RNS Number : 7164I
Hill & Smith PLC
09 August 2023

9th August 2023

Hill & Smith PLC

Half Year Results (unaudited) for the six months ended 30 June 2023

Record results, strong outlook

Hill & Smith PLC ("Hill & Smith" or "the Group"), the international provider of sustainable infrastructure products and services, announces its unaudited results for the six months ended 30 June 2023 ("the period").

Financial Results

	Underlying*		Change			Statutory		
	30 June 2023	30 June 2022 (1)	***Reported %***	***Constant Currency %***	***OCC ^ %***	**30 June 2023**	30 June 2022 (1)	***Change %***
Continuing Operations (1)								
Revenue	**£420.8m**	£349.9m	***+20%***	***+17%***	***+9%***	**£420.8m**	£349.9m	*+20%*
Operating profit	**£62.5m**	£43.6m	***+43%***	***+38%***	***+20%***	**£53.5m**	£34.8m	*+54%*
Operating margin	**14.9%**	12.5%	***+240bps***			**12.7%**	9.9%	*+280bps*
Profit before tax	**£57.2m**	£40.2m	***+42%***			**£48.2m**	£31.4m	*+54%*
Earnings per share	**53.6p**	38.7p	***+39%***			**43.5p**	29.3p	*+48%*
Total Group (1)								
Earnings per share	**53.6p**	43.2p	***+24%***			**43.5p**	32.7p	*+33%*
Dividend per share	**15.0p**	13.0p	***+15%***			**15.0p**	13.0p	*+15%*

(1) Continuing operations exclude France Galva, which was divested in October 2022 and was accounted for as a discontinued operation in the prior year comparatives. Total Group includes both continuing and discontinued operations. Refer to note 9 to the financial statements.

Key Highlights:

- **Record trading performance**
  - Group revenue up 9% and operating profit up 20% on an organic constant currency basis
  - Operating margin increased by 240bps to 14.9%, with improved product mix and operational gearing
  - Strong momentum in our US businesses focused on structurally growing infrastructure markets, representing 73% of H1 operating profit
  - Resilient performance in our UK businesses

- **Continued focus on delivering value enhancing acquisitions**
  - Completed acquisitions of Enduro and Korns Galvanizing in H1 (deploying £38.5m in aggregate)
  - All recent acquisitions trading well with Enduro and National Signal ahead of expectations. Contribution from acquisitions: £41m revenue, £8m operating profit
  - Continued progress on building M&A pipeline

- **Strong cash generation with H1 cash conversion at 87%**
  - Covenant leverage at 0.7 times

- **Interim dividend up 15% at 15p**

- **FY23 operating profit expected to be modestly ahead of current market consensus †**

- **We will be hosting an investor seminar covering the growth strategy for our composites business at the end of November. Further details of the event will follow.**

Alan Giddins, Executive Chair, said:

"Hill & Smith has delivered a record first half performance, reflecting the strong performance of our US businesses and the resilient performance of those in the UK. This strong trading has been evidenced across the Group, in particular through a standout performance in our Engineered Solutions division as well as a strong contribution from recently acquired businesses. The record results are testament to the benefits of our autonomous operating model. I would also like to thank all of our employees for their considerable commitment and contribution.

"The full year outlook is now expected to be modestly ahead of market expectations. The geographic mix of the portfolio has also evolved and there is now a heavier weighting towards faster growing US end markets, which accounted for 73% of Group profits. Longer term, we remain confident about our prospects given our structural end market growth drivers, the quality of our operating businesses and strong balance sheet, all of which will allow us to accelerate our growth further."

† *The current company compiled analyst consensus expectation for FY23 is for underlying operating profit of £111.8m with a range of £110.2m-£112.8m.*

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There will be an in-person presentation for analysts and institutional investors this morning at 10am, hosted at Numis, 45 Gresham St, London EC2V 7BF, as well as a webcast and conference call with a facility for Q&A. To register for the webcast, please use this link. For conference call dial in details, please contact hugo.harris@mhpgroup.com. A copy of the presentation will be made available at https://hsgroup.com/investors/reports-and-presentations/.

** All underlying measures exclude certain non-underlying items, which are as detailed in note 6 to the Financial Statements and described in the Financial Review. References to an underlying profit measure throughout this announcement are made on this basis. Non-underlying items are presented separately in the Consolidated Income Statement where, in the Directors' judgement, the quantum, nature or volatility of such items gives further information to obtain a proper understanding of the underlying performance of the business. Underlying measures are deemed alternative performance measures ("APMs") under the European Securities and Markets Authority guidelines and a reconciliation to the closest IFRS equivalent measure is detailed in note 5 to the financial statements. They are presented on a consistent basis over time to assist in comparison of performance.*

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

Notes to Editors
Hill & Smith PLC is a leading provider of sustainable infrastructure products and services The Group employs c.4,250 people worldwide with the majority employed by its autonomous, agile, customer focussed operating businesses based in the UK, USA, Australia and India. The Group office is in the UK and Hill & Smith PLC is quoted on the London Stock Exchange (LSE: HILS.L).

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

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

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

Roads & Security: supplying products and services to support road and highway infrastructure including temporary and permanent road safety barriers, intelligent traffic solutions, street lighting columns and bridge parapets. In addition, the division includes two businesses which are market leaders in the provision of off-grid solar lighting and power solutions. The security portfolio includes hostile vehicle mitigation solutions, high security fencing and automated gate solutions.

H1 2023 Review

The Group has delivered a record first half performance, reflecting strong momentum in our US businesses focused on structurally growing infrastructure markets. Alongside this, our UK businesses delivered a resilient performance, supported by the leading positions they hold in their respective niche markets. The record results are also testament to the benefits of our autonomous operating model and the commitment of our talented local teams.

Revenue in the first half was up 9% and operating profit was up 20% on an organic constant currency basis with Group operating margin increasing by 240 basis points to 14.9%, the margin expansion attributable to improved portfolio mix and the benefits of operational gearing. Acquisitions contributed c.£41m revenue and c.£8m operating profit in the period.

The Engineered Solutions division delivered an exceptional performance, driven by increasing demand for composite solutions in the US. Our business supplying structural steel substation components also saw robust demand, underpinned by the ongoing requirement to modernise the US electric grid.

In Galvanizing Services, our US business delivered record revenue and operating profit, underpinned by strong volume growth across a range of infrastructure end markets. As expected, operating profit in the UK galvanizing business was lower than H1 2022, a record first half, with the impact of lower volumes and higher energy costs, partly offset through pricing and an improved product mix.

The Roads & Security division delivered good constant currency revenue and profit growth, attributable to buoyant demand in National Signal, our US off grid solar lighting solutions business, which has traded ahead of expectations since acquisition in October 2022. The division saw profit decline on an organic basis which mainly reflects the impact of further restructuring actions taken in our US Roads business. Our UK Roads & Security portfolio delivered revenue and profit lower than H1 2023, reflecting the more challenging UK economic backdrop.

The Group continues to be highly cash generative, with cash conversion in the first half of 87% and net debt remaining at 0.7 times EBITDA on a covenant basis. The strong balance sheet underpins the resilience of the Group and provides us with flexibility to continue to invest in growth opportunities including acquisitions, where we have an increasingly strong M&A pipeline.

Strategic progress update

Portfolio Management

Acquisitions form a key part of the Group's growth strategy. In the first half we have made good progress in building our M&A pipeline, with a continued focus on high quality businesses with attractive organic growth potential. All potential acquisitions are tightly evaluated to ensure they fit with our strategic and financial criteria. Once acquired, we implement a rigorous and detailed integration plan.

In the year to date, we have acquired two high quality businesses for a total headline consideration of £38.5m. In February 2023, the Group acquired Enduro Composites, a designer, manufacturer and supplier of engineered composite solutions based in Houston, Texas for £29.0m. Enduro is highly complementary to our existing US composites business and will further accelerate our strategy in the exciting and growing composites market. Trading since acquisition has been ahead of our expectations.

In March 2023, we acquired Korns Galvanizing based in Johnstown, Pennsylvania for £9.5m, strengthening our US galvanizing market presence. The site operations have been successfully integrated within V&S Galvanizing and trading since acquisition has been in line with expectations.

In April 2023 we completed the disposal of the final part of our loss making Swedish roads business.

ESG

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

Within our business, our ESG strategy encompasses seven focus areas including our commitment to reduce Greenhouse Gas (GHG) emissions. During the period we successfully completed an extensive exercise to establish the Group baseline data for all emission scopes, which has received third party Limited Assurance. This has enabled us to submit both near and long term Science Based Target initiative (SBTi) commitments for approval with an overarching target to reach net zero GHG emissions across the value chain by 2050. This sits alongside our commitment to reach net zero for our Scope 1 and 2 emissions by 2040. Our Head of Sustainability continues to work with our teams to drive local energy saving initiatives and explore

Sustainability continues to work with our teams to drive local energy saving initiatives and explore decarbonisation technology options to underpin our GHG reduction plan.

We also continue to take action across our other ESG priority areas including Health & Safety, Talent & Engagement and Diversity & Inclusion.

Board updates

In May 2023, the Group announced that Alan Giddins had formally assumed the role of Executive Chair for an expected period of 12 to 18 months, a role that he had been undertaking since July 2022 on an interim basis while the Group searched for a new Chief Executive Officer. This will provide the Group with continuity and stability, as it executes on its strategy at pace, in a period with significant opportunity.

After a tenure of nine years, Annette Kelleher stepped down from the Board as Non-executive Director in May 2023 and we thank her for her significant contribution during this time.

Results from continuing operations

The Group has delivered a record set of results for the first half of 2023. Revenue was £420.8m (2022: £349.9m), an increase of 20% on a reported basis. OCC revenue growth was 9%. Constant currency revenue growth was 17% reflecting a strong trading performance in both National Signal and Enduro, our two larger recent US acquisitions. Underlying operating profit was £62.5m (2022: £43.6m), an increase of 43% on a reported basis. OCC operating profit growth was 20% and constant currency growth was 38%. Operating margins improved to 14.9% (2022: 12.5%). Underlying profit before taxation was £57.2m (2022: £40.2m). Reported operating profit was £53.5m (2022: £34.8m) and reported profit before tax was £48.2m (2022: £31.4m). Underlying earnings per share increased to 53.6p (2022: 38.7p) and reported earnings per share was 43.5p (2022: 29.3p).

We are also pleased to report that Total Group underlying earnings per share increased by 24% to 53.6p (2022: 43.2p), driven by the strong underlying performance of the business and the redeployment of the France Galva proceeds into acquisitions with higher growth and higher quality earnings.

The principal reconciling items between underlying and reported operating profit include the amortisation of acquisition intangibles of £4.3m and a loss of £3.2m on disposal of our Swedish road business. Note 6 to the financial statements provides further details on the Group's non-underlying items.

Dividend

In light of the strong H1 performance and our confidence in the Group's prospects, we have declared an interim dividend for FY23 of 15.0p per share, an increase of 15% (2022: 13.0p). The interim dividend will be paid on 5 January 2024 to shareholders on the register on 1 December 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 infrastructure markets with attractive structural growth drivers. The geographic mix of the portfolio has also evolved and there is now a heavier weighting towards faster growing US end markets, which in the period accounted for 73% of Group operating profit. These factors, alongside the strong first half performance, the quality of our M&A pipeline and the benefits of our agile operating model, provide confidence that the Group will continue to make good progress in 2023, despite the macro-economic headwinds. We expect operating profit to be modestly ahead of current market expectations albeit slightly H1 weighted due to the phasing of orders in our composite business and forecast FX headwinds in the second half.

In the medium to longer term, the outlook is supported by strong market growth drivers for sustainable infrastructure. In particular, our US businesses are well placed to benefit from the increasing industrial expansion, driven by onshoring, technology change and Federal funding including the Infrastructure Investment and Jobs Act (IIJA) and Chips Act.

Operational Review

Engineered Solutions

	£m		Reported	Constant	OCC
	2023	2022	%	currency %	%
Revenue	**181.7**	136.5	+33	+29	+17
Underlying operating profit (1)	**30.9**	14.1	+119	+106	+89
Underlying operating margin % (1)	**17.0%**	10.3%			
Statutory operating profit	**28.5**	13.8			

(1) Underlying measures are set out in note 5 to the Financial Statements and exclude certain non-underlying items, which are detailed in note 6 to the Financial Statements.

Our Engineered Solutions division provides steel and composite solutions 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.

commercial construction.

The division delivered a standout performance, with 17% revenue and 89% profit growth on an OCC basis, driven by strong volume growth in our higher margin US composite and structural steel electricity substation businesses. Operating margins increased significantly to 17.0% (2022: 10.3%), reflecting the benefits of operational gearing and the improved portfolio mix.

US

The US businesses delivered 27% OCC revenue growth and record operating profit in the first half.

Our composites business is the largest company within the division and delivered record revenue and operating profit underpinned by high demand for its range of engineered composite solutions including utility poles, waterfront protection, cooling towers and mass transit infrastructure. The business also delivered improved margins compared to H1 2022, a soft comparator, due to excellent commercial execution, a more favourable product mix and increased volumes. Given the high level of H1 activity, we expect FY23 profit to be first half weighted. The outlook for 2024 is very positive, with focus end markets expected to benefit from unprecedented levels of government investment, ongoing grid modernisation and onshoring. The business is also seeing an increasing adoption of innovative composite solutions, supported by legacy material availability, lifecycle cost and sustainability considerations.

In February 2023 we were pleased to acquire Enduro for a headline consideration of £29.0m. Located in Texas, Enduro 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. Enduro has traded ahead of expectations since acquisition, and we have approved capital investment to expand capacity in the second half to support future growth in demand.

Our business supplying structural steel components for electricity substations continued to see strong demand in the first half and delivered record revenue and operating profit. The business enters the second half with a strong orderbook supported by high project demand to expand and upgrade ageing power infrastructure. We are making a number of strategic capex investments to increase capacity.

Our engineered supports business delivered a solid performance, with profit at similar levels to the prior year. While the business has seen a slowdown in commercial construction demand, it is expected that this will be offset by an increase in demand for infrastructure and factory projects in the second half.

Overall prospects for future growth in all our US Engineered Solutions businesses are very positive. We expect market demand to be supported by investment to modernise the ageing electric 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 the Chips Act, and private investment from US manufacturers and producers to onshore vital components.

UK

Revenue in our UK businesses declined by 4% on an organic basis and profit was at a similar level to H1 2022. The industrial flooring business delivered a resilient performance, reflecting buoyant demand from data centre, battery plant and oil & gas markets and the second half outlook for the business is cautiously optimistic. As expected, volumes in our UK building products business were lower than H1 2022, reflecting a slowdown in new build and repair, maintenance and improvement sectors. The volume decline was offset by higher selling prices which, together with a focus on margins and tight cost management, resulted in operating profit ahead of the same period last year. We expect our UK building product end markets to continue to be challenging in the second half.

Galvanizing Services

	£m		Reported	Constant	OCC
Continuing Operations (2)	**2023**	2022	%	currency %	%
Revenue	**99.6**	84.5	+18	+14	+10
Underlying operating profit (1)	**22.6**	21.4	+6	+1	-2
Underlying operating margin % (1)	**22.7%**	25.3%			
Statutory operating profit	**21.7**	20.8			

(1) Underlying measures are set out in note 5 to the Financial Statements and exclude certain non-underlying items, which are detailed in note 6 to the Financial Statements.

(2) Continuing operations exclude France Galva, which was reported as a discontinued operation in the prior year.

The Galvanizing Services division offers hot-dip galvanizing and powder coating services with multi-plant facilities in the US 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 a range of end markets including road and bridge and other infrastructure, construction, and transportation.

The division delivered a robust performance in the first half, with 10% OCC revenue growth and operating profit at similar levels to H1 2022, a strong comparator for the UK. The division continues to deliver superior margins, with H1 2023 operating margin at 22.7%, reflecting the value-add service provided to customers. The results are attributable to strong volume growth in the US, offset by a volume decline and higher energy costs in the more challenging UK market.

US

Predominantly located in the northeast and midwest of the country, the US galvanizing business delivered a strong performance, with 18% OCC revenue growth and record operating profit. The strong growth is attributable to a 15% organic increase in production volumes with pricing action taken to offset higher labour and raw material costs. As a result, the business continued to deliver 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 headline consideration of £9.5m. Located in Johnstown, Pennsylvania, Korns specialises in spin galvanizing and expands our production capacity in the key northeastern market, broadening the range of galvanizing services we can offer to our existing customer base. The integration of Korns into our existing business is going well and trading since acquisition has been in line with our expectations.

In the medium to longer term, the outlook for US galvanizing is positive. The business is well placed to benefit from high levels of industrial expansion activity in the US supported by the IIJA, investment in technology and a more general move to the onshoring of certain activities. We continue to quote on IIJA related projects and expect to see incremental demand from bridge and highway and renewable energy projects in the second half of 2023.

UK

In UK galvanizing, revenue was flat on an organic basis, which reflects a 19% decline in production volumes offset by pricing actions taken to cover higher energy and labour costs. The volume decline reflects the challenges of wider end markets and certain key customers delaying projects. As a result, operating profit and operating margin were lower than last year's record first half.

The integration of Widnes Galvanising, acquired in September 2022, is progressing well and the business delivered results ahead of expectations in H1 2023.

Our market leading UK galvanizing business has the benefits of serving a diversified customer base. Given the challenges in certain end markets, the business is focusing on more resilient, growth sectors such as green energy and cable management solutions and is cautiously positive for the second half.

Roads & Security

	£m		Reported	Constant	OCC
Continuing Operations (2)	**2023**	2022	%	currency %	%
Revenue	**139.5**	128.9	+8	+7	-2
Underlying operating profit (1)	**9.0**	8.1	+11	+15	-49
Underlying operating margin % (1)	**6.5%**	6.3%			
Statutory operating profit	**3.3**	0.2			

(1) Underlying measures are set out in note 5 to the Financial Statements and exclude certain non-underlying items, which are detailed in note 6 to the Financial Statements.

(2) Continuing operations exclude the French lighting column business, which was reported as a discontinued operation in the prior year.

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 includes two businesses which are market leaders in the provision of off-grid solar lighting and power solutions.

The division delivered 7% revenue growth and 15% profit growth on a constant currency basis, reflecting strong H1 trading in National Signal, our recently acquired US off-grid solar lighting business. On an OCC basis, operating profit was lower than the same period last year and included the impact of further restructuring costs in our US Roads business. Alongside this, our UK Roads & Security portfolio delivered revenue and profit lower than H1 2023, reflecting the more challenging UK economic backdrop. As a result, first half operating margins only showed a modest improvement compared to H1 2022, and we expect further margin improvement in the second half.

UK

Revenue was 5% lower and operating profit was also lower than H1 2022 on an organic basis. While the barrier rental business delivered an improved performance, with an increased level of fleet utilisation, our wider UK roads portfolio experienced challenges, with inflationary and budgetary pressures across central government and local authorities resulting in project delays and cancellations. We expect the outlook to continue to be challenging into 2024 and that project activity may slow down next year in anticipation of the Road Investment Strategy 3 period (2025-2030). Prolectric, our off-grid solar energy business, delivered modest revenue growth in the period, reflecting a slowing in construction end markets. The business is increasingly focused on more resilient sectors such as defence and facilities management, and with a healthy order book, expects to make good progress in the second half.

US

Our US Roads portfolio comprises two businesses: National Signal, our off-grid solar lighting solutions business acquired in October 2022, and our roadside safety products business.

Trading in National Signal was very strong in the first half, supported by a high order backlog and buoyant demand from rental companies for sustainable solar lighting solutions to replace their existing fleet. While we do not expect to see such exceptional levels of demand in the second half, the medium-term outlook for the business is positive, underpinned by a drive toward sustainable solutions and an expected boom in large scale infrastructure projects.

Revenue in the road traffic safety product business was 2% above the same period last year on an OCC basis, however first half operating profit was significantly impacted by restructuring costs, mainly associated with re-engineering the trailer product line. This was partly offset by an increase in demand for barrier rentals. The new senior management team are implementing a range of operational improvement plans and we expect the business to make some progress in the second half. The medium-term outlook for the business remains positive, with demand 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.$110 billion in highway and bridge improvements through to 2026.

Scandinavia

In April 2023 we completed the disposal of the final part of our loss-making Swedish roads 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 3% lower than H1 2022 on an organic basis, reflecting a more second half weighted project phasing in our HVM solutions business this year. Our UK security barrier rental business performed well, as our security solutions were deployed to provide protection at high profile events including King Charles' Coronation and the Eurovision Song Contest in Liverpool. The outlook for our security portfolio remains mixed given the UK and wider economic uncertainty, however we expect that our quality product offering and a focus on more resilient end markets such as data centres will support further progress.

Financial Review

Cash generation

Cash conversion in the first half was strong at 87%, a significant improvement compared to H1 2022. The improvement reflects a tight focus on working capital and an easing of supply chain challenges which has enabled certain businesses to reduce their stock holding. We expect the Group to deliver strong cash conversion in 2023, in line with our target level of 80%+ and consistent with historic levels. The calculation of our underlying cash conversion ratio can be found in note 5 to the financial statements.

Operating cash flow before movement in working capital was £77.4m (2022: £62.2m). The working capital outflow in the period was £7.2m (2022: £41.5m). The outflow reflects working capital absorption to support good growth, with all businesses focused on maximising working capital efficiency. Working capital as a percentage of annualised sales was 17.5%. Debtor days were in line with expectations at 55 days (30 June 2022: 62 days excluding France Galva).

Capital expenditure of £12.7m (2022: £17.1m) represents a multiple of depreciation and amortisation of 1.2 times (2022: 1.5 times). Investment in the period included £2.5m in our US composites business and £2.5m in our US galvanizing business.

Net financing costs for the period from continuing operations were £5.3m (2022: £3.4m). The net cost of pension fund financing under IAS 19 was £0.2m (2022: £0.1m), and the amortisation of costs relating to refinancing activities was £0.3m (2022: £0.4m).

The Group generated £38.7m of free cash flow in the period (2022: an outflow of £7.1m), providing funds to support our acquisition strategy and dividend policy.

Net debt and financing

Net debt at the end of the period amounted to £132.1m (31 December 2022: £119.7m). Outflows in the period included £10.4m for the 2022 interim dividend and £41.3m on M&A activity, principally the acquisitions of Enduro and Korns. Net debt at the period end includes lease liabilities under IFRS 16 of £39.2m (31 December 2022: £39.3m).

The Group's principal financing facilities comprise a £250m revolving credit facility, which expires in November 2026, with an option to extend for a further year, and $70m senior unsecured notes with maturities in June 2026 and June 2029, together with a further £7.1m of on-demand local overdraft arrangements. Throughout the period the Group has operated well within these facilities and at 30 June 2023, the Group had £217.8m of headroom (£210.7m committed, £7.1m on demand). Approximately 50% of the Group's drawn debt at 30 June 2023 is subject to fixed interest rates, providing a hedge against recent market movements.

The principal borrowing facilities are subject to covenants that are measured biannually in June and December, being net debt to EBITDA of a maximum of 3.0 times and interest cover of a minimum of 4.0 times. The ratio of covenant net debt to EBITDA at 30 June 2023 was 0.7 times (31 December 2022: 0.7 times) and interest cover was 22.6 times (31 December 2022: 21.6 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.

Return on Invested Capital

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. The Group's ROIC for the period to 30 June 2023 was 21.3% (2022: 17.5%), the improvement reflecting the strong trading and our disciplined approach to capital investment.

Tax

The underlying effective tax rate for the period for continuing operations was 25.0% (FY 2022: 22.4%). The tax charge for the period for continuing operations was £13.4m (2022: £7.9m) and includes a £0.9m credit (2022: £1.3m credit) in respect of non-underlying items, principally relating to the amortisation of acquisition intangibles. Cash tax paid in the period was £14.9m (2022: £8.1m), the increase reflecting higher profitability and our decision to carry forward taxable UK losses to be used in future periods.

Exchange rates

The Group is exposed to movements in exchange rates when translating the results of its overseas operations into Sterling. Retranslating 2022 half year revenue and underlying operating profit from continuing operations using average exchange rates for 2023 would have increased revenue by £8.8m and underlying operating profit by £1.6m, mainly due to Sterling's appreciation against the US Dollar. A one cent movement in the average US Dollar rate currently results in an adjustment of approximately£3.6m to the Group's annual revenues and £0.7m 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 £9.0m (2022: £8.8m). The items were mainly non-cash related and included the following:

- Amortisation of acquired intangible assets of £4.3m
- Loss on disposal of our Swedish roads business of £3.2m
- Expenses related to acquisitions and disposals of £2.2m, including £0.9m accrued deferred consideration relating to the National Signal acquisition

Further details are set out in note 6 to 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 30 June 2023 was £5.0m, a reduction of £2.2m from 31 December 2022 (£7.2m). The deficit of the UK scheme, the largest employee benefit obligation in the Group, was lower than the prior year end at £4.4m (31 December 2022: £6.5m) due to the Group's deficit recovery payments and an increase of 50 basis points in the discount rate during the period, in line with increases in bond yields, being partly offset by lower asset returns.

The Group continues to be actively engaged in dialogue with the 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 31 December 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 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 31 December 2023, 30 June 2024 and 31 December 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 31 December 2024. The Directors do not consider the resulting performance levels to be plausible given the Group's strong trading performance in the period and the resilience of the end markets in which we operate.

Principal risks and uncertainties

The Group has a process for identifying, evaluating and managing the principal risks and uncertainties that it faces, and the Directors have reviewed these principal risks and uncertainties during the period. It is the Directors' opinion that the principal risks set out on pages 64 to 68 of the Group's Annual Report for the year ended 31 December 2022, remain applicable to the current financial year.

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

Principal Risk	Considerations
Reduction in Government spending plans	We remain confident that infrastructure investment will continue to form part of national spending plans both in the US and UK, despite ongoing macro-economic uncertainty. Our US businesses are exposed to structurally growing infrastructure end markets supported by significant government investment including the IIJA and the Chips Act and expect to see an increase in relevant project activity from H2 2023. In April 2023 the UK Government cancelled plans for new smart motorways in recognition of the current lack of public confidence felt by drivers. While this decision has caused short term disruption, in the medium to longer term the UK Government is committed to investment in the strategic road network, driven by increasing road usage, and we await further details of Road Investment Strategy 3. As a result, the Board believe there has been no change in this risk during the first half.
Changes in global economic outlook and geopolitical environment	Central banks in both the US and UK have raised interest rates further during the period in an attempt to control inflation. While this is a concern for the cost of living, an increase in interest rates has had a limited impact on the Group's ability to grow given our cash generative model and strong balance sheet, with low leverage and mix of fixed and floating rate debt. Alongside this our businesses operate in resilient, less discretionary infrastructure markets. As a result, the Board believe there has been no change in this risk during the first half.

Directors' Responsibility Statement

We confirm that to the best of our knowledge:

- The condensed set of Financial Statements has been prepared in accordance with IAS 34: Interim Financial Reporting as contained in UK-adopted IFRS;

- The interim management report includes a fair review of the information required by:

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

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

This report was approved by the Board of Directors on 9 August 2023 and is available on the Company's website (www.hsgroup.com).

Alan Giddins — Executive Chair

Hannah Nichols — Group Chief Financial Officer

Financial Statements

Condensed Consolidated Income Statement

Six months ended 30 June 2023

	Notes	6 months ended 30 June 2023 Underlying £m	6 months ended 30 June 2023 Non-underlying* £m	6 months ended 30 June 2023 Total £m	6 months ended 30 June 2022 Underlying £m	6 months ended 30 June 2022 Non-underlying* £m	6 months ended 30 June 2022 Total £m	Year ended 31 December 2022 Underlying £m	Year ended 31 December 2022 Non-underlying* £m	Year ended 31 December 2022 Total £m
Continuing Operations										
Revenue	4	**420.8**	**-**	**420.8**	349.9	-	349.9	732.1	-	732.1
Cost of sales		**(254.9)**	**-**	**(254.9)**	(218.5)	-	(218.5)	(461.6)	-	(461.6)
Gross profit		**165.9**	**-**	**165.9**	131.4	-	131.4	270.5	-	270.5
Distribution costs		**(17.3)**	**-**	**(17.3)**	(17.1)	-	(17.1)	(31.7)	-	(31.7)
Administrative expenses		**(86.6)**	**(9.0)**	**(95.6)**	(71.2)	(8.8)	(80.0)	(142.0)	(18.6)	(160.6)

Other operating income		0.5	-	0.5	0.5	-	0.5	0.3	-	0.3
Operating profit	4, 5	62.5	(9.0)	53.5	43.6	(8.8)	34.8	97.1	(18.6)	78.5
Financial income	7	0.2	-	0.2	0.2	-	0.2	0.5	-	0.5
Financial expense	7	(5.5)	-	(5.5)	(3.6)	-	(3.6)	(9.7)	-	(9.7)
Profit before taxation		57.2	(9.0)	48.2	40.2	(8.8)	31.4	87.9	(18.6)	69.3
Taxation	8	(14.3)	0.9	(13.4)	(9.2)	1.3	(7.9)	(19.7)	3.7	(16.0)
Profit for the period from continuing operations		42.9	(8.1)	34.8	31.0	(7.5)	23.5	68.2	(14.9)	53.3
Discontinued Operations										
Profit from discontinued operations	9	-	-	-	3.6	(0.9)	2.7	5.2	(1.8)	3.4
Profit for the year attributable to the owners of the parent		42.9	(8.1)	34.8	34.6	(8.4)	26.2	73.4	(16.7)	56.7
Basic earnings per share	10			43.5p			32.7p			71.0p
Basic earnings per share - continuing				43.5p			29.3p			66.7p
Diluted earnings per share	10			43.3p			32.5p			70.4p
Diluted earnings per share - continuing				43.3p			29.1p			66.2p

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

Condensed Consolidated Statement of Comprehensive Income

Six months ended 30 June 2023

	6 months ended 30 June 2023 £m	6 months ended 30 June 2022 £m	Year ended 31 December 2022 £m
Profit for the period	34.8	26.2	56.7
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of overseas operations	(19.5)	29.1	27.4
Exchange differences on foreign currency borrowings denominated as net investment hedges	4.5	(6.5)	(4.8)
Items that will not be reclassified subsequently to profit or loss			
Actuarial gain/(loss) on defined benefit pension schemes	0.5	2.7	(2.8)
Taxation on items that will not be reclassified to profit or loss	(0.1)	(0.7)	0.7
Other comprehensive (expense)/income for the period	(14.6)	24.6	20.5
Total comprehensive income for the period attributable to owners of the parent	20.2	50.8	77.2

Condensed Consolidated Statement of Financial Position

Six months ended 30 June 2023

	Notes	30 June 2023 £m	30 June 2022 £m	31 December 2022 £m
Non-current assets				
Intangible assets		202.2	168.2	182.6
Property, plant and equipment		177.0	179.6	186.3
Right-of-use assets		38.5	35.1	38.7
Corporation tax receivable	8	1.6	1.6	1.6
Deferred tax assets		0.1	0.4	0.1
		419.4	384.9	409.3
Current assets				
Assets held for sale		-	94.0	1.8
Inventories		115.1	111.4	113.8
Trade and other receivables		163.5	152.7	144.3
Current tax assets		-	-	0.3
Cash and cash equivalents	14	22.3	18.4	24.8
		300.9	376.5	285.0
Total assets		720.3	761.4	694.3
Current liabilities				
Liabilities held for sale		-	(30.0)	-
Trade and other liabilities		(127.6)	(131.4)	(120.8)
Current tax liabilities		(7.2)	(5.2)	(8.6)
Provisions		(2.6)	(4.6)	(3.7)
Lease liabilities	14	(8.2)	(8.0)	(8.7)
Loans and borrowings	14	(0.2)	(5.9)	(0.3)
		(145.8)	(185.1)	(142.1)
Net current assets		155.1	191.4	142.9
Non-current liabilities				
Other liabilities		-	(0.2)	(0.2)
Provisions		(3.0)	(2.2)	(2.7)
Deferred tax liabilities		(13.2)	(13.7)	(11.6)
Retirement benefit obligations		(5.0)	(3.8)	(7.2)

Lease liabilities	14	**(31.0)**	(27.7)	(30.6)
Loans and borrowings	14	**(115.0)**	(145.1)	(104.9)
		(167.2)	(192.7)	(157.2)
Total liabilities		**(313.0)**	(377.8)	(299.3)
Net assets		**407.3**	383.6	395.0
Equity				
Share capital		**20.0**	20.0	20.0
Share premium		**43.8**	42.5	42.8
Other reserves		**4.9**	4.9	4.9
Translation reserve		**23.1**	38.1	38.1
Retained earnings		**315.5**	278.1	289.2
Total equity		**407.3**	383.6	395.0

Condensed Consolidated Statement of Changes in Equity

Six months ended 30 June 2023

	Share Capital £m	Share Premium £m	Other reserves[1] £m	Translation reserves £m	Retained Earnings £m	Total equity £m
At 1 January 2023	**20.0**	**42.8**	**4.9**	**38.1**	**289.2**	**395.0**
Comprehensive income						
Profit for the period	**-**	**-**	**-**	**-**	**34.8**	**34.8**
Other comprehensive income for the period	**-**	**-**	**-**	**(15.0)**	**0.4**	**(14.6)**
Transactions with owners recognised directly in equity						
Dividends	**-**	**-**	**-**	**-**	**(10.4)**	**(10.4)**
Credit to equity of share-based payments	**-**	**-**	**-**	**-**	**1.9**	**1.9**
Satisfaction of long term incentive and deferred bonus awards	**-**	**-**	**-**	**-**	**(0.9)**	**(0.9)**
Own shares held by employee benefit trust	**-**	**-**	**-**	**-**	**0.5**	**0.5**
Shares issued	**-**	**1.0**	**-**	**-**	**-**	**1.0**
At 30 June 2023	**20.0**	**43.8**	**4.9**	**23.1**	**315.5**	**407.3**

Six months ended 30 June 2022

	Share Capital £m	Share Premium £m	Other reserves[1] £m	Translation reserves £m	Retained Earnings £m	Total equity £m
At 1 January 2022	20.0	40.9	4.9	15.5	258.3	339.6
Comprehensive income						
Profit for the period	-	-	-	-	26.2	26.2
Other comprehensive income for the period	-	-	-	22.6	2.0	24.6
Transactions with owners recognised directly in equity						
Dividends	-	-	-	-	(9.6)	(9.6)
Credit to equity of share-based payments	-	-	-	-	1.5	1.5
Satisfaction of long term incentive and deferred bonus awards	-	-	-	-	(0.2)	(0.2)
Own shares held in employee benefit trust	-	-	-	-	(0.1)	(0.1)
Shares issued	-	1.6	-	-	-	1.6
At 30 June 2022	20.0	42.5	4.9	38.1	278.1	383.6

Year ended 31 December 2022

	Share Capital £m	Share Premium £m	Other reserves[1] £m	Translation reserves £m	Retained Earnings £m	Total equity £m
At 1 January 2022	20.0	40.9	4.9	15.5	258.3	339.6
Comprehensive income						
Profit for the period	-	-	-	-	56.7	56.7
Other comprehensive income for the period	-	-	-	22.6	(2.1)	20.5
Transactions with owners recognised directly in equity						
Dividends	-	-	-	-	(24.7)	(24.7)
Credit to equity of share-based payments	-	-	-	-	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	-	-	-	-	(1.0)	(1.0)
Shares issued	-	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 capital redemption reserve.

Condensed Consolidated Statement of Cash Flows

Six months ended 30 June 2023

	Notes	6 months ended 30 June 2023 £m	6 months ended 30 June 2022 £m	Year ended 31 December 2022 £m
Profit before tax from continuing operations		**48.2**	31.4	69.3
Profit before tax from discontinued operations		**-**	3.9	4.9
Add back net financing costs		**5.3**	3.4	9.3
Operating profit		**53.5**	38.7	83.5
Adjusted for non-cash items:				
Share-based payments		**2.1**	1.5	2.0
Loss on disposal of subsidiary		**3.2**	0.7	1.4
(Gain)/loss on disposal of non-current assets		**(0.8)**	0.1	0.3
Depreciation of owned assets		**9.8**	10.3	19.1
Amortisation of intangible assets		**4.8**	4.0	8.3
Right-of-use asset depreciation		**4.8**	4.4	8.8
Impairment of non-current assets		**-**	2.5	6.4
		23.9	23.5	46.3
Operating cash flow before movement in working capital		**77.4**	62.2	129.8
Decrease/(increase) in inventories		**5.0**	(20.1)	(21.0)
Increase in receivables		**(19.8)**	(38.1)	(19.1)
Increase/(decrease) in payables		**7.6**	16.7	(2.5)
Decrease in provisions and employee benefits		**(2.6)**	(0.5)	(4.3)
Net movement in working capital and provisions		**(9.8)**	(42.0)	(46.9)
Cash generated by operations		**67.6**	20.2	82.9
Purchase of assets for rental to customers		**(0.6)**	(7.1)	(10.6)
Income taxes paid		**(14.9)**	(8.1)	(15.5)
Interest paid		**(4.5)**	(2.5)	(6.4)
Interest paid on lease liabilities		**(0.6)**	(0.4)	(0.8)
Net cash from operating activities		**47.0**	2.1	49.6
Interest received		**0.3**	0.3	0.5
Proceeds on disposal of non-current assets		**0.4**	0.1	0.4
Proceeds on disposal of assets held for sale		**2.5**	-	-
Purchase of property, plant and equipment		**(10.5)**	(8.7)	(18.4)
Purchase of intangible assets		**(1.6)**	(1.3)	(2.5)
Deferred consideration paid in respect of past acquisitions		**(2.7)**	-	-
Acquisitions of subsidiaries		**(36.7)**	-	(24.6)
Disposals of subsidiaries	6	**0.4**	1.5	58.6
Net cash (used in)/from investing activities		**(47.9)**	(8.1)	14.0
Issue of new shares		**1.0**	1.6	1.9
Purchase of shares for employee benefit trust		**(0.4)**	(0.3)	(0.4)
Dividends paid	11	**(10.4)**	(9.6)	(24.7)
Costs associated with refinancing during the year		**-**	-	(2.1)
Repayments of lease liabilities		**(4.6)**	(4.9)	(9.5)
New loans and borrowings		**50.5**	33.4	160.8
Repayments of loans and borrowings		**(36.6)**	(16.8)	(184.8)
Net cash (used in)/from financing activities		**(0.5)**	3.4	(58.8)
Net (decrease)/increase in cash and cash equivalents net of bank overdraft		**(1.4)**	(2.6)	4.8
Cash and cash equivalents net of bank overdraft at the beginning of the period		**24.8**	18.1	18.1
Effect of exchange rate fluctuations		**(1.2)**	1.5	1.9
Cash and cash equivalents net of bank overdraft at the end of the period	14	**22.2**	17.0	24.8

Notes to the Financial Statements

1. Basis of preparation

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

As required by the Disclosure and Transparency Rules of the Financial Services Authority, the Condensed Consolidated Interim Financial Statements have been prepared applying the accounting policies and presentation that were applied in the preparation of the Company's published Consolidated Financial Statements for the year ended 31 December 2022 (these statements do not include all of the information required for full Annual Financial Statements and should be read in conjunction with the full Annual Report for the year ended 31 December 2022).

New IFRS standards, interpretations and amendments adopted during 2023

New IFRS standards, interpretations and amendments adopted during 2023

The following amendments and interpretations apply for the first time in 2023, but do not have an impact on the Condensed Consolidated Interim Financial Statements of the Group.

- Amendments to IAS 8 - Definition of Accounting Estimates
- Amendments to IAS 1 - Disclosure of Accounting Policies
- Amendments to IAS 12 - Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The comparative figures for the financial year ended 31 December 2022 are not the Company's statutory accounts for that financial year. Those accounts have been reported on by the Company's auditor and delivered to the Registrar of Companies. The report of the auditor (i) was unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006.

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

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

2. Financial risks, estimates, assumptions and judgements

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

In preparing these Condensed Consolidated Interim Financial Statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Consolidated Financial Statements as at and for the year ended 31 December 2022, relating to actuarial assumptions on pension obligations, impairment of goodwill and other indefinite life intangible assets, and liabilities for uncertain tax positions.

3. Exchange rates

The principal exchange rates used were as follows:

	6 months ended 30 June 2023		6 months ended 30 June 2022		Year ended 31 December 2022	
	Average	**Closing**	Average	Closing	Average	Closing
Sterling to Euro (£1 = EUR)	**1.14**	**1.17**	1.19	1.16	1.17	1.13
Sterling to US Dollar (£1 = USD)	**1.23**	**1.27**	1.30	1.21	1.24	1.20
Sterling to Swedish Krona (£1 = SEK)	**12.94**	**13.74**	12.44	12.45	12.47	12.49
Sterling to Indian Rupee (£1 = INR)	**101.36**	**104.33**	98.94	95.97	97.01	99.41
Sterling to Australian Dollar (£1 = AUD)	**1.82**	**1.91**	1.81	1.77	1.78	1.77

4. Segmental information

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.

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

	6 months ended 30 June 2023			6 months ended 30 June 2022		
	Revenue £m	Reported operating profit £m	Underlying operating profit* £m	Revenue £m	Reported operating profit £m	Underlying operating profit* £m
Roads & Security	**139.5**	**3.3**	**9.0**	128.9	0.2	8.1
Engineered Solutions	**181.7**	**28.5**	**30.9**	136.5	13.8	14.1
Galvanizing Services	**99.6**	**21.7**	**22.6**	84.5	20.8	21.4
Group	**420.8**	**53.5**	**62.5**	349.9	34.8	43.6
Net financing costs		**(5.3)**	**(5.3)**		(3.4)	(3.4)
Profit before taxation		**48.2**	**57.2**		31.4	40.2
Taxation		**(13.4)**	**(14.3)**		(7.9)	(9.2)
Profit after taxation		**34.8**	**42.9**		23.5	31.0

	Year ended 31 December 2022		
	Revenue £m	Reported operating profit £m	Underlying operating profit* £m
Roads & Security	261.5	1.7	18.1
Engineered Solutions	289.9	34.1	35.0
Galvanizing Services	180.7	42.7	44.0
Group	732.1	78.5	97.1
Net financing costs		(9.2)	(9.2)
Profit before taxation		69.3	87.9
Taxation		(16.0)	(19.7)
Profit after taxation		53.3	68.2

*Underlying operating profit is an alternative performance measure which is stated before non-underlying items as defined in note 6 and is the measure of segment profit used by the Chief Operating Decision Maker, who is the Chief Executive. The reported operating profit columns are included as additional information.

Transactions between operating segments are on an arm's length basis similar to transactions with third parties. Galvanizing Services sold £1.2m of products and services to Engineered Solutions (six months ended 30 June 2022: £1.0m, year ended 31 December 2022: £2.0m) and £2.7m of products and services to Roads & Security (six months ended 30 June 2022: £4.1m, year ended 31 December 2022: £6.8m). Engineered Solutions sold £0.5m of products and services to Roads & Security (six months ended 30 June 2022: £1.0m, year ended 31 December 2022: £1.9m). These internal revenues, along with revenues generated within each segment, have been eliminated on consolidation.

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

	Roads & Security		Engineered Solutions		Galvanizing		Total	
Primary geographical markets	**6 months ended 30 June 2023 £m**	6 months ended 30 June 2022 £m	**6 months ended 30 June 2023 £m**	6 months ended 30 June 2022 £m	**6 months ended 30 June 2023 £m**	6 months ended 30 June 2022 £m	**6 months ended 30 June 2023 £m**	6 months ended 30 June 2022 £m
UK	**80.1**	84.1	**41.9**	44.8	**44.1**	41.4	**166.1**	170.3
Rest of Europe	**4.9**	8.7	**4.4**	4.7	**-**	-	**9.3**	13.4
North America	**50.0**	30.8	**129.4**	84.7	**55.5**	43.1	**234.9**	158.6
The Middle East	**1.0**	2.2	**3.1**	0.4	**-**	-	**4.1**	2.6
Rest of Asia	**0.3**	1.4	**2.3**	1.7	**-**	-	**2.6**	3.1
Rest of the world	**3.2**	1.7	**0.6**	0.2	**-**	-	**3.8**	1.9
	139.5	128.9	**181.7**	136.5	**99.6**	84.5	**420.8**	349.9
Major product/service lines								
Manufacture, supply and installation of products	**126.9**	117.0	**181.7**	136.5	**-**	-	**308.6**	253.5
Galvanizing services	**-**	-	**-**	-	**99.6**	84.5	**99.6**	84.5
Rental income	**12.6**	11.9	**-**	-	**-**	-	**12.6**	11.9
	139.5	128.9	**181.7**	136.5	**99.6**	84.5	**420.8**	349.9
Timing of revenue recognition								
Products and services transferred at a point in time	**110.4**	102.6	**87.8**	81.3	**99.6**	84.5	**297.8**	268.4
Products and services transferred over time	**29.1**	26.3	**93.9**	55.2	**-**	-	**123.0**	81.5
	139.5	128.9	**181.7**	136.5	**99.6**	84.5	**420.8**	349.9

	Year ended 31 December 2022			
	Roads & Security £m	Engineered Solutions £m	Galvanizing £m	Total £m
Primary geographical markets				
UK	163.5	87.2	81.8	332.5
Rest of Europe	16.7	8.7	-	25.4
North America	70.3	187.1	98.9	356.3
The Middle East	4.9	2.4	-	7.3
Rest of Asia	1.9	3.9	-	5.8
Rest of the world	4.2	0.6	-	4.8
	261.5	289.9	180.7	732.1
Major product/service lines				
Manufacture, supply and installation of products	240.3	289.9	-	530.2
Galvanizing services	-	-	180.7	180.7
Rental income	21.2	-	-	21.2
	261.5	289.9	180.7	732.1
Timing of revenue recognition				
Products and services transferred at a point in time	210.2	153.8	180.7	549.7
Products and services transferred over time	51.3	136.1	-	182.4
	261.5	289.9	180.7	732.1

5. Alternative Performance Measures

The Group presents Alternative Performance Measures ("APMs") in addition to its statutory results. These are presented in accordance with the Guidelines on APMs issued by the European Securities and Markets Authority. The principal APMs are:

- Underlying profit before tax;
- Underlying operating profit;
- Underlying operating profit margin;
- Organic measure of change in revenue and underlying operating profit;
- Underlying cash conversion ratio;
- Capital expenditure to depreciation and amortisation ratio;
- Covenant net debt to EBITDA ratio; and
- Underlying earnings per share. A reconciliation of statutory earnings per share to underlying earnings per share is provided in note 10.

All underlying measures exclude certain non-underlying items, which are detailed in note 6. References to an underlying profit measure are made on this basis and, in the opinion of the Directors, aid the understanding of the underlying business performance as they exclude items whose quantum, nature or volatility gives further information to obtain a fuller understanding of the underlying performance of the business. APMs are presented on a consistent basis over time to assist in comparison of performance.

Reconciliation of underlying to reported profit before tax from continuing operations

	6 months ended 30 June 2023 £m	6 months ended 30 June 2022 £m	Year ended 31 December 2022 £m
Underlying profit before tax from continuing operations	**57.2**	40.2	87.9
Non-underlying items:			
Amortisation of acquisition intangibles	**(4.3)**	(2.9)	(6.0)
Business reorganisation costs	**0.7**	(1.6)	(2.9)
Expenses related to acquisitions and disposals	**(2.2)**	(1.1)	(6.4)
Loss on disposal of subsidiaries	**(3.2)**	(0.7)	(2.3)
Impairment of assets	**-**	(2.5)	(1.0)
Reported profit before tax from continuing operations	**48.2**	31.4	69.3

Reconciliation of underlying to reported operating profit from continuing operations by segment

	Roads & Security		Engineered Solutions		Galvanizing		Total	
	6 months ended 30 June 2023 £m	6 months ended 30 June 2022 £m	**6 months ended 30 June 2023 £m**	6 months ended 30 June 2022 £m	**6 months ended 30 June 2023 £m**	6 months ended 30 June 2022 £m	**6 months ended 30 June 2023 £m**	6 months ended 30 June 2022 £m
Underlying operating profit from continuing operations	**9.0**	8.1	**30.9**	14.1	**22.6**	21.4	**62.5**	43.6
Non-underlying items:								
Amortisation of acquisition intangibles	**(2.3)**	(2.2)	**(1.5)**	(0.3)	**(0.5)**	(0.4)	**(4.3)**	(2.9)
Business reorganisation costs	**0.7**	(1.6)	**-**	-	**-**	-	**0.7**	(1.6)
Expenses related to acquisitions and disposals	**(0.9)**	(0.9)	**(0.9)**	-	**(0.4)**	(0.2)	**(2.2)**	(1.1)
Loss on disposal of subsidiaries	**(3.2)**	(0.7)	**-**	-	**-**	-	**(3.2)**	(0.7)
Impairment of assets	**-**	(2.5)	**-**	-	**-**	-	**-**	(2.5)

Reported operating profit from continuing operations	**3.3**	0.2	**28.5**	13.8	**21.7**	20.8	**53.5**	34.8

	Year ended 31 December 2022			
	Roads & Security £m	Engineered Solutions £m	Galvanizing £m	Total £m
Underlying operating profit from continuing operations	18.1	35.0	44.0	97.1
Non-underlying items:				
Amortisation of acquisition intangibles	(4.6)	(0.5)	(0.9)	(6.0)
Business reorganisation costs	(2.9)	-	-	(2.9)
Impairment of assets	(6.4)	-	-	(6.4)
Expenses related to acquisitions and disposals	(1.5)	(0.4)	(0.4)	(2.3)
Loss on disposal of subsidiaries	(1.0)	-	-	(1.0)
Reported operating profit from continuing operations	1.7	34.1	42.7	78.5

Calculation of underlying operating profit margin from continuing operations

	Roads & Security		**Engineered Solutions**		**Galvanizing**		**Total**	
Continuing operations	**6 months ended 30 June 2023 £m**	6 months ended 30 June 2022 £m	**6 months ended 30 June 2023 £m**	6 months ended 30 June 2022 £m	**6 months ended 30 June 2023 £m**	6 months ended 30 June 2022 £m	**6 months ended 30 June 2023 £m**	6 months ended 30 June 2022 £m
Underlying operating profit	**9.0**	8.1	**30.9**	14.1	**22.6**	21.4	**62.5**	43.6
Revenue	**139.5**	128.9	**181.7**	136.5	**99.6**	84.5	**420.8**	349.9
Underlying operating profit margin (%)	**6.5%**	6.3%	**17.0%**	10.3%	**22.7%**	25.3%	**14.9%**	12.5%

	Year ended 31 December 2022			
	Roads & Security £m	Engineered Solutions £m	Galvanizing £m	Total £m
Underlying operating profit	18.1	35.0	44.0	97.1
Revenue	261.5	289.9	180.7	732.1
Underlying operating profit margin (%)	6.9%	12.1%	24.3%	13.3%

Measures of organic and constant currency change in revenue and underlying operating profit from continuing operations

	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
2022	128.9	8.1	136.5	14.1	84.5	21.4	349.9	43.6
Impact of exchange rate movements from 2022 to 2023	1.5	(0.3)	4.8	0.9	2.5	1.0	8.8	1.6
2022 translated at 2023 exchange rates (A)	130.4	7.8	141.3	15.0	87.0	22.4	358.7	45.2
Acquisitions and disposals	11.6	5.0	15.9	2.6	3.9	0.6	31.4	8.2
Organic growth/(decline) (B)	(2.5)	(3.8)	24.5	13.3	8.7	(0.4)	30.7	9.1
2023 (C)	**139.5**	**9.0**	**181.7**	**30.9**	**99.6**	**22.6**	**420.8**	**62.5**
Organic change % (B divided by A)	**(1.9%)**	**(48.7%)**	**17.3%**	**88.7%**	**10.0%**	**(1.8%)**	**8.6%**	**20.1%**
Constant currency change % ((C-A) divided by A)	**7.0%**	**15.4%**	**28.6%**	**106.0%**	**14.5%**	**0.9%**	**17.3%**	**38.3%**

Calculation of underlying cash conversion ratio

	6 months ended 30 June 2023 £m	6 months ended 30 June 2022 £m	Year ended 31 December 2022 £m
Underlying operating profit:			
Continuing operations	**62.5**	43.6	97.1
Discontinued operations	**-**	4.8	6.8
	62.5	48.4	103.9
Calculation of adjusted operating cash flow:			
Cash generated by operations	**67.6**	20.2	82.9
Less: Purchase of assets for rental to customers	**(0.6)**	(7.1)	(10.6)
Less: Purchase of property, plant and equipment	**(10.5)**	(8.7)	(18.4)
Less: Purchase of intangible assets	**(1.6)**	(1.3)	(2.5)
Less: Repayments of lease liabilities	**(4.6)**	(4.9)	(9.5)
Add: Proceeds on disposal of non-current assets and assets held for sale	**2.9**	0.1	0.4
Add back: Defined benefit pension scheme deficit payments	**1.9**	1.9	3.7
(Deduct)/add back: Cash flows relating to non-underlying items	**(0.6)**	0.9	6.5
Adjusted operating cash flow	**54.5**	1.1	52.5
Underlying cash conversion (%)	**87%**	2%	51%

Calculation of capital expenditure to depreciation and amortisation ratio

	6 months ended 30 June 2023 £m	6 months ended 30 June 2022 £m	Year ended 31 December 2022 £m
Calculation of capital expenditure:			
Purchase of assets for rental to customers	**0.6**	7.1	10.6

Purchase of property, plant and equipment	**10.5**	8.7	18.4
Purchase of intangible assets	**1.6**	1.3	2.5
	12.7	17.1	31.5
Calculation of depreciation and amortisation:			
Depreciation of property, plant and equipment	**9.8**	10.3	19.1
Amortisation of development costs	**0.5**	0.5	1.1
Amortisation of other intangible assets	**-**	0.5	1.0
	10.3	11.3	21.2
Capital expenditure to depreciation and amortisation ratio	**1.2x**	1.5x	1.5x

Calculation of net debt to EBITDA ratio

	6 months ended 30 June 2023 £m	6 months ended 30 June 2022 £m	Year ended 31 December 2022 £m
Reported net debt	**132.1**	165.5	119.7
Lease liabilities	**(39.2)**	(36.6)	(39.3)
Amounts related to refinancing under IFRS 9	**1.9**	2.1	2.2
Covenant net debt (A)	**94.8**	131.0	82.6
Underlying operating profit	**62.5**	48.4	103.9
Depreciation of property, plant and equipment	**9.8**	10.3	19.1
Right-of-use asset depreciation	**4.8**	4.4	8.8
Amortisation of development costs	**0.5**	0.5	1.1
Amortisation of other intangible assets	**-**	0.5	1.0
Underlying EBITDA	**77.6**	64.1	133.9
Adjusted for:			
Lease payments	**(4.6)**	(4.9)	(10.3)
Share-based payments expense	**2.1**	1.5	2.0
Annualised EBITDA of subsidiaries disposed/acquired	**4.2**	(1.2)	(3.7)
Prior period H2 EBITDA	**65.7**	57.4	n/a
Covenant EBITDA (B)	**145.0**	116.9	121.9
Covenant net debt to EBITDA (A divided by B)	**0.7**	1.1	0.7

6. Non-underlying items

Non-underlying items are disclosed separately in the Consolidated Income Statement where, in the Directors' judgement, the quantum, nature or volatility of such items gives further information to obtain a fuller understanding of the underlying performance of the business. The following are included by the Group in its assessment of non-underlying items:

- Gains or losses arising on disposal, closure, restructuring or reorganisation of businesses that do not meet the definition of discontinued operations.
- Amortisation of intangible fixed assets arising on acquisitions, which can vary depending on the nature, size and frequency of acquisitions in each financial period.
- Expenses associated with acquisitions and disposals, comprising professional fees incurred and 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 period and prior year are set out below.

	6 months ended 30 June 2023 £m	6 months ended 30 June 2022 £m	Year ended 31 December 2022 £m
Loss on disposal of subsidiaries (a)	**(3.2)**	(0.7)	(1.4)
Business reorganisation costs (b)	**0.7**	(1.6)	(2.9)
Impairment of assets (c)	**-**	(2.5)	(6.4)
Amortisation of acquisition intangibles	**(4.3)**	(3.0)	(6.2)
Expenses related to acquisitions and disposals	**(2.2)**	(1.9)	(3.5)
Total non-underlying items	**(9.0)**	(9.7)	(20.4)
Total non-underlying items - continuing operations	**(9.0)**	(8.8)	(18.6)
Total non-underlying items - discontinued operations	**-**	(0.9)	(1.8)

Notes:

a) In April 2023, the Group completed the disposal of its remaining Swedish operations, at a loss of £3.2m. Details of the disposal are set out below:

Disposal of remaining Swedish roads operations	£m
Right-of-use assets	0.1
Inventories	1.7
Trade and other receivables	2.6
Corporation tax receivables	0.4
Lease liabilities	(0.2)
Current liabilities	(1.3)
Net assets disposed	**3.3**
Consideration received	0.4
Cumulative exchange differences	(0.3)
Loss on disposal	**3.2**

In 2022, the loss on disposal of £1.4m included £1.0m relating to the sale of two trading divisions of the Swedish business and £0.4m on the disposal of France Galva.

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 in 2022 totalled £2.9m, comprising business reorganisation costs of £1.1m and asset impairment charges of £1.8m. In March 2023, the Group sold the property that the business had occupied, which had been reported as an asset held for sale at 31 December 2022, for consideration of £2.5m resulting in a profit on disposal of £0.7m.

c) Impairment charges of £6.4m in 2022 included £4.4m in respect of acquisition intangible assets relating to Parking Facilities Limited, one of the Group's security operations, and £2.0m relating to the Swedish and US roads portfolio management actions referred to above.

7. Net financing costs from continuing operations

Continuing operations	6 months ended 30 June 2023 £m	6 months ended 30 June 2022 £m	Year ended 31 December 2022 £m
Interest on bank deposits	**0.2**	0.2	0.5
Financial income	**0.2**	0.2	0.5
Interest on loans and borrowings	**(4.4)**	(2.7)	(6.4)
Interest on lease liabilities	**(0.6)**	(0.4)	(0.8)
Financial expenses related to refinancing	**(0.3)**	(0.4)	(2.4)
Interest cost on net pension scheme deficit	**(0.2)**	(0.1)	(0.1)
Financial expense	**(5.5)**	(3.6)	(9.7)
Net financing costs	**(5.3)**	(3.4)	(9.2)

8. Taxation

Tax has been provided on the underlying profit from continuing operations at the estimated effective rate of 25.0% (2022: 22.4%) for existing operations for the full year.

In October 2017, the European Commission opened a state aid investigation into the Group Financing Exemption in the UK Controlled Foreign Company ('CFC') legislation, 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 £1.6m 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 £1.6m within non-current assets, reflecting the Group's view that the amount paid will ultimately be recovered.

9. Discontinued operations in the prior year

The Group completed the disposal of France Galva SA ('France Galva'), our French galvanizing and lighting column operations, on 4 October 2022 for £62.0m. France Galva was classified as a disposal group as required by IFRS 5 and its results were reported within discontinued operations in the prior year, details of which are set out on page 150 of the Group's Annual Report for the year ended 31 December 2022. France Galva was treated as held for sale at 30 June 2022.

10. Earnings per share

The weighted average number of ordinary shares in issue during the period was 80.1m, diluted for the effect of outstanding share options 80.5m (six months ended 30 June 2022: 79.9m and 80.4m diluted; the year ended 31 December 2022: 79.9m and 80.5m diluted). Underlying earnings per share are shown below as the Directors consider that this measurement of earnings gives valuable information on the underlying performance of the Group:

	6 months ended 30 June 2023		6 months ended 30 June 2022		Year ended 31 December 2022	
	Pence per share	£m	Pence per share	£m	Pence per share	£m
Basic earnings						
- continuing	43.5	34.8	29.3	23.5	66.7	53.3
- discontinued	-	-	3.4	2.7	4.3	3.4
Total basic earnings	43.5	34.8	32.7	26.2	71.0	56.7
Non-underlying items*						
- continuing	10.1	8.1	9.4	7.5	18.7	14.9
- discontinued	-	-	1.1	0.9	2.2	1.8
Total non-underlying items	10.1	8.1	10.5	8.4	20.9	16.7
Underlying earnings						
- continuing	53.6	42.9	38.7	31.0	85.4	68.2
- discontinued	-	-	4.5	3.6	6.5	5.2
Total underlying earnings	53.6	42.9	43.2	34.6	91.9	73.4
Diluted earnings						
- continuing	43.3	34.8	29.1	23.5	66.2	53.3
- discontinued	-	-	3.4	2.7	4.2	3.4
Total diluted earnings	43.3	34.8	32.5	26.2	70.4	56.7
Non-underlying items*						
- continuing	10.0	8.1	9.4	7.5	18.5	14.9
- discontinued	-	-	1.1	0.9	2.2	1.8
Total non-underlying items	10.0	8.1	10.5	8.4	20.7	16.7
Underlying diluted earnings						
- continuing	53.3	42.9	38.5	31.0	84.7	68.2
- discontinued	-	-	4.5	3.6	6.4	5.2
Total underlying diluted earnings	53.3	42.9	43.0	34.6	91.1	73.4

* Non-underlying items as detailed in note 6.

11. Dividends

Dividends paid in the period were the prior year's interim dividend of £10.4m (2022: £9.6m). Dividends declared after the Balance Sheet date are not recognised as a liability, in accordance with IAS 10. The Directors have proposed an interim dividend for the current year of £12.0m, 15.0p per share (2022: £10.4m, 13.0p per share), which will be paid on 5 January 2024 to shareholders on the register on 1 December 2023.

12. Acquisitions

Enduro Composites, Inc

On 20 February 2023 the Group acquired 100% of the share capital of Enduro Composites, Inc ("*Enduro*") for an initial cash consideration of £28.3m, plus a further £0.7m relating to post completion working capital adjustments. Enduro, located in Houston, Texas, is a designer, manufacturer and supplier of engineered composite solutions focused on industrial and infrastructure market segments. Enduro will become part of the Group's Engineered Solutions division, is highly complementary to our existing northeastern and midwestern US composite businesses and will further accelerate our strategy in this exciting and 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	-	1.0	1.0
Customer lists	-	10.0	10.0

Order backlog	-	1.5	1.5
Property, plant and equipment	2.7	(0.2)	2.5
Right-of-use assets	-	2.3	2.3
Inventories	4.5	(0.5)	4.0
Current assets	6.5	(0.1)	6.4
Deferred tax asset	1.4	-	1.4
Cash and cash equivalents	1.8	-	1.8
Total assets	**16.9**	**14.0**	**30.9**
Lease Liabilities	-	(2.3)	(2.3)
Current liabilities	(4.8)	(0.3)	(5.1)
Corporation tax	-	(0.2)	(0.2)
Deferred tax liability	-	(2.9)	(2.9)
Total liabilities	**(4.8)**	**(5.7)**	**(10.5)**
Net assets	**12.1**	**8.3**	**20.4**
Consideration			
Total consideration			29.0
Goodwill			**8.6**
Cash flow effect			
Consideration in the year			(29.0)
Cash acquired with the business			1.8
Net cash consideration shown in the Consolidated Statement of Cash Flows			**(27.2)**

Brands, customer lists and an order backlog have been recognised as specific intangible assets as a result of the acquisition. The residual goodwill arising, which has been allocated to the Engineered Solutions 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 £5.9m of trade receivables, which have a gross value of £6.2m.

Post-acquisition the acquired business has contributed £15.9m revenue and £2.6m operating profit, which are included in the Group's Consolidated Income Statement. If the acquisition had been made on 1 January 2023, the Group's results for the period would have shown revenue of £426.7m, underlying operating profit of £64.0m and reported operating profit of £55.0m.

Korns Galvanizing Company Inc.

On 8 March 2023 the Group acquired the business and assets of Korns Galvanizing Company Inc. ("Korns") for a cash consideration of £9.5m. 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.

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	-	1.7	1.7
Property, plant and equipment	1.2	-	1.2
Inventories	0.5	(0.1)	0.4
Current assets	0.3	-	0.3
Total assets	**2.0**	**1.6**	**3.6**
Current liabilities	(0.2)	-	(0.2)
Deferred tax	-	(0.4)	(0.4)
Total liabilities	**(0.2)**	**(0.4)**	**(0.6)**
Net assets	**1.8**	**1.2**	**3.0**
Consideration			
Total consideration			9.5
Goodwill			**6.5**
Cash flow effect			
Consideration in the year			(9.5)
Cash acquired with the business			-
Net cash consideration shown in the Consolidated Statement of Cash Flows			**(9.5)**

Customer lists have been recognised as a specific intangible asset as a result of the acquisition. The residual goodwill arising, which has been allocated to the Galvanizing Services 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 £0.3m of trade receivables, which have a gross value of £0.3m.

Post-acquisition the acquired business has contributed £1.9m revenue and £0.2m operating profit, which are included in the Group's Consolidated Income Statement. If the acquisition had been made on 1 January 2023, the Group's results for the period would have shown revenue of £421.8m, underlying operating profit of £62.6m and reported operating profit of £53.6m.

13. Impairment of goodwill and indefinite life intangible assets

IAS 36 *Impairment of Assets* requires the Group to test goodwill and other indefinite life intangible assets for impairment annually, or at other reporting period ends where there is an indication of impairment. In determining which Cash Generating Units (CGUs) to test at 30 June 2023, the Group identified those where the trading performance in the first six months of the year had fallen below previous expectations. On this basis, an impairment test was carried out on the Hill & Smith Inc. CGU. Notwithstanding a positive performance in the first half of 2023, given that the ATG Access CGU showed impairment headroom of only £1.4m in the impairment calculations at 31 December 2022, the Group concluded that it would also be appropriate to test ATG Access at 30 June 2023.

Consistent with past practice and as disclosed in the Group's 2022 Annual Report, impairment tests on the carrying values of goodwill are performed by comparing the carrying value allocated to each CGU against its value in use. Value in use is calculated as the net present value of that unit's discounted future cash flows. Short-term cash flows are based on latest management forecasts for the second half of 2023 and strategic plans for the following four years, 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, which are 2.0% for the UK and 2.5% for the US. The Board believes the use of long-term historical growth rates is currently the most reliable indicator of future growth rates, given the ongoing volatility and uncertainty in any forward-looking growth projections at the reporting date. Discount rates are derived from a market participant's cost of capital, risk adjusted for individual CGU's circumstances.

Based on the methodology outlined above, the impairment reviews for H&S Inc. and ATG Access at 30 June 2023 concluded that no impairment charges were required to be recorded in the period. The Group then applied sensitivities to assess whether any reasonably possible changes in assumptions could cause an impairment of the goodwill in each tested CGU.

Sensitivities

ATG Access

ATG's future performance is largely dependent on the continued 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 2023-2027	Base case	**9.9%**	**1.9**
	H&S sensitivity 1*	**6.0%**	**(4.2)**
	H&S sensitivity 2*	**2.0%**	**(9.5)**
Gross margin % 2023-27 **	Base case	**28.1%**	**1.9**
	H&S sensitised	**27.0%**	**(0.6)**
Annual cash flow growth 2028 onwards	Base case	**2.0%**	**1.9**
	H&S sensitised	**0.0%**	**0.1**
Pre-tax discount rate	Base case	**16.3%**	**1.4**
	H&S sensitised	**19.3%**	**(0.8)**

** Illustrates the impacts of compound revenue growth at 2% (consistent with long-term UK growth rates) and 6% (the midpoint between this and the base case).*

*** The base case assumes that average gross profit margins across the period 2023-27 are slightly above the 27% achieved in 2022. The H&S sensitised case assumes no growth in the gross margin from 2022 throughout the forecast period.*

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 and the first half of 2023 was impacted by operational and cost input challenges, and restructuring costs. The Group's projections for H&S Inc. assume that the 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 later 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 possible scenarios for each of those key assumptions (independently in each case):

Input	Scenario	Sensitivity applied %	Headroom/ (impairment) £m
Compound annual revenue growth 2023-2027	Base case	**16.5%**	**9.0**
	Zero headroom	**15.3%**	**-**
	H&S sensitivity	**14.5%**	**(5.0)**
Compound annual gross profit margin growth 2023-27 *	Base case	**1.8%**	**9.0**
	Zero headroom	**0.9%**	**-**
	H&S sensitivity	**0.0%**	**(6.3)**
Annual cash flow growth 2028 onwards	Base case	**2.5%**	**9.0**
	H&S sensitivity	**0.0%**	**(0.3)**
Pre-tax discount rate	Base case	**15.6%**	**9.0**
	Zero headroom	**17.2%**	**-**
	H&S sensitivity	**19.0%**	**(8.0)**

** The base case assumes a gross profit margin of 31.3% in 2023, rising to 33.7% in 2027 at a compound annual growth rate of 1.8%. The sensitivity scenario shows the potential impairment if the gross margin of 31.3% remains constant throughout the period 2023-27.*

14. Analysis of net debt

	6 months ended 30 June 2023 £m	6 months ended 30 June 2022 £m	Year ended 31 December 2022 £m
Cash and cash equivalents in the Condensed Consolidated Statement of Financial Position			
Cash and cash equivalents	**22.3**	18.4	24.8
Cash and cash equivalents classified as assets held for sale	**-**	4.0	-
Bank overdrafts	**(0.1)**	(5.4)	-
Cash and cash equivalents net of bank overdrafts	**22.2**	17.0	24.8
Interest bearing loans and other borrowings			
Amounts due within one year	**(0.1)**	(0.5)	(0.3)
Amounts due after more than one year	**(115.0)**	(145.1)	(104.9)
Loans and borrowings classified as liabilities held for sale	**-**	(0.3)	-
Lease liabilities classified as liabilities held for sale	**-**	(0.9)	-
Lease liabilities due within one year	**(8.2)**	(8.0)	(8.7)
Lease liabilities due after more than one year	**(31.0)**	(27.7)	(30.6)
Net debt	**(132.1)**	(165.5)	(119.7)

	6 months ended 30 June 2023 £m	6 months ended 30 June 2022 £m	Year ended 31 December 2022 £m
Change in net debt			
Operating profit from continuing operations	**53.5**	34.8	78.5
Operating profit from discontinued operations	**-**	3.9	5.0
Non-cash items	**23.9**	23.5	46.3
Operating cash flow before movement in working capital	**77.4**	62.2	129.8
Net movement in working capital	**(7.2)**	(41.5)	(42.6)
Change in provisions and employee benefits	**(2.6)**	(0.5)	(4.3)
Operating cash flow	**67.6**	20.2	82.9
Tax paid	**(14.9)**	(8.1)	(15.5)

Tax paid	[illegible]	[illegible]	[illegible]
Net financing costs paid	**(4.2)**	(2.2)	(5.9)
Capital expenditure	**(12.7)**	(17.1)	(31.5)
Proceeds on disposal of non-current assets and assets held for sale	**2.9**	0.1	0.4
Free cash flow	**38.7**	(7.1)	30.4
Dividends paid (note 11)	**(10.4)**	(9.6)	(24.7)
Acquisitions	**(41.7)**	-	(25.6)
Disposals	**0.4**	1.5	58.6
Expense associated with refinancing activities	**(0.3)**	(0.4)	(2.4)
Purchase of shares for employee benefit trust	**(0.4)**	(0.3)	(0.4)
Issue of new shares	**1.0**	1.6	1.9
New leases and lease remeasurements	**(3.2)**	(2.2)	(9.0)
Leases disposed of	**0.2**	2.0	2.8
Loans and borrowings disposed of	**-**	-	0.3
Interest on lease liabilities	**(0.6)**	(0.4)	(0.8)
Net debt (increase)/decrease	**(16.3)**	(14.9)	31.1
Effect of exchange rate fluctuations	**3.9**	(5.9)	(6.1)
Net debt at the beginning of the period	**(119.7)**	(144.7)	(144.7)
Net debt at the end of the period	**(132.1)**	(165.5)	(119.7)

15. Financial instruments

The table below sets out the Group's accounting classification of its financial assets and liabilities and their fair values as at 30 June 2023. 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	-	**22.2**	**22.2**	**22.2**
Loans and borrowings due within one year	-	**(0.1)**	**(0.1)**	**(0.1)**
Loans and borrowings due after more than one year	-	**(115.0)**	**(115.0)**	**(115.0)**
Lease liabilities due within one year	-	**(8.2)**	**(8.2)**	**(8.2)**
Lease liabilities due after more than one year	-	**(31.0)**	**(31.0)**	**(31.0)**
Other financial assets	-	**154.2**	**154.2**	**154.2**
Other financial liabilities	-	**(117.2)**	**(117.2)**	**(117.2)**
Total at 30 June 2023	-	**(95.1)**	**(95.1)**	**(95.1)**

Fair value hierarchy

There were no financial instruments carried at fair value at 30 June 2023, 30 June 2022 or 31 December 2022.