24. Financial instruments continued

The trading currency of each operation is predominantly in the same denomination. However, the Group uses forward exchange contracts to minimise currency risk where appropriate. The Group does not apply hedge accounting to these derivative financial instruments.

The Group has hedged its investment in its US operations by way of financing the acquisitions through like denominations of its bank borrowings and the Senior Unsecured Notes. The Group's investments in other subsidiaries are not hedged because fluctuations on translation of their assets into Sterling are not significant to the Group.

Interest rate risk

The Senior Unsecured Notes account for 55% (2021: 42%) of the Group's outstanding gross borrowings at 31 December 2022 and attract a fixed rate of interest averaging 3.92% (2021: 3.92%) per annum. All other borrowings bear interest at floating rates. At the current time the Group feels that this ratio of fixed to floating borrowings is appropriate but continues to monitor it in the context of economic indicators and wider market conditions. The Group believes that using fixed interest rate for short term day-to-day trading is not appropriate.

Insurance

The Group purchases insurance for commercial, legal and contractual reasons. The Group retains insurable risk where external insurance is not commercially viable.

Capital management

The Group maintains a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board monitors both the demographic spread of shareholders, as well as the return, which the Group defines as total shareholders' equity and the level of dividends to ordinary shareholders.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

There are financial covenants associated with the Group's borrowings, which are interest cover and EBITDA to net debt. The Group comfortably complied with these covenants in 2022 and 2021, as set out in the Operational & Financial Review on pages 22 to 31.

There were no significant changes in the Group's approach to capital management during the year.

(B) TOTAL FINANCIAL ASSETS AND LIABILITIES

The table below sets out the Group's accounting classification of its financial assets and liabilities and their fair values as at 31 December. The *fair values of all financial assets and liabilities are not materially different to the carrying values.*

	Designated at fair value £m	Amortised cost £m	Total carrying value £m	Fair value £m
Cash and cash equivalents net of bank overdraft	**–**	**24.8**	**24.8**	**24.8**
Loans and other borrowings due within one year	**–**	**(0.3)**	**(0.3)**	**(0.3)**
Loans and borrowings due after more than one year	**–**	**(104.9)**	**(104.9)**	**(104.9)**
Lease liabilities classified as held for sale	**–**	**–**	**–**	**–**
Lease liabilities due within one year	**–**	**(8.7)**	**(8.7)**	**(8.7)**
Lease liabilities due after more than one year	**–**	**(30.6)**	**(30.6)**	**(30.6)**
Derivative assets	**0.3**	**–**	**0.3**	**0.3**
Other assets	**–**	**127.4**	**127.4**	**127.4**
Other liabilities	**–**	**(111.6)**	**(111.6)**	**(111.6)**
Total at 31 December 2022	**0.3**	**(103.9)**	**(103.6)**	**(103.6)**
Cash and cash equivalents net of bank overdraft	–	18.1	18.1	18.1
Loans and other borrowings due within one year	–	(1.2)	(1.2)	(1.2)
Loans and borrowings due after more than one year	–	(121.0)	(121.0)	(121.0)
Lease liabilities classified as held for sale	–	(1.7)	(1.7)	(1.7)
Lease liabilities due within one year	–	(8.8)	(8.8)	(8.8)
Lease liabilities due after more than one year	–	(30.1)	(30.1)	(30.1)
Derivative assets	0.2		0.2	0.2
Other assets		113.5	113.5	113.5
Other liabilities	–	(118.6)	(118.6)	(118.6)
Total at 31 December 2021	0.2	(149.8)	(149.6)	(149.6)

24. Financial instruments continued

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows

Level 1: unadjusted quoted prices in active markets for identical assets or liabilities

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either as a direct price or indirectly derived from prices

Level 3: inputs for the asset or liability that are not based on observable market data

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Derivative financial assets	**–**	**0.3**	**–**	**0.3**
Total at 31 December 2022	**–**	**0.3**	**–**	**0.3**
Derivative financial assets	–	0.2	–	0.2
Total at 31 December 2021	–	0.2	–	0.2

At 31 December 2022 the Group did not have any assets or liabilities classified at Level 1 or Level 3 in the fair value hierarchy (2021: nil). There have been no transfers in any direction in the year

The Group's financial assets, excluding short term receivables, consist mainly of cash and call deposit accounts

Where cash surpluses arise in the short term, interest is earned based on a floating rate related to bank base rate or SONIA/SOFR/EURIBOR. Where the Group's funding requirements allow longer term investment of surplus cash, management will review available options to obtain the best possible return whilst maintaining an appropriate degree of access to the funds

The Group's financial liabilities, excluding short term creditors, are set out below. Fixed rate financial liabilities comprise US Dollar denominated Senior Unsecured Notes. Floating rate financial liabilities comprise Sterling, Euro and US Dollar bank loans and overdrafts, and lease liabilities. The floating rate bank loans and overdrafts bear interest at rates related to bank base rates or SONIA/SOFR/EURIBOR. The floating rates of the lease liabilities are determined using the Group's incremental borrowing rate, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions

Each subsidiary has financial assets and liabilities which are predominantly in the same denomination as that subsidiary's functional currency. The financial assets and liabilities not denominated in the functional currency of these entities are insignificant to the Group

Certain UK subsidiaries hold Euro £nil (2021: £9.7m) and US Dollar £66.7m (2021: £51.9m) denominated interest bearing loans, which are predominantly used to fund the Group's European and United States operations and include £66.7m (2021: £61.6m) designated as a hedge of the net investment in a foreign operation. The foreign currency loss of £4.8m (2021: gain of £0.6m) for the effective portion was recognised in the Consolidated Statement of Comprehensive Income netted against exchange differences on translation of foreign operations. Any ineffective portion recognised in the Consolidated Income Statement is insignificant

Fixed rate financial liabilities

	Weighted average interest rate %	Weighted average period for which rate is fixed Years
US Dollar at 31 December 2022	**3.9**	**5.0**
US Dollar at 31 December 2021	3.9	6.0

24. Financial instruments continued

(C) MATURITY PROFILE

The table below sets out the contractual cash flows associated with the Group's financial liabilities, including estimated interest payments, analysed by maturity

	Effective interest rate	Carrying amounts £m	Contractual cash flows £m	Due within one year £m	Due between one and two years £m	Due between two and five years £m	Due after more than five years £m
Secured loans and borrowings	**Floating**	**0.4**	**(0.4)**	**(0.3)**	**–**	**(0.1)**	**–**
Unsecured loans and borrowings	**Floating**	**46.7**	**(57.8)**	**(2.4)**	**(2.4)**	**(53.0)**	
Senior Unsecured Notes	**3.9%**	**58.1**	**(69.8)**	**(2.3)**	**(2.3)**	**(34.3)**	**(30.9)**
Lease liabilities	**Floating**	**39.3**	**(39.8)**	**(8.7)**	**(6.6)**	**(12.3)**	**(11.7)**
Lease liabilities classified as held for sale	**Floating**	**–**	**–**	**–**	**–**	**–**	**–**
Other liabilities	**n/a**	**116.5**	**(116.5)**	**(116.3)**	**(0.2)**		
Total at 31 December 2022		**261.0**	**(283.8)**	**(130.0)**	**(11.5)**	**(99.7)**	**(42.6)**
Secured loans and borrowings	Floating	1.8	(1.8)	(1.1)	(0.5)	(0.2)	–
Unsecured loans and borrowings	Floating	69.5	(73.6)	(1.7)	(71.9)		
Senior Unsecured Notes	3.9%	51.6	(64.0)	(2.0)	(2.0)	(31.5)	(28.5)
Lease liabilities	Floating	38.9	(38.9)	(8.8)	(7.2)	(11.8)	(11.1)
Lease liabilities classified as held for sale	Floating	1.7	(1.7)	(0.6)	(0.6)	(0.5)	
Other liabilities	n/a	123.7	(125.0)	(124.5)	(0.5)	–	–
Total at 31 December 2021		287.2	(305.0)	(138.7)	(82.7)	(44.0)	(39.6)

The unsecured bank borrowings bear interest based on SONIA/SOFR/EURIBOR, plus a margin (as defined in the facilities agreement) which varies depending on the Group's ratio of net debt to EBITDA. The secured loans and borrowings are held by subsidiaries in the USA and bear interest at varying rates linked to underlying US bond markets.

The Group had the following undrawn committed facilities at 31 December, in respect of which all conditions precedent had been met.

	2022 £m	2021 £m
Undrawn committed borrowing facilities	**201.6**	202.4

(D) FAIR VALUES

The fair value of forward currency exchange contracts realised in the Consolidated Income Statement as part of fair value derivatives amounted to £nil (2021: £nil). The fair values of the Group's other financial instruments at 31 December 2022 and 2021 were not materially different to their carrying value. Fair values were calculated using market rates where available, otherwise cash flows were discounted at prevailing rates.

Impairment charges of £6.4m (2021: £16.0m) were recognised in respect of the carrying values of non-current assets as detailed in notes 13, 14 and 16.

(E) CREDIT RISK

Exposure to credit risk

The exposure to credit risk is substantially mitigated by the credit insurance employed by the Group. In the absence of this insurance the maximum credit exposure on the carrying value of financial assets at the reporting date was:

Carrying amount

	2022 £m	2021 £m
Trade and other receivables and contract assets at amortised cost	**138.2**	122.7
Cash and cash equivalents at the end of the year	**24.8**	18.8
Total	**163.0**	141.5

24. Financial instruments continued

Carrying value of trade receivables by geography

	2022 £m	2021 £m
UK	**53.3**	54.7
Rest of Europe	**5.6**	19.8
North America	**61.4**	34.1
Rest of the world	**5.8**	3.7
Total	**126.1**	112.3

Carrying value of trade receivables by business segment

	2022 £m	2021 £m
Roads & Security	**50.7**	47.6
Engineered Solutions	**47.3**	32.6
Galvanizing Services	**28.1**	32.1
Total	**126.1**	112.3

Impairment losses

The Group maintains a level of credit insurance covering a significant part of its trade receivables which mitigates against possible impairment losses. An impairment assessment is performed at each reporting date to assess whether there has been a significant increase in the credit risk. Expected credit loss rates are calculated individually for each business within the Group and are based on historical observed default rates, adjusted for forward-looking information. Whilst global economies have continued their post pandemic recovery in 2022, supply chain and inflationary challenges are present and there remains uncertainty around conditions in the short to medium term, particularly in the UK. As such, the Group believes the risk of an increased number of defaults still exists. Accordingly, default loss rates incorporate forward-looking information based on available macroeconomic information. The assessment of the correlation between forecast economic conditions and expected future credit losses is an estimate but is not determined to be a significant estimate as the Group does not expect future credit losses to be materially different to the credit losses estimated at the reporting date. The charge to the Consolidated Income Statement in the year in respect of the expected loss of trade receivables was £0.4m (2021: £0.7m). The Group does not require collateral in respect of trade and other receivables. The Group does not have trade receivables or contract assets for which no loss allowance is recognised because of collateral.

The ageing of trade receivables at the reporting date was:

	2022			2021		
	Gross £m	Provisions £m	Net £m	Gross £m	Provisions £m	Net £m
Not past due	**87.3**	**–**	**87.3**	74.9	(0.2)	74.7
Past due 1–30 days	**27.0**	**(0.1)**	**26.9**	25.6	(0.1)	25.5
Past due 31–120 days	**8.2**	**(0.3)**	**7.9**	9.9	(0.3)	9.6
Past due more than 120 days	**7.0**	**(3.0)**	**4.0**	6.1	(3.6)	2.5
Total	**129.5**	**(3.4)**	**126.1**	116.5	(4.2)	112.3

The movements in provisions for impairment of trade receivables are as follows:

	£m
At 1 January 2021	6.3
Disposal of subsidiary	(0.1)
Charged in the year	0.1
Utilised during the year	(2.1)
At 31 December 2021	**4.2**
Exchange adjustments	**0.1**
Acquisitions of subsidiaries	**0.2**
Disposals of subsidiaries	**(0.8)**
Charged in the year	**0.4**
Utilised during the year	**(0.7)**
At 31 December 2022	**3.4**

24. Financial instruments continued

(F) MARKET RISK – SENSITIVITY ANALYSIS

In managing interest rate and currency risks the Group aims to reduce the impact of short term fluctuations on the Group's earnings. Over the longer term, however, permanent changes in foreign exchange and interest rates may have an impact on consolidated earnings. At the end of the reporting periods, the effects of hypothetical changes in interest and currency rates are as follows:

- Based on average month end net debt balances, if interest rates had varied throughout the year by 1%, the positive or negative variation on the year's result would have been £1.5m, which would directly impact on the Consolidated Income Statement.
- Based on a 10% weakening in Sterling against all currencies throughout the year, the impact on the total group underlying operating profit in the Consolidated Income Statement would have been a gain of £6.8m and the impact on equity would have been an increase of £29.0m.
- Based on a 10% strengthening in Sterling against all currencies throughout the year, the impact on the total group underlying operating profit in the Consolidated Income Statement would have been a loss of £5.6m and the impact on equity would have been a decrease of £23.7m.

25. Called up share capital

	2022 £m	2021 £m
Allotted, called up and fully paid		
80.0m ordinary shares of 25p each (2021: 79.8m)	**20.0**	20.0

In 2022 the Company issued 0.2m shares under its various share option schemes (2021: 0.3m), realising £1.9m (2021: £2.6m).

Each ordinary share carries equal voting rights and there are no restrictions on any share.

OPTIONS OUTSTANDING OVER THE COMPANY'S SHARES

The Group operates a number of employee share schemes categorised as follows:

- Save As You Earn ('SAYE') schemes – SAYE is a tax qualifying monthly savings scheme facilitating the purchase of shares at a discount as permitted by the applicable legislation (currently up to a maximum discount of 20%). SAYE options may be exercised in the event of a change of control to the extent permitted by the rules of the scheme. Such schemes are typically issued annually, are either three or five years and are offered to employees in the UK;
- Long Term Incentive Plans ('LTIP') and Executive Share Option Schemes ('ESOS') – The Remuneration Committee may, at its discretion, structure awards as approved awards comprising a tax qualifying option granted under both the ESOS and LTIP awards. LTIP awards are at nil cost and ESOS is a costed option; and
- Buy-out awards – On joining the Company, certain senior managers forfeited long term incentive awards at their previous employer. The Company compensated them for these awards by granting awards over Hill & Smith shares. The awards are at nil cost.

The number of options outstanding by scheme is as follows:

	2022		2021	
	Number of shares	Option price range (p)	Number of shares	Option price range (p)
SAYE schemes *	**920,387**	**794p to 1,485p**	714,243	891p to 1,485p
LTIP awards	**513,203**	**–**	499,741	–
ESOS awards ^	**345,768**	**316p to 1,113p**	389,489	316p to 1,113p
Buy-out awards	**23,704**	**–**	45,955	–
Outstanding at the end of the year	**1,803,062**		1,649,428	
Exercisable at the year end	**387,237**		451,715	
Not exercisable at the year end	**1,415,825**		1,197,713	
Outstanding at the end of the year	**1,803,062**		1,649,428	

* Options may be exercised early under the terms of this scheme if employees meet the criteria of 'good leaver', which encompasses circumstances such as *retirement or redundancy, otherwise, awards will vest if the participants continue to be in employment at the vesting date.*

^ Vesting of awards under the LTIP and ESOS schemes is subject to various financial performance criteria.

The remaining weighted average life of the outstanding share options is 3 years 11 months (2021: 3 years 0 months).

25. Called up share capital continued

The movement and weighted average exercise prices of share options during the year are as follows

	Weighted average exercise price (p) 2022	Millions of options 2022	Weighted average exercise price (p) 2021	Millions of options 2021
Outstanding at the beginning of the year	**696**	**1.7**	810	1.8
Granted during the year	**513**	**0.9**	471	0.4
Exercised during the year	**(674)**	**(0.3)**	(843)	(0.3)
Lapsed during the year	**(513)**	**(0.5)**	(907)	(0.2)
Outstanding at the end of the year	**655**	**1.8**	696	1.7

The weighted average share price on the dates of exercise of share options during the year was 1,550p (2021: 1,597p), and the weighted average fair value of options and awards granted in the year was 560p (2021: 1,167p). The weighted average exercise price of outstanding options exercisable at the year end was 1,103p (2021: 1,052p). The prior year weighted average exercise price of outstanding options exercisable at the year end, has been restated to 1,052p from 566p, as a result of a clerical error. This restatement does not impact the prior year share based payment charge disclosed.

Share-based payments – options

The fair value of services received in return for share options granted is measured by reference to the fair value of the share options granted. The estimate of the fair value of the services received is measured based on the Black-Scholes model where vesting is based on non market conditions, or a Monte Carlo Simulation where vesting is based on market conditions. The contractual life is the life of the option in question and the growth in dividend yield is based on the best current estimate of future yields over the contractual period.

The expected volatility is wholly based on the historical volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information.

Share options have been granted to qualifying employees in line with either HM Revenue & Customs approved or unapproved schemes. Other than the LTIP and Buy-out awards, the strike price for the option is made based on the market values of shares at the date the option is offered.

As explained in the Directors Remuneration Report on pages 92 to 104, bonuses awarded to the Executive Directors include an element awarded in shares, deferred for a period of two years. The Group has determined the fair value of such awards to be equal to their cash equivalent. The resulting charge is included in the expense arising from share-based payments in the year to which the awards relate.

The key assumptions for the grants in the current and prior year were as follows:

	2022			2021		
	SAYE	LTIP	Buy-out awards	SAYE	LTIP	Buy-out awards
Expected share price volatility (%)	**24%/15%**	**32%**	**0%**	26%/16%	32%	0%
Dividend yield (%)	**3.19%**	**0.0%**	**0.0%**	3.55%	0.0%	0.0%
Option life (years)	**3/5**	**3**	**0.8**	3/5	3	0.8
Risk free interest rate (%)	**4.1%**	**1.45%**	**0%**	0.5%/0.1%	0.2%	0%

The total expense recognised for the period arising from share-based payments is as follows:

	2022 £m	2021 £m
Equity-settled	**2.4**	2.5
Cash-settled	**(0.4)**	0.3
Total expensed during the year	**2.0**	2.8

The carrying amount of the liability in relation to cash-settled share based payments at the end of the year was £0.3m (2021: £0.7m).

26. Guarantees and other financial commitments

(A) GUARANTEES

Subsidiary audit exemptions

Hill & Smith PLC has issued guarantees over the liabilities of the following predominantly non-trading UK subsidiaries as at 31 December 2022 under Section 479C of the Companies Act 2006. These entities are exempt from the requirements of the Act relating to the audit of individual accounts by virtue of Section 479A of the Act.

Company Name	Company Number
Bergen Pipe Supports Limited	00926644
Bergen Pipe Supports Group Limited	01013871
Hill & Smith (International) Limited	11331411
Hill & Smith (Americas) Limited	07269581
Hill & Smith (Americas) 2 Limited	10783462
Hill & Smith (Americas) 3 Limited	12060645
Hill & Smith (France) Limited	06768033
Hill & Smith Overseas Limited	06614400
Hill & Smith (Treasury) Limited	06814150
Hill & Smith (USA) Limited	06876775
Hardstaff Barriers Limited	02791285
Cobaco Holdings Limited	08317210
Signpost Solutions Limited	01084535
Mallatite Minor Structures & Products Ltd	13717429
Bowater Doors Limited	13738120
Expamet Limited	13748629
VMS Newco Limited	12968560
Varley & Gulliver Limited	00330433
Ash & Lacy Limited	00047169
Ash & Lacy Manufacturing Limited	03008964
Ash & Lacy Services Limited	02798286
Hawkshead Properties Limited	00562451
Redman Fisher Engineering Limited	00169316
Hill & Smith (Australia) Limited	14411306
Widnes Galvanising Limited	02206443

The Group had no financial guarantee contracts outstanding as at 31 December 2022.

(B) CAPITAL COMMITMENTS

	2022 £m	2021 £m
Contracted for but not provided in the accounts	**3.8**	3.0

(C) OPERATING LEASE RECEIVABLES

The total future minimum commitments receivable under non-cancellable operating leases are analysed as follows:

	2022		2021	
	Land and Buildings £m	Other £m	Land and Buildings £m	Other £m
Group				
Within one year	**0.1**	**4.8**	0.1	4.6
Between one and five years	–	**1.4**		1.1
After five years	–	–	–	–
	0.1	**6.2**	0.1	5.7

27. Pensions

TOTAL

The total Group retirement benefit assets and obligations are detailed below

	UK £m	Overseas £m	2022 £m	UK £m	Overseas £m	2021 £m
Total fair value of scheme assets	**44.9**	**2.7**	**47.6**	61.8	3.4	65.2
Present value of scheme funded obligations	**(51.4)**	**(3.4)**	**(54.8)**	(69.5)	(7.8)	(77.3)
Present value of scheme unfunded obligations	**–**	**–**	**–**	–	(0.2)	(0.2)
Retirement benefit obligation	**(6.5)**	**(0.7)**	**(7.2)**	(7.7)	(4.6)	(12.3)

UNITED KINGDOM

The Group operates one main pension scheme in the UK, the Hill & Smith 2016 Pension Scheme ('the Scheme'), providing benefits on a *defined benefit and defined contribution basis. The Scheme is closed to future accrual and is subject to the statutory scheme specific funding* requirements outlined in UK legislation. The weighted average maturity (the 'duration') of the defined benefit plan obligations at the end of the reporting period is approximately 11 years (2021: 14 years).

The assets of the Scheme are administered by Trustees and are kept entirely separate from those of the Group. The Trustees undertake a full funding valuation of the Scheme every three years, which is used to determine the rates at which the Group contributes to the Scheme, with the objective of providing the funds required to meet pension obligations as they fall due.

The Group remains actively engaged in dialogue with the Scheme's Trustees with regard to management, funding and investment strategy. The previous triennial funding valuation of the Scheme as at April 2019 was finalised in 2020, alongside an update to the investment strategy, resulting in the Group agreeing a deficit recovery plan with the Trustees that requires cash contributions of £3.7m per annum until September 2027.

The most recent of these triennial valuations is in progress, having an effective date of 5 April 2022. The preliminary results of this valuation have been incorporated in the updated IAS 19 position at 31 December 2022 by an independent qualified actuary.

The Consolidated Income Statement for the year includes a pension charge within operating profit of £3.0m (2021: £3.1m), which includes the costs of the defined contribution and the defined benefit sections of the Scheme. All actuarial gains and losses are recognised immediately in the Consolidated Statement of Comprehensive Income.

The Scheme exposes the Group to a number of risks, the most significant being:

Risk	Description
Volatile asset returns	The defined benefit obligation is calculated using a discount rate set with reference to high quality corporate bond yields. If assets underperform against this discount rate, this will create a plan deficit. The Scheme holds a proportion of its assets in growth assets which are expected to outperform corporate bonds in the long term. However, returns are likely to be volatile in the short term, potentially resulting in short term cash requirements and an increase in the deficit recorded in the Consolidated Statement of Financial Position. The allocation to growth assets is monitored to ensure it remains appropriate given the Scheme's long term objectives.
Changes in bond yields	A decrease in corporate bond yields will increase the funding and accounting liabilities, although this will be partially offset by an increase in the value of the Scheme's investments in Liability Driven Investment and bond funds.
Inflation risk	A significant proportion of the defined benefit obligation is indexed in line with price inflation, with higher inflation leading to higher liabilities. This risk will be partially offset by the Scheme's Liability Driven Investments, which will increase in value in line with market inflation expectations.
Life expectancy	The majority of the Scheme's obligations are to provide a pension for the life of each of the members, so increases in life expectancy will result in an increase in the liabilities.

27. Pensions continued

The principal assumptions used to value the Scheme's liabilities at 31 December

	2022	2021
Rate of increase in salaries	**n/a**	n/a
Rate of increase in pensions payment	**3.2%**	3.3%
Discount rate	**4.9%**	1.8%
Inflation – RPI	**3.3%**	3.5%
Inflation – CPI	**2.4%**	2.7%
Mortality table	**114%117%**	114%117%
	CMI 2021	CMI 2020
	1.25%	1.25%

The mortality assumptions imply the following expected future lifetimes from age 65

	2022	2021
Males currently aged 45	**22.1 years**	22.4 years
Females currently aged 45	**24.6 years**	24.8 years
Males currently aged 65	**20.9 years**	21.1 years
Females currently aged 65	**23.2 years**	23.3 years

The assumptions have been chosen by the Directors from a range of possible actuarial assumptions which, due to the timescales covered, may not be borne out in practice. The Group takes advice from an independent actuary regarding the appropriateness of the assumptions used.

During the latter part of 2021 and throughout 2022, short term inflation in the UK has been significantly higher than we have seen in recent years. The Group has made an allowance for this high inflation experience within the liabilities of the Scheme. Over the duration of the Scheme's liabilities, market expectations of inflation (which have been used to derive the inflation assumptions above) are significantly lower than this recent experience.

Assets and liabilities

The Scheme holds assets and liabilities in respect of defined contribution benefits which are equal in value and are excluded from the following figures. The fair values of Scheme assets in respect of the defined benefit scheme, which are not intended to be realised in the short term and may be subject to significant change before they are realised are detailed below. In addition, the value of the Scheme liabilities, which is derived from cash flow projections over an average period of approximately 11 years (the weighted average term maturity of the Schemes liabilities) and which is therefore inherently uncertain is also set out below.

	Market value 2022 £m	Market value 2021 £m
Assets		
Equities	**–**	7.3
Bonds	**14.8**	25.8
With profits policies	**0.9**	0.9
Liability Driven Investment ('LDI') funds	**12.4**	16.6
Cash	**5.5**	5.2
Alternatives*	**11.3**	6.0
Total fair value of Scheme assets	**44.9**	61.8
Present value of Scheme funded obligations	**(51.4)**	(69.5)
Retirement benefit obligation	**(6.5)**	(7.7)

* Alternatives are investments in asset classes other than traditional equities, bonds, property and cash. They include investments in private equity, private credit, hedge funds, infrastructure, and renewable energy investments.

In 2017 the Group and the Trustees undertook an investment review of the Scheme. The intention of the strategy for the Scheme is to reduce a proportion of interest rate and inflation risk by investing a portion of the Scheme's assets in Liability Driven Investment funds. This strategy *resulted in an initial shift between bonds and LDI funds in the asset categories in 2017. The strategy was reassessed as part of the April 2019* triennial valuation exercise, which resulted in a further shift from growth assets to bonds in 2020, reducing the level of risk in the Scheme's asset strategy. The Scheme's LDI investment is structured as investment in a number of unit linked funds of short and long-dated nominal and index-linked government bonds, some of which are leveraged, held with the Scheme's investment manager. This is designed to reflect the size *and shape of the Scheme's interest rate and inflation exposure. The April 2022 triennial valuation exercise is substantially complete and there has* been no further change to the previously agreed strategy.

27. Pensions continued

Assets in the bonds and equities categories, which account for approximately 33% (2021: 54%) of total Scheme assets, have quoted market prices in active markets. Excluding cash, the balance of £24.6m represents the Scheme's investment in LDI funds and Secure Income Asset Funds. The LDI funds are invested in inflation linked bonds issued by the UK Government as well as fixed rate bonds. Secure Income Assets Funds (Alternatives) are invested in a diversified portfolio of infrastructure debts, private corporate debts and real estate debts. The sensitivity of these funds to changes in interest rates are measured using hedging multiples. Where asset prices are not directly derivable, an accurate price is determined from a subset of observable market data.

Total expense recognised in the Consolidated Income Statement

	2022			2021		
	Defined contribution schemes £m	Defined benefit schemes £m	Total £m	Defined contribution schemes £m	Defined benefit schemes £m	Total £m
Current service costs	**2.2**	**–**	**2.2**	2.1	–	2.1
Expenses	**0.5**	**0.3**	**0.8**	0.5	0.5	1.0
Charge to operating profit	**2.7**	**0.3**	**3.0**	2.6	0.5	3.1
Interest on net Scheme deficit	**–**	**0.1**	**0.1**		0.2	0.2
Total charged to profit before tax	**2.7**	**0.4**	**3.1**	2.6	0.7	3.3

Change in the present value of the defined benefit obligations

	2022 £m	2021 £m
Opening defined benefit obligations	**69.5**	76.0
Past service cost	**–**	–
Interest cost	**1.2**	0.9
Actuarial (gain)/loss arising from		
Financial assumptions	**(18.0)**	(3.3)
Demographic assumptions	**(0.5)**	(0.1)
Experience adjustment	**2.6**	–
Benefits paid	**(3.4)**	(4.0)
Closing defined benefit obligations	**51.4**	69.5

Changes in fair values of Scheme assets

	2022 £m	2021 £m
Opening fair value of assets	**61.8**	62.0
Interest income	**1.1**	0.7
Return on plan assets excluding interest income	**(18.4)**	(0.5)
Employer contributions	**3.8**	3.6
Benefits paid	**(3.4)**	(4.0)
Closing fair value of assets	**44.9**	61.8
Actual return on Scheme assets	**(17.3)**	0.2
Expected employer contributions in the following year		
Defined benefit scheme	**4.1**	4.1
Defined contribution schemes	**1.8**	2.0

27. Pensions continued

Amounts recognised in the Consolidated Statement of Comprehensive Income

	% of Scheme assets/ liabilities	2022 £m	% of Scheme assets/ liabilities	2021 £m
Return on plan assets excluding interest income	**(41)**	**(18.4)**	(1)	(0.5)
Changes in assumptions underlying the present value of Scheme obligations	**36**	**15.9**	5	3.4
Amount recognised in the year	**(5)**	**(2.5)**	4	2.9

The table below shows the sensitivity of the Consolidated Statement of Financial Position to certain changes in the significant pension assumptions

	Balance at 31 December 2022	Increase in pensions payment (+0.1% p.a.) £m	Decrease in pensions payment (-0.1% p.a.) £m	Discount rate (+0.1% p.a.) £m	Discount rate (-0.1% p.a.) £m	Inflation rate (+0.1% p.a.) £m	Inflation rate (-0.1% p.a.) £m	Life expectancy (+1 year) £m	Life expectancy (-1 year) £m
Value of funded obligations	**(51.4)**	(51.7)	(51.1)	(50.9)	(51.9)	(51.7)	(51.1)	(53.5)	(49.3)
Fair value of plan assets	**44.9**	44.9	44.9	44.9	44.9	44.9	44.9	44.9	44.9
Deficit	**(6.5)**	(6.8)	(6.2)	(6.0)	(7.0)	(6.8)	(6.2)	(8.6)	(4.4)

The sensitivity analyses above have been determined based on a method that extrapolates the impact on the defined benefit obligation as a result of changes in key assumptions occurring at the end of the year. The sensitivity analyses are based on a change in a significant assumption, keeping all other assumptions constant. As such the sensitivity analyses may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation from one another.

The Group has considered the requirements of IFRIC 14. The terms of the Scheme give the Group the right to recover any surplus assets in the Scheme upon wind up and therefore management have concluded that there is no impact on the amounts recognised in respect of retirement benefit obligations.

OVERSEAS

The Group operated two overseas pension schemes in France and the USA during the year. As a result of the sale of France Galva (see note 5), as at 31 December 2022 the Group now operates just one overseas pension scheme in the USA.

In the USA, Bergen Pipe Supports, Inc. operates a defined benefit pension plan comprising current and deferred pensioners such that no future benefits accrue. The average duration of the defined benefit plan obligation at the end of the reporting period is approximately 8 years (2021: 10 years).

The Group also operates defined contribution plans in a number of other overseas operations. The amount contributed to these plans during the year was £1.1m (2021: £1.0m).

The Consolidated Income Statement for the year includes a pension charge within operating profit of £1.3m (2021: £1.2m), which includes the costs of the defined contribution schemes and the defined benefit schemes. A further charge of £0.2m is included in the profit from discontinued operations.

Actuarial valuations of the above schemes were carried out by independent actuaries as at 31 December 2022. All actuarial gains and losses are recognised immediately in the Consolidated Statement of Comprehensive Income.

The principal assumptions used by the actuaries

	2022		2021	
	USA	France*	USA	France
Rate of increase in salaries	[illegible]	[illegible]	0.00%	2.50%
Discount rate	[illegible]	3.10%	2.75%	0.98%/0.5%
Inflation	[illegible]	[illegible]	0.00%	2.00%
Mortality table	2014 SOA	TH00-02, TF00	2014 SOA	TH00-02, TF00-02

* A valuation of the French scheme was undertaken immediately prior to the France Galva disposal on 4 October 2022.

27. Pensions continued

Assets and liabilities

The fair values of scheme assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the value of the scheme liabilities, which is derived from cash flow projections over long periods and which is therefore inherently uncertain, are as follows:

	Market Value 2022 £m	Market Value 2021 £m
Assets		
Cash and other insured fixed interest assets	**2.7**	3.4
Total fair value of scheme assets	**2.7**	3.4
Present value of scheme funded obligations	**(3.4)**	(7.8)
Present value of scheme unfunded obligations	**–**	(0.2)
Retirement benefit obligation	**(0.7)**	(4.6)

Cash and other insured fixed interest assets – where assets are held in cash or a policy with a fixed interest asset allocation, the expected long term rate of return is taken to be the yields generally prevailing on such assets as at the year end date.

Total expense recognised in the Consolidated Income Statement

	2022			2021		
	Defined contribution schemes £m	Defined benefit schemes £m	Total £m	Defined contribution schemes £m	Defined benefit schemes £m	Total £m
Current service cost and expenses	**1.1**	**0.4**	**1.5**	1.0	0.2	1.2
Charge to operating profit	**1.1**	**0.4**	**1.5**	1.0	0.2	1.2
Interest on net pension scheme deficit included within profit from discontinued operations	**–**	**0.1**	**0.1**	–		
Total charged to profit for the year	**1.1**	**0.5**	**1.6**	1.0	0.2	1.2

Change in the present value of the defined benefit obligation

	2022 £m	2021 £m
Opening defined benefit obligation	**8.0**	8.8
Current service costs	**0.3**	0.2
Interest cost on scheme obligations	**0.2**	0.1
Actuarial (gains)/losses arising from		
Financial assumptions	**(0.6)**	(0.4)
Demographic adjustments	**(0.9)**	(0.3)
Experience adjustment	**1.2**	0.1
Benefits paid	**(0.5)**	(0.2)
Disposal of subsidiary	**(4.8)**	–
Exchange adjustments	**0.5**	(0.3)
Closing defined benefit obligation	**3.4**	8.0

27. Pensions continued

Changes in fair values of scheme assets

	2022 £m	2021 £m
Opening fair value of assets	**3.4**	3.2
Return on plan assets excluding interest income	**(0.6)**	
Interest on plan assets	**0.1**	0.1
Admin expenses	**(0.1)**	(0.1)
Benefits paid	**(0.2)**	–
Disposal of subsidiary	**(0.2)**	–
Exchange adjustments	**0.3**	0.2
Closing fair value of assets	**2.7**	3.4
Actual return on scheme assets	**(0.5)**	0.1
Expected employer contributions in the following year		
Defined benefit schemes	**–**	–
Defined contribution schemes	**1.1**	1.0

Amounts recognised in the Consolidated Statement of Comprehensive Income

	% of scheme assets/ liabilities	2022 £m	% of scheme assets/ liabilities	2021 £m
Experience loss on scheme obligations	**(35)**	**(1.2)**	(1)	(0.1)
Return on plan assets excluding interest income	**(22)**	**(0.6)**	–	
Changes in assumptions underlying the present value of scheme obligations	**44**	**1.5**	9	0.6
Exchange rate adjustment on assets and liabilities	**(29)**	**(0.2)**	9	0.5
Amount recognised in the year	**(15)**	**(0.5)**	13	1.0

The Group considers that any reasonable sensitivities applied to the assumptions for the overseas schemes would not have a material impact on the Consolidated Financial Statements.

28. Related party transactions

As explained in note 6, the key management personnel are considered to be the Board of Directors of Hill & Smith PLC and the members of the Executive Board who are not also Directors of Hill & Smith PLC. The Board of Directors' remuneration can be seen in the Directors' Remuneration Report on pages 92 to 104. The combined remuneration of key management personnel can be seen in note 6 to the financial statements on page 147.

29. Subsequent events

In February 2023, the Group acquired Enduro Composites Inc. ('Enduro') for an initial cash consideration of £28.7m, on a debt and cash free basis. Enduro, located in Houston, Texas, is a designer, manufacturer and supplier of engineered composite solutions focused on industrial and infrastructure market segments. Its products can be used in a wide variety of applications in conditions that require high strength, light weight and resistance to corrosion.

In March 2023, the Group acquired Korns Galvanizing Company Inc. ('Korns') for a cash consideration of £9.4m, on a debt and cash free basis. Korns, located in Johnstown, Pennsylvania, has a single site specialising in spin galvanizing and has a customer base spread across a wide range of infrastructure related end markets, including commercial construction, fire protection, oil & gas and utilities.

COMPANY BALANCE SHEET

31 December 2022

	Notes	2022 £m	Restated 2021 £m
Non-current assets			
Tangible assets	4	**0.1**	0.1
Right of use assets	5	**0.3**	0.4
Investments	6	**290.1**	329.8
		290.5	330.3
Debtors due in more than one year	7	**95.7**	94.2
		386.2	424.5
Current assets			
Debtors	8	**14.1**	12.8
Cash and cash equivalents		**0.1**	0.1
		14.2	12.9
Creditors: amounts falling due within one year			
Bank loans and overdrafts	9, 10	**(19.8)**	(1.2)
Lease liabilities	5	**(0.1)**	(0.1)
Other creditors	9	**(51.6)**	(69.8)
		(71.5)	(71.1)
Net current liabilities		**(57.3)**	(58.2)
Total assets less current liabilities		**328.9**	366.3
Creditors: amounts falling due after more than one year	10	**(8.7)**	(36.9)
Provisions: pension liabilities	12	**(0.2)**	(0.2)
Net assets		**320.0**	329.2
Share capital and reserves			
Called up share capital	13	**20.0**	20.0
Share premium		**42.8**	40.9
Capital redemption reserve		**0.2**	0.2
Retained earnings		**257.0**	268.1
Total equity		**320.0**	329.2

The Company has taken advantage of the exemption permitted by section 408 of the Companies Act 2006 not to publish its individual profit and loss account and related notes. The Company made a profit attributable to the equity shareholders of £12.1m in the year (2021: £34.6m).

Approved by the Board of Directors on 8 March 2023 and signed on its behalf by:

A C Giddins
Director

H K Nichols
Director

Company Number: 671474

COMPANY STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2022

	Called up share capital £m	Share premium account £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
Balance at 1 January 2021	19.9	38.4	0.2	253.5	312.0
Comprehensive income					
Profit for the year			–	31.6	31.6
Other comprehensive expense for the year	–	–	–	(0.1)	(0.1)
Transactions with owners recognised directly in equity					
Dividends	–	–	–	(21.2)	(21.2)
Credit to equity of share-based payments	–	–	–	2.5	2.5
Satisfaction of long term incentive and deferred bonus awards	–	–	–	(1.8)	(1.8)
Tax taken directly to the Statement of Changes in Equity	–	–	–	0.4	0.4
Issue of shares	0.1	2.5	–	–	2.6
At 31 December 2021	**20.0**	**40.9**	**0.2**	**268.1**	**329.2**
Comprehensive income					
Profit for the year	–	–	–	**12.1**	**12.1**
Other comprehensive income for the year	–	–	–	**(0.1)**	**(0.1)**
Transactions with owners recognised directly in equity					
Dividends	–	–	–	**(24.7)**	**(24.7)**
Credit to equity of share-based payments	–	–	–	**2.4**	**2.4**
Satisfaction of long term incentive and deferred bonus awards	–	–	–	**(0.4)**	**(0.4)**
Tax taken directly to the Statement of Changes in Equity	–	–	–	**(0.4)**	**(0.4)**
Issue of shares	–	**1.9**	–	–	**1.9**
At 31 December 2022	**20.0**	**42.8**	**0.2**	**257.0**	**320.0**

Details of share options and related share-based payments are contained in note 25 to the Group Financial Statements.

Transactions of the Group sponsored Employee Benefit Trust ("EBT") are included in the Company Financial Statements. In particular, the EBT's purchase of shares in the Company to satisfy shares awarded under Long Term Incentive Plans and other remuneration agreements is debited directly to equity.

Distributable reserves

The Company maintains a policy of recognising gains arising from intra group transactions as distributable only once a formal legal opinion has been sought to confirm the position, after all steps required to execute a transaction have been duly completed. The legal opinions required under this policy will be sought no later than the point at which the reserves in question are required to be accessed for the purposes of distribution. In line with this policy the Company has available to it distributable reserves of not less than £78.7m (2021: £88.1m), representing 2.8 times (2021: 3.6 times) cover of the current year proposed dividend. When required the Company can receive dividends from its subsidiaries to further increase its distributable reserves; the Company's UK trading subsidiaries had reserves of approximately £49.8m available for distribution at 31 December 2022 (2021: £44.2m). Further reserves are available for distribution from trading subsidiaries located overseas, subject to local regulations.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

1. Company Principal Accounting Policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's Financial Statements, except as noted below

BASIS OF PREPARATION

These Financial Statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101")

In preparing these Financial Statements the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the UK ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account

As the Consolidated Financial Statements include the equivalent disclosures, the Company has taken the available exemptions under FRS 101 in respect of the following disclosures

- IFRS 2 Share Based Payments in respect of Group settled share based payments,
- A Cash Flow Statement and related notes,
- Disclosures in respect of transactions with wholly owned Group companies, and
- The effects of new but not yet effective IFRSs

The Accounting Policies set out on pages 183 to 185 have, unless otherwise stated, been applied consistently to all periods presented in these Financial Statements

Following a review of the Company's historic practice and future plans not to call on certain intercompany receivables in the short term, £87.2m of balances that were reported as current intercompany receivables at 31 December 2021 have been reclassified to non current in line with IAS 1. Notwithstanding this classification, these balances remain repayable on demand and, if required, can be called upon at the sole discretion of the Company. This reclassification has no impact on net assets, result for the year or cash flows. The impact on the 31 December 2020 balance sheet would be to reclassify £70.7m of current intercompany receivables to non current intercompany receivables.

Measurement convention

The Financial Statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value derivative financial instruments, financial instruments classified as fair value through profit or loss or as fair value through other comprehensive income and liabilities for cash-settled share based payments. Non-current assets and disposal groups held for sale are stated at the lower of previous carrying amount and fair value less costs to sell

ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Company's Financial Statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of income, expenses, assets and liabilities. Actual results may differ from these estimates

Significant estimates are required in determining whether impairment of the Company's investments exists, which requires estimation of the investments' value in use. A process similar to the impairment review performed on the Group's goodwill and other indefinite life intangible assets is undertaken. Key assumptions include the estimation of future cash flows, growth factors and discount rates

There are no significant judgements used by management in preparing the Company's Financial Statements

INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

In the Company's Financial Statements, investments in subsidiary undertakings are carried at cost less impairment

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are, where there is a right of offset, included as a component of cash and cash equivalents

FOREIGN CURRENCIES

Transactions in foreign currencies are translated to the Company's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the profit and loss account

FINANCIAL INSTRUMENTS

Trade and other debtors and amounts owed by subsidiary undertakings

Trade and other debtors and amounts owed by subsidiary undertakings are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses

Trade and other creditors and amounts owed to subsidiary undertakings

Trade and other creditors and amounts owed to subsidiary undertakings are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method

1. Company Principal Accounting Policies continued

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method less any impairment losses.

PROVISIONS

A provision is recognised in the Balance Sheet when the Company has a present legal or constructive obligation as a result of a past event that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

TANGIBLE FIXED ASSETS AND DEPRECIATION

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets.

Depreciation is charged to the profit and loss account on a straight line basis over the estimated useful lives of each part of an item of tangible fixed assets. Land is not depreciated. The estimated useful lives are as follows:

Leasehold improvements	life of the lease
Plant, machinery and vehicles	up to 20 years

Depreciation methods, useful lives and residual values are reviewed at each Balance Sheet date.

LEASES

To the extent that a right of control exists over an asset subject to a lease and with a lease term exceeding one year, the Company recognises a right-of-use asset, representing the underlying lease asset, and a lease liability, representing the Company's obligation to make lease payments. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, any initial direct costs incurred and an estimate of the dismantling, removal and restoration costs as required by the terms of the lease contract.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. If ownership of the leased asset transfers to the Company at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to impairment.

The lease liability is measured at the present value of the future lease payments discounted using the Company's incremental borrowing rate, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. Future lease payments include: fixed payments, variable lease payments that depend on an index or a rate (initially measured using the index or rate as at the commencement date), amounts expected to be payable under a residual guarantee and the exercise price of purchased options where it is reasonably certain that the option will be exercised. Finance charges, representing the unwinding of the discount rate, are recognised in the profit and loss account over the period of the lease.

Lease payments for low value assets and short term leases (less than 12 months) are recognised as an expense on a straight-line basis over the lease term.

PENSION SCHEME ARRANGEMENTS

Defined benefit plans

A defined benefit plan is a post employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods, that benefit is discounted to determine its present value, and the fair values of any plan assets (at bid price) are deducted. The Company determines the net interest on the net defined benefit liability/asset for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability/asset.

The discount rate is the yield at the reporting date on bonds that have a credit rating of at least AA that have maturity dates approximating to the terms of the Company's obligations and that are denominated in the currency in which the benefits are expected to be paid.

Remeasurements arising from defined benefit plans comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). The Company recognises them immediately in other comprehensive income and all other expenses related to defined benefit plans in employee benefit expenses in profit or loss.

Certain of the Company's employees are members of Group-wide defined benefit schemes. The net defined benefit cost of the plans is allocated to participating entities based on the contracting entity of the participating employees of the scheme. The contributions payable by the participating entities are determined on the same basis.

1. Company Principal Accounting Policies continued

SHARE-BASED PAYMENTS

Share based payment arrangements in which the Company receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share based payment transactions, regardless of how the equity instruments are obtained by the Company.

The grant date fair value of share-based payments awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the awards. The fair value of the awards granted is measured using an option valuation model, taking into account the terms and conditions upon which the awards were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Share based payment transactions in which the Company receives goods or services by incurring a liability to transfer cash or other assets that is based on the price of the Company's equity instruments are accounted for as cash settled share based payments. The fair value of the amount payable to employees is recognised as an expense, with a corresponding increase in liabilities, over the period in which the employees become unconditionally entitled to payment. The liability is remeasured at each Balance Sheet date and at settlement date. Any changes in the fair value of the liability are recognised as personnel expense in profit or loss.

TAXATION

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the Balance Sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the Balance Sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

ORDINARY DIVIDENDS

Dividends are recognised in the Financial Statements in the period in which they are approved by the Company's shareholders. Dividend income *is recognised in the Profit and Loss Account on the date the Company's right to receive payment is established.*

FINANCIAL GUARANTEE CONTRACTS

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of subsidiary companies, the Company considers these to be insurance contracts and treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

NOTES TO THE COMPANY FINANCIAL STATEMENTS
Continued

2. *Profit before taxation*

Fees paid to Ernst & Young LLP and its associates for audit and non-audit services to the Company itself are not disclosed in the individual financial Statements of Hill & Smith PLC because the Group Financial Statements are required to disclose such fees on a consolidated basis.

3. Dividends

DIVIDENDS PAID DURING THE YEAR

	2022		2021	
	Pence per share	£m	Pence per share	£m
Interim dividend paid in relation to year ended 31 December 2020	–	–	9.2	7.3
Final dividend paid in relation to year ended 31 December 2020	–	–	17.5	13.9
Interim dividend paid in relation to year ended 31 December 2021	**12.0**	**9.6**	–	–
Final dividend paid in relation to year ended 31 December 2021	**19.0**	**15.1**	–	–
Total	**31.0**	**24.7**	26.7	21.2

DIVIDENDS DECLARED IN RESPECT OF THE YEAR

	2022		2021	
	Pence per share	£m	Pence per share	£m
Interim dividend declared in relation to year ended 31 December 2021	–	–	12.0	9.6
Final dividend declared in relation to year ended 31 December 2021	–	–	19.0	15.1
Interim dividend declared in relation to year ended 31 December 2022	**13.0**	**10.4**	–	–
Final dividend proposed in relation to year ended 31 December 2022	**22.0**	**17.6**	–	–
Total	**35.0**	**28.0**	31.0	24.7

The final dividend for the year was proposed after the year end date and was not recognised as a liability at 31 December 2022, in accordance with IAS 10.

4. Tangible fixed assets

	Short leasehold properties £m	Plant, machinery and vehicles £m	Total £m
Cost or valuation			
At 1 January 2022	0.1	0.5	0.6
Additions	–	0.1	0.1
At 31 December 2022	**0.1**	**0.6**	**0.7**
Depreciation			
At 1 January 2022	0.1	0.4	0.5
Charge for the year	–	0.1	0.1
At 31 December 2022	**0.1**	**0.5**	**0.6**
Net book value			
At 31 December 2022	**–**	**0.1**	**0.1**
At 31 December 2021	**–**	**0.1**	**0.1**

5. Leases

The movements in the carrying value of the right-of-use assets and lease liabilities in the year ended 31 December 2022 is as follows

Right-of-use assets	Land and buildings £m	Total £m
Balance at 1 January 2022	0.4	0.4
Charge for the year	(0.1)	(0.1)
At 31 December 2022	**0.3**	**0.3**

Lease liabilities	Total £m
Balance at 1 January 2022	0.4
Lease payments in period	(0.1)
At 31 December 2022	**0.3**

The following table shows the breakdown of the lease expense between amounts charged to operating profit and amounts charged to finance costs

	2022 £m	2021 £m
Depreciation of right-of-use assets	**0.1**	0.1
Charged to operating profit	**0.1**	0.1
Charged to profit before taxation	**0.1**	0.1

The maturities of the lease liabilities at 31 December were as follows

	2022 £m	2021 £m
Due within one year	**0.1**	0.1
Due between one and two years	**0.1**	0.1
Due between two and five years	**0.1**	0.2
Total lease liabilities	**0.3**	0.4

6. Fixed asset investments

	Shares in subsidiary undertakings £m	Total £m
Cost		
At 1 January 2022	379.6	379.6
Additions	6.7	6.7
At 31 December 2022	**386.3**	**386.3**
Provisions		
At 1 January 2022	49.8	49.8
Impairment	46.4	46.4
At 31 December 2022	**96.2**	**96.2**
Net book value		
At 31 December 2022	**290.1**	**290.1**
At 31 December 2021	329.8	329.8

A list of the businesses owned by the Company is given in note 16. All of the Company's subsidiaries are wholly owned

Following the Group's disposal of France Galva on 4 October 2022, the Company received a dividend from Hill & Smith (France) Limited. France Galva's immediate parent company, amounting to £50.8m. Payment of the dividend reduced Hill & Smith (France) Limited's net assets to £0.1m and as a result, the Company has recognised an impairment charge of £46.4m in relation to its investment in Hill & Smith (France) Limited

NOTES TO THE COMPANY FINANCIAL STATEMENTS
Continued

7. Debtors due in more than one year

	2022 £m	Restated 2021 £m
Amounts owed by subsidiary undertakings due after more than one year	**95.7**	94.2
	95.7	94.2

Refer to the basis of preparation note within the Company Principal Accounting Policies for further details on the prior year restatement

8. Debtors

	2022 £m	Restated 2021 £m
Amounts owed by subsidiary undertakings	**6.0**	5.7
Corporation tax	**3.5**	4.7
Deferred tax (note 11)	**2.9**	1.3
Other debtors	**0.4**	0.3
Prepayments and accrued income	**1.3**	0.8
	14.1	12.8

Refer to the basis of preparation note within the Company Principal Accounting Policies for further details on the prior year restatement

9. Creditors: amounts falling due within one year

	2022 £m	2021 £m
Bank loans and overdrafts (note 10)		
Bank overdrafts	**19.8**	1.2
	19.8	1.2
Other creditors		
Trade creditors	**1.6**	1.4
Other taxation and social security	**0.3**	0.2
Accruals	**4.9**	5.1
Other creditors	**1.1**	0.9
Amounts owed to subsidiary undertakings	**43.7**	62.2
	51.6	69.8

10. Creditors: amounts falling due after more than one year

The Company's interest bearing loans and borrowings are detailed below. Further information on the Company's exposure to interest rate and foreign currency risk is provided in note 24 of the Group Financial Statements.

	2022 £m	2021 £m
Bank loans	**8.5**	36.6
Lease liabilities	**0.2**	0.3
	8.7	36.9

The Company's bank loans and borrowings are also analysed below into the periods in which they mature.

Bank loans and overdraft	2022 £m	2021 £m
Amounts due within one year (note 9)	**19.8**	1.2
Amounts due after more than one year		
Between one and two years	**–**	36.6
Between two and five years	**8.5**	-
	8.5	36.6
	28.3	37.8

11. Deferred tax

	2022 £m	2021 £m
Deferred tax asset – At 1 January	**1.3**	0.3
Credit for the year in the profit and loss account	**2.0**	0.6
(Charge)/credit for the year directly in equity	**(0.4)**	0.4
Deferred tax asset – At 31 December	**2.9**	1.3
Other timing differences	**2.9**	1.3

12. Pension liabilities

The Company contributes to the Group's Hill & Smith 2016 Pension Scheme, which has sections providing benefits accruing in the future on a defined benefit basis and on a defined contribution basis. Details of the Scheme and the most recent actuarial valuations are contained in note 27 to the Group Financial Statements. There are also separate personal pension plans.

The Company's profit for the year includes a pension charge of £0.4m (2021: £0.3m), which includes the costs of the defined contribution schemes and the defined benefit schemes.

13. Called up share capital

	2022 £m	2021 £m
Allotted, called up and fully paid		
80m Ordinary Shares of 25p each (2021: 79.8m)	**20.0**	20.0

In 2022 the Company issued 0.2m shares under its various share option schemes (2021: 0.3m), realising £1.9m (2021: £2.6m). Details of share options and related share-based payments are contained in note 25 to the Group Financial Statements.

Each ordinary share carries equal voting rights and there are no restrictions on any share.

14. Guarantees

SUBSIDIARY AUDIT EXEMPTIONS

Hill & Smith PLC has issued guarantees over the liabilities of the following predominantly non trading UK subsidiaries as at 31 December 2022 under Section 479C of the Companies Act 2006. These entities are exempt from the requirements of the Act relating to the audit of individual accounts by virtue of Section 479A of the Act.

Company Name	Company Number
Bergen Pipe Supports Limited	00926644
Bergen Pipe Supports Group Limited	01013871
Hill & Smith (International) Limited	[illegible]
Hill & Smith (Americas) Limited	07269587
Hill & Smith (Americas) 2 Limited	10783462
Hill & Smith (Americas) 3 Limited	12060645
Hill & Smith (France) Limited	06768033
Hill & Smith Overseas Limited	06614400
Hill & Smith (Treasury) Limited	06814150
Hill & Smith (USA) Limited	06876775
Hill & Smith (Australia) Limited	14411306
Hardstaff Barriers Limited	02791285
Cobaco Holdings Limited	08317210
Signpost Solutions Limited	01084535
Mallatite Minor Structures & Products Limited	13717429
Bowater Doors Limited	13738120
Exoamet Limited	13748629
VMS Newco Limited	12968560
Valley & Gulliver Limited	00330433
Ash & Lacy Limited	00047169
Ash & Lacy Manufacturing Limited	03008964
Ash & Lacy Services Limited	02798286
Hawkshead Properties Limited	00562451
Redman Fisher Engineering Limited	00169316
Widnes Galvanising Limited	02206443

The Company guarantees the bank loans, overdrafts and other borrowings of certain subsidiary undertakings. The amount outstanding at 31 December 2022 was £98.8m (2021: £108.2m).

15. Related party transactions

The Company has related party relationships with its key management personnel and with its subsidiaries (either directly or indirectly controlled).

The related party transactions with key management personnel are considered by the Company to be the same as those of the Group and are set out in note 6 to the Group Financial Statements.

The Company has taken the available exemption under FRS 101 not to disclose transactions with wholly owned Group companies.

16. Subsidiaries

INCORPORATED IN THE UK

AAUG Holdings Limited (H)

Access Design & Engineering Limited (D)

Ash & Lacy Limited (H)*

Ash & Lacy Manufacturing Limited (H)

Ash & Lacy Services Limited (H)

Asset International Limited (D)

ATG Access LTD (R)

A. W. Thorne Limited (D)*

Barkers Engineering Limited (R, G)

Bergen Pipe Supports Group Limited (H)*

Bergen Pipe Supports Limited (H)

Berry Safety Systems Limited (D)*

Berry Systems Limited (D)

Bibel Group plc (D)

Birtley Group Limited (E, G)

Bowater Doors Limited (E)

Bromford Steel Limited (D)

Bytec Limited (D)

Carrington Packaging Limited (D)

Cobaco Holdings Limited (H)

Cobaco Limited (D)

Cooper Securities (Dudley) Limited (D)

Cooper Securities Limited (D)

Dee Organ Limited (D)

Expamet Building Products Limited (D)

Expamet Limited (E)

Forgen Renewables Limited (D)

H&S Expamet Limited (H)

Hawkshead Properties Limited (H)

Hardstaff Barriers Limited (R)

Hill & Smith (Americas) Limited (H)

Hill & Smith (Americas) 2 Limited (H)

Hill & Smith (Americas) 3 Limited (H)

Hill & Smith (Australia) Limited (H)

Hill & Smith (France) Limited (H)*

Hill & Smith (Treasury) Limited (H)*

Hill & Smith (USA) Limited (H)

Hill & Smith (VSG) Limited (D)

Hill & Smith Galvanized Products Limited (H)

Hill & Smith Group Limited (D)

Hill & Smith PLC (H)

Hill & Smith (International) Limited (H)

Hill & Smith Infrastructure Products Group Limited (D)

Hill & Smith Infrastructure Limited (R)*

Hill & Smith Overseas Limited (H)*

Hill & Smith Pension Trustees Limited (D)

J. & F. Pool Limited (D)

Jevons Tools Limited (D)

Joseph Ash Limited (G)

Lionweld Steel Limited (D)

Lionweld Kennedy Flooring Limited (E)*

Mallatite Limited (R)*

Mallatite Minor Structures & Products Limited (R)

Medway Galvanising Company Limited (G)

Parking Facilities Limited (R)

Pipe Supports Overseas Limited (H)*

Post & Column Limited (D)

Premier Galvanizing Limited (G)

Prolectric Services Ltd (R)*

Redman Architectural Metalwork Limited (D)

Redman Fisher Engineering Limited (E)

Safety and Security Barrier Holdings Limited (H)

Signature Limited (D)

Signpost Solutions Limited (D)

Tegrel Limited (D)

The Globe Tank and Foundry (Wolverhampton) Limited (D)

Variable Message Signs Limited (D)

Varley & Gulliver Limited (D)

Vista Galvanizing (UK) Limited (D)

VMS Newco Limited (R)

Western Galvanizers Limited (D)

Wombwell Foundry Limited (D)

Widnes Galvanising Limited (G)

All of the above subsidiaries have a year end date of 31 December and are included in the consolidated results of the Group. The Company holds 100% of the share capital of all businesses, either directly or indirectly, unless otherwise stated. All of the above subsidiaries have a registered office address at Westhaven House, Arleston Way, Shirley, Solihull, B90 4LH, England.

(E) Engineered Solutions

(R) Roads & Security

(G) Galvanizing

(D) Dormant

(H) Holding Company

* Directly held by Hill & Smith PLC

16. Subsidiaries continued

INCORPORATED IN AUSTRALIA

Hill & Smith Pty Limited (R)

INCORPORATED IN JERSEY

Hill & Smith (Jersey) Limited (H)

Vista Limited (H)

INCORPORATED IN INDIA

Bergen Pipe Supports (India) Private Limited (E)
Hill & Smith Infrastructure Products India Private Limited (D)

INCORPORATED IN IRELAND

Redman Fisher Limited (E)
Hill & Smith (Ireland) Unlimited Company (D)

INCORPORATED IN NORWAY

ATA Hill & Smith AS (R)

INCORPORATED IN SWEDEN

ATA Hill & Smith AB (R)

FMK Trafikprodukter AB (D)

INCORPORATED IN SPAIN

Prolectric Solar Lighting S.L. (D)

INCORPORATED IN THE USA

Bergen Pipe Supports, Inc. (E)

Carpenter & Paterson, Inc. (E)

Creative Pultrusions, Inc. (E)

CPK Manufacturing LLC (E)

CPCA Manufacturing LLC (E)

Hill & Smith Group Holdings, Inc. (H)

Hill & Smith US Group Inc (H)

Hill & Smith, Inc. (R)

National Signal LLC (R)

Voigt & Schweitzer LLC (H)

V&S Amboy Galvanizing LLC (G)

V&S Columbus Galvanizing LLC (G)

V&S Delaware Galvanizing LLC (G)

V&S Detroit Galvanizing LLC (G)

V&S Lebanon Galvanizing LLC (G)

V&S Memphis Galvanizing LLC (G)

V&S New York Galvanizing LLC (G)

V&S Schuler Engineering, Inc. (E)

V&S Schuler Tubular Products LLC (E)

V&S Taunton Galvanizing, LLC (G)

All of the above subsidiaries have a year end date of 31 December, with the exception of Bergen Pipe Supports (India) Private Limited and Hill & Smith Infrastructure Products India Private Limited, which each have a year end of 31 March. All of the subsidiaries listed above are included in the consolidated results of the Group. The Company holds 100% of the share capital of all businesses, either directly or indirectly.

(E) Engineered Solutions

(R) Roads & Security

(G) Galvanizing

(D) Dormant

(H) Holding Company

* Directly held by Hill & Smith PLC

FIVE YEAR SUMMARY

	2022 £m	2021 £m	2020 £m	2019 £m	2018 £m
Revenue^	**732.1**	625.2	588.4	617.2	564.2
Underlying operating profit^	**97.1**	77.3	64.7	80.3	74.4
Underlying profit before taxation^	**87.9**	[illegible]	57.3	73.4	70.6
Shareholders' funds	**395.0**	339.6	320.5	307.0	293.2

	Pence	Pence	Pence	Pence	Pence
Underlying earnings per share^	**85.4**	70.0	57.9	74.6	72.1
Proposed dividends per share	**35.0**	31.0	26.7	10.6*	31.8

* The proposed final dividend for 2019 of 23.0p per share was withdrawn and not paid
^ Continuing operations

FINANCIAL CALENDAR

Annual General Meeting	Thursday 25 May 2023
Trading Update	Thursday 25 May 2023
Ex-dividend date for 2022 final dividend	Thursday 1 June 2023
Record date 2022 final dividend	Friday 2 June 2023
Dividend Reinvestment Plan – last date for election	Friday 16 June 2023
Final 2022 ordinary dividend payable	Friday 7 July 2023
Announcement of 2023 interim results	Wednesday 9 August 2023
Trading Update	Wednesday 29 November 2023
Ex-dividend date for 2023 interim dividend	Thursday 30 November 2023
Record date 2023 interim dividend	Friday 1 December 2023
Dividend Reinvestment Plan – last date for election	Tuesday 12 December 2023
Payment of 2023 interim dividend	Friday 5 January 2024

SHAREHOLDER INFORMATION

Shareholder base

Holdings of shares at 28 February 2023

Range of shareholders	Number of holders	%	Number of shares	%
1 - 500	595	32.11	113,100	0.14
501 - 1000	269	14.51	208,225	0.26
1001 - 5000	507	27.36	1,201,722	1.50
5001 - 50,000	396	21.37	4,549,599	5.75
50,001 - 100,000	58	3.13	4,190,229	5.23
100,001 - 500,000	80	4.32	19,092,627	23.84
500,001 - 1,000,000	19	1.03	12,794,887	15.98
Above 1,000,001	19	1.03	37,882,854	47.30
	1,853	100.00	80,083,243	100.00

Shareholder base

	Number of holders	%	Number of shares	%
Individuals	1,370	73.93	3,400,198	4.25
Institutions	476	25.69	76,664,464	95.73
Other corporate	7	0.38	18,581	0.02
	1,853	100.00	80,083,243	100.00

Dividend History – proposed dividend per share

	2022	2021	2020	2019	2018
Interims	13.0	12.0	9.2	10.6	10.0
Final	22.0	19.0	17.5	–	21.8
	35.0	31.0	26.7	10.6	31.8

Communication with shareholders and analysts

Directors meet with major shareholders and potential investors following interim and final results, and at other times if requested. *Presentations for analysts are also held* on the day of these announcements and we keep in regular contact with analysts throughout the year.

Corporate information

The Annual and Interim Reports are the main forms of communication with our shareholders. We have updated our website to supplement these reports with additional information. The website address is www.hsgroup.com and includes share price information, investor relations information and contact details.

Annual General Meeting

The AGM of the Company will be held *at 11.00 a.m. on Thursday 25 May 2023* at Cranmore Park Conference, Event & Exhibition Centre, Cranmore Avenue, Shirley, West Midlands, B90 4LE, United Kingdom. Full details are contained within the Notice of AGM. A proxy card is also enclosed with this statement for voting. Alternatively, you can *vote electronically as explained below.*

Electronic proxy voting

To lodge your proxy vote via the internet, log on to www.investorcentre.co.uk/eproxy. You will need the Control number, Shareholder Reference number ('SRN') and PIN number printed on your Form of Proxy where you will find the full instructions.

Shareholding online

Computershare Investor Centre gives access to view your holdings online. To register click on Investor Centre on the Computershare *home page www.computershare.com* and follow the instructions.

You will be able to:

- View all your holding details for companies registered with Computershare
- View the market value of your portfolio
- Update your contact address and personal details online
- Access current and historical market prices
- Access trading graphs.
- Add additional shareholdings to your portfolio.

Share dealing

Share dealing services are available through Computershare Investor Services PLC. *Log on to www.computershare.com/* sharedealingcentre for internet share dealing and for telephone dealing ring 0370 703 0084.

Dividend Reinvestment Plan 'DRIP'

The Company offers shareholders the facility to reinvest their cash dividends to buy more shares in the Company.

- The service allows you to increase your shareholding in an easy and convenient way.
- Online application process enables *you to participate easily and securely* www.investorcentre.co.uk.
  - Click on 'Register' to sign up to the *Investor Centre. This will allow you to* carry out a number of share related transactions online, including opting for the DRIP.
  - You will be required to fill in your SRN and your postcode, together with your email address. You will also be asked to select a user name (ID) and password of your choice.
  - Once registered select 'Dividend Plans' from the left hand menu and amend your current cash dividend instruction, confirming acceptance of the DRIP terms and conditions.
- New shares will be purchased as soon as possible on or after the dividend *pay date.*

Shareholder helpline number

There is a helpline for shareholders who have enquiries about their shareholdings. The dedicated helpline number is 0370 707 1058.

PRINCIPAL GROUP BUSINESSES

Roads & Security

UNITED KINGDOM

ATG Access Ltd*

Manufacture and installation of hostile vehicle mitigation and perimeter security solutions including bollards, road blockers, barriers and gates

Cobaco House, North Florida Road Haydock Industrial Estate, Haydock Merseyside, WA11 9TP

Tel +44 (0) 8456 757574

www.atgaccess.com

Hill & Smith Infrastructure Limited

Highway and off highway safety barriers, permanent and temporary solutions for vehicle restraints, and retained earth systems *for Highway & Rail construction sectors*

Springvale Business and Industrial Park, Bilston, Wolverhampton, WV14 0QL

Tel +44 (0) 1902 499400
Fax +44 (0) 1902 499419

www.hill-smith.co.uk

Barkers Engineering Limited*

Perimeter security solutions and fasteners

Duke Street, Fenton, Stoke-on Trent, Staffordshire, ST4 3NS

Tel +44 (0) 1782 319264
Fax +44 (0) 1782 599724

www.barkersengineering.com

Mallatite Limited

Manufacture of lighting columns, bespoke support structures, traffic sign columns, posts and associated lighting products

Holmewood Industrial Estate, Hardwick View Road, *Holmewood, Chesterfield* Derbyshire, S42 5SA

Tel +44 (0) 1246 593280
Fax +44 (0) 1246 593281

www.mallatite.co.uk

Parking Facilities Ltd*

Design, manufacture and supply of parking and access control products including gates, barriers, bollards, rising kerbs and speed ramps

Unit One, Kingsbury Link Trinity Road, Tamworth Staffordshire, B78 2EX

Tel +44 (0) 1827 870250
Fax +44 (0) 1827 870251

www.parkingfacilities.co.uk

Prolectric Services Ltd*

UK's leading expert on sustainable lighting, power and security

35 Higher Green Industrial Estate, Clevedon BS21 6XU

Tel +44 (0)1275 400570

www.prolectric.co.uk

REST OF THE WORLD

ATA Hill & Smith AB*

Road signage and traffic safety solutions

Incorporated in Sweden
Staffans vag 7, 192 78, Sollentuna, Sweden

Tel +46 (0) 440 71 01
Fax +46 (0) 8 29 25 15

www.ata.se

Hill & Smith, Inc.*

Temporary road barrier solutions for work zone protection providing smart, safe, innovative solutions for the traffic safety *and highway infrastructure businesses*
Incorporated in the USA

2740 Airport Drive, Suite 310/320, Columbus, *Ohio, US*

43219Tel +1 (614) 340 6294
Fax +1 (614) 340 6296

www.hillandsmith.com

National Signal LLC*

Manufacturer of portable solar light towers, portable hybrid solar light towers and other lighting tower solutions

2440 Artesia Ave, Fullerton, California, US

Tel +1 (888) 994 9300
www.nationalsignalinc.com

Hill & Smith Pty Ltd*

Wire rope and temporary safety barriers
Incorporated in Australia

PO Box 9406, Wynnum Plaza, Wynnum West, Queensland, 4178, Australia

Tel +61 (0) 7 3162 6078

www.hsroads.com.au

Notes

The above lists the Company's subsidiary undertakings except for some intermediate holding companies and certain other undertakings of minor importance. Except where indicated, the undertakings are subsidiaries incorporated in Great Britain and the share capital consists of ordinary shares only

* The Company's effective interest is held indirectly for these undertakings

UNITED KINGDOM

Birtley Group Limited
Galvanized lintels, construction fittings, composite doors, builders' metalwork & plasterers' accessories

Mary Avenue, Birtley, County Durham, DH3 1JF

Tel +44 (0) 191 410 6631
www.birtleygroup.co.uk

Lionweld Kennedy Flooring Limited
Open steel flooring, handrailing and ancillary products

Marsh Road, Middlesbrough, TS1 5JS

Tel +44 (0) 1642 245151
Fax +44 (0) 1642 224710

www.lk-uk.com

UNITED STATES OF AMERICA

Creative Pultrusions, Inc.*
Manufacture of fibre reinforced polymer (FRP) composite profiles

214 Industrial Lane, Alum Bank, Pennsylvania, 15521, USA

Tel +1 (814) 839 4186
Toll free # 888-CPI-PULL (274-7855)
Fax. +1 (814) 839 4276

www.creativecompositesgroup.com

E.T. Techtonics (D)
Design and construction of fiberglass bridge and boardwalk systems

www.creativecompositesgroup.com

Kenway Composites (D)
Advanced custom composite manufacturing and professional field services for various industries

www.kenway.com

Tower Tech (D)
Manufacture of cooling tower products that effectively bridge the gap between sustainability and energy efficiency

www.towertechinc.com

Composite Advantage (D)
A leading manufacturer for Fibre Reinforced Polymer composite bridge, waterfront and rail infrastructure markets

www.creativecompositesgroup.com

V&S Utilities**
Fabrication of electrical transmission and substation structures and supplier of substation packaging services

987 Buckeye Park Road, Columbus, Ohio, 43207, USA

Tel +1 (614) 449 8281
www.vsschuler.com

Bergen Pipe Supports, Inc.*
Manufacture and supply of pipe supports solutions, including constant and variable effort supports

484 Galiffa Drive, Donora, Pennsylvania, 15033, USA

Tel +1 (724) 379 5212
Fax +1 (724) 379 9363

www.pipesupports.com

Carpenter & Paterson, Inc.*
Industrial pipe hangers, metal framing channel and fasteners

225 Merrimac Street, Woburn, Massachusetts, 01801, USA

Tel +1 (781) 935 2950
www.pipehangers.com

Novia Corporation, Inc.*
Vibration and seismic control manufacturer
1 Northwestern Drive, Salem, NH 03079, USA

Tel. +1 (603) 898 8600
Fax +1 (603) 898 2755

www.co-novia.com

India

Bergen Pipe Supports (India) Private Ltd*
Manufacture and supply of pipe supports solutions, including cryogenic supports incorporated in India

Plot No 12, Ground Floor, 'RADHA', Mangala Nagar Main Road, Porur, Chennai, 600116

Tel +91 8576 305 666

www.pipesupports.com

Notes

The above lists the Company's subsidiary undertakings, except for some intermediate holding companies and certain other undertakings of minor importance. Except where indicated, the undertakings are subsidiaries incorporated in Great Britain and the share capital consists of ordinary shares only.

* The Company's effective interest is held indirectly for these undertakings

** Trading name for V&S Schuler Engineering Inc and V&S Schuler Tubular Products LLC. Both are indirectly held, wholly owned and incorporated in the USA

(D) Operating division only, not a limited company

PRINCIPAL GROUP BUSINESSES continued

Galvanizing Services

UNITED KINGDOM

*Joseph Ash Limited**

Galvanizing services

Alcora Building 2, Mucklow Hill Halesowen, West Midlands, B62 8DG

Tel +44 (0) 121 504 2560
Fax +44 (0) 121 504 2599

www.josephash.co.uk

Medway Galvanising Company Limited*

Galvanizing, shotblasting and powder coating services

Castle Road, Eurolink Industrial Centre, Sittingbourne, Kent, ME10 3RN

Tel +44 (0) 1795 479489
Fax +44 (0) 1795 477598

www.medgalv.co.uk

*Premier Galvanizing Limited**

Galvanizing and powder coating services

Unit 25, Stoneferry Business Park Foster Street, East Riding of Yorkshire, HU8 8BT

Tel +44 (0) 1482 587587
Fax +44 (0) 1482 588599

www.premiergalv.co.uk

Widnes Galvanizing Limited*

Galvanizing services

Fairway Trading Park, Ditton Road, Widnes, Cheshire, WA8 0NZ

Tel +44 (0) 151 495 1939

www.widnesgalvanising.co.uk

Barkers Engineering Limited*

Galvanizing and powder coating services

Duke Street, Fenton, Stoke on Trent, Staffordshire, ST4 3NS

Tel +44 (0) 1782 343811
Fax +44 (0) 1782 344974

www.barkersgalvanizing.com

Birtley Group Limited

Galvanizing services

Mary Avenue, Birtley, County Durham, DH3 1UF

Tel +44 (0) 191 410 4421
Fax +44 (0) 191 492 1817

www.birtleygalvanizing.co.uk

United States of America

Voigt & Schweitzer LLC*

Galvanizing services

987 Buckeye Park Road, Columbus Ohio, 43207, USA

Tel +1 (614) 449 8281
Fax +1 (614) 449 8857

www.hotdipgalvanizing.com

Notes

The above lists the Company's subsidiary undertakings, except for some intermediate holding companies and certain other undertakings of minor importance. Except where indicated, the undertakings are subsidiaries incorporated in Great Britain and the share capital consists of ordinary shares only.

* The Company's effective interest is held indirectly for these undertakings.

DIRECTORS, CONTACTS AND ADVISORS

DIRECTORS

Alan Giddins
Executive Chair

Hannah Nichols
Chief Financial Officer

Tony Quinlan
Senior Independent Non-executive

Annette Kelleher
Non-executive

Mark Reckitt
Non-executive

Pete Raby
Non-executive

Leigh-Ann Russell
Non-executive

Farrokh Batliwala
Non-executive

CONTACTS

Hill & Smith PLC

Registered Office
Westhaven House
Arleston Way Shirley,
Solihull West Midlands
B90 4LH

Tel +44 (0)121 704 7430
Fax +44 (0)121 704 7439

Registration Details
Registered in England and Wales
Company Number 671474

Company Website
www.hsgroup.com

Company Secretary
Alex Henderson FCIS

Registrars
Computershare Investor Services PLC
PO Box 82
The Pavilions
Bridgwater Road
Bristol
BS99 6ZZ

PROFESSIONAL ADVISORS

Auditor
Ernst & Young LLP
No 1 Colmore Square
Birmingham
B4 6HQ

Brokers and Financial Advisors
Numis Securities Limited
45 Gresham Street
London
EC2V 7BF

Principal Bankers
Barclays Bank Plc
Midlands Corporate Banking Centre
PO Box 3333
1 Snowhill
Snow Hill Queensway
Birmingham
B3 2WN

Lawyers
Gowling WLG
Two Snowhill
Birmingham
B4 6WR

Silks Solicitors
Barclays Bank Chambers
Birmingham Street
Oldbury
B69 4EZ

Financial Public Relations
MHP Communications
60 Great Portland Street
London
W1W 7RT

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The production of this report supports the work of the Woodland Trust, the UK's leading woodland conservation charity. Each tree planted will grow into a vital carbon store, helping to reduce environmental impact as well as creating natural havens for wildlife and people

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