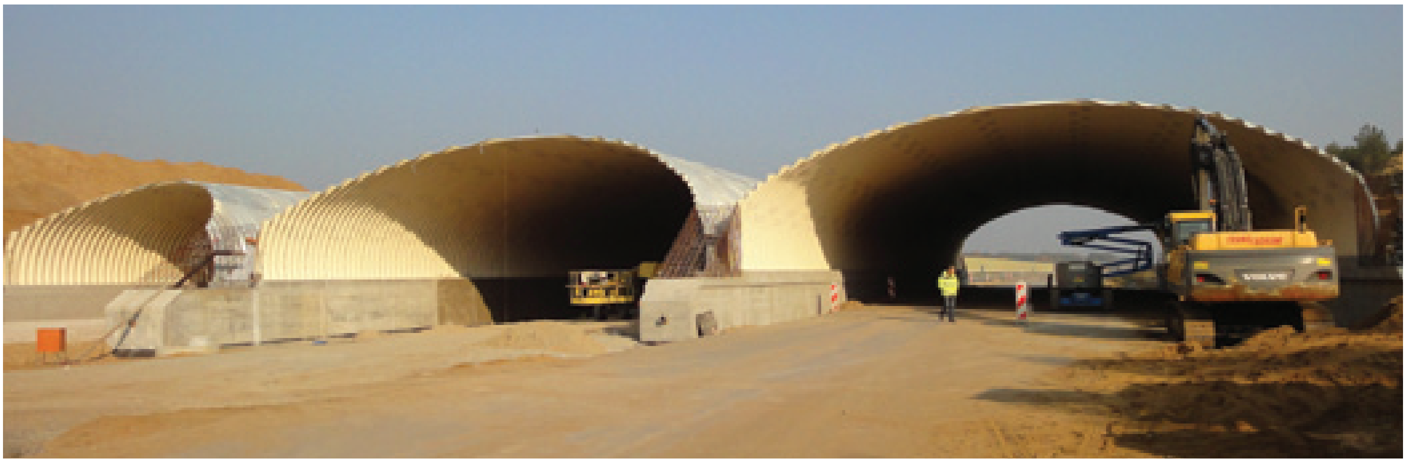
Hill & Smith Holdings PLC

2011

Annual Report for the
year ended 31 December 2011



Hill & Smith Holdings PLC

We are an international group with leading positions in the design, manufacturer and supply of infrastructure products and galvanizing services to global markets. Through a focus on strong positions in niche markets we aim to consistently deliver strong returns and shareholder value.
We operate from facilities principally in the UK, France, USA, Thailand, Sweden and China.

Our strategy and approach

- Focusing on infrastructure products and galvanizing services where we capitalise on our market positions, know-how and product innovation.
- Using our entrepreneurial culture, backed by experienced and capable management teams.
- Having a decentralised structure that allows our businesses to adapt and respond in a quick, agile manner to any market opportunities.
- Continuing the expansion of our geographical footprint, particularly in emerging markets and those offering attractive levels of non-discretionary spend on infrastructure.
- Retaining a strong financial base and access to capital in order to fund both organic and acquisitive growth.

Front Cover

Top: Asset International bridge structure for S5 Express Way near Poznan, Poland. The two eighteen metre and one twelve metre spans were completed in August 2011 and provide an animal overpass for the roads beneath

Middle: Hill & Smith crash worthy end terminals fitted to open box beam safety fence on the A82 trunk road at Ba Bridge, Rannoch Moor, Scotland.

Bottom: The Freedom Bridge in Tanzania, Africa. This 840 ton bridge structure was completely fabricated by the US Bridge Company and galvanized by V&S Galvanizing LLC. V&S galvanized, packaged and shipped the structure, complete, over a period of 9 months in 2011 for the developing transportation infrastructure in Tanzania.

Contents

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Forward Looking Statement
This annual report contains forward looking statements which are made in good faith based on the information available at the time of its approval. It is believed that the expectations reflected in these statements are reasonable but they may be affected by a number of risks and uncertainties that are inherent in any forward looking statement which could cause actual results to differ from those currently anticipated.

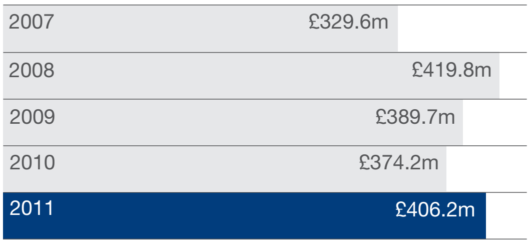
Group Highlights

- Group now focused on international markets
- Robust performance in 2011 in difficult market conditions – in line with expectations
- Over 65% of 2011 operating profit generated from our international operations
- US-based Paterson Group and Swedish-based ATA, successfully integrated and delivering intended strategic benefits
- Final dividend increased by 4.0% to 7.8 pence per share

Revenue

£406.2m

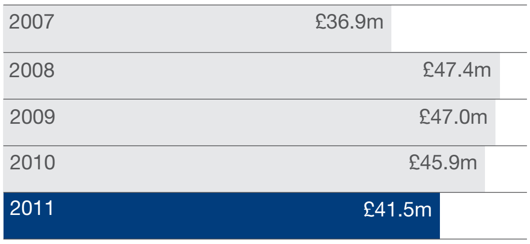
up 8.6%



Underlying* operating profit

£41.5m

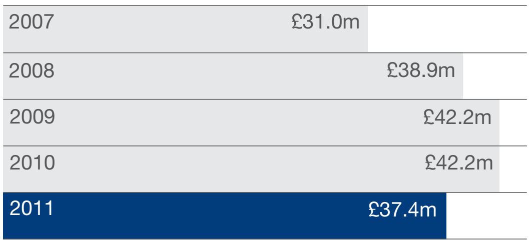
down 9.6%



Underlying* profit before tax

£37.4m

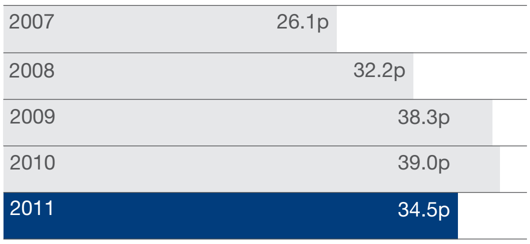
down 11.4%



Underlying* earnings per share

34.5p

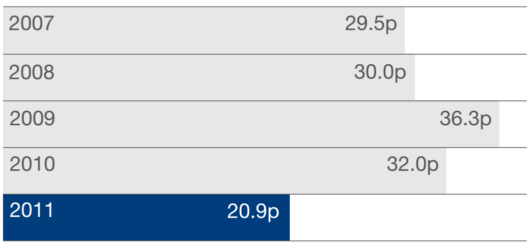
down 11.5%



Basic earnings per share

20.9p

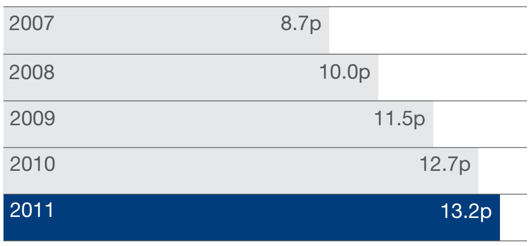
down 34.7%



Dividend per share

13.2p

up 3.9%



* All underlying profit measures exclude certain non-operational items, which are as defined in the section of the financial statements headed “Group Accounting Policies” on page 59. References to an underlying profit measure throughout this Annual Report are made on this basis.

Divisional Overview

Infrastructure Products

For the core markets of roads and utilities – supplying products and services such as permanent and temporary road safety barriers, fencing, overhead sign gantries, street lighting columns, bridge parapets, demountable car parks, glass reinforced plastic railway platforms, variable road messaging solutions, traffic data collection systems, plastic drainage pipes and pipe supports for the power and liquefied natural gas markets, energy grid components and security fencing.

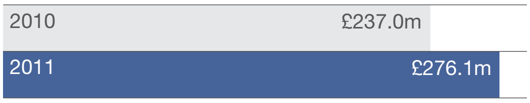
Operating from subsidiaries in the UK, France, USA, Thailand, China and Sweden.

- Operating in international territories with the prospect of sustained long term investment in infrastructure.
- Focused on engineered products for the roads and utilities markets.
- Accounts for 68.0% (2010: 63.3%) of the Group's revenue and 48.0% (2010: 46.2%) of the Group's underlying operating profit.

Our performance

Revenue

£276.1m
up 16.5%



Underlying operating profit

£19.9m
down 6.1%

Galvanizing Services

Providing zinc and other coating services for a wide range of products including fencing, lighting columns, structural steelwork, bridges, agricultural and other products for the infrastructure and construction markets.

Services are delivered from a network of galvanizing operations in the UK, France and USA.

- Geographical diversity - France 10 plants; UK 9 plants; USA 6 plants.
- Strong market positions in the chosen territories and with a reputation for service and quality.
- Accounts for 29.2% (2010: 30.8%) of the Group's revenue and 52.0% (2010: 54.5%) of the Group's underlying operating profit.

Our performance

Revenue

£118.5m
up 2.7%

Underlying operating profit

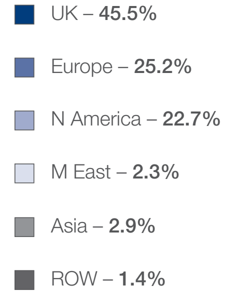
£21.6m
down 13.6%

Note: Revenue from the Building and Construction Products division amounted to £11.6m (2010: £21.8m) and underlying operating profit £nil (2010: loss of £0.3m).

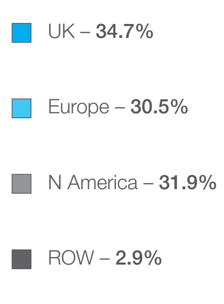
Varioguard temporary and permanent road barrier: In July 2011, Asset International completed the permanent installation of our "Varioguard" road barrier to help manage the traffic flow at the point at which the M8 and M74 motorways merge near Glasgow, Scotland.

Group at a Glance — 2011

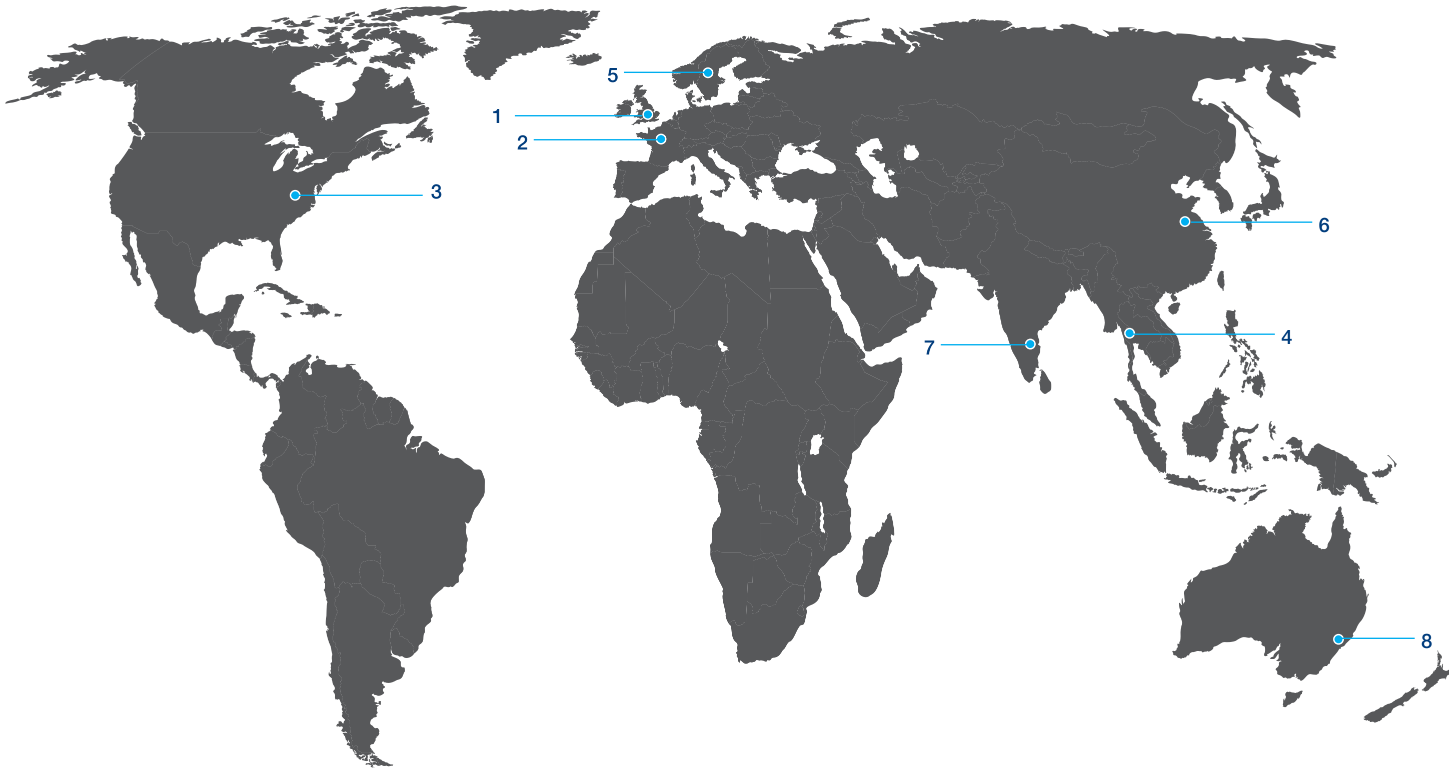
Revenue of £406.2m shown by end market geography



Underlying operating profit of £41.5m shown by location of the operating site



Our International Operations



- **1.** UK – Head office and various Group site locations covering our main infrastructure products businesses and network of UK Galvanizing plants.
- **2.** France – the location of France Galva and Conimast where we have ten galvanizing plants and a lighting column business.
- **3.** USA – our V&S galvanizing and ultilities plants are situated on the east coast along with the Bergen and Carpenter & Paterson pipe supports businesses and the fibre reinforced composite profiles business, Creative Pultrusions.
- **4.** Thailand – location of part of our pipes supports manufacturing capability, where we have plants near Bangkok.
- **5.** Sweden – location of ATA Bygg-och Markprodukter AB, the road safety barrier and signage business acquired in 2011.
- **6.** China – manufacturing and trading facilities located in the Jiangsu province for the further expansion of our pipes supports business.
- **7.** India – new manufacturing facility for pipes supports and also offices for development of our Hill & Smith infrastructure products business.
- **8.** Australia – new office in Queensland for the development of our wire rope and safety barrier products in Australia.

Chairman's Statement

Bill Whiteley
Chairman

"Our performance enables us to maintain a progressive dividend policy which has increased our dividend payments by an average of 10.3% in each of the last five years."

Introduction

Our businesses supply infrastructure products and galvanizing services across a growing number of international markets. Using our culture of entrepreneurial management, we focus on securing strong positions in carefully selected niche markets. Our strategy, of pursuing both acquisitive and organic growth and of reshaping the Group through the divestment of non-core low return businesses, is targeted at increasing earnings, dividend and shareholder value. This strategic focus has continued in 2011 with key acquisitions, expansion into new markets, the exit from our remaining Building and Construction Products business, and the benefits coming through from increased collaboration across the Group as our international scale grows.

Performance highlights

Having demonstrated resilience in 2010, the Group's increasingly international businesses have produced a robust performance in 2011 in a difficult trading environment.

Below are the highlights of the Group's performance in 2011.

Further commentary on these results and the divisional performance is contained in the business review section on pages 8 to 15.

	2011	2010
Revenue £m	**406.2**	374.2
Underlying profit before tax £m	**37.4**	42.2
Underlying earnings per share pence	**34.5**	39.0
Dividend per share pence	**13.2**	12.7
Net debt £m	**103.8**	70.6

Dividends

In view of the robust performance of the business, in what continued to be difficult trading conditions, the Board is recommending a final dividend of 7.8p per share (2010: 7.5p per share) making a total dividend for the year of 13.2p per share (2010: 12.7p per share) an increase of 3.9%.

Our performance enables us to maintain a progressive dividend policy which has increased our dividend payments by an average of 10.3% in each of the last five years. Underlying dividend cover is a healthy 2.6 times (2010: 3.1 times). This increased dividend for 2011 reflects our objective of delivering attractive returns to shareholders.

People

Our innovative and entrepreneurial culture has enabled us to successfully address the competitive challenges we continue to face and I would like to thank all our employees for their support and efforts during the year.

Governance

The Board is accountable to all the Company's stakeholders for the standards of governance which are maintained across the Group's wide range of international businesses. The Board has consistently demonstrated its commitment to high standards of governance and no major changes to our approach are expected as a result of the new UK Corporate Governance Code. During the year the Company has appointed a Group Risk & Compliance Counsel, structured a new compliance programme and undertaken a review of its internal audit and risk management processes. A number of initiatives will be implemented during 2012 as the Board seeks to drive continuous improvement in governance matters; for example, the Board is adopting the annual re-election of all Directors with effect from this year's Annual General Meeting ("AGM").

Following the publication of the consultation document, "Gender Diversity on Boards", we are reviewing our position, in conjunction with our ongoing review of Board composition and an independent review of the Group's diversity policy. We will report on our progress as appropriate.

Further details of our governance structure and our actions are contained on pages 26 to 32.

David Grove

It is appropriate for me to note the sad premature death of David Grove in November last year. As a former Chief Executive, and latterly Chairman of the Company, David was an inspirational leader of the expansion of the Group and his passion and enthusiasm for the Company will be sadly missed.

"We are confident that the acquisitions completed in 2011, coupled with our growing international scale and the strength of our market positions, will provide excellent opportunities to continue delivery of attractive growth and value in the medium to longer term."

Outlook

The Group is now focussed on continuing the development of its international representation for the roads and utilities infrastructure markets and on providing high quality galvanizing services in the USA, France and the UK. As evidence of our successful international development, we anticipate that 75% of our profits will be derived from our overseas operations by the end of 2013; this would compare to 2.0% in 2006. Furthermore, UK Government spend now represents just 14% of Group revenue and continues to reduce as a proportion of our overall business.

Encouragingly, the momentum of the stronger trading seen in the second half of 2011 has continued in the first two months of 2012. Order backlog in the utilities sector remains healthy with a number of contract wins in pipe supports, the UK water industry AMP5 projects and our USA composites businesses. Our galvanizing volumes have also been ahead of our expectations for the early part of 2012.

The UK managed motorway programme is progressing according to plan with early signs of projects, announced in the November Spending Review, proceeding to the design stage, which will provide a good base for 2013. We do however expect a period of reduced activity, either side of the Olympics this Summer, when there will be a moratorium on roadworks in the south of the UK.

Whilst it is anticipated that the first half of 2012 will be stronger than the same period in 2011, the full year's results will depend upon this momentum continuing in the second half of 2012 in what remains uncertain economic times.

We are confident that the acquisitions completed in 2011, coupled with our growing international scale and the strength of our market positions will provide excellent opportunities to continue delivery of attractive growth and value in the medium to longer term.

Shareholder communication

We hold our AGM on 16 May 2012 and it is an excellent opportunity for shareholders to meet the Board and certain senior executives of the Company. If you are able to attend my colleagues and I will be delighted to see you.

Bill Whiteley
Chairman

15 March 2012

OSU "Chiller" Unit, structure galvanized by V&S Galvanizing LLC: The South Campus Central Chiller Plant will provide the Medical District of the Ohio State University, USA, a long term, efficient and sustainable solution for chilled water production and distribution. The entire structural framework was hot dip galvanized for corrosion protection by V&S Galvanizing LLC.

Business Review

Derek Muir
Group Chief Executive

Mark Pegler
Group Finance Director

2011 Overview

Our overall performance for 2011 was in line with the outlook statement given at the time of our Interim Results in August 2011 and reiterated in our November Interim Management Statement.

The year-on-year comparison in the first half was affected by the reduced contribution from the UK Government stimulus spend on roads from which we benefitted in the first half of 2010. The second half however, saw more robust trading especially from our overseas operations and the increasing number of our businesses that now supply products to the utilities markets.

The international diversity and strength of our businesses within their respective markets, particularly in the USA, continued to underpin our performance. The Group's overseas operations now account for over 65% of total underlying operating profits.

Revenue for the year increased by 8.6% to £406.2m (2010: £374.2m). Adjusting for the net £22.7m of revenue arising from acquisitions and disposals, revenue increased by £10.6m to £383.5m (2.8% higher than 2010). Underlying operating margin reduced to 10.2% from 12.3% reflecting a change in product mix in Infrastructure Products and a return to more normalised margin levels in Galvanizing Services. The change in product mix, more normal margins in galvanizing and the lower UK Government spend resulted in underlying operating profit falling to £41.5m (2010: £45.9m). Acquisitions accounted for £1.4m of underlying operating profit. Underlying profit before taxation was lower at £37.4m (2010: £42.2m).

Group strategy

Our strategic objective remains to deliver growth in earnings, dividend and shareholder value by developing and expanding our core businesses through a clear focus on:

- organic growth
- geographical expansion
- selective acquisitions
- innovation of new products, and
- operational excellence within the business units.

During 2011 we completed a number of initiatives under these key strategic drivers:

Organic growth

We continue to invest for growth. During the year a small capital investment in the pipe supports operation based in Thailand, for the manufacture of boiler hanger rods, enabled us to win a £6m contract with Mitsubishi Heavy Industries/Larson & Toubro, for power plants in India. We will be investing further in equipment for our new facility in India to develop our product and customer offering.

A new sales office has been opened in Eastern Europe to develop sales in the growing market for solar farms. Opportunities in the Indian and Middle Eastern markets are being explored, as well as in the UK.

Geographical expansion

For Roads, our strategy is to leverage our development of road restraint systems products for the European and American standard in other countries with strong infrastructure plans and/or a high regard for health and safety. In May 2011 we made the strategic purchase of ATA Bygg-och Markprodukter AB ("ATA") in Sweden. ATA have the route to market for a number of our road products in Scandinavia and have already gained success introducing permanent and temporary road restraint systems. We are looking to continue to develop our overseas network representing our product range in India, Singapore and Australia.

Within our Utilities business, the acquisition of The Paterson Group in March 2011 – covered in more detail below - moved us closer to the creation of a global pipe supports business. In addition, our new factory in India will be used to manufacture pipe supports, Brifen wire rope and solar frame products.

Selective acquisitions

Our strategy for growth in our Utilities business focuses on the power markets of emerging economies in the short to medium term, and on the power infrastructure replacement markets in developed countries across Europe and the USA in the medium to long term. To enable us to achieve this we made the strategic acquisition of The Paterson Group in March 2011. The acquisition not only provides the Group access to the North American markets but, more importantly, provides us with significant experience in the nuclear pipe supports market and has ASME nuclear certification through the Bergen Power pipes supports business. Bergen has supplied nuclear pipe supports to 49 of the 104 nuclear plants in the USA over the past 50 years. Although this acquisition has been affected by the industry's immediate response to the Fukushima Daiichi nuclear power plant incident in the early part of 2011, we remain confident of the growth prospects in the medium term with the increasing demand for power throughout the world.

"The Group is now wholly focused on two core, higher added value divisions: Infrastructure Products and Galvanizing Services."

To meet that demand, we now have a global manufacturing platform for our pipe supports business which serves the petrochemical, liquefied natural gas and power generation industries.

Innovation
The Group's businesses are led by experienced and entrepreneurial management teams who have extensive knowledge of our chosen markets. Their entrepreneurial focus and enthusiasm has been, and will continue to be, an important element of our strategy as it drives the individual businesses to innovate and respond quickly to opportunities they identify and to the needs of our customers. Product development and identification of new markets are key to the growth of the Group in the medium to longer term.

In 2011, for example, we developed a solar panel mounting system, which incorporates innovative designs that we originally developed to optimise the installation time for crash barriers.

In France we completed our investment in two new powder-coating paint facilities at two of the existing plants, allowing France Galva SA to offer galvanizing and secondary coating to our customers.

Operational excellence
We continue to invest in our people and our production plants to ensure that we achieve operational excellence. The Group's capital investment programme covers all of our businesses and promotes automation and cost effective competitive manufacturing. In December 2011 we commissioned the construction of a new galvanizing facility in the USA, replacing our original plant in Columbus, Ohio, with the potential for a 40% increase in capacity. This will be the fifth plant constructed by the Group to our bespoke design, the benefits from which will be seen from 2013.

Operational review
Following the disposal of Ash & Lacy Building Systems Limited, the last remaining business in the Building and Construction Products division, the Group is now wholly focused on two core, higher added value divisions: Infrastructure Products and Galvanizing Services. Both divisions have a significant established international presence and strong positions in their markets which have attractive long term growth dynamics.

Infrastructure Products
The division is focused on supplying engineered products to the roads and utilities markets in geographies where there is the prospect of sustained long term investment in infrastructure. In 2011 the division accounted for 68.0% (2010: 63.3%) of the Group's revenue and 48.0% (2010: 46.2%) of the Group's underlying operating profit.

Revenues increased by 16.5% to £276.1m (2010: £237.0m). Margins declined by 170 basis points to 7.2% (2010: 8.9%) due primarily to a change in the mix of products. Underlying operating profit was similar at £19.9m (2010: £21.2m). Acquisitions contributed an additional £32.9m of revenue and £1.4m of operating profit.

Roads
As anticipated, the comprehensive UK Government spending review of November 2010 has reduced the spend on roads and delayed the UK's managed motorway programme, resulting in reduced revenue and profitability for our UK roads businesses in 2011. This is in stark contrast to the benefit from the Highways Agency stimulus spend that we experienced in the first half of 2010. During the last quarter of 2011 however, we saw the start of the first of three Managed Motorway Schemes in the UK, for which we will be supplying our temporary vehicle restraint system, Varioguard, and demand for this product in the first quarter of 2012 has been strong. There was also more positive news in the Government's 2011 Autumn Statement when a number of road projects, previously cancelled, were reinstated, providing an encouraging outlook for 2013 and beyond in the UK.

To offset any downturn in the UK we increased our concentration on international markets, such as Eastern Europe and particularly Scandinavia, where road building programmes remain strong.

During the year we took direct control of previously licensed territory for Brifen wire rope safety fence in Australia and Sweden, the latter market now being served with a suite of both permanent and temporary vehicle restraint systems though our acquisition of ATA. The acquisition has integrated well into the Group and their team now have a good understanding of the Hill & Smith product range.

Unrest in the Middle East led to a delay in shipment of large export orders for our bridge parapet systems, but we expect these shipments to start in the second half of 2012.

Business Review continued

Solar: Solar panels for a 3.7 mega watt facility at Gorman Mahala, Bulgaria, completed in 2011. The installation utilise our innovative solar panel mounting system, developed from a design which optimises installation time for crash barriers, that provides a fast and adaptable solution for such large scale projects.

Further capital investment in our lighting column operation in France allowed us to bring all secondary coating in-house. With over 65% of columns now galvanized and powder coated, this investment has enabled us to build a plant to fully service the market demand for coating of lighting columns, including secondary coating for our galvanizing customers.

Our businesses in the UK and France continue to benefit from the strength of our market position and the attrition of major competitors in those countries. During 2011 we secured three new lighting column PFI's for Coventry, Croydon and Lewisham, and Cambridge.

Techspan, our electronic signage business, won an order for £4m in 2011 from the Scottish office for road signage on the approaches to the Forth Bridge Crossing. We have also supplied traffic data collection equipment, temporary and permanent barrier, gantries and bridge structures for this project. The strength of our product range has not only assisted us in maximising the opportunities on this project but will also offer us similar opportunities as the Managed Motorway Schemes progress in England.

We made more limited progress in the USA with Zoneguard, our temporary steel vehicle restraint system, which offers an alternative to the traditional established concrete wall system. This was due to the lack of a US highways bill and the reduced number of State contract lettings, compared to 2010, together with a reluctance from general contractors to rent rather than buy products. Other manufacturers have recently introduced a steel product to the market, as an alternative to concrete barrier, and we anticipate a stronger acceptance of Zoneguard as the market recognises the proven cost saving benefits of steel over concrete.

In the final quarter we commenced construction of a 356 space TopDeck car park in Bradford for the headquarters of Morrisons supermarkets.

Utilities

The requirement for new power generation in emerging economies, and the replacement of ageing infrastructure in developed countries, provides an excellent opportunity for the Group's utilities businesses.

The Bergen Pipe Supports Group now makes up 17% of the Infrastructure Products division's revenue. Bergen designs and manufactures large industrial pipe supports for gas, coal and nuclear power plants around the world. We also design and manufacture pipe supports for liquefied natural gas ("LNG"), petrochemical and water treatment plants, together with a range of industrial hangers for public and commercial buildings.

Whilst there is a hiatus in the building programme of nuclear power plants, the overall demand for power generation over the medium to long term has not changed.

During 2011 we delivered orders worth £6.4m for pipe supports used at power plants in India. Other significant orders were secured for LNG terminals in Singapore, Australia and Papua New Guinea, and for a new nuclear reprocessing plant in the USA. Revenues were weighted towards the second half, which were boosted by the performance of our pipe supports manufacturing operation in Thailand. This performance was achieved in spite of the flooding problems in Bangkok and, whilst our facilities were not directly affected, a number of our key suppliers were and it is to the credit of our local management that these difficulties were overcome.

The integration and re-organisation of The Paterson Group has now been substantially completed. Opportunities for the new enlarged group are beginning to be realised together with the ability for them to procure products from our low cost manufacturing operations in China and Thailand.

We ended 2011 with a healthy order book in our pipe supports business, which has continued to grow in the first two months of 2012. This is supported by an increased level of enquiries for major power projects, especially in India, which is encouraging for 2012 and beyond.

Our USA based utilities fabrication business had a strong second half compared to 2010, as the market for sub-station and transmission structures improved. This was in line with the programme to increase the capacity of the North American electrical grid, which also includes renewable energy developments in wind and solar farms in Central America. The previously announced rationalisation programme has successfully reduced our operational cost base and increased profitability. This business has continued to trade strongly in the early part of 2012.

Creative Pultrusions, our USA based composites company, has performed well delivering a number of large projects for the security, rail and gas exploration markets. The investment in development, testing and tooling for new products is creating a strong platform for Creative Pultrusions to exploit the growth in the composites markets. Examples of this innovation are the fender piles installed in San Francisco harbour for the America's Cup competition and 25 metre long piles supplied for bridge abuttment protection in the New Jersey area.

The UK water industry Asset Management Programme (AMP5), now in its second year, gained momentum in 2011. Orders for the supply of interconnecting pipework, storm water attenuation tanks and related access systems resulted in a strong second half performance and a

Composite Flooring: During 2011, Creative Pultrusions Inc, our US based manufacturer of fibre reinforced composite profiles, won a significant order to supply matting for use at large civil engineering projects. This innovative product is produced in panels allowing ease and flexibility of installation for its prime use as a strong durable flooring capable of handling heavy duty machinery.

record order book entering 2012. Major projects currently in production are for Beckton Sewage Treatment Plant in London and retention tanks in Meadowhead, Scotland.

The improving housing market saw increased demand for our storm water retention tanks and also favourably impacted our steel lintel and residential door business, producing a record performance.

Access Design, which supplies industrial flooring to infrastructure projects, benefitted from a lower operational cost base following the site rationalisation at the end of 2010. We saw a return of the larger project work in 2011 and the order book now stands at a record level for 2012. This division has also supplied and installed products containing composite materials manufactured by the Group's Creative Pultrusions operation in the USA. Such products include blast screens to protect substations and rail platforms as part of the rail platform extension programme in the South East of England. A further order for 85 platform extensions has recently been secured for supply throughout 2012.

During the second half of 2011 we introduced our newly developed solar panel mounting systems with early success in Eastern Europe, which has provided greater confidence to expand our sales operations in this and other regions with a commitment to renewable energy.

Galvanizing Services
Offering corrosion protection services to the steel fabrication industry with multi-plant facilities in the UK, France and the USA, Galvanizing Services now accounts for 29.2% (2010: 30.8%) of the Group's revenue and more significantly 52.0% (2010: 54.5%) of the Group's underlying operating profit.

At constant currency, revenues increased 2.9% to £118.5m (2010: £115.4m) whilst underlying operating profit was lower at £21.6m (2010: £25.0m). As expected, in the challenging economic environment, overall margins returned to a more normal level of 18.2% (2010: 21.7%). Margins in France and the USA remained resilient as higher volumes improved utilisation and offset any increased operating costs.

Overall galvanizing volumes were broadly in line with 2010 with strong performances in France and the USA offsetting weaker volumes in the UK.

USA
Located in the North East of the country, we are the market leader with six plants offering local services and extensive support to fabricators and product manufacturers involved in highways, construction, utilities and transportation.

Volumes increased 9.0% year on year due to improved order intake from the utilities, solar and structural steel work sectors. Zinc prices throughout the year were relatively stable following increases in 2010. The largest improvements in volumes were in the Ohio and Michigan plants and as a result of this we have commissioned a larger, more efficient plant to replace our oldest facility in Columbus, Ohio. The new plant will be operational in early 2013 and will provide 40% additional capacity at this site. The market in the USA continues to provide opportunities for growth as we convert the finish for infrastructure products from painted to the longer lasting more cost effective solution of galvanizing.

France
The business has ten strategically located galvanizing plants serving each local market. We act as a key part of the manufacturing supply chain in those markets, and have delivered high levels of service and quality to maintain our position as market leaders.

Volumes in 2011 improved by 5.0%, primarily in the first half, due to stronger utilities and structured steel markets. Activities improved markedly in the Northern region, where a number of new customers were attracted to the exceptional quality and service offered by France Galva.

UK
Our UK galvanizing business is located on nine sites, four of which are strategically adjacent to our Infrastructure Products manufacturing facilities.

Volumes were down 12.3% year on year, mainly in the first half, due to the reduction of production intake from our own infrastructure businesses and the continued reduction in large construction projects. This reduced production volume had a significant impact on the overall performance of galvanizing in the UK. More encouragingly however, in the final quarter of 2011 volumes improved by 2.7% year on year and have continued to rise year on year into 2012.

Building and Construction Products
The division comprised solely the business of Ash & Lacy Building Systems, which was sold on 22 July 2011 for a cash consideration of £5.1m. Revenues for the period prior to disposal were £11.6m (2010: £21.8m). Following this strategic disposal, the Building and Construction Products division effectively ceased to exist.

Business Review continued

Financial Review

Income statement phasing

	First half	Second half	Full year
2011			
Revenue £m	**195.1**	**211.1**	**406.2**
Underlying operating profit £m	**18.2**	**23.3**	**41.5**
Margin %	**9.3**	**11.0**	**10.2**
2010			
Revenue £m	193.5	180.7	374.2
Underlying operating profit £m	23.5	22.4	45.9
Margin %	12.1	12.4	12.3

Revenue of £406.2m was £32.0m or 8.6% ahead of the prior year with acquisitions/disposals completed during 2011 contributing a net £22.7m additional revenue. Organic revenue growth amounted to £10.9m. Underlying operating profit of £41.5m benefitted by £1.7m from acquisitions/disposals which helped to offset an organic decline of £5.9m. Further details of the organic performance of the business are provided in earlier in this Business Review. The translation impact arising from changes in exchange rates, principally the US Dollar and Euro, was immaterial, reducing revenue and underlying profit by £1.6m and £0.2m respectively.

As anticipated at the start of 2011, the phasing of revenue and underlying operating profit was second half biased, as opposed to the circa 50:50 split in 2010. The second half of 2011 represented a strong performance for the Group with improved volumes and profitability from the Utilities businesses in particular helping drive an 11% operating margin. The performance in 2012 is expected to return to a more even distribution between the first and second half.

Cash generation and financing

Operating cash flow of £35.3m (2010: £51.7m) included a working capital outflow of £16.1m (2010: £1.3m), principally reflecting the improved volumes experienced within our Utilities businesses in the final quarter of the year and those expected in the first quarter of 2012 compared to a relatively subdued end to 2010. The impact on working capital of zinc and steel commodity prices year on year was not material. Working capital as a percentage of annualised sales was 15.5%, marginally higher than the 14.2% at December 2010 but improved from 16.3% at the June half year. Debtor days improved to 60 days from 63 days at December 2010 and 61 days at June half year.

Capital expenditure at £12.6m (2010: £15.2m) represents a multiple of depreciation and amortisation of 0.9 times (2010: 1.1 times). Following the sanction of capital for a new $10m galvanizing plant in Columbus, Ohio, capital expenditure in 2012 is expected to be significantly ahead of depreciation and amortisation at some £20m. The Group continues to invest in organic growth opportunities where returns exceed internal benchmarks.

Group net debt at 31 December 2011 was £103.8m, an increase of £33.2m against 31 December 2010 (£70.6m) principally driven by £36.2m (net of cash acquired of £2.8m) spend on acquisitions during the first half of the year. The Group's net debt remains principally denominated in US Dollars and Euros which act as a hedge against the net asset investments in overseas businesses. Net debt increased year on year by £0.3m due to exchange rate movements.

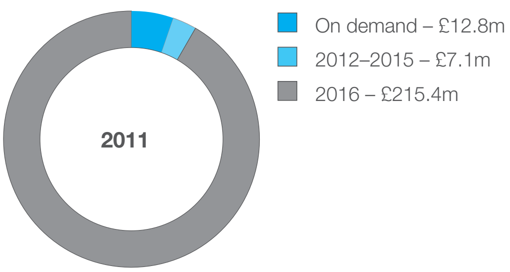
Change in net debt

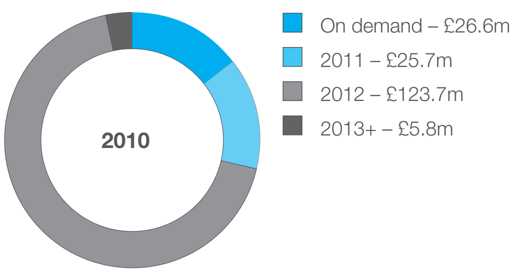
	2011 £m	2010 £m
Operating Profit	**32.9**	39.6
Depreciation and amortisation*	**16.8**	15.0
Working capital movement	**(16.1)**	(1.3)
Pensions and provisions	**(4.3)**	(2.3)
Other items	**6.0**	0.7
Operating cash flow	**35.3**	51.7
Tax paid	**(7.5)**	(9.4)
Interest paid (net)	**(7.7)**	(3.4)
Capital expenditure	**(12.6)**	(15.2)
Sale of fixed assets	**0.1**	0.9
Free cash flow	**7.6**	24.6
Dividends	**(9.8)**	(8.8)
Acquisitions	**(36.2)**	0.2
Disposals	**6.2**	0.3
Net issue of shares	**(0.7)**	0.4
Change in net debt	**(32.9)**	16.3
Opening net debt	**(70.6)**	(87.6)
Exchange	**(0.3)**	0.7
Closing net debt	**(103.8)**	(70.6)

* Includes £2.2m (2010: £0.9m) in respect of acquisition intangibles.

In May 2011 the Group announced the refinancing of its principal debt facility by entering into a new £210m five year multicurrency revolving credit agreement. The facility, provided on competitive terms, is funded by a syndicate of five leading banks which include existing and new banking relationships.

Maturity profile of debt facilities





The new facility matures in April 2016, which affords the Group significant certainty in terms of its funding requirements for the foreseeable future. At the year end the Group had committed debt facilities available of £222.5m and a further £12.8m in overdrafts and other on demand facilities.

The principal debt facility is subject to covenants which are tested semi-annually on 30 June and 31 December. The covenants require the ratio of EBITDA (adjusted profit before interest, tax, depreciation and amortisation as defined in the facility agreement) to net interest costs must exceed four times and require the ratio of net debt to EBITDA to be no more than three times.

The results of the covenant calculations at 31 December 2011 were:

	Actual	Covenant
Interest Cover	13.9 times	4.0 times
Net debt to EBITDA	1.8 times	3.0 times

Appropriate monitoring procedures are in place to ensure continuing compliance with banking covenants and, based on our current estimates, we expect to comply with the covenants in the foreseeable future. The facilities available to the Group provide significant headroom against its expected funding requirements.

Finance costs

		2011 £m		2010 £m
Underlying net cash interest				
- Bank loans/overdrafts	**3.7**		3.2	
- Finance leases/other	**0.4**	**4.1**	0.5	3.7
One off financial expenses relating to refinancing				
- Bank and legal fees	**2.9**		–	
- Termination of interest rate swaps	**0.4**	**3.3**	–	–
Non cash				
- Change in fair value of financial instruments	**(0.1)**		–	
- Net pension interest	**0.2**	**0.1**	0.6	0.6
		7.5		4.3

Net financing costs increased by £3.2m to £7.5m, including £3.3m of one-off costs associated with refinancing the Group's principal debt facility. The net cost from pension fund financing under IAS19 was £0.2m (2010: £0.6m) and given its non cash nature continues to be treated as 'Non-Underlying' in the consolidated income statement. The underlying cash element of net financing costs increased by £0.4m to £4.1m (2010: £3.7m) directly as a result of higher margins on the new facility and higher levels of net debt generated by the acquisitions completed in the first half of the year. Underlying operating profit covered net cash interest 10.1 times (2010: 12.4 times).

The Group has approximately 30% (2010: 59%) of its gross debt of £116.5m at fixed interest rates, either through interest rate swaps or finance leases. As part of the Group's refinancing, certain of the existing interest rate swaps held with banks no longer in the syndicate were terminated at a cash cost of £0.4m. The remaining swaps expire in the first half of 2012 and as a result the Group took the opportunity in November 2011 to acquire a new portfolio of interest rate swaps which commence from July 2012 and expire with the facility in April 2016. These new swaps are predominantly denominated in US Dollars, more closely reflecting the Group's debt profile following its acquisition of The Paterson Group, Inc. in March 2011. Further details are contained in note 19 to the financial statements.

Exchange rates

Given the increasingly diverse nature of its geographical footprint the Group is exposed to movements in exchange rates when translating the results of international operations into Sterling. However, during 2011 the translational benefit of the appreciation of the Euro was broadly offset by the depreciation of the US Dollar against Sterling resulting in a minimal impact year on year. Retranslating 2010 revenue and underlying operating profit using 2011 average exchange rates would have reduced the prior year results by £1.6m and £0.2m respectively.

Non-underlying items

The total non-underlying items charged to operating profit in the consolidated income statement amounted to £8.6m (2010: £6.3m) and were made up of the following:

- Business reorganisation costs of £1.2m (2010: £4.4m) – principally relating to redundancies and other costs associated with site closures. The net costs for 2010 included an asset impairment charge of £0.4m and release of environmental provisions of £1.3m. Cash costs of £0.9m were incurred in respect of reorganisations in 2011 with a further £0.3m expected to be incurred in 2012. In total, some 177 people left the Group due to business reorganisation in 2011.
- Amortisation of acquired intangible fixed assets of £2.2m (2010: £0.9m) – the charge relates to the non-cash amortisation of intangible assets arising from acquisitions and has increased in 2011 following the acquisitions of The Paterson Group, Inc. and ATA, made during the year.
- Acquisition related expenses of £0.7m (2010: £1.0m) – costs associated with acquisitions expensed to the consolidated income statement following adoption of IFRS3 (Revised) during 2010.
- A loss of £5.9m (2010: £nil) on the disposal of Ash & Lacy Building Systems Limited, a non-core business, on 22 July 2011, including £5.0m of capitalised goodwill.
- A gain of £1.6m (2010: £nil) in respect of the Group's UK defined benefit pension obligations following amendments to the inflation assumptions to reflect CPI rather than RPI (£1.1m) and a curtailment gain (£0.5m) on the cessation of future accrual in respect of the UK Executive Scheme. In addition, a loss of £0.4m (2010: £nil) was recognised in respect of the Group's French defined benefit pension obligations following changes in local legislation to equalise benefits across various member categories.

Business Review continued

- Gains of £0.4m (2010: £nil) in respect of the fair value of forward foreign currency contracts.
- Losses on sale of properties of £0.2m (2010: £nil).

The cash impact of the above items was an outflow of £1.6m (2010: £2.4m) with a further £0.3m expected to be spent in 2012. The non-cash element therefore amounted to £6.7m, principally due to the goodwill expense of £5.0m on the disposal of Ash & Lacy Building Systems Limited and the amortisation of acquired intangibles of £2.2m noted above.

Tax

The Group's tax charge for the year was £9.3m (2010: £10.7m). The underlying effective tax rate for the Group was 29% (2010: 29%). The international nature of our operations does mean that the mix of profits in a particular year can impact the effective rate of tax that we pay. Tax paid of £7.5m (2010: £9.4m) was again lower than the income statement charge due to the benefit arising from the utilisation of first year capital allowances in the UK and USA, agreement of prior year issues and utilisation of tax losses. From 2012, the cash tax payable is expected to become more in line with the income statement charge.

The Group's net deferred tax liability is £17.0m (2010: £15.9m). A £10.5m (2010: £5.1m) deferred tax liability is provided in respect of brand names and customer relationships acquired, including £6.0m in respect of acquisitions completed during the year. A further £2.3m (2010: £2.6m) is provided on the fair value revaluation of French properties acquired as part of the Zinkinvent acquisition in 2007. These liabilities do not represent a future cash tax payment and will unwind as the brand names, customer relationships and properties are amortised.

Earnings per share

The Board believes that underlying earnings per share (UEPS) gives the best reflection of performance in the year as it strips out the impact of non-underlying items, essentially one off non-trading items and intangible asset amortisation. UEPS for the period under review decreased by 11.5% to 34.5p (2010: 39.0p). The diluted UEPS was 34.2p (2010: 38.7p). Basic earnings per share was 20.9p (2010: 32.0p). The weighted average number of shares in issue was 76.9m (2010: 76.9m) with the diluted number of shares at 77.7m (2010: 77.6m) adjusted for the outstanding number of dilutive share options.

Pensions

The Group operates a number of defined contribution and defined benefit pension plans in the UK, the USA and France. The IAS19 deficit of the defined benefit plans as at 31 December 2011 was £16.4m compared with £10.9m at 31 December 2010. The additional IAS19 deficit of £5.9m resulted mainly from the acquisitions of The Paterson Group, Inc. (£0.4m) and lower discount rates used to value the underlying liabilities within the Schemes (£3.9m).

The Hill & Smith Executive Pension Scheme and the Hill & Smith Pension Scheme (the 'Schemes') remain the largest employee benefit obligations within the Group. The IAS19 deficit of the Schemes as at 31 December 2011 is £14.3m (2010: £9.5m). In common with many other UK companies, the Schemes are mature having significantly more pensioners and deferred pensioners than active participating members. The Group has agreed deficit recovery plans in place that require cash contributions over and above the current service accrual amounting to £1.9m for the three years to April 2013, followed by payments of £2.3m for a further seven years. The date of the next triennial review is 5 April 2012.

The Schemes are closed to new members and in December 2011 the Hill & Smith Executive Pension Scheme closed to current members' future accrual, resulting in a curtailment gain of £0.5m. Following a change in UK legislation, inflation assumptions used to determine the value of future pension payments were switched from RPI to CPI, producing a one off gain of £1.1m. The combined gain of £1.6m was included in 'non underlying' income so as not to distort headline operating performance.

Acquisitions

On 16 March 2011, the Group acquired 100% of the issued share capital of The Paterson Group, Inc. and its related companies, a company operating in North America and a leading manufacturer and distributor of pipe supports and hangers to the power generation, commercial and industrial markets. The consideration was £29.1m in cash.

On 18 May 2011, the Group acquired 100% of the issued share capital of ATA Bygg-och Markprodukter AB ("ATA"), a Swedish distributor of road safety barriers and manufacturer and distributor of road signage to the infrastructure markets in Scandinavia. The consideration was £9.9m in cash.

In addition, acquisition costs of £0.7m were incurred and expensed as 'non-underlying' in the income statement in accordance with IFRS3 (Revised). Both The Paterson Group, Inc. and ATA are reported within the Infrastructure Products segment.

Disposals

On 22 July 2011, the Group disposed of one of its non-core businesses, Ash & Lacy Building Systems Limited ("ALBS") for a cash consideration of £5.1m. The loss on disposal of £5.9m included the non-cash write off of £5.0m of goodwill carried since the acquisition of Ash & Lacy plc in November 2000. ALBS was the remaining material business in the Group's Building and Construction Products segment and henceforth the Group will no longer retain this segment for reporting purposes.

On 4 August 2011 the Group received £1.1m of deferred consideration from the sale in 2008 of the Benelux and German operations of Zinkinvent GmbH.

Treasury management

All treasury activities are co-ordinated through a central treasury function, the purpose of which is to manage the financial risks of the Group and to secure short and long term funding at the minimum cost to the Group. It operates within a framework of clearly defined Board-approved policies and procedures, including permissible funding and hedging instruments, exposure limits and a system of authorities for the approval and execution of transactions. It operates on a cost centre basis and is not permitted to make use of financial instruments or other derivatives other than to hedge identified exposures of the Group. Speculative use of such instruments or derivatives is not permitted. Liquidity, interest rate, currency and other financial risk exposures are monitored weekly. The overall indebtedness of the Group is reported on a daily basis to the Chief Executive and the Finance Director. The Group treasury function is subject to an annual internal and external review of controls. Further details of the management of financial risks are set out in note 19 to the financial statements.

Going concern

The Directors have assessed the future funding requirements of the Group and the Company and compared them to the level of committed available borrowing facilities. The assessment included a review of both divisional and Group financial forecasts, financial instruments and hedging arrangements for the 15 months from the balance sheet date. Major assumptions have been compared to external reference points such as infrastructure spend forecasts across our chosen market sectors, Government spending plans on road infrastructure, zinc, steel price and economic growth forecasts.

The forecasts show that the Group will have sufficient headroom in the foreseeable future and the likelihood of breaching banking covenants in this period is considered to be remote.

Having undertaken this work, the Directors are of the opinion that the Group has adequate committed resources to fund its operations for the foreseeable future and so determine that it is appropriate for the financial statements to be prepared on a going concern basis.

Derek Muir
Group Chief Executive

Mark Pegler
Group Finance Director

15 March 2012

Access Design: As part of an ongoing package of enhancements Network Rail decided to extend rail platforms across the South East of England network to accommodate longer trains carrying increased passenger capacity.

Many of the stations involved are in city and town locations and have difficult and limited access. A lightweight modular solution for platform extensions was identified as a viable and cost effective solution. The lightweight GRP solution reduced the necessity for heavy plant and allowed construction in very limited track possession times available in the London area.

Access Design were awarded a contract to design, fabricate and supply GRP platform extensions for 16 platforms on the Windsor Line. This involved both straight and island platforms together with GRP end of platform fences and staircases for track access.

Opposite is the extended platform for Moorlock Station.

Barrier: Hill & Smith crash worthy end terminals fitted to open box beam safety fence on the A82 trunk road at Ba Bridge, Rannoch Moor, Scotland. This is one of the highest level routes in the UK and at this point is over 1000' above sea level. The site is midway between Glasgow and Fort William and is one of a number of bridge sites upgraded due to the harsh environment and the age of the road.

Key Performance Indicators (KPIs)

The Board has adopted certain financial and non-financial key performance indicators. Other similar performance indicators are used at subsidiary business level and adapted to suit the diversity and variety of the Group's operations.

The Group uses a number of performance indicators to measure operational and financial activity in the business. Most of these are monitored and reviewed on a weekly or monthly basis. A comprehensive monthly management accounts pack, including profit and loss statements and key ratios, is prepared for each business. In addition, every managing Director in the Group submits a monthly report which is the basis of regular operational meetings.

The key performance indicators below are used as measures of the longer-term health of the business and for monitoring progress in the implementation of the Group's strategy.

Group KPIs

Revenue

2010	£374.2m
2011	£406.2m

In line with our strategy to produce increased profitability and shareholder return, the aim is to increase revenue each year through a combination of price, volume, organic growth, acquisition and strategic shaping of the Group.

In 2011, our Group revenue rose by 8.6% to £406.2m, primarily as a result of acquisitions.

Percentage of underlying operating profit from international operations

2010	55.3%
2011	65.3%

In line with its strategy of pursuing geographical expansion, the Company regularly considers the percentage of underlying operating profits generated from its overseas operations. The increase to 65.3% in 2011 (2010: 55.3%) is driven largely by the acquisitions made during the year, the reduction in UK Government spend and the strong performance in Galvanizing in France and the USA.

Underlying operating margin

2010	12.3%
2011	10.2%

This represents the Group's underlying operating profit divided by Group revenue. In 2010 the underlying operating margin was 12.3% compared to 10.2% for 2011, falling as a result of the change in the product mix for Infrastructure Products and more normalised margins in Galvanizing Services.

Underlying earnings per share (UEPS)

2010	39.0p
2011	34.5p

The Group measures profitability KPIs at all levels. The lower underlying profit before tax of £37.4m for 2011 (2010: £42.2m) arises primarily from the impact on operating profit of a change in product mix, more normalised galvanizing margins and reduced UK Government expenditure. Our chief indicator of shareholder value, UEPS, reflects this reduced level of profitability.

Net cash from operating activities

2010	£51.7m
2011	£35.3m

The Company monitors its operating cash flow performance frequently, including active reviews of working capital requirements. Operating cash flow in 2011 of £35.3m was lower than prior year (£51.7m) mainly as a result of increased working capital requirements associated with higher volumes in the Infrastructure Products businesses towards the end of the year.

Health and safety

The health and safety performance of each subsidiary is monitored and reviewed at each monthly Group Board meeting and at each monthly subsidiary meeting. The number of reported accidents is monitored each month and appropriate action taken.

We did not achieve our targeted reduction of 10% in the number of accidents in 2011, due to a general increase in the number of minor incidents. We did however, improve our site audit rating and health and safety management which will, for the future, have a beneficial impact on both the minor incidents and prevention of major accidents.

Sustainability

We continue to track our performance on CO_2 emission reduction. Further details of our achievement for 2011 and our plans for 2012 are contained in the corporate social responsibility report on pages 21 and 22.

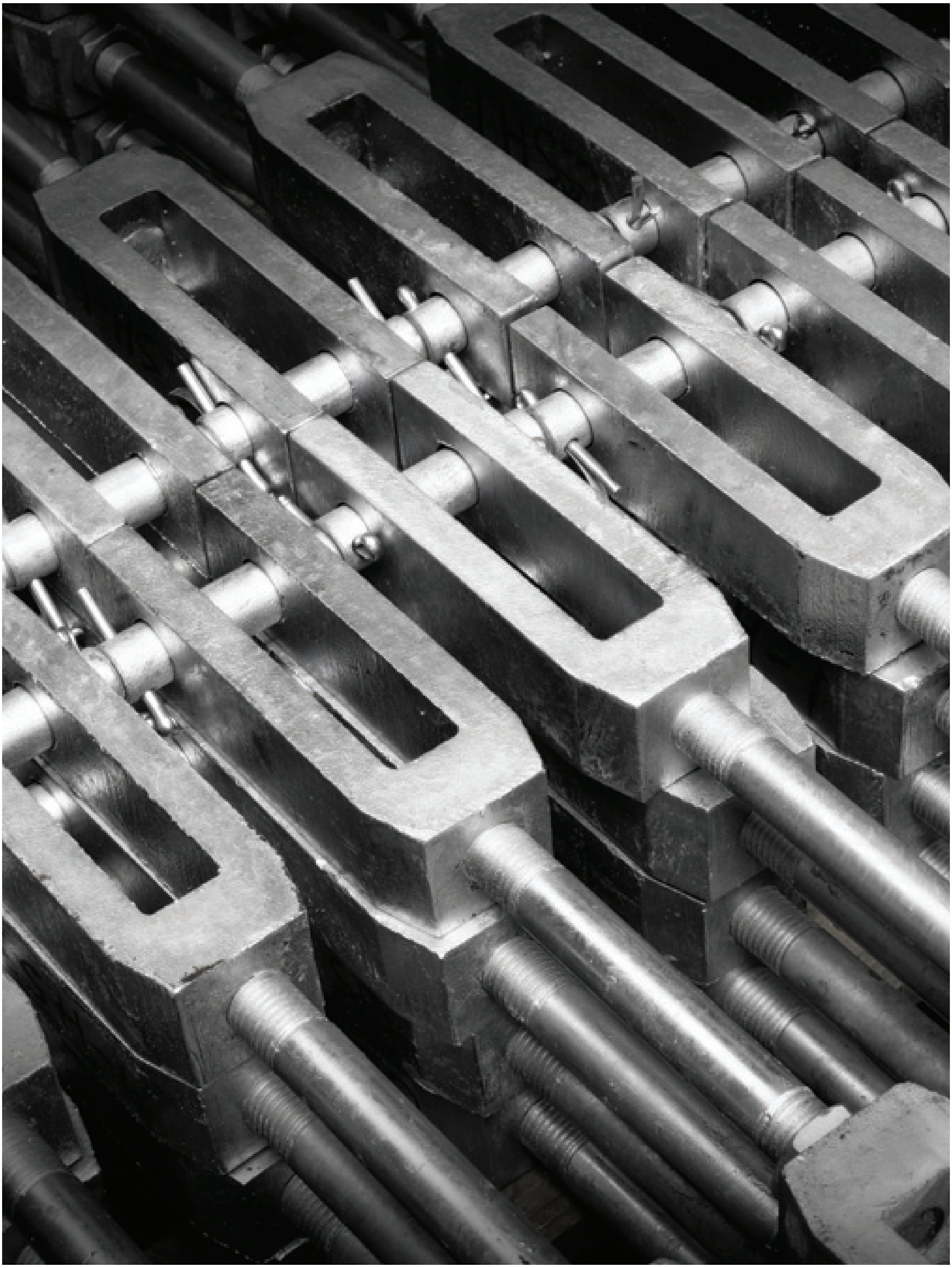
Principal Risks and Uncertainties

Our risk management processes are designed to be forward-looking in the identification, management and mitigation of business risks that could impact the Group's performance and value. The processes will not eliminate risks but rather mitigate them to an acceptable level within the context of the business environment in which we operate.

Market/Strategic Risks	Strategic Connection/Explanation	Mitigation
Economic environment and markets	*Medium to long-term revenue and earnings growth Investment funding* The impact of a general economic downturn that leads to a reduction in customer demand and production volumes. The Group derives part of its revenue from Government spending on infrastructure projects such as road and rail and any timing, funding or policy issues can have an adverse impact on key areas of the business.	Diversification of markets and territories with expansion into markets in India, China, Australia and Sweden. Expanding the market for existing products and services e.g. pipes supports in the US power generation market. The Group Board is in close contact with the subsidiary management and identifies any wider trends requiring action. These risks are also managed at local level where they are best understood and where we are close to our customers. Each business reviews its cost base in response to changing circumstances.
Competition and commercial relationships	*Revenue growth, market positioning and profitability* The Group benefits from well established commercial relationships with long standing key customers and suppliers. The significant loss of any of these or a worsening of commercial terms could have an impact on the Group's performance.	Maintaining and developing the quality and competitiveness of products and services. Close engagement with both key customers and suppliers supported by monitoring of customer and supplier reliability, our dependency and their financial security. Strengthening of commercial functions to manage contract progress and variations. Immediate response to any quality or timing issues. Use of credit insurance to lessen impact of customer failure.
Financial Risks	**Strategic Connection/Explanation**	**Mitigation**
Liquidity/Foreign Exchange and Fiscal	*Future investment projects and expansion of foreign earnings* The Group is exposed to a number of financial risks including credit risk, liquidity risk and foreign exchange volatility. Short term impact on earnings. The Group operates in a range of different legal, political and fiscal regimes presenting both operating and culture risks.	Group companies operate a common set of reporting procedures and accounting policies and have the availability of the Group intranet. The internal audit programme regularly reviews our operations. We have centralised cash and banking controls and a Treasury function which governs all Group companies. Hedging of transactions exposure through forward foreign exchange rates. Regular monitoring of tax developments in major jurisdictions and actions taken to ensure (through specialist advice) the most effective tax structures.
Pensions	*Capital that would otherwise be available for investment* Factors outside the Company's control, such as mortality rates, interest and inflation rates and investment performance, may lead to an increase in the deficit and Company contributions	Quarterly reporting to the Board of invested asset performance. Management and scheduling of deficit funding in agreement with Trustees. Reduction in liabilities through cessation of future accrual for UK Executive Scheme, as from January 2012. Reduction in UK Scheme operating expenses in 2011.

Operational Risks	Strategic Connection/Explanation	Mitigation
Product failure	*Market share and profitability* Many of the Group's products are supplied to the public sector for the benefit of members of the public. To the extent that any of the Group's products fail, this could generate adverse publicity and have a significant effect on the Group's reputation, its financial position and its ability to win new business.	Where appropriate, accreditation, regulatory approval and testing are undertaken to reach required compliance levels. Comprehensive quality control procedures are backed up by an appropriate level of insurance cover through a global insurer. Processes are in place to respond to a given situation to minimise reputational risk.
Supply of key raw materials and services	*Organic growth and market share* Pressure on margins and competitiveness. Risks to the quality of service to our customers through the failure in the supply chain and dependency on key suppliers.	We monitor the availability and price of key raw materials and energy and where appropriate hedge against volatility. We are reinforcing our controls over supplier selection and performance monitoring both internally and through the use of external specialists. We also have dual sourcing and a focus upon maintaining long-standing relationships.
Human resources	*Market share, revenue and shareholder value growth* Our future success will depend, to a large degree, on the ability of the Group to attract and retain skilled and qualified personnel, particularly at senior management level.	The Group offers competitive rates of pay, reviews salaries annually and provides a competitive package of benefits and incentives. Succession planning is undertaken and reviewed at subsidiary and Board level.
Environmental and safety	*Organic growth of the business and market share* Changes in legislation and standards, or the Group's failure to adequately control environmental risks, may have an adverse effect on the Group. A serious failure on the part of the Group to adequately control its health and safety risks could have an adverse effect upon on its operations, reputation and financial performance.	Operational management work within the policies and processes laid down by the Group. Where appropriate outside specialist expertise is engaged and recommendations and improvements monitored for implementation as necessary. Monthly reporting to the Board of health and safety management and performance, including accident statistics and ranked audit performance. Introduction of a Group "Safety Cloud" IT system in 2012 to enhance compliance monitoring and levels of assurance on improvement actions.
Project Assurance	**Strategic Connection/Explanation**	**Mitigation**
Acquisitions	*Revenue and growth of shareholder value. Acquisitions are a key driver of the strategy* The Group is an active acquirer. Acquisitions can involve risks that might have a material impact on the Group's financial performance and reputation. Integration plans not implemented properly.	Sensible profit multiples/prices are paid for businesses operating in markets that we know well. Comprehensive, rigorous and structured due diligence is carried out prior to completion. Formal prior approval process at Board level before commitment. A post acquisition programme of integration and review of performance is undertaken for the first 100 days. Key personnel retained with appropriately incentivised remuneration and benefits
Legal & Regulatory	**Strategic Connection/Explanation**	**Mitigation**
Compliance (laws and regulations)	*Prohibitor on future investment and shareholder backing* The Group operates in a number of different territories and is subject to wide-ranging laws and regulations including its business conduct.	We mitigate compliance risks through various means, including but not limited to: ❯ Systems of internal control and risk management. ❯ The Group's Codes of Conduct and Policies (further described in the CSR section of this report). ❯ External and internal legal, compliance and audit resources. A Group Risk & Compliance Counsel was appointed in November 2011.

Pipe supports: Our low temperature carbon steel "clevis rods" manufactured by Pipe Supports Limited and supplied in 2011 as part of a system of supports for the catalyst tubes servicing the industrial furnace at the Pancevo Oil refinery in Serbia.



Corporate Social Responsibility

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Corporate responsibility covers a wide range of standards and behaviour. The Group therefore assesses those corporate responsibility issues material to its businesses with the objective of responding to them in a manner appropriate to the interests of all its stakeholders. Such responses take the form of policies and initiatives which also support the delivery of the Group's strategic objectives and long-term profitable growth.

Our aim

Our aim is to monitor and manage the impact of the Group's activities through the adoption of economic, ethical, social and sustainable policies and practices, that can be appropriately applied and developed throughout the Group.

Responsibilities and accountability

The Board of Directors has implemented policies dealing with the Group's responsibilities for the environment and relationships with its various stakeholder groups, including its employees. These policies are based upon the appropriate country legislation, custom and practice from around the Group and relevant industry best practice. The policies are reviewed and updated, as and when necessary, to reflect changes to legislation, emerging best practice and the needs of the business. They set the framework for the implementation and development of the corporate and social responsibility activities throughout the Group, subject to delivery of the Group's strategic objectives. Derek Muir, the Chief Executive, is the main Board Director responsible for the corporate social responsibility performance of the Group.

Divisional executives and operating company Directors are responsible for compliance with the Group's policies, their communication across the businesses, implementation of the supporting principles and monitoring. This involves appropriate delegation in parts of the divisions or operating companies and in certain cases has evolved into specific and expanded roles for individual employees who act as the divisional or local champion.

Use of a dedicated forum on our Group intranet, enables the individual companies to network on any initiatives related to our corporate responsibilities and to share their plans and experiences.

All our employees have a responsibility to be aware of, and to comply with, the Group's policies and procedures, which have been developed for their guidance and to regulate the conduct of the day to day operations of the business. Employees are able to make suggestions to improve these policies and procedures.

Key performance indicators (KPIs)

In accordance with our aims, we have continued to focus our monitoring and management of CO_2 emissions, energy consumption and health and safety for which we have established KPIs. During the year we continued to assess the benefits of using different KPIs for other areas and our progress on this is explained under the key corporate responsibility categories of:

❯ Environment ❯ Workplace ❯ Marketplace ❯ Community

Environment

We seek to operate in a manner that is environmentally sustainable and which will further reduce the impact on the environment and our related operational costs.

Our approach to minimising the environmental impact of our operations is as follows:

- assessing the potential impact and developing site management plans
- measuring consumption and emissions, identifying methods of reduction and setting targets to improve performance

The Group's UK sites in particular have continued to make progress in reducing their carbon dioxide (CO_2) emissions through lower electricity and fuel consumption. Following the success of the previous three year CO_2 emissions reduction programme (between 2008 and 2010, when emissions were reduced by 28%) we have started a second three year programme which runs through to the end of 2013. The reduction target remains at 5% per annum. In 2011, the first year of this new programme, we achieved the target, with a reduction of 5%. Of the various UK sites within the Group, Access Design and Engineering at Telford, Hill & Smith Limited and Joseph Ash Limited both at Bilston, Mallatite Limited at Chesterfield and Techspan Systems at Aylesbury, have all reduced their emissions by over 10% during 2011.

We are mapping the opportunities to further reduce energy and associated carbon and will use this information to drive projects that lower our emission levels. We have business Energy Champions at each site and part of their role is to act as a catalyst for green activity across their area of responsibility.

The Company is to start publishing its carbon emissions through the Carbon Disclosure Project during 2012 and will continue its work towards achieving the Carbon Trust Gold Standard by the end of that year.

The Company is a full participant of the Carbon Reduction Energy Efficiency Scheme (CRC) and has engaged energy specialists to manage its membership. We will be buying emission permits for the first time during the second quarter of 2012.

During 2011 we continued with our strategy of localised solutions for waste disposal and recycling. In conjunction with a specialist agency we have carried out a review of our UK reporting on the use of packaging materials, effected a briefing for all relevant administrative employees and introduced a central reporting control. These actions will improve our data analysis and assist with any initiatives on reducing and recycling waste across the Group.

In 2012 we are reviewing our management of water usage and are in discussion with a third party specialist to monitor usage, implement improvements, reduce consumption and produce financial savings.

Corporate Social Responsibility continued

Outlook

The ongoing challenge for the Group is to continue to effectively determine what can be achieved within a realistic financial framework and timeframe. Current initiatives and monitoring, together with the potential effects of major projects and product development, have a bearing on this determination, together with the significance in the context of the overall strategy and long-term profitability of the Group.

Workplace

Health and safety

Our overriding commitment in the workplace is to the health and safety of our employees and all those who visit the Group's sites.

The Board provides the leadership for health and safety with the Chief Executive having the primary responsibility for implementing the overall policy and reviewing progress against achievement of the policy objectives.

Throughout the Group we have established procedures and developed a culture aimed at continuous improvement of health and safety. Each of our businesses is given the autonomy to allow them to set an agenda, which is effective for their requirements but always subject to the proper implementation of the core elements of the Group's health and safety policy and principles.

Health and safety reports are submitted to each Board meeting at the subsidiary companies and to every Board meeting of the Board of Directors of Hill & Smith Holdings PLC. At Group level half yearly, update reports are given on the progress of achievement of the overall health and safety strategy and objectives.

During 2011 we made substantial progress on the following Group initiatives and objectives:

- Introduction of new health and safety standards.
- Improvement of the weighted average performance score arising from the UK health and safety audit programme. A 35% improvement in the weighted average performance score was achieved, year on year, against a target improvement of 20%.
- Introduction of a new health and safety management IT system ("Safety Cloud") for all UK operations. The new system will be operational in 2012 and will improve data collection, reporting, site safety management and the risk and management of claims. This system will be introduced to our international operations, as is appropriate and practical, given the difference in local laws and practices.
- Our target for reduction in the number of accidents for the Group, was 10% year on year. Unfortunately, in spite of the improvements in the weighted average performance scores for the UK audit programme, we were unable to achieve any reduction in the number of accidents (2011 finishing with exactly the same number as for 2010, on a comparable basis). We did not however, have any major incidents; the majority of the reported accidents being of a minor nature.
- Obtained the ROSPA Gold Medal award for occupational health and safety at two UK sites, Lionweld Kennedy Flooring and Access Design.

In 2012 our major initiatives and objectives are:

- Lowering the accident rate so that we recover to our stated target of a 10% year on year reduction.
- Full implementation of the "Safety Cloud" IT system.
- Full assessment and analysis of international practices, any potential divisional (e.g. galvanizing) or individual company benefits.
- Maintenance of our current UK audit weighted average performance score levels and where feasible, improving the average score.
- Use of a divisional or comparable business measure to monitor performance.
- Implementation of a Group strategy for occupational health.

Employment policies

The Group relies upon the abilities and commitment of its employees and has a clear policy objective of promoting an environment in which all employees are motivated in order to achieve their best. Employees at all levels throughout the Group are encouraged to make the fullest contribution. Fairness and equal opportunity are core to the Group's employment policy and this applies to not only any job applicant or matters relating to gender, age, race, sexual preference, marital status, religion, belief or disability but also promotion, development and training. The Group has a policy of non-discrimination and does not tolerate bullying or harassment in any form.

The Group gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person. In the event of an existing employee becoming disabled, continuing employment will be provided wherever practicable.

Each operating subsidiary has employment and related policies and procedures tailored to the local operations and detailed in staff handbooks or employment terms and conditions. These are reviewed and updated as necessary in the light of any policy, legislative or employment practice changes. The Board values two way communication between the operating businesses, management and employees on all matters affecting the welfare of the business including regular senior management and Board Director visits to operating units.

Involvement and reward

Effective communication is encouraged within the Group through the subsidiary company management, the Group's website and its recently upgraded intranet site, along with the development of centralised briefings and training programmes.

The Group encourages employee share ownership through the 2005 Employee ShareSave Scheme which currently has 275 employees participating, some of whom contribute at the maximum permitted by HMRC.

Training and development
Recruitment, training and development is designed to ensure that the Group has suitably skilled and qualified employees to satisfy the operational needs of the business as well as offer opportunity for personal growth and development.

The Group provide a range of training and development opportunities to employees, including:

- induction training;
- health and safety training;
- programmes relating to the enhancement of knowledge and skills for each employee's current position;
- programmes relating to the provision of knowledge and skills for new procedures or standards;
- programmes with a specific management or supervisory focus; and
- support with programmes leading to a professional or academic qualification.

The Group recognises that normally the main training method will be through each employee's immediate line manager, with most training carried out in the workplace. Training is primarily delivered through internal resources with assistance from external providers as and when required. At the head office of the Group we held 22 training courses ranging from personal development to major incident management.

Diversity and inclusion
We believe in equal opportunities regardless of gender, sexual orientation, age, marital status, race, religion or other beliefs and ethnic or national origin. Our policies, practices and regulations for recruitment, training and career development promote equality of opportunity while being appropriate for the relevant market sector and country of operation. Our aim is to encourage a culture in which all employees have the opportunity to develop fully according to their individual abilities and the needs of the Group. The Group remains committed to the fair treatment of people with disabilities regarding applications, training, promotion and career development. An employee who becomes disabled would, where appropriate, be offered appropriate training.

An important part of our international transformation is to become more diverse and inclusive, both in our internal talent pool and our range of potential recruits. In this respect, we are reviewing our policy and the changes required to our current practices. We are also working to further embed our new performance management systems and processes across the Group.

Marketplace
The Group's relationship with its customers, suppliers and the communities it operates in is founded on an established reputation for integrity and fairness.

The development and continuation of long term business relationships are important to the ongoing success of the Company and provide further evidence of the reputation it has in international markets.

Our policy on the management of human rights, working conditions and the environment in relation to the supply chain, is intended to underpin the Group's values.

The Group sources components, materials and services for its manufacturing processes from a number of countries. Whilst there are local and national differences in standards, in relation to many aspects of the manufacturing and wider business environment, there are a number of minimum standards that must be achieved by all.

It is the policy of the Group that it will only trade with suppliers who meet or exceed these minimum standards or demonstrate progression towards these standards over an agreed and suitable timescale.

Where practicable, each operation of the Group is required to ensure that suppliers comply with the following requirements:

- compliance with appropriate legislation;
- compliance with the Group's Code of Business Conduct;
- provision of a safe and competent workforce employed in accordance with industry best practice;
- acknowledgement of our Anti-Bribery and Corruption policy;
- timely submission of tenders and delivery to the agreed specification, on time and at the agreed price;
- co-operation with the Group and the rest of its supply chain.

In November 2011 we appointed a Group Risk & Compliance Counsel to focus on the development and integration of our Code of Business Conduct as well as refine our Anti-Bribery policy and associated documentation. The revisions to the latter are now complete and we have launched to all our operations, including on line training. The new Group Code is being prepared for launch in the second quarter of 2012. The Code will be applicable to all our operations and detail the standards expected in the conduct of the Group's business and its relationships with third parties.

Community
The Group's support for the communities it operates in is driven at a local rather than corporate level. Where appropriate we support and enhance the employees' efforts in areas of education, enterprise, health, welfare and the environment.

Throughout the Group our businesses continued their engagement with local communities with involvement in a variety of different projects and initiatives. Such projects range from support and sponsorship given to local schools, charitable donations through voluntary fund raising and interaction with trade associations and universities. Our businesses are actively encouraged to contribute to their local communities.

Board of Directors

Pictured from left to right:
C J Snowdon
M Pegler
D W Muir
W H Whiteley
J F Lennox

Committees

Audit Committee

Messrs Lennox (Chairman), Snowdon and Whiteley

Remuneration Committee

Messrs Snowdon (Chairman), Lennox and Whiteley

Nominations Committee

Messrs Whiteley (Chairman), Lennox, Muir and Snowdon

Company Secretary

J C Humphreys FCIS

Directors' Biographies

W H Whiteley BSc, FCMA
Chairman and non-executive

Bill, aged 63, joined the Board on 1 January 2010. He has spent the majority of his career at international engineering group Rotork plc, where he was Chief Executive from 1996 to 2008. In July 2009, he became Chairman of Spirax Sarco Engineering plc, the FTSE 250 engineering group. He is also a non-executive Director of Brammer plc and Renishaw plc.

D W Muir BSc, C Eng, MICE
Group Chief Executive

Derek, aged 51, joined the Board on 21 August 2006. He has been a senior manager within the Hill & Smith Group for over 20 years and was appointed Managing Director of Hill & Smith Limited, one of the Group's principal subsidiaries in 1998. In 2001 he was the Group Managing Director of the core Infrastructure Products segment.

M Pegler BCom, FCA
Group Finance Director

Mark, aged 43, joined the Company as Finance Director designate on 7 January 2008 and was appointed to the Board on 11 March 2008. Mark has extensive experience on an international level having been Group Finance Director of Whittan Group Limited, a private equity backed business, between 2002 and 2007. After qualifying with Price Waterhouse, he spent several years in various corporate and operational roles in international manufacturing businesses.

J F Lennox CA
Non-executive

Jock, aged 55, joined the Board in May 2009. He is a non-executive Director of A&J Mucklow Group plc, Dixons Retail plc, EnQuest PLC and Oxford Instruments plc. He is a member of the Council of the Institute of Chartered Accountants of Scotland. Jock was formerly a Partner of Ernst & Young where he began his career in 1977, becoming a Partner in 1988. Jock is Chairman of the Audit Committee.

C J Snowdon BA, FCA
Non-executive

Clive, aged 58, joined the Board in May 2007. He is executive Chairman of Shimtech Industries Group Limited and Chairman of the Midlands Aerospace Alliance. He retired from Umeco plc in June 2011 having been Chief Executive since April 1997. Clive is the Senior Independent Director and Chairman of the Remuneration Committee.

Introduction - Governance

Bill Whiteley
Chairman

"The improvements we have made to our processes this year, including our Board and committee evaluation, will contribute to the quality of our strategic leadership and decision making in the future."

Dear Shareholder,

The UK Corporate Governance Code encourages the Chairman of the Board to report on how the principles relating to the role and effectiveness of the Code have been applied.

My colleagues and I on the Hill & Smith Holdings PLC Board firmly believe that effective governance underpins the Company's ability to operate successfully. However, we do not see corporate governance as an end in itself but rather a means towards achieving the wider strategic goals. Our focus therefore is on providing a simple but effective framework of business principles, structures and controls, all of which drive standards and performance across the Group and accountability to the Company's shareholders for the conduct of the Company's affairs.

The Board's commitment to a high standard of corporate governance is designed to underpin integrity within the Group and preserve investor confidence in the decisions taken by the Board. As the Group grows, particularly with its widening international dimension, we are keen to ensure that the Board structures and processes continue to achieve simple but effective governance. The improvements we have made to our processes this year, including our Board and committee evaluation, will contribute to the quality of our strategic leadership and decision making in the future.

Whilst we are able to say that we comply fully with the provisions of the Code, we are sensitive to some shareholders' concerns regarding the size of our Board and, as a consequence, the composition of our Board committees. At this stage, we believe that the organisational structure and business activities of our Group companies does not warrant an expansion in the size of the Board, which has an appropriate mix of experience and knowledge. We will however, continue to keep the position under review.

The Board had discussed the various changes which have been recommended by the Code, in particular the recommendations relating to the annual re-election of all Directors and the externally facilitated evaluation of the Board every three years. As the Company has not been a constituent member of the FTSE 350 it does not need to comply with these two new recommendations; however, the Board will always seek to comply with the Code where it determines that to do so would be beneficial to the Company and its stakeholders. In relation to the annual re-election of all Directors, the Board concluded that in the interests of applying its principles of effective governance and integrity it should, with effect from the 2012 AGM, adopt annual re-election of its Directors. In respect of the recommendation for an externally facilitated evaluation of the Board every three years, the Board has decided that an external evaluation will not be carried out this year but this decision will be reviewed annually.

The Board are pleased with the progress the Company made in 2011 and continue to improve our governance and practices, as appropriate, for the benefit of shareholders.

Yours sincerely

Bill Whiteley
Chairman

15 March 2012

Governance Report

Statement of compliance

This report explains how the Company complied with the provisions of the UK Corporate Governance Code (the Code) issued by the Financial Reporting Council, which has been applicable to the Company since 1 January 2011.

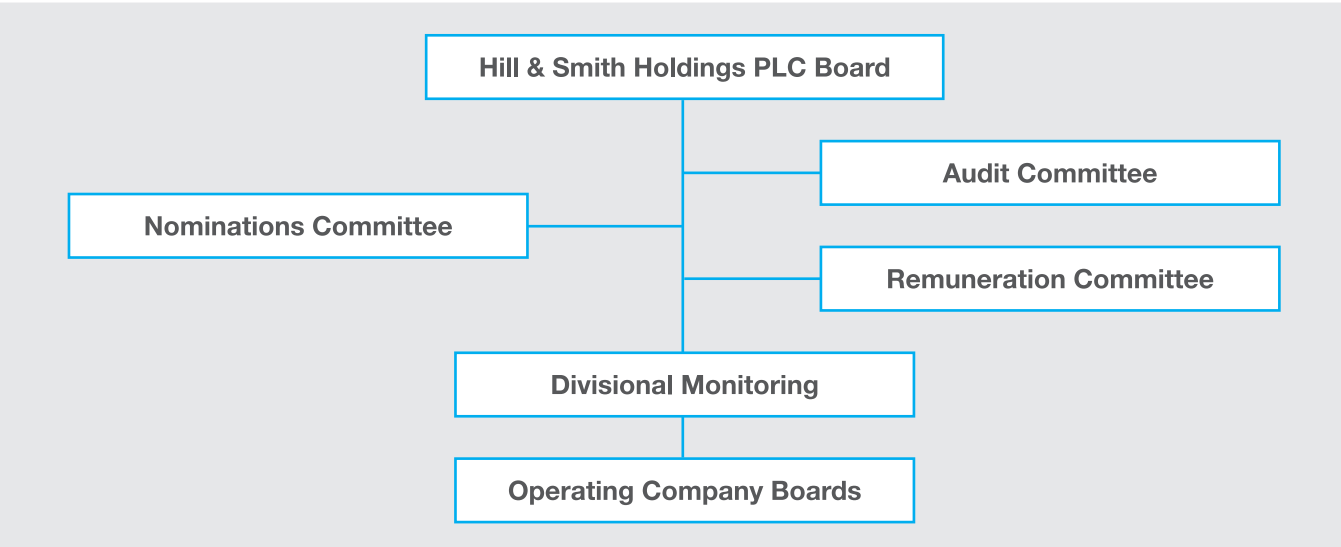
In the opinion of the Directors, the Company has throughout 2011 complied with Section 1 of the Code. This corporate governance report together with the Directors' remuneration report provides the information shareholders need to evaluate how the Company has applied the principles of corporate governance.

Governance framework

The Hill & Smith Holdings PLC Group consists of the Company and 26 principal incorporated subsidiary companies operating in six different countries. The Group's businesses are directly supervised by local operating Boards and monitored at divisional level. The two executive Directors of the Board review divisional performance and regularly liaise with selected senior executives and subsidiary company Directors. The Group has a structure of monthly subsidiary Board meetings, (which are attended by the two executive Directors) and regular liaison across divisions to ensure, where appropriate, consistent application of governance, operational procedures and Group practices. The two executive Directors are accountable to the Board for the divisional and subsidiary company governance and controls.

Each of the three committees of the Board comprise the non-executive Directors and each committee reports to the Board.

Governance Structure



The Board of Directors

During the period under review the Board comprised five Directors, three non-executive Directors (Bill Whiteley, Chairman, Clive Snowdon, senior independent Director, and Jock Lennox) and two executive Directors (Derek Muir, Chief Executive and Mark Pegler, Finance Director).

The five Directors bring a wide range of complementary skills and experience to the Board.

Director	Summary of Relevant Previous Experience
Bill Whiteley BSc, FCMA* Appointed 1 January 2010	CEO of Rotork plc, an international engineering group from 1996 to 2008. Currently Chairman of Spirax Sarco Engineering plc and a non-executive Director of Brammer plc and Renishaw plc.
Derek Muir BSc, C Eng, MICE Appointed 21 August 2006	A senior manager within the Hill & Smith Group for over 20 years. From 2001 he was the Group Managing Director of the Infrastructure Products Division.
Mark Pegler BCom, FCA Appointed 11 March 2008	After qualifying with Price Waterhouse, he spent several years in international manufacturing businesses and was Group Finance Director of Whittan Group Limited, from 2002 to 2007.
Clive Snowdon BA, FCA* Appointed 11 May 2007	From 1997 to 2011 he held the position of Chief Executive of Umeco plc. In 2011 he was appointed executive Chairman of Shimtech Industries.
Jock Lennox CA* Appointed 12 May 2009	Formerly a Partner of Ernst & Young from 1988 to 2009. He is also a non-executive Director of A&J Mucklow Group plc, EnQuest PLC, Oxford Instruments plc and Dixons Retail plc.

* non-executive Director

Biographical details of all the Directors are set out on page 25.

None of the non-executive Directors has any relationship or circumstance which could affect their judgement and the Board considers all of the non-executive Directors to be independent in character and judgement.

Governance continued

Responsibilities of the Board

The Board is collectively responsible for the success of the Company. Its role is to provide entrepreneurial leadership of the Company within a framework of prudent and effective controls which enable risk to be assessed and managed. The Board sets the Company's strategic aims, ensures that the necessary financial and human resources are in place to meet its objectives, and reviews management performance. It also sets the Company's values and standards and ensures that its obligations to its shareholders and others are understood and met. Specific responsibilities reserved to the Board include:

- setting Group strategy and approval of an annual budget and medium term projections;
- reviewing operational and financial performance;
- approving major acquisitions, divestments and capital expenditure;
- reviewing the Group's systems of risk management and internal control;
- ensuring effective governance;
- reviewing matters relating to corporate social responsibility, including those related to the environment and health and safety;
- ensuring that appropriate management development and succession plans are in place;
- approving appointments to the Board and to the position of Company Secretary, and approving policies relating to Director's remuneration and the severance of Director's contracts; and
- ensuring that a satisfactory dialogue takes place with shareholders.

The Director's responsibility for the preparation of financial statements is explained on page 47. Confirmation that the Directors consider it appropriate to prepare the accounts for 2011 on a going concern basis is given on page 15.

Board balance and independence

Taking into account the provisions of the Code, the Board has determined that during the year under review each of the non-executive Directors remained independent and free from any relationships which could compromise their independent judgement.

Chairman

There is a clear division of responsibilities between the Chairman and the Chief Executive which is set out in writing. The Chairman is responsible for the leadership and effective working of the Board. The small size of the Board ensures all Directors contribute fully to the discussions and decisions of the Board. The Chairman drives the Board agenda and determines how the Board should use the time available to it during Board meetings.

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. The executive Directors provide information to the Board via their regular written reports and the presentation of proposals for Board approval. From time to time, other members of the management team attend Board meetings to present annual budgets, updates and proposals relating to their areas of responsibility.

Support

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

Procedures are in place for Directors to take independent professional advice, when necessary, at the Company's expense.

Committees of the Board

The Board has three committees – audit, nominations and remuneration. The responsibilities and activities of each of these committees are described below. Each of the non-executive Directors is a member of each of these committees. Hill & Smith Holdings PLC is not in the FTSE 350 and therefore is permitted to have two independent non-executive Directors and a Chairman, who was independent on appointment, as a member of both its audit and remuneration committees.

Directors	Position	Independent	Committee membership		
			Audit	Nominations	Remuneration
Bill Whiteley	Chairman	Yes	Yes	Yes	Yes
Derek Muir	Chief Executive	No	No	Yes*	No
Mark Pegler	Finance Director	No	No	No	No
Clive Snowdon	non-executive Director	Yes	Yes	Yes	Yes
Jock Lennox	non-executive Director	Yes	Yes	Yes	Yes

* *The Chief Executive, Derek Muir, is a member of the nominations committee.*

Meetings of the Board and its committees

The Board has an annual timetable, which anticipates that it will normally meet between eight and ten times per year. During the period under review the Board met on nine occasions, two meetings being dedicated to strategy reviews. Two of the scheduled meetings were held at the Group's operations in France and the United States.

Details of attendances at the meetings of the Board and its committees are set out below:

		Committees		
Directors	Board	Audit	Remuneration	Nominations
Bill Whiteley	9/9	4/4	3/3	1/1
Derek Muir	9/9	*	**	–
Mark Pegler	9/9	*	–	–
Clive Snowdon	8/9	4/4	2/3	1/1
Jock Lennox	9/9	4/4	3/3	1/1

** Both were in attendance for all or part of each audit committee meeting*
*** Attended part of each remuneration committee meeting*

In addition, several meetings of sub-committees of the Board were held to deal with delegated or administrative matters arising from decisions already made, in principle, by the Board, e.g. completion requirements in respect of corporate transactions, corporate reorganisation and Sharesave option exercises.

The business considered by the Board is governed by the schedule of matters reserved for the Board, the core of which includes strategic developments, major investments, financial performance, shareholder relations and monitoring, health and safety, governance, risk management and internal control issues.

At each meeting, the Board receives reports from the Chief Executive, Finance Director and the Company Secretary.

Board development

The Board believes that the benefit of its collective experience is a valuable asset but accepts that Directors need to keep their professional knowledge up to date. The Board has therefore agreed guidelines for each Director to determine their own training needs.

Board performance evaluation

In early 2011, the Board undertook a performance evaluation exercise. Each Director completed a comprehensive questionnaire covering issues such as Board composition, role and remit, strategy, leadership and operational reporting. The questionnaires were collated by the Company Secretary and the Chairman facilitated a discussion of the issues arising from the responses to the questionnaire. The key conclusions reached as a result of this exercise were:

- The present size and composition of the Board was appropriate;
- More time was required on the Board agenda to focus on strategy;
- The information presented to the Board would be restructured to enable the Board to focus on certain key issues; and
- As the Group grows there was a need for more operational site visits by the Board and presentations to the Board by executive management;

Each of the Board Committees has also undertaken its own evaluation process and considered whether its terms of reference require any further changes. No significant changes came out of the committee evaluation questionnaires or the terms of reference reviews.

The Chairman meets with the non-executive Directors at least once a year without the executive Directors present and the Chairman discusses any issues arising from those meetings directly with the Chief Executive.

Re-election of Directors

The Company's Articles require that not more than one-third of the Directors be re-elected at each Annual General Meeting of the Company, the Directors so doing being those who have been longest in office since their last appointment or re-election. Every Director must in any event be re-elected at least every three years. The Board however, has noted that the Code recommends that all Directors of FTSE 350 companies should be subject to annual re-election. Whilst the Company has not, during the period under review, ever been a constituent of the FTSE 350, the Board has nevertheless decided to apply the recommendation of the Code. Accordingly, the Board will implement annual re-election of all Directors with effect from the Annual General Meeting to be held on 16 May 2012.

Conflicts

No Director had any interest in any material contract or arrangement in relation to the business of the Company and any of its subsidiaries during the year.

The Board continues to operate the procedures adopted following the introduction of the statutory directors' duty to avoid conflicts of interest and these procedures have operated effectively during the year. The Board has procedures for the disclosure and review of any conflicts, or potential conflicts, of interest which the Directors may have and for the authorisation, where considered appropriate, of such conflict matters by the Board. Any potential conflicts of interest in relation to newly appointed Directors are considered by the Board prior to appointment.

Governance continued

Reports and responsibilities of the Board committees

The Board delegates some of its activities to the following committees, each of which have written terms of reference and which report back to the Board. The Company Secretary acts as secretary to each of these committees. The terms of reference for the audit and remuneration committees were reviewed during the year.

Audit Committee

The audit committee ensures the integrity of financial reporting and audit processes and the maintenance of a sound internal control and risk management system. The committee meets at least three times a year and consists of all the non-executive Directors, under the Chairmanship of Jock Lennox. A report by the committee on its role, responsibilities and activities is given on pages 33 and 34.

Remuneration Committee

Under its terms of reference, the remuneration committee is responsible for:

- ensuring that the Company's executive Directors and certain other agreed senior executives are fairly and properly rewarded for their individual contributions to the Company's overall performance;
- demonstrating to shareholders and other interested parties that the remuneration (including all benefits and terms of employment) of the executive Directors of the Company are set by a committee of Board members who have no personal interest in the outcome of their decisions and who will give due regard to the interests of the shareholders and to the financial and commercial health of the Company;
- assessing how the Company should comply with established best practice in Directors' remuneration.

The committee meets at least two times per year and consists of all the non-executive Directors under the Chairmanship of Clive Snowdon. The Chief Executive may attend meetings of the remuneration committee, by invitation, as necessary.

Full details of the role, responsibilities and activities of the remuneration committee are set out in the Directors' remuneration report on pages 36 to 44.

Nominations Committee

The nominations committee comprises all the non-executive Directors, Bill Whiteley, Jock Lennox and Clive Snowdon and the Chief Executive, Derek Muir. The Chairman of the committee is Bill Whiteley, who was deemed to be independent upon appointment to the Board.

The nominations committee was in place throughout the financial year.

The responsibilities of the nominations committee are to:

- ensure that the size and composition of the Board is appropriate for the needs of the Group;
- select the most suitable candidate or candidates for appointment to the Board;
- oversee succession planning for the Board; and
- evaluate the effectiveness of the non-executive Directors.

The nominations committee agrees a formal process, including whether external assistance would be appropriate, when it deems it necessary to make new appointments. The terms of reference of the nominations committee, make it clear that the appointment of the Chairman of the Board is a matter for the Board as a whole.

The committee meets as necessary and met once during the year to consider succession planning and the composition of the Board. In relation to these matters, the committee will, in 2012, be reviewing the issue of diversity at Board level, including gender, in order to address the requirements of the Code for financial years commencing on or after 1 October 2012. Such review will take into account the existing Company policy on equal opportunities, discrimination and diversity and have as its purpose the formulation of a clear policy and objectives for diversity.

Risk management

The Board has responsibility for determining the nature and extent of the principal risks it is willing to take in order to achieve its strategic objectives. There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group. This process has been in place for the period under review and up to the date of the approval of this annual report and financial statements.

The process includes:

- At Board level - strategy reviews and business planning meetings, including risk assessment and risk appetite. These reviews are supported by quarterly or monthly reporting and monitoring;
- At subsidiary level - each business is required to formally and regularly review its principal areas of risk as part of the annual budgeting process and as necessary, as part of its monthly management reporting. From this review and budgeting process a Group risk register is compiled at both the Group and subsidiary level. Included in this register is an analysis of probability, impact, mitigation and levels of assurance, all of which are subsequently used for evaluation and ranking;
- Reviews of the financial structure and controls, including treasury and tax reviews undertaken by external specialists, are reported at Board level as part of the matters scheduled for the Group Board agenda;
- Detailed due diligence and Board oversight of acquisitions, pre and post completion;
- Regular scheduled Board and committee reporting and monitoring of: compliance with regulatory requirements such as health and safety, environmental risks, business conduct, pensions and insurance arrangements;
- Ensuring, as part of the internal auditing and ongoing risk management, that there are clear and consistent procedures for assurance reporting, monitoring and implementing appropriate controls to manage the identified risks; and
- Where appropriate, inviting the external auditor into the process in a support role.

Internal controls

During the period under review the Board has reviewed the internal control system in place throughout the year and up to the date of the approval of this report. This review, along with internal consultation led by the Board, ensures that the system of internal control remains effective. Where weaknesses are identified as a result of the reviews, new procedures are put in place to strengthen controls and these are also reviewed at regular intervals.

The key elements of the framework that the Board has established, to provide a process for reviewing the effectiveness of the internal controls for the Group, are:

Internal controls framework

Element	Key Activity
Governance	❯ Regular Board meetings which consider the schedule of matters reserved for the Directors' consideration and any regulatory or practice developments. ❯ The audit committee considers significant financial control and risk matters, as appropriate. ❯ Operating companies and divisional executives review risk and control issues at the time of budget preparation and thereafter at monthly subsidiary Board meetings.
Policies and procedures	❯ Group guidance and policy documentation for the preparation and reporting of financial and management information. ❯ Comprehensive policies are approved by the Board and made available on the Company website.
Controls	❯ Local operating Boards and divisional executives have appropriate delegated levels of authority. ❯ Rigorous annual budgeting processes and presentations provide a point of reference for reviewing financial performance during the year. Selected individual budget presentations are made to the Board. ❯ All budgets are subject to Group Board approval. ❯ Controls for acquisitions, disposals and capital expenditure include comprehensive due diligence, annual budgets, appraisal and post completion integration and review procedures.
Reporting and review	❯ Consolidated reports and independent commentaries are prepared and submitted to the Board for review at formal scheduled Board meetings. ❯ Financial performance of operating companies and divisions are reviewed at Board level through analysis of regular financial and management reports and monthly operating Company meetings. ❯ The review and comparison of detailed monthly management reports, received from each business unit, against budgets and forecasts at local operating Company and Group Board level. ❯ The Chief Executive and Finance Director report to the board and audit committee on all aspects on internal control ❯ The Board receives the papers and minutes of the board and audit committee meetings and uses these as a basis for its annual review of internal control.
Assurance	❯ Internal audit work is programmed to take account of the risk assessment results and subsequent processes. ❯ Use of peer and third party reviews for internal audit function. ❯ External professional advisers are used to carry out due diligence for potential acquisitions and from time to time, review internal policies and procedures (e.g. treasury review undertaken in 2011). ❯ Engagement of a dedicated Group Risk & Compliance Counsel. ❯ Use of a single third party tax advisor across the whole of the Group.

Governance continued

Shareholder communications and relations

There is regular dialogue with institutional investors and analysts to discuss the progress of the business and deal with a wide range of enquiries. This includes meetings and presentations after the announcement of the results for the year and the half year, with feedback from the Company's brokers as necessary. Directors regularly receive copies of analyst reports and reports on movement in major shareholdings as well as key broker comments.

The Chairman and senior independent Director are available to meet with shareholders concerning corporate governance issues, if so required. Copies of all major press releases and interim and annual reports are posted on the Company's website together with additional detail on major contracts and projects, key financial information, governance and organisational structure.

The Board wishes to encourage the constructive use of the Company's Annual General Meeting for shareholder communication. Each of the Chairmen of the audit, nominations and remuneration committees will be in attendance at the forthcoming Annual General Meeting, which will be convened on at least 20 working days' notice.

As with previous practice, the level of proxies cast for each resolution will be communicated following approval of each resolution at the Annual General Meeting.

W H Whiteley
Chairman

Corporate Governance Information available online

Information	Address
Terms of reference for the Hill & Smith Board committees and copies of the principal policies of the Company	www.hsholdings.com – Click on Investor Relations/Responsibilities/Committees and/or – Click on CSR Policies

Audit Commitee Report

Jock Lennox
Chairman audit committee

"The audit committee were satisfied that the financial statements presented a true and fair view of the Group's financial performance."

Audit committee (the "committee")

Membership

The members of the committee during the year were:

J F Lennox (Chairman)
C J Snowdon
W H Whiteley

Governance

The audit committee is appointed by the Board from the non-executive Directors of the Company. The committee was in place throughout the year under review and for the whole of that period I was the Chairman. Both Clive Snowdon and I are independent non-executive Directors. In view of the size of the Company and the fact that it is not in the FTSE 350, Bill Whiteley, who was independent upon appointment, continues to be a member of the committee. The position is kept under review by the Board. The committee meets at least three times per year.

The Chief Executive, Finance Director and senior members of the finance function, along with representatives from the auditors, attend committee meetings by invitation in order to provide appropriate advice. The committee routinely meet the auditors without the involvement of the executive Directors.

I have been designated as the member of the audit committee with recent and relevant financial experience, being a chartered accountant and former partner of Ernst & Young. I also chair the audit committees of Oxford Instruments plc, EnQuest PLC and A&J Mucklow Group plc and am a member of the audit committee for Dixons Retail plc.

Role and responsibilities

The main responsibilities of the committee are to:

- monitor the integrity of the financial statements of the Company to ensure they present a balanced assessment of the Company's position and prospects which is understandable to shareholders and potential investors;
- monitor and review the effectiveness of the risk management systems and levels of assurance;
- oversee the effectiveness of the Group's internal audit activity;
- review the effectiveness of the Company's internal controls and accounting policies;
- oversee the relationship with the auditor; and
- monitor and review the Group's policies, practices and reporting relating to business conduct and ethics, including whistleblowing.

Activities

The committee met four times during the year, timed to coincide with the financial reporting timetable of the Company.

The committee reviews the financial reporting of the Company, the effectiveness of the Group's risk management system and the systems for internal control. Combined with the review of the effectiveness of the internal and external audit functions, the committee is therefore able to obtain sufficient information to discharge its responsibilities.

The committee's main activities in the period under review, were:

Financial reporting

The prime financial reports reviewed were the 2011 annual report and financial statements, the 2011 half yearly report and the interim management statements issued in May 2011 and November 2011. The audit committee were satisfied that the financial statements presented a true and fair view of the Group's financial performance.

In conjunction with the above, the going concern basis for preparation for the financial statements was also reviewed.

Risk management

The committee regularly reviews the effectiveness of the Group's internal controls, risk management and related disclosures made in the annual report and financial statements.

A review of the risk assessment process was undertaken by the committee in May 2011 and as a result a risk management framework and revised principal risks and uncertainties, including mitigation actions, were agreed by the Company. These are more fully described in the section on principal risks and uncertainties on pages 18 to 19.

External audit

The committee approves the scope and terms of engagement for each audit and subsequently the performance of the auditor following the completion of each audit.

The audit committee has an agreed procedure setting out the basis upon which the committee will consider and make recommendations as appropriate concerning the appointment, re-appointment or removal of the external auditor. During the year, the committee has carried out an evaluation of the Company's external auditor KPMG Audit Plc, and reviewed their effectiveness. The review concluded that the external auditors were performing their functions effectively and the committee recommended to the Board that a resolution for their reappointment be proposed at the next AGM.

The audit committee also considered the external auditor's management letter.

Audit Commitee Report continued

Auditor independence

The auditor annually confirms their policies on ensuring audit independence and provides the committee with a report on their own audit and quality procedures. This report was reviewed during the period under review and the committee remains satisfied of the auditor's independence.

During the year the committee appointed a new senior statutory auditor, Mike Steventon who succeeded Graham Neale. This appointment was carried out in line with the ethical standards of the Audit Practices Board which recommend that the appointment is rotated every five years. The committee is pleased to report that the handover to the new senior statutory auditor went smoothly and the transition was properly and effectively managed.

As part of the standard committee agenda, a review of the Group's policy on the use of the external auditor to carry out non-audit services was undertaken. This policy is consistent with the ethical standards recommended by the Accounting Practices Board. Included within the policy are activities which the external auditor cannot undertake, such as: those for compiling accounting records, certains aspects of internal audit, IT consultancy and advice to the remuneration committee. For any non-audit services which are not excluded under the policy, the policy provides for approval by the Finance Director of any expenditure below the level of £50,000 and above that figure approval of the audit committee Chairman. A report is also submitted to the audit committee of any non-audit services carried out by the external auditor, irrespective of value.

Where the committee believes it is more cost effective for the external auditor to be used, for non-audit services, that are not excluded, such as those relating to merger and acquisition due diligence work, it will consider the engagement of the external auditor, subject to application of the principles of the policy, including the financial limits. The committee also ensures strict monitoring of non-audit work and as part of that monitoring process in 2011, combined with a cost review, initiated by the Company, the Company changed its pension administration and actuarial services from KPMG Pensions to Deloitte LLP and the Legal & General plc with effect from April 2011.

Internal controls

The Board has overall responsibility for ensuring that the Group maintains a system of internal control that will provide it with a level of assurance that is adequate and effective. This includes control over financial, operational and compliance matters and the management of risk, with the objective of ensuring that the assets are safeguarded and the shareholders' investment protected.

The responsibility for reviewing the effectiveness of the system of internal control has been delegated to the audit committee.

Internal audit

The audit committee has set down the criteria by which it will assess the effectiveness of the internal audit function on an annual basis. During the year the performance of the internal audit function was reviewed as part of a report commissioned by the audit committee on risk assurance. As a result of this review, the structure of the internal audit function was changed with the adoption of peer and third party reviews and the appointment of a Group Risk & Compliance Counsel whose initial programme of work has been reviewed by the committee. The new approach to internal audit will deliver a flexible and more focused solution to the levels of risk assurance that the Group's structure now requires.

Whistleblowing

The committee has also approved arrangements by which staff may raise concerns about possible improprieties in matters of financial reporting. The Group has a written policy which states that if any employee in the Group has reasonable grounds to believe that the Group's Codes of Business Conduct are being breached by any person or group of people, he or she is able to contact the Group Risk & Compliance Counsel with full details, or if necessary the Chairman of the audit committee. The Group Risk & Compliance Counsel is responsible for ensuring that such incidents are evaluated and responded to appropriately. No significant matters were raised in the report made to the audit committee on whistleblowing during the period under review.

Effectiveness review

The committee considered it had the skills to perform its responsibilities and during the year reviewed its effectiveness and terms of reference, through processes led by myself as the committee Chairman. The terms of reference for the committee were amended to cater for the new internal audit arrangements noted above.

The committee considered that its terms of reference remained appropriate, that it had acted transparently and given the number of committee and Board meetings scheduled throughout the financial year, maintained a thorough understanding of the Group and its business.

Jock Lennox
Chairman, audit committee

15 March 2012

Acquisitions: The Bergen Pipes Supprts manufacturing site at Donora Pennsylvania, USA. The site has circa 170,000 sq ft of production space and is located close to major transport links.

Introduction - Directors' Remuneration Report

Clive Snowdon
Chairman remuneration committee

"We aim to ensure that the Company continues to attract, motivate and retain high calibre management in order to deliver the best possible performance for shareholders."

As the Chairman of the remuneration committee, I am pleased to present opposite the 2011 Director's remuneration report of Hill & Smith Holdings PLC.

We aim to ensure that the Company continues to attract, motivate and retain high calibre management in order to deliver the best possible performance for shareholders. A policy of relating pay to the performance of the Group therefore continues to be a strong principle underlying the committee's consideration of executive remuneration.

The committee's approach to setting remuneration packages for the Company's executives is designed to reward management fairly if it is successful in continuing the track record of performance and long-term growth, enjoyed by shareholders in recent years.

The key elements of the executive Directors' remuneration arrangements are:

- Base salary and total remuneration to reflect the experience and performance of individual incumbents;
- A maximum annual bonus of 100% of salary, only payable on achievement of stretching profit and earnings per share targets;
- Annual awards under the Company's performance share plan of up to 100% of salary, with vesting after three years. This long-term incentive links individual reward to the continuing growth of the Company;
- Bonus and share plan awards that are subject to appropriate clawback arrangements; and
- Benefits that are competitive in the market place.

The main actions taken by the committee during the period under review were:

- Increase in executive salaries of circa 3%;
- Application of the refined bonus and share incentive targets, agreed with major shareholders;
- Granting of further LTIP awards of 100% of salary with vesting, subject to achievement of the refined performance criteria; and
- Cessation of future defined benefit pension accrual for the Chief Executive, Derek Muir, as from 31 October 2011. The Company has also implemented this throughout the Group as from January 2012 with the result that there are no longer active members in its defined benefit executive pension scheme.

We consider that executive compensation is at a competitive level to the external market and that the balance between fixed and variable elements remains appropriate. We will, however, keep remuneration packages under review to ensure that this continues to be the case.

I hope that you will support the advisory vote on the 2011 Director's remuneration report which will be put to the Annual General Meeting on 16 May 2012.

Yours sincerely

Clive Snowdon
Chairman, remuneration committee

15 March 2012

Directors' Remuneration Report

The Directors' remuneration report is divided into two parts. Part 1 contains commentary on the Company's remuneration policy, which is not required to be audited. Part 2 contains information that has been audited in accordance with the relevant statutory requirements.

As required, a resolution to approve the report will be proposed at the Annual General Meeting on 16 May 2012.

PART 1 – UNAUDITED INFORMATION

Remuneration committee (the "committee")

Membership

The members of the committee during the year were:

C J Snowdon (Chairman)
J F Lennox
W H Whiteley

Governance

All members of the committee are non-executive Directors of the Company, are regarded as independent and do not participate in any form of performance related pay or pension arrangements. In view of the size of the Company the Board remains satisfied that W H Whiteley's appointment to the remuneration committee is necessary but will continue to keep this under review.

Meetings

The committee meets at least twice each year and met three times in the period under review. The Company Secretary acts as secretary to the committee. The Chief Executive also attended meetings of the committee by invitation. None of the committee has any personal financial interest (other than as shareholders), conflicts of interests arising from cross-directorships or day-to-day involvement in running the business. No Director plays a part in any discussion about his own remuneration.

During the year attendance by committee members at meetings was as follows:

Name	Attendance
C J Snowdon	2/3*
J F Lennox	3/3
W H Whiteley	3/3

* Clive Snowdon was absent from the meeting held on 1 February 2011 for personal reasons and submitted a written report prior to the meeting.

Responsibilities

As set out on page 30 of the corporate governance report, the committee determines, on behalf of the Board, the Company's policy on remuneration and the remuneration and terms of engagement of the executive Directors and certain other agreed senior executives. The committee operates under clear written terms of reference (available on the Company's website: www.hsholdings.com). These terms of reference were reviewed during the year.

The responsibilities of the committee include:

- Reviewing and recommending the remuneration policy for executive Directors and certain other agreed senior executives, for the Board to approve;
- Within this policy, agreeing the individual remuneration packages;
- Approving the design of, and determining targets for, any performance related pay schemes operated by the Company for the executive Directors and certain other agreed senior executives and approving the total payments made under such schemes;
- Reviewing and recommending the design of, and any changes to, all share incentive plans for approval by the Board and shareholders;
- Reviewing the terms and conditions to be included in the service agreements for executive Directors and certain other agreed senior executives; and
- Approving the terms of any compensation package in the event of early termination of contracts of executive Directors or certain other agreed senior executives, ensuring that they are fair to the individual and to the Company. In so doing the committee ensure that failure is not rewarded and the duty to mitigate loss is fully recognised.

Activities during the year

During the year the committee:

- Reviewed the remuneration policy and determined the appropriate individual remuneration packages of each executive Director and other agreed senior executives;
- Determined final annual bonus payments for each executive Director and other agreed senior executives for the 2010 financial year;
- Considered and approved awards to each executive Director and one senior executive, under the Company's 2007 Long Term Incentive Plan (including a review of the performance conditions and targets to ensure that they were appropriately challenging);
- Considered and approved the vesting of awards made in 2008 under the Company's 2007 Long Term Incentive Plan, for the Chief Executive, Finance Director and one senior executive;
- Approved the Directors' remuneration report for inclusion in the 2010 annual report; and
- Reviewed the level of incentive and performance criteria for the 2012 bonus arrangements for the executive Directors and other senior executives

Advisers

The committee did not require or use the services of external advisers during 2011 having already taken external advice in 2010 in relation to performance related pay and awards made under the Company's Long Term Incentive Plan. The committee considered that, in the context of the work that had already been undertaken, no further advice was required on such matters or any continued work on benchmarking of salaries.

Directors' Remuneration Report continued

Overall remuneration policy and purpose

The remuneration policy is designed to be in line with the Company's fundamental principles of fairness, being competitive and having the right calibre of employee to deliver the Company's corporate strategy.

Accordingly, the Company sets out to provide fair and competitive remuneration to all its employees and appropriate to the business environment in the markets in which it operates. To achieve this, the remuneration packages are based on the following principles:

- Total rewards should be set to be fair and attractive; and
- Appropriate elements of the remuneration package should be designed to reinforce the link between performance and reward.

The Company also seeks to align the interests of shareholders and employees at all levels by giving employees opportunities and encouragement to build up a shareholding in the Company through various share option and incentive schemes.

Summary of executive Directors' remuneration arrangements

The Company operates in increasingly competitive markets and for it to continue to compete successfully, it is essential that the level of remuneration and benefits offered for leadership roles achieves the objectives of attraction, retention, motivation, performance and reward.

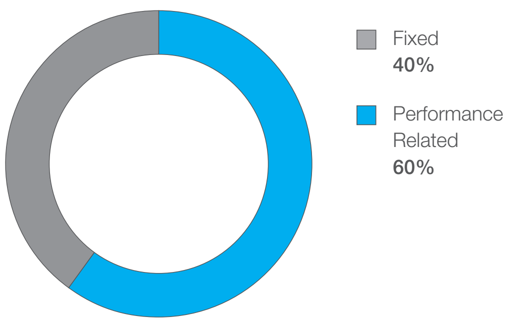
Component	Purpose	Application	Delivery/Criteria
Base salary	Market competitive Reflect skills and experience	Payable monthly and used for pension contributions	External benchmarking review of appropriate salary levels and review of performance, experience and related factors.
Performance related bonus	Incentivise the attainment of corporate targets	Paid annually non-pensionable	Based on a combination of Underlying Profit Before Tax performance and UEPS* growth over one financial year. Maximum bonus opportunity for both Chief Executive and Finance Director is 100% of base salary.
2007 Long Term Incentive Plan (LTIP)	Incentivise growth in earnings per share over a three year period	Discretionary annual grant of conditional share awards Maximum award is 100% of salary non-pensionable	Performance measured over three financial years. Vesting of award is as follows: – 50% based upon achievement of absolute growth in UEPS targets. – 50% based upon TSR growth relative to the FTSE SmallCap.
Pension	Provision of competitive post-retirement benefits	Chief Executive Finance Director Pension contribution/ payment in lieu	A contribution of 25% of base salary as a cash supplement in lieu. A contribution of 25% of base salary to a private pension arrangement.

* UEPS (Underlying Earnings Per Share)

Balance of executive Directors' remuneration

The current balance of the executive Directors' remuneration between fixed and variable performance components (excluding "other benefits") is considered by the committee to be appropriate and in line with the policy on incentivisation.

Below is a split of the expected remuneration package for 2012 for the executive Directors.



Further details of the executive Directors' remuneration are given below.

Fixed remuneration

Basic salary

Basic annual salaries for executive Directors are reviewed by the committee on an annual basis or when a material change of responsibility occurs. In making salary decisions the committee considers salaries offered for similar roles by reference to practice across industry comparators and companies of a similar size and complexity to the Company. The committee does not however have a formal positioning policy for base salary as it is acutely aware of the issues around setting pay solely by reference to a benchmark reference point.

During the period under review the committee reviewed the salaries of the executive Directors and other senior executives in the context of the previous benchmarking exercises, the current performance of the Company and the levels of pay increases to be applied throughout what is now a large group of international businesses. This approach is consistent with that taken since January 2009, the point at which the last major benchmarking exercise was undertaken. Accordingly, the following salary increases have applied to the executive Directors since 1 January 2011:

	D W Muir Chief Executive	M Pegler Finance Director
Previous review for 1 Jan 2011	3.0% increase	3.1% increase
Review 1 Jan 2012	3.1% increase	3.0% increase

In making these awards the committee also took into account the overall performance of the Group, in a challenging economic climate, the management of net debt renewal of its financing facilities and the continued development of the international scale of the Group.

Pension arrangement (Chief Executive)

As from 31 October 2011 D W Muir ceased to participate in the Hill & Smith Executive Pension Scheme (the "scheme"), which provided him with a defined benefit pension and other related benefits. D W Muir is therefore no longer an active member of that scheme and all future accrual of benefits ceased as from 31 October 2011, with D W Muir becoming a deferred member from that date.

Under his pension arrangement, as an active member, D W Muir's pension benefit was based upon an accrual of 1/30th of the Earnings Cap (applying prior to 6 April 2006 and increased in line with the rules of the Scheme) for each year of pensionable service calculated from 1 October 1998. The table on page 44 gives details of the changes in the value of D W Muir's accrued pension during 2011.

Following cessation of his defined benefit scheme active membership (and future accrual) D W Muir has, with effect from 1 November 2011, been in receipt of a salary supplement of 25% of his basic salary in lieu of any form of pension contribution and as compensation for his becoming a deferred member of the defined benefit scheme. This has been a cost effective arrangement for the Company as it de-risks future pension costs and has assisted with the overall closure of future accrual for all other active members of the defined benefit Hill & Smith Executive Scheme.

Pension arrangement (Finance Director)

M Pegler receives a payment of 25% of his base salary as a defined contribution to his own private pension arrangements.

Other than as stated above, there are no other pension arrangements in place for executive Directors.

Other benefits

These principally comprise car benefits, life insurance, membership of the Company's healthcare scheme, income protection scheme and personal accident insurance. These benefits do not form part of pensionable earnings.

Performance related remuneration

Cash bonus

Executive Directors are eligible for an annual performance related cash bonus. The committee is committed to only paying maximum bonuses in circumstances where stretching performance targets have been satisfied.

For 2011 the committee decided, after prior consultation with major shareholders, to introduce a new metric of underlying profit before tax to provide a more appropriate balance of incentive between before and after tax profit. Accordingly, effective from 1 January 2011, the basis for the payment of any bonus is determined by reference to a combination of achievement of levels of underlying profit before tax and in the growth of the underlying earnings per share over one financial year of the Company. The weighting between the two performance measures of profit achievement and UEPS growth, for the 2011 financial year, was as follows:

- 70% of the bonus judged against achievement of underlying profit before tax
- 30% of the bonus judged against achievement of underlying earnings per share growth

For 2012 and subsequent financial years the weighting will move to 50% for underlying profit before tax achievement and 50% for underlying earnings per share growth. In all other respects the bonus scheme for 2012 remains the same as it was for 2011.

Bonuses are subject to a clawback provision for material errors or the misstatement of results or information coming to light, which had it been known, would have affected the award decision. The bonus arrangement does not have any deferred element and bonus payments are not pensionable.

Long term incentive plans

The Company operates three share plans: the 2007 Long Term Incentive Plan, the 2005 Executive Share Option Scheme and the 2005 ShareSave Scheme. The Long Term Incentive Plan is the primary long term incentive vehicle for executive Directors. Prior to the implementation of the Long Term Incentive Plan in 2007, awards were made to executive Directors under the 2005 Executive Share Option Scheme.

Directors' Remuneration Report continued

2007 Long Term Incentive Plan (LTIP)

Awards

The Hill & Smith 2007 Long Term Incentive Plan provides for the grant of conditional share awards. Generally, awards are made to executive Directors on an annual basis with the level of vesting determined by reference to stretching performance conditions. The maximum market value of shares pursuant to an award to any Director or employee in respect of any financial year is 100% of that Director's or employee's base salary. Awards are not pensionable and may not generally be assigned or transferred.

Awards to the Chief Executive and Finance Director were made on 18 March 2011. The value of the shares subject to the award was equal to 100% of the Chief Executive's salary and 100% of the Finance Director's salary. Further details can be found on page 43.

Performance criteria

The performance criteria, which is measured over three financial years, and upon which vesting of the award rests, is as follows:

For awards made prior to 1 January 2011

The performance targets are based solely on the Company's underlying earnings per share (UEPS) measured over the relevant three year period. The UEPS criterion was chosen to reflect the business strategy and ensure that earnings attributable to the shareholders increased at an appropriate rate before any awards under the LTIP vested.

Half of the vesting is based on the Company's absolute UEPS performance against prescribed targets which are determined by the committee at the time each award is granted. The committee set a target level of UEPS growth (20% over the performance period), below which none of this proportion of the award vests, and a stretch level of UEPS growth (45% over the performance period), at which all of this proportion of the award vests. Vesting is on a straight line basis between the target and stretch points of 20% and 45% respectively.

Absolute UEPS Growth Condition* ***For awards made prior to 1 Jan 2011***	
UEPS performance of the Company	Vesting Percentage*
At target of 20%	0%
At stretch of 45%	100%
Vesting on a straight line between 20% and 45%	

Relative UEPS Growth Condition* ***For awards made prior to 1 Jan 2011***	
UEPS performance of the Company compared to EPS of FTSE All-Share index	Vesting Percentage*
Below median	0%
Between median and upper quartile	50%
Between upper quartile and 100th percentile	100%
No straight line vesting between the median and upper quartile	

These measures continue to apply to any outstanding awards made before 1 January 2011.

Performance criteria review

In 2010, the committee reviewed the LTIP performance criteria and, after consultation with major shareholders, made certain minor changes for any awards made after 1 January 2011. These minor changes comprise more appropriate "target" and "stretch" performance figures for that half of the award dependent upon absolute growth in UEPS and a move away from the FTSE All Share earnings per share (EPS) growth measure to one based upon total shareholder return (TSR) for the relative growth measure. Both changes are seen by the committee as more appropriate in the current economic climate and avoid any practical difficulties in compiling the FTSE All Share EPS comparator.

For awards made after 1 January 2011

In respect of awards made after 1 January 2011 the absolute UEPS growth measures (i.e. target and stretch) have been amended to:

- 10% plus RPI (in substitution of 20% "target")
- 25% plus RPI (in substitution of 45% "stretch")

Straight line vesting will continue to apply between these two points.

The committee believes that the new absolute UEPS targets are appropriate to incentivise the executive Directors to develop the UEPS in line with the business plan.

Also for awards made after 1 January 2011 the relative growth measure will be based upon TSR for the Company compared to that for the FTSE SmallCap and not UEPS. The ranking of the Company's UEPS or TSR performance over the performance period determines the vesting for this proportion of the award, as per the vesting schedule shown in the table below, which covers the relative criterion:

Absolute UEPS Growth Condition* ***For awards made after 1 Jan 2011***	
UEPS performance of the Company	Vesting Percentage*
At target of 10% plus RPI	0%
At stretch of 25% plus RPI	100%
Vesting on a straight line between 10% + RPI and 25% + RPI	

Relative TSR Growth Condition* ***For awards made after 1 Jan 2011***	
TSR performance compared to the FTSE SmallCap TSR performance	Vesting Percentage*
Below median	0%
At the median	30%
At the upper quartile	100%
Between the median and upper quartile on a straight line basis	

* Accounts for 50% of the total Award and applies over a 3 year vesting period

The committee determined that the measurement of relative growth for half of the award would complement the absolute growth targets to ensure that an award could only fully vest if the Company's performance is superior to a majority of the companies in either the FTSE All-Share index or as from 1 January 2011 the TSR for the FTSE SmallCap.

The committee also has the discretion to make an adjustment to the number of shares vesting from an award to take account of the underlying financial performance of the Company over which performance is measured.

LTIP awards/vestings are subject to a clawback provision for material errors or the misstatement of results or information coming to light, which had it been known, would have affected the award/vesting decision.

Details of subsisting awards to executive Directors are shown in the table on page 43.

Vesting of LTIP in 2011 for awards made in 2008

In March 2011 the committee considered the performance conditions applicable to the awards, made in 2008, and approved full vesting of those awards as a result of achievement of both the absolute (50% of the award) and relative (remaining 50% of the award) UEPS growth performance conditions, which allow full vesting. As a result of full satisfaction of the UEPS growth performance criteria, which were set for the award of shares made on 14 March 2008, under the 2007 Plan, 99,849 shares were vested in favour of D W Muir and 60,514 shares in favour of M Pegler, on the authority of the committee.

Satisfaction of the vesting of the shares was, with the agreement of the Company, D W Muir and M Pegler, made by way of cash consideration, based upon a share price of 300.75 pence per share (being the average of the mid market price for the three trading days prior to 18 March 2011, the vesting date). Payment of the cash consideration has been subject to normal PAYE and NI deductions. This arrangement was determined to be a cost effective and expedient solution for the Company and the executives in the context of the costs associated with the purchase and sale of shares to discharge the obligations of the Company and the tax liability of the executives.

As a result of the above, the following shares were purchased by D W Muir on 18 March 2011 and by M Pegler on 21 March 2011.

D W Muir	15,000 shares at a price of 299.25p purchased on the London Stock Exchange
M Pegler	10,000 shares at a price of 302.97p purchased on the London Stock Exchange

2005 Executive Share Option Scheme

Under this scheme, options may be awarded at the discretion of the committee to acquire ordinary shares at an exercise price no lower than the market value of a share at the date of grant. The options can only be exercised between three and ten years after the date of grant. Additionally options may only be exercised if the growth in UEPS of the Company over a three year period is not less than the increase in the Retail Price Index plus 9%, over the same period.

No awards were made under this scheme in 2011 and this scheme has not been available to the executive Directors since 2007. For options outstanding under the 2005 Executive Share Option Scheme see the table on page 43.

2005 ShareSave Scheme

The 2005 ShareSave Scheme is open to all employees (including executive Directors) who have completed six months' continuous service. Under this scheme the Company can, if it thinks fit, grant options at a price up to 20% below the market price.

Executive Directors participated in the scheme in 2011 and details are contained in the table on page 43 including those for subsisting options.

Dilution

The dilutive effect of the grants of awards is considered by the committee when granting awards under the long term incentive and share option plans. In accordance with its commitment, the percentage of the issued share capital that could be allocated under all of the Company's employee share plans over a period of ten years should be under 10%. Currently the LTIP, as the principal long term incentive vehicle for executive Directors, does not have a dilutive effect because it is the preference of the Board to satisfy awards through the market purchase of shares rather than the issue and allotment of shares.

Shareholding guidelines

The committee has established a shareholding guideline for the 2007 Long Term Incentive Plan under which it is expected that executive Directors retain half of any shares which vest for awards made from 2008 onwards, and for awards made from 1 January 2011, as much of their shares that vest until they reach 100% of their salary as an equivalent shareholding.

Executive Directors' service agreements

The committee operates a policy of one year rolling contracts for executive Directors. Each executive Director has such a contract, executed at the time of his appointment (and amended from time to time as required). The committee would consider the circumstances of any individual case of early termination and would determine compensation payments accordingly. A fair but robust principle of mitigation would be applied to the payment of compensation in these circumstances.

Current service agreements as at the date of this Report:

Executive Director	Date of Service Contract	Notice Period to be given to the Director
D W Muir	4 June 2007	12 months
M Pegler	28 November 2007	12 months

D W Muir's service agreement provides twelve months notice of termination to be given by the Company and for D W Muir to give the Company twelve months notice of termination. During the period of ninety days following a change of control the notice period to be given by the Company to D W Muir is twelve months and by D W Muir to the Company is reduced from twelve months to ninety days. If during the period of ninety days following a change of control, the service agreement is terminated by D W Muir or is terminated by the Company without prior notice, D W Muir is entitled to a sum equal to twelve months basic salary.

M Pegler's service agreement entitles him to receive twelve months notice of termination by the Company. In the event that M Pegler terminates the service agreement he is due to give the Company six months notice. During the period of ninety days following a change of control the notice period to be given by the Company to M Pegler is twelve months and by M Pegler to the Company is reduced from six months to ninety days. If during the period of ninety days following a change of control, the service agreement is terminated by M Pegler or is terminated by the Company without prior notice, M Pegler is entitled to a sum equal to twelve months basic salary.

Directors' Remuneration Report continued

Apart from the above, there are no special provisions in the executive Directors' service contracts for compensation for loss of office.

Policy on external appointments

Directors may accept external appointments as non-executive Directors of other companies and retain any related fees paid to them provided always that such external appointments are not considered by the Board to prevent or reduce the ability of the executive to perform his role to the required standard. Such appointments are seen as a way in which executives can gain a broader business experience and, in turn, benefit the Company. Currently the Chief Executive and the Finance Director do not hold any external non-executive directorships.

Non-executive Directors

The non-executive Directors do not have service contracts. 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.

The audit committee Chairman and the remuneration committee Chairman receive additional fees as does the senior independent Director. These additional fees are set out below:

chairman of the audit committee	£5,150 per annum
chairman of the remuneration committee	£4,150 per annum
senior independent Director	£1,550 per annum

The non-executive Directors are not eligible for performance related bonuses or the grant of awards under the Company's long term incentive plans. No pension contributions are made on their behalf.

The appointments of all the 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 to each individual Director to terminate their engagement.

Directors' interests in shares

The table below shows the beneficial interests as at the beginning of the year and as at 31 December 2011 of the persons who on that date were Directors (including the interests of their connected persons) in the ordinary shares of Hill & Smith Holdings PLC. All such interests were beneficial except as otherwise stated. However, interests in ordinary shares that are the subject of awards under the 2007 Long Term Incentive Plan, the 2005 Executive Share Option Scheme and the 2005 ShareSave Scheme, are not included in the table below but are shown on page 43.

None of the Directors has a beneficial interest in the shares of any of the Company's subsidiaries.

There were no changes in the beneficial interests of the Directors in the Company's ordinary shares between 31 December 2011 and the date of this report.

The Register of Directors' Interests, which is open to inspection, contains full details of Directors' shareholdings and options to subscribe for ordinary shares.

Total shareholder return graphs

The UK Directors' Remuneration Report Regulations 2002 require the inclusion in the Directors' remuneration report of a graph showing TSR over a five year period in respect of a holding of the Company's shares, plotted against TSR in respect of a hypothetical holding of shares of a similar kind and number by reference to which a broad equity market index is calculated.

The following graphs show the TSR performance of the Company over the five year period to 1 January 2012 compared against the FTSE All-Share Index and FTSE Small Cap Index, respecitvely (source: Datastream).

Directors' beneficial interest in shares	Beneficial interest in ordinary shares at 1 Jan 2011 (or appointment date)	Change to beneficial interest	Beneficial interest in ordinary shares at 31 Dec 2011
W H Whiteley	11,350	10,750	22,100
D W Muir	85,985	30,343	116,328
M Pegler	9,000	10,000	19,000
C J Snowdon	33,930	–	33,930
J F Lennox	2,500	2,500	5,000

PART 2 – AUDITED INFORMATION

Directors' emoluments in 2011

The aggregate remuneration, excluding pension contributions and the value of long term incentive awards, paid to or accrued for all Directors of the Company for services in all capacities during the year ended 31 December 2011 was £1.2m (2010: £1.0m). The remuneration of individual Directors is set out below.

Directors	Salary/fees £'000	Performance related bonus £'000	Value of benefits £'000	**Total 2011 £'000**	Total 2010 £'000
W H Whiteley	124	–		**124**	120
D W Muir	412	124	55*	**591**	509
M Pegler	263	79	19	**361**	307
C J Snowdon	45	–		**45**	43
J F Lennox	45	–		**45**	44
Former Directors					
H C Marshall (retired 7 May 2010)					18
Total	889	203	74	**1,166**	1,041

* A total of £31,000 was paid to D W Muir in the form of subsistence which is subject to PAYE and NIC deduction.

The executive Directors were also granted awards of ordinary shares under the Company's 2007 Long Term Incentive Plan (LTIP). Details of awards made in the year under the LTIP are given below.

Long Term Incentive Plan (LTIP)

The interests of Directors at 31 December 2011, in shares that are the subject of awards under the LTIP are shown below:

Executive Director	Award Date	At 1 Jan 2011 number of shares	Awarded in 2011 number of shares	Vested in 2011 number of shares	At 31 Dec 2011 number of shares	Performance period 3 years from	Vesting date
D W Muir	14 Mar 2008†	99,849		99,849		1 Jan 2008	1 Jan 2011
	25 Mar 2009‡	75,000			75,000	1 Jan 2009	1 Jan 2012
	31 Mar 2010§	117,879			117,879	1 Jan 2010	1 Jan 2013
	18 Mar 2011*		136,990		136,990	1 Jan 2011	1 Jan 2014
Total D W Muir		292,728	136,990	99,849	329,869		
M Pegler	14 Mar 2008†	60,514		60,514		1 Jan 2008	1 Jan 2011
	25 Mar 2009‡	75,000			75,000	1 Jan 2009	1 Jan 2012
	31 Mar 2010§	75,148			75,148	1 Jan 2010	1 Jan 2013
	18 Mar 2011*		87,448		87,448	1 Jan 2011	1 Jan 2014
Total M Pegler		210,662	87,448	60,514	237,596		

† The share price as calculated on 14 March 2008 in accordance with the LTIP rules was 330p.
‡ The share price as calculated on 25 March 2009 in accordance with the LTIP rules was 154p.
§ The share price as calculated on 31 March 2010 in accordance with the LTIP rules was 339p.
* The share price as calculated on 18 March 2011 in accordance with the LTIP rules was 300.75p.

Share options

The interests of Directors, and of former Directors who served during 2011, in options to subscribe for ordinary shares in the Company, which include options granted under the 2005 Executive Share Option Plan and the 2005 ShareSave Scheme, together with options granted and exercised during 2011, are included in the following table:

	At 1 Jan 2011 number of shares	Grant price	Granted in 2011 number of shares	Exercised in 2011 number of shares	At 31 Dec 2011 number of shares	Dates from which exercisable	Latest expiry date
D W Muir							
2005 Exec Share Option Plan	78,114	205p			78,114	4 Oct 2008	4 Oct 2015
2005 ShareSave Scheme	1,328	318p			1,328	1 Jan 2013	1 Jul 2013
2005 ShareSave Scheme	4,855	238p	4,855		4,855	1 Jan 2016	1 Jul 2016
Total D W Muir	84,297				84,297		
M Pegler							
2005 ShareSave Scheme	3,902	246p			3,902	1 Dec 2011	1 Jun 2012
Total M Pegler	3,902				3,902		

Apart from the LTIP awards made to D W Muir and M Pegler on 18 March 2011 and the ShareSave Scheme grant for D W Muir on 1 January 2011 no further options or awards were made to Directors.

Directors' Remuneration Report continued

During 2011, the mid market price of ordinary shares in the Company ranged from 235p to 393.5p. The mid market price of an ordinary share on 31 December 2011 was 250.0p.

Pensions

The table below sets out the arrangements for D W Muir for the period 1 January 2011 until 31 October 2011, when such arrangements ceased. D W Muir having become a deferred member of the Hill & Smith Executive Pension Scheme as from that date and having no further benefits accruing under that Scheme. D W Muir has, from 1 November 2011, received a salary supplement of 25% of his basic salary in lieu of any pension contributions or continuation of accrued benefits under the Hill & Smith Executive Pension Scheme.

Defined benefits earned by Directors	D W Muir
Age at period end	51
Accrued benefit at 31 December 2011	£126,297 pa
Increase in accrued benefits	£9,142 pa
Decrease in accrued benefits (after allowing for inflation)	£3,600 pa
Transfer value of accrued benefits at 1 January 2011	£1,597,601
Transfer value of accrued benefits at 31 December 2011	£1,766,953

1. Mr Muir ceased accrual of pension benefits on 31 October 2011 and the accrued pension shown above is the amount calculated at the date of ceasing accrual.
2. The increase in accrued benefits is on account of the additional benefits from for the pensionable service between 1 January 2011 and 31 October 2011 together with the uplift in pensionable salary between those dates which affects the pension earned after 1 October 1998 and the inflationary increase to the benefit earned for service before that date.
3. The individual has the option to pay Additional Voluntary Contributions; neither the contributions nor the resulting benefits are included in the above table.
4. The following is additional information relating to the Director's pension:
   a. Normal Retirement Age: 60
   b. Spouse's pension: 2/3 pension on death after retirement
   c. Pension increases:
      – post April 1997 pension: increases in line with RPI, limited to 5% per annum, subject to a minimum of 3% per annum on pension accrued post 1October 1998
      – pre April 1997 pension: nil
   d. Discretionary benefits: nil
   e. Increase before retirement: statutory
5. The transfer value at 31 December 2011 has been calculated on the basis set by the Trustees of the Hill & Smith Executive Pension Scheme having taken actuarial advice.

Defined contribution arrangements

M Pegler receives a payment of 25% of his base salary as a contribution to his own private pension arrangements. The Company made payments amounting to £65,750, as pension contributions, in 2011.

Transactions with Directors

There were no material transactions between the Company and the Directors during 2011.

Clive Snowdon
Chairman, remuneration committee

15 March 2012

Other Statutory Information

Principal activities and business review

The Company acts as a holding company to all the Group's subsidiaries.

During 2011 the principal activities of the Group comprised the manufacture and supply of:

Infrastructure Products
Galvanizing Services

Pages 3 to 15 contain further details of these areas of the business and the subsidiaries operating within them are set out on pages 98 to 100.

The Chairman's statement and the Director's business review include:

- An analysis of the development and performance of the Company's business during the financial year;
- 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;
- Main trends and factors likely to affect the future development, performance and position of the Company's business; and
- Key performance indicators used to measure the Group's performance

Below is a summary of the share capital of the Company. Further details of the share capital are contained in note 20 on pages 79 and 80 of the Group financial statements.

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.

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 a resolution is put to the members of the Company at the Company's Annual General Meeting in each year (currently the authority is limited by the resolution of the 2011 Annual General Meeting and will be limited by the resolution to be put to the 2012 General Meeting) for approval to make market purchases not exceeding 5% of the Company's then issued share capital. The prices to be paid 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.

Results

The Group profit before taxation for the year amounted to £25.4m (2010: £35.3m). Group revenue at £406.2m was 8.6% higher than the prior year, mainly as a result of the impact of acquisitions completed in the first half of the year, offset by lower UK Government spend and the disposal of a non-core business in July 2011. Operating profit at £32.9m (2010: £39.6m) was 16.9% below the level for the previous year.

Details of the results for the year are shown on the consolidated income statement on page 49 and the business segment information is given on pages 60 and 61.

Dividends

The Directors recommend the payment of a final dividend of 7.8p per ordinary share (2010: 7.5p per ordinary share) which, together with the interim dividend of 5.4p per ordinary share (2010: 5.2p per ordinary share) paid on 6 January 2012, makes a total distribution for the year of 13.2p per ordinary share (2010: 12.7p per ordinary share). Subject to shareholders approving this recommendation at the Annual General Meeting, the final dividend will be paid on 6 July 2012 to shareholders on the register at the close of business on 1 June 2012. The latest date for receipt of Dividend Re-investment Plan elections is 15 June 2012.

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 2011		76,895,053
Total new ordinary shares issued during the year	2005 ShareSave Scheme and 2005 Executive Share Option Scheme	59,765
Issued share capital 31 December 2011		76,954,818
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	

Other Statutory Information continued

Substantial shareholdings

As at 15 March 2012, the Company had been notified of the following holdings of voting rights in shares under Rule 5 of the Disclosure and Transparency Rules of the Financial Services Authority, based upon an issued share capital of 76,966,566 shares.

Shareholder	Number of ordinary shares	% of Issued Share Capital
F&C Asset Management	7,112,601	9.24
Henderson Global Investors	6,061,711	7.88
Charles Stanley, Stockbrokers	4,450,803	5.78
Legal & General Investment Management	3,200,982	4.16
Aberforth Partners	3,092,223	4.02
Artemis Investment Management	2,339,058	3.04

Directors

The names of the Directors of the Company who served throughout the year, including brief biographies, are set out on pages 24 and 25.

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 Annual General Meeting and shall then be eligible for re-election at that meeting.

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 as detailed in note 19 on pages 73 to 78.

Research and development

During the year, the Group spent a total of £0.9m (2010: £1.2m) on research and development.

Political and charitable donations

Charitable donations amounting to £33,000 (2010: £33,000) 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 set out on pages 22 and 23.

Supplier payment policy

Individual operating companies within the Group are responsible for establishing and adhering to appropriate policies for the payment of their suppliers. The companies agree terms and conditions under which business transactions with suppliers are conducted. The Group does not follow any code or standard on payment practice but it is the Group's policy that, provided a supplier is complying with the relevant terms and conditions, including the prompt and complete submission of all required documentation, payment will be made in accordance with the agreed terms. It is the Group's policy to ensure that suppliers know the terms on which payments will take place when transactions are agreed.

The Group's average credit period was 70 days (2010: 72 days).

The Company's average credit period was 36 days (2010: 39 days).

Change of control/significant agreements

There are no agreements between the Group and its Directors or employees providing for compensation for loss of office or employment that occurs because of a change of control, other than revised notice periods and termination payments for D W Muir and M Pegler set out in the Directors' remuneration report on pages 41 and 42.

The Group has a multi currency revolving credit facility which includes a change of control provision. Under this provision, a change in ownership/control of the Company could result in withdrawal of these facilities.

All of the Company's share schemes contain provisions relating to a change in control. Outstanding options and awards normally vest and become exercisable on a change of control subject to the satisfaction of any performance conditions at that time.

The Directors consider that there are no contractual or other arrangements, such as those with major suppliers, which are likely to materially influence, directly or indirectly, the performance of the business and its values. Furthermore, there are no contracts of significance subsisting during the financial year between any Group undertaking and a controlling shareholder or in which a Director is or was materially interested.

Independent auditor

A resolution for the re-appointment of KPMG Audit Plc as auditor of the Company will be proposed at the forthcoming Annual General Meeting.

Disclosure of information to auditors

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 auditors are unaware; and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Annual General Meeting

The Annual General Meeting of the Company will be held at 11.00 a.m. on Wednesday 16 May 2012 at The Village Hotel, The Green Business Park, Shirley, Solihull, B90 4GW. Notice is sent to shareholders separately with this report, together with an explanation of the special business to be considered at the meeting and is also available on the Company's website at www.hsholdings.com.

Other important dates can be found in the financial calendar on page 96.

By order of the Board

John Humphreys
Company Secretary

15 March 2012

Statement of Directors' Responsibilities

In respect of the annual report and the financial statements

The Directors are responsible for preparing the annual 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 IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

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 and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

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 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 Directors' report, Directors' remuneration report and corporate governance statement that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the Directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the Group and parent company 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 Group as a whole; and
- the management report (which comprises the business review and other statutory information) includes a fair review of the development and performance of the business and the position of the Company and Group as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

John Humphreys
Company Secretary

15 March 2012

Independent Auditor's Report

to the members of Hill & Smith Holdings PLC

We have audited the financial statements of Hill & Smith Holdings PLC for the year ended 31 December 2011 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and parent company balance sheet, the consolidated statement of changes in equity, the parent company reconciliation of movements in shareholders' funds, the consolidated statement of cash flows and the related notes.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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.

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' responsibilities statement set out on page 47, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the Financial Statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on Financial Statements

In our opinion:

- 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 2011 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice;
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion 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; and
- the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the corporate governance statement set out on pages 30 and 31 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required 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;or
- a corporate governance statement has not been prepared by the Company.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 15, in relation to going concern;
- the part of the corporate governance statement beginning on page 26 relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

Michael Steventon
Senior Statutory Auditor
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
1 Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

15 March 2012

Consolidated Income Statement

Year ended 31 December 2011

		2011			2010		
	Notes	Underlying £m	Non-Underlying* £m	Total £m	Underlying £m	Non-Underlying* £m	Total £m
Revenue	1,2	**406.2**	**–**	**406.2**	374.2	–	374.2
Trading profit		**41.5**	**1.6**	**43.1**	45.9	–	45.9
Amortisation of acquisition intangibles	3	**–**	**(2.2)**	**(2.2)**	–	(0.9)	(0.9)
Business reorganisation costs	3	**–**	**(1.2)**	**(1.2)**	–	(4.4)	(4.4)
Acquisition costs	3	**–**	**(0.7)**	**(0.7)**	–	(1.0)	(1.0)
Loss on disposal of subsidiary	3	**–**	**(5.9)**	**(5.9)**	–	–	–
Loss on sale of properties	3	**–**	**(0.2)**	**(0.2)**	–	–	–
Operating profit	1,2	**41.5**	**(8.6)**	**32.9**	45.9	(6.3)	39.6
Financial income	5	**0.8**	**3.7**	**4.5**	0.6	3.4	4.0
Financial expense	5	**(4.9)**	**(7.1)**	**(12.0)**	(4.3)	(4.0)	(8.3)
Profit before taxation		**37.4**	**(12.0)**	**25.4**	42.2	(6.9)	35.3
Taxation	7	**(10.8)**	**1.5**	**(9.3)**	(12.2)	1.5	(10.7)
Profit for the year attributable to owners of the parent		**26.6**	**(10.5)**	**16.1**	30.0	(5.4)	24.6
Basic earnings per share	8	**34.5p**		**20.9p**	39.0p		32.0p
Diluted earnings per share	8	**34.2p**		**20.7p**	38.7p		31.7p
Dividend per share – Interim	9			**5.4p**			5.2p
Dividend per share – Final proposed	9			**7.8p**			7.5p
Total	9			**13.2p**			12.7p

* The Group's definition of Non-underlying items is included in the principal accounting policies on page 59.

Consolidated Statement of Comprehensive Income

Year ended 31 December 2011

	Notes	2011 £m	2010 £m
Profit for the year		**16.1**	24.6
Exchange differences on translation of overseas operations		**(0.5)**	0.3
Exchange differences on foreign currency borrowings denominated as net investment hedges		**(0.4)**	1.1
Effective portion of changes in fair value of cash flow hedges		**(0.2)**	(1.5)
Transfers to the income statement on cash flow hedges		**0.8**	1.2
Actuarial (loss)/gain on defined benefit pension schemes	22	**(8.4)**	4.6
Taxation on items taken directly to other comprehensive income	7	**1.6**	(1.4)
Other comprehensive income for the year		**(7.1)**	4.3
Total comprehensive income for the year attributable to owners of the parent		**9.0**	28.9

Consolidated Balance Sheet

As at 31 December 2011

	Notes	2011 £m	2010 £m
Non-current assets			
Intangible assets	10	**130.9**	109.7
Property, plant and equipment	11	**104.9**	102.9
		235.8	212.6
Current assets			
Inventories	13	**56.2**	46.4
Trade and other receivables	14	**90.8**	74.9
Cash and cash equivalents	15	**12.7**	27.0
		159.7	148.3
Total assets	1	**395.5**	360.9
Current liabilities			
Trade and other liabilities	16	**(79.5)**	(72.2)
Current tax liabilities		**(11.3)**	(7.6)
Provisions for liabilities and charges	18	**(0.5)**	(0.8)
Interest bearing borrowings	16	**(4.1)**	(27.0)
		(95.4)	(107.6)
Net current assets		**64.3**	40.7
Non-current liabilities			
Other liabilities	17	**(0.2)**	(0.2)
Provisions for liabilities and charges	18	**(3.5)**	(3.6)
Deferred tax liability	12	**(17.0)**	(15.9)
Retirement benefit obligation	22	**(16.4)**	(10.9)
Interest bearing borrowings	17	**(112.4)**	(70.6)
		(149.5)	(101.2)
Total liabilities	1	**(244.9)**	(208.8)
Net assets	1	**150.6**	152.1
Equity			
Share capital	20	**19.2**	19.2
Share premium		**29.2**	29.1
Other reserves		**4.5**	4.5
Translation reserve		**5.7**	6.6
Hedge reserve		**(0.5)**	(0.9)
Retained earnings		**92.5**	93.6
Total equity		**150.6**	152.1

Approved by the Board of Directors on 15 March 2012 and signed on its behalf by:

D W Muir
Director

M Pegler
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2011

	Notes	Share capital £m	Share premium £m	Other reserves† £m	Translation reserves £m	Hedge reserve £m	Retained earnings £m	Total equity £m
At 1 January 2010		19.0	28.5	4.5	5.2	(0.6)	74.8	131.4
Profit for the year		–	–	–	–	–	24.6	24.6
Other comprehensive income for the year		–	–	–	1.4	(0.3)	3.2	4.3
Dividends	9	–	–	–	–	–	(8.8)	(8.8)
Credit to equity of share-based payments	20	–	–	–	–	–	0.2	0.2
Satisfaction of long term incentive plan	20	–	–	–	–	–	(0.4)	(0.4)
Shares issued	20	0.2	0.6	–	–	–	–	0.8
At 31 December 2010		**19.2**	**29.1**	**4.5**	**6.6**	**(0.9)**	**93.6**	**152.1**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**16.1**	**16.1**
Other comprehensive income for the year		**–**	**–**	**–**	**(0.9)**	**0.4**	**(6.6)**	**(7.1)**
Dividends	**9**	**–**	**–**	**–**	**–**	**–**	**(9.8)**	**(9.8)**
Credit to equity of share-based payments	**20**	**–**	**–**	**–**	**–**	**–**	**0.2**	**0.2**
Tax taken directly to the consolidated statement of changes in equity	**7**	**–**	**–**	**–**	**–**	**–**	**(0.2)**	**(0.2)**
Satisfaction of long term incentive plan	**20**	**–**	**–**	**–**	**–**	**–**	**(0.8)**	**(0.8)**
Shares issued	**20**	**–**	**0.1**	**–**	**–**	**–**	**–**	**0.1**
At 31 December 2011		**19.2**	**29.2**	**4.5**	**5.7**	**(0.5)**	**92.5**	**150.6**

† Other reserves represent the premium on shares issued in exchange for shares of subsidiaries acquired and £0.2m (2010: £0.2m) capital redemption reserve.

Consolidated Statement of Cash Flows

Year ended 31 December 2011

	Notes	2011 £m	2011 £m	2010 £m	2010 £m
Profit before tax			**25.4**		35.3
Add back net financing costs	5		**7.5**		4.3
Operating profit	1,2		**32.9**		39.6
Adjusted for non-cash items:					
Share-based payments	4,20	**0.2**		0.2	
Loss on disposal of subsidiaries	3	**5.9**		–	
Movement in fair value of forward currency contracts	3	**(0.4)**		–	
Loss on disposal of non-current assets	6	**0.3**		0.1	
Depreciation	6,11	**13.3**		12.9	
Amortisation of intangible assets	6,10	**3.5**		2.1	
Impairment of non-current assets	6,11	**–**		0.4	
			22.8		15.7
Operating cash flow before movement in working capital			**55.7**		55.3
Increase in inventories		**(7.0)**		(3.2)	
(Increase)/decrease in receivables		**(15.0)**		2.8	
Increase/(decrease) in payables		**5.9**		(0.9)	
Decrease in provisions and employee benefits		**(4.3)**		(2.3)	
Net movement in working capital			**(20.4)**		(3.6)
Cash generated by operations			**35.3**		51.7
Income taxes paid			**(7.5)**		(9.4)
Interest paid			**(5.2)**		(4.1)
Net cash from operating activities			**22.6**		38.2
Interest received		**0.8**		0.7	
Proceeds on disposal of non-current assets		**0.1**		0.9	
Purchase of property, plant and equipment		**(11.9)**		(13.5)	
Purchase of intangible assets		**(0.7)**		(1.3)	
Disposal of subsidiaries	3	**5.1**		–	
Deferred consideration received in respect of disposals		**1.1**		0.3	
Acquisitions of subsidiaries	10	**(36.2)**		(0.2)	
Net cash used in investing activities			**(41.7)**		(13.1)
Issue of new shares	20	**0.1**		0.8	
Purchase of shares for the employee benefit trust	20	**(0.8)**		(0.4)	
Dividends paid	9	**(9.8)**		(8.8)	
New loans raised		**156.7**		14.0	
Costs associated with refinancing revolving credit facility		**(3.0)**		–	
Repayment of loans		**(134.6)**		(41.0)	
Repayment of obligations under finance leases		**(3.8)**		(4.0)	
Net cash used in financing activities			**4.8**		(39.4)
Net decrease in cash			**(14.3)**		(14.3)
Cash at the beginning of the year			**27.0**		41.1
Effect of exchange rate fluctuations			**–**		0.2
Cash at the end of the year	15		**12.7**		27.0

Group Accounting Policies

Hill & Smith Holdings PLC is a company incorporated in the UK.

The Group considers a company a subsidiary when it holds more than 50% of the shares and voting rights, so that it has the power to govern the operating and financial policies of that entity so as to obtain benefits from its activities. The Group considers a company to be an associate when it holds more than 20% of the shares and voting rights and is able to significantly influence the decisions of that entity.

The Group financial statements consolidate the Company and its subsidiaries, proportionately consolidate any jointly controlled entities and equity account the Group's interest in associates. The parent company financial statements present information about the Company as a separate entity and not about the Group.

The Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards, as adopted by the EU ('Adopted IFRSs'). The Company has elected to prepare its parent company financial statements in accordance with UK GAAP; these are presented on pages 88 to 95.

The accounting policies set out below have, unless otherwise stated, been applied consistently to 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 23.

Going concern and liquidity risk

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the business review on pages 8 to 15. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the business review on pages 12 to 15. In addition, note 19 to the Group financial statements includes 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 risk and liquidity risk.

The businesses of the Group have long established relationships with customers and suppliers which, together with the Group's current financial strength, provide a solid foundation. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current bank facilities, of which the Group's principal debt facility is a multi-currency agreement with a value of £213.1m at 31 December 2011, expiring in April 2016. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries, the Directors have a reasonable expectation that the Company and its subsidiaries have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the annual report and financial statements.

New IFRS standards and interpretations adopted during 2011

In 2011 the following standards had been endorsed by the EU, became effective and therefore were adopted by the Group:

- IAS24 (Revised) – Related Party Transactions
- Amendments to IFRIC14 – Prepayments of a minimum funding requirement
- IFRIC19 – Extinguishing Financial Liabilities with Equity Insurers
- Annual Improvement Projects to IFRS's

The Annual Improvement Project to IFRS's provides a vehicle for making non-urgent but necessary amendments to IFRS's. Amendments to a number of standards have been adopted.

The adoption of these standards, amendments and interpretations has not had a material impact on the Group's financial statements.

New IFRS standards and interpretations not adopted

The IASB and IFRIC have issued additional standards and interpretations which are effective for periods starting after the date of these financial statements. The following standards and interpretations have not yet been adopted by the Group:

- Amendments to IFRS7 – Disclosures – Transfers of financial assets (effective for annual periods beginning on or after 1 July 2011)

The Group does not anticipate that the adoption of the above amendments will have a material effect on its financial statements on initial adoption.

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.

Intangible assets

IFRS3 was revised in 2010 such that acquisition costs cannot be capitalised for investments made on or after 1 January 2010. Acquisitions prior to this date have had these costs included with the purchase consideration and as such the goodwill on acquisition of subsidiaries comprises the excess of this fair value of the purchase consideration over the Group's share of the fair value of the identifiable assets and liabilities acquired. On an ongoing basis the goodwill is measured at cost less impairment losses (see accounting policy 'Impairment of assets'). Fair value adjustments are always considered to be provisional at the first balance sheet date after the acquisition to allow the maximum time to elapse for management to make a reliable estimate.

Goodwill prior to 1 October 1998 was written off to reserves. Goodwill from 1 October 1998 to 31 December 2003 was amortised in line with UK GAAP. From 1 January 2004 this goodwill is subject to annual impairment testing. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Brands and customer lists that are acquired by the Group as part of a business combination 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'). For other brands and customer lists, amortisation is provided equally over the estimated useful economic life of the assets concerned, currently up to 20 years.

Expenditure on development activities is capitalised if the product or process is considered to be technically and commercially viable and the Group has sufficient resources to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the consolidated income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses. Amortisation is provided equally over the estimated useful economic life of the assets concerned, currently up to seven years.

Trade licences are amortised over the specific term granted to each individual licence.

Property, plant, equipment and depreciation

Depreciation is provided to write off the cost or deemed cost less the estimated residual value of property, plant and equipment by equal instalments over their estimated useful economic lives as follows:

Freehold buildings	5 to 50 years
Leasehold buildings	life of the lease
Plant, machinery and vehicles	4 to 20 years

No depreciation is provided on freehold land.

The Group has chosen to take the first time adoption exemption available under IFRS1 to use a previous revaluation for certain land and buildings as its deemed cost at the transition date. All other items of property, plant and equipment are stated at cost unless it is felt that this value should be impaired.

Group Accounting Policies continued

Financial instruments

Financial assets and liabilities are recognised on the Group's balance sheet when the Group becomes party to the contractual provisions of the instrument.

The Group's investments in equity securities and certain debt securities are classified as available for sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign exchange gains and losses on available for sale monetary items, are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

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, less any impairment losses.

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 interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties.
- The fair value of foreign exchange contracts is the estimated amount that the Group would receive or pay to terminate such contracts at the balance sheet date, taking into account the forward exchange rates prevailing at that date.

Where derivative financial instruments are used to hedge the 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 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.

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 directly in equity 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:

	2011		2010	
	Average	**Closing**	Average	Closing
Sterling to Euro (£1 = EUR)	**1.15**	**1.20**	1.17	1.17
Sterling to US Dollar (£1 = USD)	**1.60**	**1.55**	1.54	1.57
Sterling to Thai Bhat (£1 = THB)	**48.87**	**48.79**	48.83	47.00
Sterling to Swedish Krona (£1 = SEK)	**10.41**	**10.66**	–	–

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, the FIFO or average cost method is used. 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 balance sheet when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect 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.

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.

The estimated cost of returning properties held under leases to their original condition in accordance with the terms of specific lease contracts is recognised as soon as such costs are able to be reliably estimated.

Impairment of assets

The carrying amounts of the Group's non-financial assets, other than inventories (see accounting policy 'Inventories') and deferred tax balances (see accounting policy 'Deferred taxation'), are reviewed at each balance sheet date to determine whether there is an indication of impairment. Impairment reviews are undertaken at the level of each significant cash generating unit, which are no larger than operating segments as defined in IFRS8 – Segmental reporting. 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.

For goodwill and intangible assets that have an indefinite life, the recoverable amount is assessed at each balance sheet date and an impairment loss is recognised for the amount by which the asset's carrying amount 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.

Leases

Leases for which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are classified as operating leases and the leased assets are not recognised on the Group's balance sheet. Payments made under operating leases are recognised in the consolidated income statement on a straight line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Group Accounting Policies continued

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Rental income from operating leases is recognised as revenue in the consolidated income statement on an accruals basis.

Revenue
Revenue from the sale of goods and services represents the amount (excluding value added tax) invoiced to third party customers, net of returns, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer and the amount of revenue can be measured reliably. No revenue is recognised where the recovery of the consideration is not probable or where there are significant uncertainties regarding associated costs or the possible return of goods.

Government grants
Government grants are recognised as a liability in the balance sheet and credited to operating profit over the estimated useful economic life of the relevant assets or the length of employment specified in the grant.

Guarantees
The Group's policy is to not give external guarantees.

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 balance sheet 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.

Current and past service costs are recognised in operating profit within the consolidated income statement. Also in the consolidated income statement, the expected return on pension scheme assets is included in financial income and the expected costs on pension scheme liabilities in financial expense.

All actuarial gains and losses in calculating the Group's obligation in respect of defined benefit schemes are recognised annually in reserves and reported in the consolidated statement of comprehensive income.

Share-based payment transactions
The 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.

Financial income and expense
Financial income comprises interest income on funds invested, expected returns on pension scheme assets 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, expected interest cost on 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 component of finance lease payments and financial expenses related to refinancing. All borrowing costs are recognised in the consolidated income statement using the effective interest method.

Non-underlying items
Non-underlying items are disclosed separately in the consolidated income statement where the quantum, nature or volatility of such items would otherwise distort the underlying trading performance of the Group. The following are included by the Group in its assessment of Non-Underlying items:

- Gains or losses arising on disposal, closure, restructuring or reorganisation of businesses that do not meet the definition of discontinued operations
- Amortisation of intangible fixed assets arising on acquisitions
- Expenses associated with acquisitions
- Impairment charges in respect of tangible or intangible fixed 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
- Net financing costs or returns on defined benefit pension obligations
- Costs incurred as part of significant refinancing activities.

The tax effect of the above is also included.

Details in respect of the Non-underlying items recognised in the current and prior year are set out in note 3 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 balance sheet date, and any adjustments to tax payable in respect of previous years.

Deferred taxation
Deferred tax is provided in full using the balance sheet 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 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 asset can be utilised. The carrying amount of deferred tax assets is reviewed at each balance sheet 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.

Notes to the Consolidated Financial Statements

1. Segmental information

Business segment analysis

The Group has three reportable segments which are Infrastructure Products, Galvanizing Services and Building and Construction

Products. Several operating segments which have similar economic characteristics have been aggregated into these reporting segments. A description of segment activities is included in the business review on page 3 and pages 9 to 11.

Following the restructuring of the industrial flooring businesses and the disposal of a non-core subsidiary during the year, the segmental analysis has been realigned to better reflect the core activities of the Group. The Chief Operating Decision Maker believes that by rationalising the industrial flooring businesses, they now focus on infrastructure markets and, as such, have been represented within the Infrastructure Products segment. Ash & Lacy Building Systems Limited, which was disposed of during the year (note 3) is the only business remaining in the Building and Construction Products segment. The comparatives in this note have been restated accordingly.

The acquisitions detailed in note 10 both fall into the Infrastructure Products segment.

Income Statement

	2011			2010 (restated)		
	Revenue £m	**Result £m**	**Underlying result* £m**	Revenue £m	Result £m	Underlying result* £m
Infrastructure Products	**276.1**	**18.0**	**19.9**	237.0	16.2	21.2
Galvanizing Services	**118.5**	**21.0**	**21.6**	115.4	23.7	25.0
Building and Construction Products	**11.6**	**(6.1)**	**–**	21.8	(0.3)	(0.3)
Total Group	**406.2**	**32.9**	**41.5**	374.2	39.6	45.9
Net financing costs		**(7.5)**	**(4.1)**		(4.3)	(3.7)
Profit before taxation		**25.4**	**37.4**		35.3	42.2
Taxation		**(9.3)**	**(10.8)**		(10.7)	(12.2)
Profit after taxation		**16.1**	**26.6**		24.6	30.0

* Underlying result is stated before non-underlying items as defined in the accounting policies on page 59, and is the measure of segment profit used by the Chief Operating Decision Maker, who is the Chief Executive. The Result columns are included as additional information.

Galvanizing Services provided £6.2m (2010: £7.9m) revenues to Infrastructure Products. Building and Construction Products provided £0.1m (2010: £0.5m) revenues to Infrastructure Products. These internal revenues, along with revenues generated from within their own segments, have been eliminated on consolidation.

Balance Sheet

	2011		2010 (restated)	
	Total assets £m	**Total liabilities £m**	Total assets £m	Total liabilities £m
Infrastructure Products	**189.3**	**(53.6)**	127.7	(39.8)
Galvanizing Services	**193.5**	**(26.1)**	195.9	(26.3)
Building and Construction Products	**–**	**–**	10.3	(6.3)
Total segment assets/(liabilities)	**382.8**	**(79.7)**	333.9	(72.4)
Taxes	**–**	**(28.3)**	–	(23.5)
Provisions and retirement benefits	**–**	**(20.4)**	–	(15.3)
Net debt	**12.7**	**(116.5)**	27.0	(97.6)
Total Group	**395.5**	**(244.9)**	360.9	(208.8)
Net assets		**150.6**		152.1

1. Segmental information continued

Capital expenditure and amortisation/depreciation

	2011		2010 (restated)	
	Capital expenditure £m	Impairment losses, amortisation and depreciation £m	Capital expenditure £m	Impairment losses, amortisation and depreciation £m
Infrastructure Products	**7.7**	**9.3**	7.0	8.7
Galvanizing Services	**5.5**	**7.3**	6.1	6.3
Building and Construction Products	**0.1**	**0.2**	0.1	0.4
Total Group	**13.3**	**16.8**	13.2	15.4
Property, plant and equipment (note 11)	**12.6**	**13.3**	11.9	13.3
Intangible assets (note 10)	**0.7**	**3.5**	1.3	2.1
Total Group	**13.3**	**16.8**	13.2	15.4

Geographical analysis

Detailed below is the analysis of revenue by geographical market, irrespective of origin.

Revenues

	2011 £m	2010 £m
UK	**184.9**	207.9
Rest of Europe	**102.3**	85.9
USA	**92.2**	61.0
The Middle East	**9.5**	5.9
Asia	**11.6**	6.3
Rest of World	**5.7**	7.2
Total	**406.2**	374.2

Below are tables showing total assets and capital expenditure by major geographic location.

Total assets

	2011 £m	2010 £m
UK	**145.9**	162.8
Rest of Europe	**102.9**	92.3
USA	**136.9**	96.4
Asia	**9.6**	9.4
Rest of World	**0.2**	–
Total Group	**395.5**	360.9

Capital expenditure

	2011 £m	2010 £m
UK	**3.7**	3.9
Rest of Europe	**6.2**	5.3
USA	**2.2**	3.7
Asia	**1.2**	0.3
Total Group	**13.3**	13.2

Notes to the Consolidated Financial Statements continued

2. Operating profit

	2011 £m	2010 £m
Revenue	**406.2**	374.2
Cost of sales	**(269.3)**	(248.1)
Gross profit	**136.9**	126.1
Distribution costs	**(18.9)**	(20.2)
Administrative expenses	**(85.6)**	(66.9)
Loss on disposal of non-current assets	**(0.3)**	(0.1)
Other operating income	**0.8**	0.7
Operating profit	**32.9**	39.6

3. Non-Underlying items

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

- Business reorganisation costs of £1.2m (2010: £4.4m), principally relating to redundancies and other costs associated with site closures. The net costs for 2010 included an asset impairment charge of £0.4m and releases of environmental provisions of £1.3m.
- Amortisation of acquired intangible fixed assets of £2.2m (2010: £0.9m).
- Acquisition related expenses of £0.7m (2010: £1.0m) in respect of the two acquisitions made by the Group during the year (note 10).
- Losses on sale of properties of £0.2m (2010: £nil).
- A gain of £1.6m (2010: £nil) in respect of the Group's UK defined benefit pension obligations following amendments to the inflation assumptions and changes in the terms of the UK Executive Scheme. In addition, a loss of £0.4m (2010: £nil) was recognised in respect of the Group's French defined benefit pension obligations following changes in local legislation.
- Gains of £0.4m (2010: £nil) in respect of the fair value of forward foreign currency contracts.
- A loss of £5.9m (2010: £nil) on the disposal of Ash & Lacy Building Systems Limited, a non-core business, on 22 July 2011, the details of which are included in the following table:

	31 December 2011 £m
Intangible assets	**5.1**
Property, plant and equipment	**1.0**
Inventories	**3.4**
Current assets	**6.0**
Current liabilities	**(5.2)**
Deferred tax	**0.1**
Net assets	**10.4**
Consideration:	
Consideration receivable	**5.1**
Less costs to sell and provisions for indemnities	**(0.6)**
Loss on disposal	**5.9**

Non-underlying items included in financial income and expense represent the net financing cost on pension obligations of £0.2m (2010: £0.6m), gains in the fair value of financial instruments of £0.1m (2010: £nil) and costs of £3.3m (2010: £nil) associated with the Group's refinancing of its revolving credit facility.

4. Employees

	2011 £m	2010 (restated) £m
The average number of people employed by the Group during the year		
Infrastructure Products	**2,116**	1,673
Galvanizing Services	**1,260**	1,254
Building and Construction Products	**63**	121
	3,439	3,048

	£m	£m
The aggregate remuneration for the year		
Wages and salaries	**82.4**	73.7
Share-based payments	**0.2**	0.2
Social security costs	**15.9**	13.1
Pension costs	**1.0**	2.3
	99.5	89.3

Details of the Directors' remuneration and share interests are given in the Directors' remuneration report on pages 36 to 44. The comparatives in this note have been restated as explained in note 1.

5. Net financing costs

	Underlying £m	Non-Underlying £m	2011 £m	Underlying £m	Non-Underlying £m	2010 £m
Interest on bank deposits	**0.8**	**–**	**0.8**	0.6	–	0.6
Change in fair value of financial assets and liabilities	**–**	**0.1**	**0.1**	–	–	–
Expected return on pension scheme assets (note 22)	**–**	**3.6**	**3.6**	–	3.4	3.4
Total other income	**–**	**3.7**	**3.7**	–	3.4	3.4
Financial income	**0.8**	**3.7**	**4.5**	0.6	3.4	4.0
Interest on bank loans and overdrafts	**4.5**	**–**	**4.5**	3.8	–	3.8
Interest on finance leases and hire purchase contracts	**0.4**	**–**	**0.4**	0.4	–	0.4
Interest on other loans	**–**	**–**	**–**	0.1	–	0.1
Total interest expense	**4.9**	**–**	**4.9**	4.3	–	4.3
Financial expenses related to refinancing	**–**	**3.3**	**3.3**	–	–	–
Expected interest cost on pension scheme obligations (note 22)	**–**	**3.8**	**3.8**	–	4.0	4.0
Financial expense	**4.9**	**7.1**	**12.0**	4.3	4.0	8.3
Net financing costs	**4.1**	**3.4**	**7.5**	3.7	0.6	4.3

6. Expenses and auditor's remuneration

	2011 £m	2010 £m
Income statement charges		
Depreciation of property, plant and equipment:		
Owned	**11.2**	10.8
Leased	**2.1**	2.1
Operating lease rentals:		
Plant and machinery	**2.1**	1.6
Other	**3.7**	4.9
Research and development expenditure	**0.2**	0.3
Amortisation of acquisition intangibles	**2.2**	0.9
Amortisation of development costs	**1.2**	1.2
Amortisation of other intangible assets	**0.1**	–
Impairment loss	**–**	0.4
Loss on disposal of non-current assets	**0.3**	0.1
Income statement credits		
Grants receivable	**0.1**	–
Rental income	**7.5**	7.8
Foreign exchange gain	**0.1**	0.1

Notes to the Consolidated Financial Statements continued

6. Expenses and auditor's remuneration continued

A detailed analysis of the auditor's remuneration worldwide is as follows:

	2011 £m	2010 £m
Hill & Smith Holdings PLC		
Audit of the Company's annual accounts	**0.1**	0.1
Audit of the Company's subsidiaries	**0.5**	0.4
Services relating to corporate finance transactions	**0.1**	0.4
Other services	**–**	0.1
	0.7	1.0
Hill & Smith Holdings PLC pension schemes		
Valuation and actuarial services	**–**	0.1
Other services – pension administration	**0.2**	0.3
	0.2	0.4

A description of the work of the audit committee is set out in the audit committee report on pages 33 and 34 and includes an explanation of how auditor objectivity and independence is safeguarded when non audit services are provided by the auditor.

7. Taxation

	2011 £m	2010 £m
Current tax		
UK corporation tax	**2.3**	3.5
Adjustments in respect of prior periods	**0.3**	(0.7)
Overseas tax at prevailing local rates	**8.3**	6.3
	10.9	9.1
Deferred tax (note 12)		
Current year	**0.8**	0.2
Adjustments in respect of prior periods	**(1.4)**	(0.6)
Overseas tax at prevailing local rates	**(0.6)**	2.2
Effect of change in tax rate	**(0.4)**	(0.2)
Tax on profit in the consolidated income statement	**9.3**	10.7
Deferred tax (note 12)		
Relating to defined benefit pension schemes	**(1.8)**	1.5
Relating to financial instruments	**0.2**	(0.1)
Tax on items taken directly to other comprehensive income	**(1.6)**	1.4
Current tax		
Relating to share-based payments	**–**	(0.4)
Deferred tax (note 12)		
Relating to share-based payments	**0.2**	0.4
Tax taken directly to the consolidated statement of changes in equity	**0.2**	–

The tax charge in the consolidated income statement for the period is higher (2010: higher) than the standard rate of corporation tax in the UK. The differences are explained below:

	2011 £m	2010 £m
Profit before taxation	**25.4**	35.3
Profit before taxation multiplied by the effective rate of corporation tax in the UK of 26.5%	**6.7**	9.9
Expenses not deductible for tax purposes	**0.3**	0.7
Capital profits less losses and write downs not subject to tax	**1.7**	–
Overseas profits taxed at higher/(lower) rates	**2.1**	1.5
Withholding taxes	**–**	0.1
Deferred tax benefit of future reductions in UK corporation tax rates	**(0.4)**	(0.2)
Adjustments in respect of prior periods	**(1.1)**	(1.3)
Tax charge	**9.3**	10.7

8. Earnings per share

The weighted average number of ordinary shares in issue during the year was 76.9m (2010: 76.9m), diluted for the effects of the outstanding dilutive share options 77.7m (2010: 77.6m). Underlying earnings per share have been shown because the Directors consider that this provides valuable additional information about the underlying performance of the Group.

	2011		2010	
	Pence per share	£m	Pence per share	£m
Basic earnings	20.9	16.1	32.0	24.6
Non-Underlying items*	13.6	10.5	7.0	5.4
Underlying earnings	34.5	26.6	39.0	30.0
Diluted earnings	20.7	16.1	31.7	24.6
Non-Underlying items*	13.5	10.5	7.0	5.4
Underlying diluted earnings	34.2	26.6	38.7	30.0

* Non-Underlying items as detailed in note 3.

9. Dividends

Dividends paid in the year were the prior year's interim dividend of £4.0m (2010: £3.5m) and the final dividend of £5.8m (2010: £5.3m). Dividends declared after the balance sheet date are not recognised as a liability, in accordance with IAS10. The Directors have proposed the following interim dividend and final dividend for the current year, subject to shareholder approval:

	2011		2010	
	Pence per share	£m	Pence per share	£m
Equity shares				
Interim	5.4	4.2	5.2	4.0
Final	7.8	6.0	7.5	5.8
Total	13.2	10.2	12.7	9.8

Notes to the Consolidated Financial Statements continued

10. Intangible assets

	Goodwill £m	Brands £m	Customer lists £m	Capitalised development costs £m	Licences £m	Total £m
Cost						
At 1 January 2010	92.0	12.5	2.9	7.2	0.3	114.9
Exchange adjustments	–	–	–	–	–	–
Acquisitions	0.3	–	0.4	–	–	0.7
Additions	–	–	–	0.9	0.4	1.3
At 31 December 2010	**92.3**	**12.5**	**3.3**	**8.1**	**0.7**	**116.9**
Exchange adjustments	**–**	**0.2**	**0.1**	**–**	**–**	**0.3**
Acquisitions	**11.6**	**6.0**	**10.1**	**–**	**1.1**	**28.8**
Additions	**–**	**–**	**–**	**0.7**	**–**	**0.7**
Disposal of subsidiary	**(5.0)**	**–**	**(0.1)**	**–**	**–**	**(5.1)**
Disposals	**–**	**–**	**–**	**–**	**(0.1)**	**(0.1)**
At 31 December 2011	**98.9**	**18.7**	**13.4**	**8.8**	**1.7**	**141.5**
Amortisation and impairment losses						
At 1 January 2010	–	0.7	1.2	3.0	0.2	5.1
Exchange adjustments	–	–	–	–	–	–
Amortisation charge for the year	–	0.3	0.6	1.2	–	2.1
At 31 December 2010	**–**	**1.0**	**1.8**	**4.2**	**0.2**	**7.2**
Exchange adjustments	**–**	**–**	**–**	**–**	**–**	**–**
Amortisation charge for the year	**–**	**0.4**	**1.8**	**1.2**	**0.1**	**3.5**
Disposals	**–**	**–**	**–**	**–**	**(0.1)**	**(0.1)**
At 31 December 2011	**–**	**1.4**	**3.6**	**5.4**	**0.2**	**10.6**
Carrying values						
At 1 January 2010	92.0	11.8	1.7	4.2	0.1	109.8
At 31 December 2010	92.3	11.5	1.5	3.9	0.5	109.7
At 31 December 2011	**98.9**	**17.3**	**9.8**	**3.4**	**1.5**	**130.9**

2011

On 16 March 2011 the Group acquired 100% of the issued share capital of The Paterson Group, Inc. and its related subsidiaries, a leading manufacturer of pipe supports and hangers for the power generation, commercial and industrial markets in North America. Cash consideration for this acquisition was £29.1m, resulting in goodwill of £7.8m and intangible assets of £12.5m.

On 18 May 2011, the Group acquired 100% of the issued share capital of ATA Bygg-och Markprodukter AB, a distributor of road safety barriers and manufacturer and distributor of road signage to the infrastructure markets in Sweden. Cash consideration for this acquisition was £9.9m, resulting in goodwill of £3.8m and intangible assets of £4.7m.

The goodwill arising on these acquisitions primarily represents the assembled workforce, technical expertise, knowhow, market share and geographical advantages afforded to the Group.

Post acquisition, the acquired companies contributed £1.4m underlying operating profit which is included in the Group's consolidated income statement. If the acquisitions had been made on 1 January 2011 the Group's results for the year would have shown revenue of £417.8m and an underlying operating profit of £42.3m.

Details of the acquisitions are included in the following tables.

10. Intangible assets continued

The Paterson Group, Inc.	Pre acquisition carrying amount £m	Policy alignment and provisional fair value adjustments £m	Total £m
Intangible assets	–	12.5	12.5
Property, plant and equipment	3.2	0.5	3.7
Inventories	5.8	(1.0)	4.8
Current assets	5.5	(0.1)	5.4
Cash and cash equivalents	2.8	–	2.8
Total assets	17.3	11.9	29.2
Current liabilities	(2.8)	(1.1)	(3.9)
Non-current liabilities	0.1	(1.1)	(1.0)
Deferred tax	0.7	(3.7)	(3.0)
Total liabilities	(2.0)	(5.9)	(7.9)
Net assets	15.3	6.0	21.3
Consideration			
Consideration in the year			29.1
Goodwill			7.8
Cash flow effect			
Consideration			29.1
Deferred consideration			–
Cash and cash equivalents received in the business			(2.8)
Net cash consideration shown in the consolidated statement of cash flows			26.3

ATA Bygg-och Markprodukter AB	Pre acquisition carrying amount £m	Policy alignment and provisional fair value adjustments £m	Total £m
Intangible assets	–	4.7	4.7
Property, plant and equipment	0.6	0.3	0.9
Inventories	2.4	(0.9)	1.5
Current assets	2.5	(0.1)	2.4
Cash and cash equivalents	–	–	–
Total assets	5.5	4.0	9.5
Current liabilities	(2.3)	–	(2.3)
Deferred tax	–	(1.1)	(1.1)
Total liabilities	(2.3)	(1.1)	(3.4)
Net assets	3.2	2.9	6.1
Consideration			
Consideration in the year			9.9
Goodwill			3.8
Cash flow effect			
Consideration			9.9
Deferred consideration			–
Cash and cash equivalents received in the business			–
Net cash consideration shown in the consolidated statement of cash flows			9.9

Policy alignment and provisional fair value adjustments principally relate to harmonisation with Group IFRS accounting policies, including the application of fair values on acquisition.

Notes to the Consolidated Financial Statements continued

10. Intangible assets continued

2010

Goodwill of £0.3m and customer lists of £0.3m arose on the acquisition of 100% of the issued share capital of MB Tech Limited (and subsidiary) in December and customer lists of £0.1m arose on the acquisition of the trade and certain assets of Ascolit Limited (In Administration) in July. Goodwill arises on these acquisitions due primarily to the assembled workforce, technical expertise, knowhow, market share and geographical advantages afforded to the Group. Details of the acquisitions are provided in the following table.

	MB Tech and Ascolit pre acquisition carrying amount £m	Policy alignment and provisional fair value adjustments £m	Total £m
Intangible assets	–	**0.4**	**0.4**
Property, plant and equipment	**0.1**	–	**0.1**
Inventories	**0.2**	–	**0.2**
Current assets	**0.3**	–	**0.3**
Cash and cash equivalents	**0.1**	–	**0.1**
Total assets	**0.7**	**0.4**	**1.1**
Current liabilities	**(0.6)**	–	**(0.6)**
Deferred tax	–	**(0.1)**	**(0.1)**
Total liabilities	**(0.6)**	**(0.1)**	**(0.7)**
Net assets	**0.1**	**0.3**	**0.4**
Consideration			
Consideration in the year			**0.7**
Goodwill			**0.3**
Cash flow effect			
Consideration			**0.7**
Deferred consideration			**(0.4)**
Cash and cash equivalents received in the business			**(0.1)**
Net cash consideration shown in the consolidated statement of cash flows			**0.2**
Post acquisition profit/(loss) for the year included in the Group's consolidated income statement			**–**

Policy alignment and provisional fair value adjustments principally relate to harmonisation with Group IFRS accounting policies, including the application of fair values on acquisition.

Cash generating units with significant amounts of goodwill

	2011 £m	2010 £m
Galvanizing Services - France	**22.9**	23.4
Galvanizing Services - USA	**22.0**	21.7
Joseph Ash Limited	**14.3**	14.3
Other cash generating units with no individually significant value	**39.7**	32.9
	98.9	92.3

Goodwill impairments have been carried out at an operating segment level on all cash generating units to which goodwill is allocated.

Impairment tests on the carrying values of goodwill and US brand names of £10.5m (2010: £6.5m), which are the Group's only other indefinite life intangible assets, are performed by analysing the carrying value allocated to each significant cash generating unit against its value in use. All goodwill is allocated to specific cash generating units which are in all cases no larger than operating segments. Value in use is calculated for each cash generating unit 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 with an average growth rate of 1.0% applied subsequent to the initial budget period based on a prudent management estimate for revenue and associated cost growth.

10. Intangible assets continued

The initial measurement of the pre tax weighted average cost of capital was 10.6% (2010: 11.3%). However, to reflect the differing risks and returns applied to the different cash generating units and the geographies in which they operate, the pre tax discount rates have been adjusted to the following:

- Galvanizing Services – France: 12.0% (2010: 13.9%)
- Galvanizing Services – USA: 13.3% (2010: 15.9%)
- Joseph Ash Limited – 12.0% (2010: 12.7%)

Other cash generating units with no significant amounts of goodwill principally consist of subsidiaries in the Infrastructure Products segment.

The Group has applied sensitivities to assess whether any reasonable possible changes in assumptions could cause an impairment that would be material to these consolidated financial statements and no such impairments were identified.

11. Property, plant and equipment

	Land and buildings £m	Plant, machinery and vehicles £m	Total £m
Cost			
At 1 January 2010	55.8	118.1	173.9
Exchange adjustments	–	–	–
Acquisitions	–	0.1	0.1
Additions	1.5	10.4	11.9
Disposals	(0.7)	(3.6)	(4.3)
At 31 December 2010	**56.6**	**125.0**	**181.6**
Exchange adjustments	**(0.3)**	**(0.4)**	**(0.7)**
Acquisitions	**3.4**	**1.2**	**4.6**
Additions	**2.8**	**9.8**	**12.6**
Disposal of subsidiary	**–**	**(6.1)**	**(6.1)**
Disposals	**(0.3)**	**(3.3)**	**(3.6)**
At 31 December 2011	**62.2**	**126.2**	**188.4**
Depreciation and impairment losses			
At 1 January 2010	6.3	62.5	68.8
Exchange adjustments	(0.1)	–	(0.1)
Disposals	(0.3)	(3.0)	(3.3)
Charge for the year	2.2	10.7	12.9
Impairment provision	–	0.4	0.4
At 31 December 2010	**8.1**	**70.6**	**78.7**
Exchange adjustments	**(0.1)**	**(0.1)**	**(0.2)**
Disposal of subsidiary	**–**	**(5.1)**	**(5.1)**
Disposals	**(0.3)**	**(2.9)**	**(3.2)**
Charge for the year	**2.6**	**10.7**	**13.3**
Impairment provision	**–**	**–**	**–**
At 31 December 2011	**10.3**	**73.2**	**83.5**
Carrying values			
At 1 January 2010	49.5	55.6	105.1
At 31 December 2010	48.5	54.4	102.9
At 31 December 2011	**51.9**	**53.0**	**104.9**

The gross book value of land and buildings includes freehold land of £12.7m (2010: £11.5m).

Included in the carrying value of plant, machinery and vehicles is £9.0m (2010: £11.4m) in respect of assets held under finance lease and hire purchase contracts.

Included within plant, machinery and vehicles are assets held for hire with a cost of £28.8m (2010: £28.4m) and accumulated depreciation of £14.8m (2010: £11.9m).

Notes to the Consolidated Financial Statements continued

12. Deferred taxation

	Intangible assets £m	Property, plant and equipment £m	Inventories £m	Retirement obligation £m	Other timing differences £m	Total £m
At 1 January 2010	(5.3)	(10.2)	(2.0)	4.8	–	(12.7)
Exchange adjustments	–	0.1	0.1	–	0.1	0.3
Acquisitions (note 10)	(0.1)	–	–	–	–	(0.1)
Credited/(charged) for the year in the consolidated income statement (note 7)	0.3	0.1	(0.2)	(0.3)	(1.5)	(1.6)
(Charged)/credited for the year in the consolidated statement of comprehensive Income (note 7)	–	–	–	(1.5)	0.1	(1.4)
Credited for the year in the consolidated statement of changes in equity (note 7)	–	–	–	–	(0.4)	(0.4)
At 31 December 2010	**(5.1)**	**(10.0)**	**(2.1)**	**3.0**	**(1.7)**	**(15.9)**
Exchange adjustments	**(0.1)**	**0.1**	**0.1**	**–**	**–**	**0.1**
Acquisitions (note 10)	**(6.0)**	**(0.1)**	**0.9**	**0.1**	**1.0**	**(4.1)**
Disposal of subsidiary	**–**	**(0.1)**	**–**	**–**	**–**	**(0.1)**
Credited/(charged) for the year in the consolidated income statement (note 7)	**0.7**	**1.0**	**(0.1)**	**(0.6)**	**0.6**	**1.6**
Credited/(charged) for the year in the consolidated statement of comprehensive income (note 7)	**–**	**–**	**–**	**1.8**	**(0.2)**	**1.6**
Charged for the year in the consolidated statement of changes in equity (note 7)	**–**	**–**	**–**	**–**	**(0.2)**	**(0.2)**
At 31 December 2011	**(10.5)**	**(9.1)**	**(1.2)**	**4.3**	**(0.5)**	**(17.0)**

	2011 £m	2010 £m
Deferred tax assets	**0.2**	0.1
Deferred tax liabilities	**(17.2)**	(16.0)
Deferred tax liability	**(17.0)**	(15.9)

No deferred tax asset has been recognised in respect of tax losses of £14.7m (2010: £17.5m) as their future use is uncertain. There is no time limit on the carrying forward of these losses.

On 23 March 2011, it was announced that the main rate of corporation tax in the UK would reduce to 26% from 1 April 2011, with subsequent 1% reductions per annum to reach 23% with effect from 1 April 2014. The legislation to reduce the tax rate to 25% from 1 April 2012 was substantively enacted on 5 July 2011. The deferred tax liability provided at the balance sheet date has therefore been recalculated at 25% on the basis that it will materially reverse after 1 April 2012. This recomputation has resulted in a small decrease in the overall deferred tax liability, with a credit of £0.4m being recognised in the consolidated income statement and a corresponding charge of £0.3m directly in equity. The impact on the effective consolidated income statement tax rate for the period is a reduction of 1.6%.

The Government has also indicated that it intends to enact further reductions in the main rate of corporation tax of 1% per annum, reducing the rate to 23% by 1 April 2014. These tax rate reductions had not been substantively enacted at the balance sheet date and therefore have not been reflected in the financial statements. The effect of any such changes on deferred tax balances will be accounted for in the period in which any such changes are enacted.

13. Inventories

	2011 £m	2010 £m
Raw materials and consumables	**29.1**	27.4
Work in progress	**7.7**	5.2
Finished goods and goods for resale	**19.4**	13.8
	56.2	46.4

The amount of inventories expensed to the consolidated income statement in the year was £232.6m (2010: £238.2m). The value of inventories written down and expensed in the consolidated income statement during the year amounted to £nil (2010: £0.3m). The amount of inventories held at fair value less cost to sell included in the above was £0.6m (2010: £0.8m).

14. Trade and other receivables

	2011 £m	2010 £m
Trade and other current receivables		
Trade receivables	**84.2**	67.6
Deferred consideration	**–**	1.1
Prepayments and accrued income	**5.0**	5.3
Other receivables	**1.2**	0.9
Fair value derivatives	**0.4**	–
	90.8	74.9

The charge to the consolidated income statement in the year in respect of impairment of trade receivables was £1.1m (2010: £0.4m).

15. Cash and borrowings

	2011 £m	2010 £m
Cash and cash equivalents in the balance sheet		
Cash and bank balances	**12.6**	23.0
Call deposits	**0.1**	4.0
Cash	**12.7**	27.0
Interest bearing loans and borrowings		
Amounts due within one year (note 16)	**(4.1)**	(27.0)
Amounts due after more than one year (note 17)	**(112.4)**	(70.6)
Net debt	**(103.8)**	(70.6)
Change in net debt		
Operating profit	**32.9**	39.6
Non-cash items	**22.8**	15.7
Operating cash flow before movement in working capital	**55.7**	55.3
Net movement in working capital	**(16.1)**	(1.3)
Changes in provisions and employee benefits	**(4.3)**	(2.3)
Operating cash flow	**35.3**	51.7
Tax paid	**(7.5)**	(9.4)
Net financing costs paid	**(7.7)**	(3.4)
Capital expenditure	**(12.6)**	(15.2)
Proceeds on disposal of non-current assets	**0.1**	0.9
Free cash flow	**7.6**	24.6
Dividends paid (note 9)	**(9.8)**	(8.8)
Purchase of shares for the employee benefit trust (note 20)	**(0.8)**	(0.4)
Disposals (see below)	**6.2**	0.3
Acquisitions (note 10)	**(36.2)**	(0.2)
Issue of new shares (note 20)	**0.1**	0.8
Net debt (increase)/decrease	**(32.9)**	16.3
Effect of exchange rate fluctuations	**(0.3)**	0.7
Net debt at the beginning of the year	**(70.6)**	(87.6)
Net debt at the end of the year	**(103.8)**	(70.6)
Disposals		
Disposal of subsidiary (note 3)	**5.1**	–
Deferred consideration received in respect of disposals	**1.1**	0.3
Total	**6.2**	0.3

Notes to the Consolidated Financial Statements continued

16. Current liabilities

	2011 £m	2010 £m
Interest bearing loans and borrowings (note 15)		
Current portion of long term borrowings	**0.6**	21.7
Finance lease and hire purchase obligations	**3.5**	3.7
Bills of exchange	**–**	1.6
	4.1	27.0
Trade and other current liabilities		
Trade payables	**47.5**	44.2
Other taxation and social security	**10.0**	9.0
Accrued expenses and deferred income	**17.2**	14.0
Fair value derivatives	**0.5**	1.1
Other payables	**4.3**	3.9
	79.5	72.2

17. Non-current liabilities

	2011 £m	2010 £m
Interest bearing loans and borrowings (note 15)		
Long term borrowings	**110.7**	65.4
Finance lease and hire purchase obligations	**1.7**	5.2
	112.4	70.6
Other non-current liabilities		
Deferred government grants	**0.2**	0.2

Finance leases and hire purchase obligations and the effective interest rates for the period they mature as at the balance sheet date are detailed below:

	2011			2010		
	Effective interest rate %	Minimum lease payment £m	Principal £m	Effective interest rate %	Minimum lease payment £m	Principal £m
Finance leases and hire purchase obligations						
Amounts due within one year	**3.53**	**3.7**	**3.5**	4.33	4.1	3.7
Amounts due after more than one year						
Between one and two years	**4.08**	**1.5**	**1.5**	4.33	3.7	3.5
Between two and five years	**5.00**	**0.2**	**0.2**	4.64	1.7	1.7
		1.7	**1.7**		5.4	5.2
		5.4	**5.2**		9.5	8.9
Principal liability		**5.2**			8.9	
Finance charges payable on outstanding commitments		**0.2**			0.6	

The unsecured bank borrowings carry a rate of interest of 1.75% above LIBOR/EURIBOR subject to a ratchet as defined in the facility agreement. In the USA, borrowings that are not fixed (note 19) are at LIBOR +1.5% and are secured against substantially all of the assets of V&S LLC and its subsidiaries. Obligations under finance leases and hire purchase obligations are secured on the relevant assets.

18. Provisions for liabilities and charges

	Property related £m	Other regulatory £m	Total £m
At 1 January 2010	4.6	0.4	5.0
Exchange adjustments	(0.1)	–	(0.1)
Utilised during the year	(1.0)	(0.1)	(1.1)
Charged to consolidated income statement	1.8	0.1	1.9
Released to consolidated income statement	(1.3)	–	(1.3)
At 31 December 2010	**4.0**	**0.4**	**4.4**
Exchange adjustments	**–**	**–**	**–**
Acquisitions of subsidiaries	**0.8**	**–**	**0.8**
Utilised during the year	**(0.8)**	**(0.1)**	**(0.9)**
Released to consolidated income statement	**–**	**(0.3)**	**(0.3)**
At 31 December 2011	**4.0**	**–**	**4.0**

	2011 £m	2010 £m
Amounts due within one year	**0.5**	0.8
Amounts due after more than one year	**3.5**	3.6
	4.0	4.4

Property provisions utilised during the year reflect cash spend associated with the closure of two of the Group's manufacturing plants late in 2010. The Group has sought expert valuations in relation to its property provisions where appropriate, including those acquired during the year, although there are factors outside of the Group's control that give rise to uncertainties surrounding these matters. The Group does not expect to be reimbursed for any of the future costs.

Other regulatory provisions relate principally to warranty issues. Provisions amounting to £0.3m were released where the Group no longer has any known obligations.

19. 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 peer and third party reviews is in place to assist the Group audit committee with its assessment of the effectiveness of risk management and internal control procedures.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises from cash and cash equivalents, derivative financial instruments and principally from the Group's receivables from customers. The maximum exposure to credit risk for receivables and other financial assets is represented by their carrying amount.

It is the Group's policy to insure a substantial part of the Group's trade receivables. Any residual risk is spread across a significant number of customers. As such the impairment losses are not significant. Purchase limits are established for each customer, which represent the maximum open amount without requiring approval from the Board and are reviewed regularly. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis.

Notes to the Consolidated Financial Statements continued

19. Financial instruments continued

The Group's UK companies represent the majority of the trade receivable at 31 December 2011 with 57.6% (2010: 61.9%) and currently the only geographical region that does not generally insure their trade receivables is the USA, which represents 20.4% (2010: 13.5%) of the Group's trade receivables. The USA has a policy of taking out trade references before granting credit limits and selectively insuring where it is deemed necessary by management.

The Group's policy is to not provide financial guarantees. At 31 December 2011 and 2010, no guarantees were outstanding.

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 borrowings maturing within the next 12 months. As at 31 December 2011 all such debt was covered by cash and cash equivalents netting to £8.6m positive current liquidity (2010: £nil).

During the year the Group refinanced its principal UK revolving credit facility. The new facility is a multicurrency revolving credit agreement that expires in April 2016 and has a value at 31 December 2011 of £213.1m, based on year end exchange rates. Along with various other on demand lines of credit, including bank overdrafts, finance leases and bills of exchange, the Group has access to facilities of £235.3m.

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.

Counterparty risk

A Group of relationship banks provides the bulk of the banking services, with pre-approved credit limits set for each institution. Financial derivatives are entered into with these core banks and the underlying credit exposure to these instruments is included when considering the credit exposure to the counterparties. At the end of 2011 credit exposure including cash deposited did not exceed £3.0m with any single institution (2010: £7.7m).

Currency risk

The Group publishes its consolidated financial statements in Sterling, but conducts business in several foreign currencies, including significant operations based in Continental Europe, the USA and Asia. This results in foreign currency exchange risk due to exchange rate movements which will affect the Group's transaction costs and the translation of the results and underlying net assets of its foreign operations.

The trading currency of each operation is predominantly in the same denomination, however, the Group uses forward exchange contracts to hedge the majority of exposures that do exist. The Group does not apply hedge accounting to these derivative financial instruments.

The Group has hedged its investment in US and European operations by way of financing the acquisitions through like denominations of its multi currency banking facility. 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 Group adopts interest rate swaps when engaging in long term specific investments or contracts in order to more reliably assess financial implications of these procurements. However, the Group currently feels that using fixed interest rates for short term day to day trading is not appropriate.

The UK Parent Company holds Sterling, US Dollar and Euro derivative instruments, designed to reduce the Group's exposure to interest rate fluctuations, as shown in the following table. The notional amounts represent approximately 16.3% (2010: 58.1%) of the gross year end Sterling borrowings, 84.1% (2010: 70.8%) of the Euro borrowings and 0% (2010: 52.2%) of the US Dollar borrowings all held in the UK. The Group also has US Dollar arrangements which are held locally, the notional amounts representing approximately 52% (2010: 27.8%) of the local US Dollar year end gross borrowings.

19. Financial instruments continued

Country	Financial instrument	Maturity date	Rate excluding margin %	2011 Notional amounts £m	2011 Notional amounts €m	2011 Notional amounts $m
UK	Swap	2 January 2012	2.230		**7.0**	
UK	Swap	7 June 2012	2.360		**16.1**	
UK	Swap	7 June 2012	2.325		**9.1**	
UK	Swap	7 June 2012	2.610	**4.1**		
UK	Swap	1 April 2016†	1.148			**10.0**
UK	Swap	1 April 2016†	1.130			**10.0**
UK	Swap	1 April 2016†	1.133			**10.0**
UK	Swap	1 April 2016†	1.360	**10.0**		
UK	Swap	1 April 2016†	1.544		**10.0**	
USA	Swap	1 July 2012	4.200			**1.2**
USA	Swap	1 October 2012	4.800			**0.9**

† Whilst contractually binding at 31 December 2011, these swaps do not impact the Group's interest costs until the contracted start date of 1 July 2012.

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 Board 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 on capital, 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 2011 and 2010.

There were no 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.

	Held for trading £m	Amortised cost £m	Total carrying value £m	Fair value £m
Cash and cash equivalents	**–**	**12.7**	**12.7**	**12.7**
Interest bearing loans due within one year	**–**	**(4.1)**	**(4.1)**	**(4.1)**
Interest bearing loans due after more than one year	**–**	**(112.4)**	**(112.4)**	**(112.4)**
Derivative assets	**0.4**	**–**	**0.4**	**0.4**
Derivative liabilities	**(0.5)**	**–**	**(0.5)**	**(0.5)**
Other assets	**–**	**85.4**	**85.4**	**85.4**
Other liabilities	**–**	**(69.0)**	**(69.0)**	**(69.0)**
Total at 31 December 2011	**(0.1)**	**(87.4)**	**(87.5)**	**(87.5)**
Cash and cash equivalents	–	27.0	27.0	27.0
Interest bearing loans due within one year	–	(27.0)	(27.0)	(27.0)
Interest bearing loans due after more than one year	–	(70.6)	(70.6)	(70.6)
Derivative liabilities	(1.1)	–	(1.1)	(1.1)
Other assets	–	68.5	68.5	68.5
Other liabilities	–	(62.1)	(62.1)	(62.1)
Total at 31 December 2010	(1.1)	(64.2)	(65.3)	(65.3)

Notes to the Consolidated Financial Statements continued

19. 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	**–**	**0.4**	**–**	**0.4**
Derivative financial liabilities	**–**	**(0.5)**	**–**	**(0.5)**
At 31 December 2011	**–**	**(0.1)**	**–**	**(0.1)**
Derivative financial assets	–	–	–	–
Derivative financial liabilities	–	(1.1)	–	(1.1)
At 31 December 2010	–	(1.1)	–	(1.1)

At 31 December 2011 the Group did not have any liabilities classified at Level 1 or Level 3 in the fair value hierarchy. 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 LIBOR/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 Sterling, Euro and US Dollar denominated finance leases and hire purchase agreements and bank loans. Floating rate financial liabilities comprise Sterling, Euro and US Dollar bank loans and overdrafts, and Sterling finance leases and hire purchase agreements. The floating rate financial liabilities bear interest at rates related to bank base rates or LIBOR/EURIBOR.

Each subsidiary has financial assets and liabilities which are predominantly in the same denomination as that subsidiary's functional currency. Excluding the UK parent company, the financial assets and liabilities not denominated in the functional currency of these entities are insignificant to the Group.

The UK parent company holds Euro £31.9m (2010: £37.8m) and US Dollar £50.1m (2010: £28.4m) denominated interest bearing loans, which are predominantly used to fund its European and United States operations and include £82.0m (2010: £66.2m) designated as a hedge of the net investment in a foreign operation. The foreign currency loss of £0.4m (2010: gain of £1.1m) for the effective portion was recognised directly in equity 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
Sterling at 31 December 2011	**3.1**	**0.7**
US Dollar at 31 December 2011	**4.5**	**1.9**
Euro at 31 December 2011	**2.3**	**1.3**
Sterling at 31 December 2010	3.3	1.5
US Dollar at 31 December 2010	2.5	1.6
Euro at 31 December 2010	2.3	1.3

19. 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:

	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 bank borrowings	**4.1**	**(4.2)**	**(0.5)**	**(0.5)**	**(1.2)**	**(2.0)**
Unsecured bank borrowings	**107.2**	**(118.8)**	**(2.8)**	**(2.7)**	**(113.3)**	**–**
Finance lease obligations	**5.2**	**(5.4)**	**(3.7)**	**(1.5)**	**(0.2)**	**–**
Other liabilities	**69.0**	**(69.0)**	**(69.0)**	**–**	**–**	**–**
Derivative liabilities	**0.5**	**(0.9)**	**(0.2)**	**(0.2)**	**(0.5)**	**–**
Total at 31 December 2011	**186.0**	**(198.3)**	**(76.2)**	**(4.9)**	**(115.2)**	**(2.0)**
Secured bank borrowings	5.5	(5.8)	(0.7)	(0.7)	(2.1)	(2.3)
Unsecured bank borrowings	81.6	(84.2)	(22.6)	(61.6)	–	–
Finance lease obligations	8.9	(9.5)	(4.1)	(3.7)	(1.7)	–
Bills of exchange	1.6	(1.6)	(1.6)	–	–	–
Other liabilities	71.1	(71.1)	(71.1)	–	–	–
Derivative liabilities	1.1	(2.5)	(1.6)	(0.9)	–	–
Total at 31 December 2010	169.8	(174.7)	(101.7)	(66.9)	(3.8)	(2.3)

The Group had the following undrawn committed facilities at 31 December, in respect of which all conditions precedent had been met:

	2011 £m	2010 £m
Undrawn committed borrowing facilities		
Expiring after more than one year	**106.0**	58.6

(d) Fair values

The gain in the year on the interest rate swaps held by the UK Group was £0.4m (2010: loss of £0.3m) which is recognised directly in equity as these instruments are accounted for as cash flow hedges. Any ineffective portion of these hedges is taken to the consolidated income statement and was insignificant. The gain in the year on the US fixed rate interest swaps taken to the consolidated income statement was £0.1m (2010: £nil). The fair value of forward currency exchange contracts realised in the consolidated income statement as part of fair value derivatives amounted to £0.4m (2010: £nil). The fair values of the Group's other financial instruments at 31 December 2011 and 2010 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 £nil (2010: £0.4m) were recognised in respect of the carrying values of non-current assets, as detailed in note 11.

(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

	2011 £m	2010 £m
Loans and receivables	**85.4**	69.6
Cash at the end of the year (note 15)	**12.7**	27.0
Total	**98.1**	96.6

Notes to the Consolidated Financial Statements continued

19. Financial instruments continued

At the reporting date the maximum exposure to credit risk for trade receivables, ignoring credit insurance was:

Carrying value of trade receivables by geography

	2011 £m	2010 £m
UK	**48.5**	41.9
Rest of Europe	**17.0**	14.7
USA	**17.2**	9.2
Asia	**1.5**	1.8
Total	**84.2**	67.6

Carrying value of trade receivables by business segment

	2011 £m	2010 (restated) £m
Infrastructure Products	**60.7**	41.4
Galvanizing Services	**23.5**	21.5
Building and Construction Products	**–**	4.7
Total	**84.2**	67.6

The comparatives in this note have been restated as explained in note 1.

Impairment losses

The Group maintains a substantial level of credit insurance covering the majority of its trade receivables which mitigates against possible impairment losses, therefore such impairment losses are not significant.

The ageing of trade receivables at the reporting date was:

	2011			2010		
	Gross £m	Provisions £m	Net £m	Gross £m	Provisions £m	Net £m
Not past due	**61.1**	**(0.3)**	**60.8**	47.0	(0.3)	46.7
Past due 1–30 days	**16.3**	**(0.3)**	**16.0**	16.3	(0.7)	15.6
Past due 31–120 days	**6.7**	**(1.0)**	**5.7**	5.1	(0.2)	4.9
Past due more than 120 days	**3.1**	**(1.4)**	**1.7**	1.4	(1.0)	0.4
Total	**87.2**	**(3.0)**	**84.2**	69.8	(2.2)	67.6

The movements in provisions for impairment of trade receivables are as follows:

	£m
At 1 January 2010	3.3
Charged to the consolidated income statement during the year	0.2
Utilised during the year	(1.3)
At 31 December 2010	**2.2**
Acquisitions of subsidiaries	**0.5**
Charged to the consolidated income statement during the year	**0.5**
Utilised during the year	**(0.2)**
At 31 December 2011	**3.0**

(f) 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 that are not subject to an interest rate swap, if interest rates had varied throughout the year by 1% the positive or negative variation on the year's result would have been £0.8m (2010: £0.5m), 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 consolidated income statement would have been a gain of £1.9m (2010: £1.8m) and the impact on equity would have been a gain of £10.7m (2010: £8.3m).
- Based on a 10% strengthening in Sterling against all currencies throughout the year, the impact on the consolidated income statement would have been a loss of £1.6m (2010: £1.5m) and the impact on equity would have been a loss of £9.1m (2010: £6.7m).

20. Called up share capital

	2011 £m	2010 £m
Allotted, called up and fully paid		
77.0m Ordinary Shares of 25p each (2010: 76.9m)	**19.2**	19.2

In 2011 the Company issued 0.1m shares under its various share option schemes (2010: 0.8m), realising £0.1m (2010: £0.8m).

The Company purchased shares with a market value of £0.8m (2010: £0.4m) through an Employee Benefit Trust (EBT) in order to satisfy the 2007 LTIP Award granted in March 2008. The nominal value of the shares was £0.1m (2010: £0.0m). No shares are held by the EBT at the year end.

Options outstanding over the company's shares

	Number of shares (2011)	2011 Option price (p)	Number of shares (2010)	2010 Option price (p)	Date first exercisable	Expiry date
2007 LTIP Award (granted March 2011)*	**287,779**	**–**	–	–	§	§
2007 LTIP Award (granted March 2010)*	**247,546**	**–**	247,546	–	§	§
2007 LTIP Award (granted March 2009)*	**180,000**	**–**	180,000	–	§	§
2007 LTIP Award (granted March 2008)*	**–**	**–**	205,749	–	§	§
2005 Approved Executive Share Option Scheme (granted October 2005)*	**66,938**	**205**	107,031	205	4 October 2008	4 October 2015
2005 Non-Approved Executive Share Option Scheme (granted October 2005)*	**68,375**	**205**	68,375	205	4 October 2008	4 October 2015
2007 grant of 2005 Approved Executive Share Option Scheme (granted April 2007)*	**236,830**	**350**	247,021	350	13 April 2010	13 April 2017
2007 grant of 2005 Non-Approved Executive Share Option Scheme (granted April 2007)*	**370,170**	**350**	388,979	350	13 April 2010	13 April 2017
2008 grant of 2005 Savings Related Share Option Scheme (granted January 2008)*†	**–**	**318**	72,239	318	1 January 2011	1 July 2011
2008 grant of 2005 Savings Related Share Option Scheme (granted January 2008)*†	**131,350**	**318**	169,198	318	1 January 2013	1 July 2013
2008 grant of 2005 Savings Related Share Option Scheme (granted December 2008)*†	**77,474**	**246**	103,139	246	1 December 2011	1 June 2012
2008 grant of 2005 Savings Related Share Option Scheme (granted December 2008)*†	**146,067**	**246**	185,223	246	1 December 2013	1 June 2014
2010 grant of 2005 Savings Related Share Option Scheme (granted January 2011)*†	**499,970**	**238**	–	–	1 January 2016	1 July 2016
Outstanding at the end of the year	**2,312,499**		1,974,500			
Exercisable at the year end	**819,787**		811,406			
Not exercisable at the year end	**1,492,712**		1,163,094			
Outstanding at the end of the year	**2,312,499**		1,974,500			

* Subject to share-based payments under IFRS2 (see below).

† 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.

§ Awards lapse on the earlier of the award holder ceasing their employment or the applicable performance conditions not being met. The earliest possible date for award is 1 January 2012 for the 2009 grant, 1 January 2013 for the 2010 grant and I January 2014 for the 2011 grant.

The remaining weighted average life of the outstanding share options is 3 years 2 months (2010: 3 years 2 months).

Notes to the Consolidated Financial Statements continued

20. 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) 2011	**Millions of options 2011**	Weighted average exercise price (p) 2010	Millions of options 2010
Outstanding at the beginning of the year	**206**	**2.0**	192	2.8
Granted during the year	**164**	**0.9**	0	0.2
Exercised during the year	**(50)**	**(0.3)**	(95)	(0.8)
Lapsed during the year	**(244)**	**(0.3)**	(317)	(0.2)
Outstanding at the end of the year	**197**	**2.3**	206	2.0

The weighted average share price on the dates of exercise during the year for the above share options was 311p (2010: 308p), and the weighted average fair value of options and awards granted in the year was 104p (2010: 344p).

Share-based payments

All option schemes marked as being subject to share-based payments have 2005 to 2010 as their first qualifying year.

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.

	2011 grant of 2007 LTIP Award	2010 grant of 2007 LTIP Award	2009 grant of 2007 LTIP Award	2008 grant of 2007 LTIP Award	January 2011 grant of 2005 Savings Related Share Option Scheme	December 2008 grant of 2005 Savings Related Share Option Scheme	January 2008 grant of 2005 Savings Related Share Option Scheme	2007 grant of 2005 Share Option Schemes	2005 grant of 2005 Share Option Schemes
Fair value at measurement date (p)	303/171	344	133	284	44	3/3	51/49	59	34
Share price at grant date (p)	303	339	154	330	290	160	331	351	208
Exercise price (p)	0	0	0	0	238	246	318	350	205
Expected volatility (%)	28	27	30	29	21	28/24	29/25	22	36
Option life (years)	3	3	3	3	5	3/5	3/5	3	3
Dividend yield (%)	0.0	0.0	4.6	4.6	4.4	4.6	4.6	3.7	3.7
Risk free interest rate (%)	1.6	1.9	2.1	3.8	1.6	1.8/2.8	4.0	5.1	4.5

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 non-approved schemes, as indicated above. Other than the LTIP, the strike price for the option is made based on the market values of shares at the date the option is offered.

The total expense recognised for the period arising from share-based payments is as follows:

	2011 £m	2010 £m
Expensed during the year	**0.2**	0.2

21. Guarantees and other financial commitments

(a) Guarantees

The Group had no financial guarantee contracts outstanding (2010: £nil).

(b) Capital commitments

	2011 £m	2010 £m
Contracted for but not provided in the accounts	**0.7**	0.2

21. Guarantees and other financial commitments continued

(c) Operating lease commitments

The total future minimum commitments payable under non-cancellable operating leases are analysed as follows:

	2011		2010	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Group				
Within one year	**4.4**	**2.1**	4.9	1.6
Between one and two years	**4.3**	**1.6**	4.4	1.4
Between two and five years	**11.1**	**1.6**	11.5	1.5
After five years	**16.7**	**–**	19.6	–
	36.5	**5.3**	40.4	4.5

The Group leases properties, plant, machinery and vehicles for operational purposes. Property leases vary considerably in length up to a maximum period of 99 years. Plant, machinery and vehicle leases typically run for periods of up to 5 years.

The total future minimum commitments receivable under non-cancellable operating leases are analysed as follows:

	2011		2010	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Group				
Within one year	**0.6**	**5.0**	0.9	6.1
Between one and five years	**1.6**	**2.0**	2.1	2.0
After five years	**1.0**	**–**	1.4	–
	3.2	**7.0**	4.4	8.1

22. Pensions

Total

The total Group retirement benefit assets and obligations are detailed below:

	UK £m	Overseas £m	2011 £m	UK £m	Overseas £m	2010 £m
Total fair value of scheme assets	**54.9**	**2.6**	**57.5**	56.6	0.1	56.7
Present value of scheme funded obligations	**(69.2)**	**(4.6)**	**(73.8)**	(66.1)	(1.4)	(67.5)
Present value of scheme unfunded obligations	**–**	**(0.1)**	**(0.1)**	–	(0.1)	(0.1)
Retirement benefit obligation	**(14.3)**	**(2.1)**	**(16.4)**	(9.5)	(1.4)	(10.9)

United Kingdom

The Group operates two main pension schemes in the UK. The Hill & Smith Executive Pension Scheme provides benefits on a defined benefit basis, while the other larger Hill & Smith Pension Scheme provides benefits that are on a defined contribution basis. This second scheme also contains some defined benefit liabilities. The assets of both schemes are administered by trustees and are kept entirely separate from those of the Group. Independent actuarial valuations are carried out every three years. Contribution rates are determined on the basis of advice from an independent professionally qualified actuary, with the objective of providing the funds required to meet pension obligations as they fall due. There are also separate personal pension plans.

The consolidated income statement for the year includes a pension charge within operating profit of £0.1m (2010: £2.0m), which includes the costs of the defined contribution scheme and the defined benefit scheme.

All actuarial gains and losses are recognised immediately in the consolidated statement of comprehensive income.

Notes to the Consolidated Financial Statements continued

22. Pensions continued

Composition of the Scheme

The Group operates defined benefit schemes in the UK. A full actuarial valuation of the schemes was last carried out as at 5 April 2009 and was updated to 31 December 2011 by a qualified actuary.

The principal assumptions used by the actuary

	2011	2010	2009	2008	2007
Rate of increase in salaries	**2.00%**	3.50%	3.60%	2.70%	4.80%
Rate of increase in pensions payment	**2.90%**	3.30%	3.40%	2.60%	3.30%
Discount rate	**4.90%**	5.60%	5.80%	6.50%	5.70%
Inflation - RPI	**3.00%**	3.50%	3.60%	2.70%	3.40%
Inflation - CPI	**2.00%**	–	–	–	–
Mortality table	**116%120% S1PAmc1%**	116%120% S1PA mc1%	PA92YOB*	PA92YOB*	PA92YOB*

* With the addition of the short cohort for the Hill & Smith Executive Pension Scheme, approximately 1.3 years is added to the life expectancies shown below:

The mortality assumptions imply the following expected future lifetimes from age 65:

	2011	2010	2009	2008	2007
Males currently aged 45	**21.6 years**	21.6 years	21.1 years	21.0 years	20.9 years
Females currently aged 45	**24.2 years**	24.2 years	24.1 years	24.0 years	23.9 years
Males currently aged 65	**20.0 years**	20.0 years	19.9 years	19.8 years	19.6 years
Females currently aged 65	**22.7 years**	22.7 years	22.9 years	22.8 years	22.7 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.

Assets and liabilities

One 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, 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:

	Rate of return expected 2011 %	Market value 2011 £m	Rate of return expected 2010 %	Market value 2010 £m	Rate of return expected 2009 %	Market value 2009 £m
Assets						
Equities	**6.40**	**16.2**	7.60	19.0	8.00	16.0
Bonds	**4.50**	**29.5**	5.00	27.2	5.20	24.9
With profits policies	**4.10**	**2.5**	5.30	2.3	5.70	2.1
Hedge funds	**8.00**	**5.4**	8.00	5.8	8.00	5.6
Currency funds	**6.40**	**0.9**	7.60	1.9	8.00	2.3
Cash	**2.80**	**0.4**	4.00	0.4	4.40	1.1
Total fair value of scheme assets	**5.40**	**54.9**	6.27	56.6	6.49	52.0
Present value of scheme funded obligations		**(69.2)**		(66.1)		(67.4)
Retirement benefit obligation		**(14.3)**		(9.5)		(15.4)

	Rate of return expected 2008 %	Market value 2008 £m	Rate of return expected 2007 %	Market value 2007 £m
Assets				
Equities	8.40	10.7	8.00	21.2
Bonds	6.50	25.3	5.70	28.5
With profits policies	5.30	2.9	5.90	4.8
Hedge funds	8.00	5.0	8.00	5.7
Currency funds	8.40	2.1	8.40	2.6
Cash	3.70	0.4	4.50	0.8
Total fair value of scheme assets	7.08	46.4	6.92	63.6
Present value of scheme funded obligations		(56.8)		(72.2)
Retirement benefit obligation		(10.4)		(8.6)

22. Pensions continued

The overall expected return on assets assumption has been calculated as an approximate weighted average of the expected returns of each asset class taking into account the asset allocation of the scheme. When setting an expected return for each asset class, the following factors have been considered:

Equities – a higher long term rate of return is expected on equity investments than that which is available on bonds. The extent to which equities are assumed to provide higher returns than bonds in the future is estimated based on the returns achieved above bond returns historically, market conditions at the balance sheet date and the employment of a UK active management approach with equities.

Bonds, gilts and cash – where assets are held in bonds, gilts and cash, the expected long term rate of return is taken to be the yields generally prevailing on such assets as at the balance sheet date.

With profits policies – the underlying asset allocation of the policies and the overall rate is based on the expected long term rate of return on each of the asset classes with reference to this allocation.

Hedge funds – these funds invest in a range of investments including equities, bonds and alternatives to generate stable absolute returns at a level above cash. The extent to which these funds are assumed to provide higher returns than cash in the future is based on the manager's objectives with regards to the average annual returns above cash and having regard to market conditions at the balance sheet date.

Currency funds – these funds incorporate gearing to generate expected returns significantly above the returns available on cash. The extent to which these funds are assumed to provide higher returns than cash in the future is estimated based on expected returns on equity investments and market conditions at the balance sheet date.

Total expense recognised in the consolidated income statement

	2011			2010		
	Defined contribution schemes £m	Defined benefit schemes £m	Total £m	Defined contribution schemes £m	Defined benefit schemes £m	Total £m
Current service costs	1.1	0.6	1.7	1.5	0.5	2.0
Past service costs	–	(1.1)	(1.1)	–	–	–
Gains on curtailments and settlements	–	(0.5)	(0.5)	–	–	–
Charge/(credit) to operating profit	1.1	(1.0)	0.1	1.5	0.5	2.0
Expected return on pension scheme assets	–	(3.5)	(3.5)	–	(3.4)	(3.4)
Expected interest cost on pension scheme obligations	–	3.6	3.6	–	3.9	3.9
Total charged/(credited) to profit before tax	1.1	(0.9)	0.2	1.5	1.0	2.5

Change in the present value of the defined benefit obligations

	2011 £m	2010 £m
Opening defined benefit obligations	66.1	67.4
Current service costs	0.6	0.5
Past service costs	(1.1)	–
Expected interest cost	3.6	3.9
Actuarial loss/(gain)	3.9	(2.2)
Gains on curtailments and settlements	(0.5)	–
Employee contributions	0.1	0.1
Benefits paid	(3.5)	(3.6)
Closing defined benefit obligations	69.2	66.1

Notes to the Consolidated Financial Statements continued

22. Pensions continued

Changes in fair values of scheme assets

	2011 £m	2010 £m
Opening fair value of assets	**56.6**	52.0
Expected return on assets	**3.5**	3.4
Actuarial (loss)/gain	**(4.3)**	2.4
Employer contributions	**2.5**	2.3
Employee contributions	**0.1**	0.1
Benefits paid	**(3.5)**	(3.6)
Closing fair value of assets	**54.9**	56.6
Actual return on scheme assets	**(0.7)**	5.8
Expected employer contributions in the following year		
Defined benefit schemes	**1.8**	2.4
Defined contribution schemes	**1.2**	1.4

Amounts recognised in the consolidated statement of comprehensive income

	% of scheme assets/ liabilities %	2011 £m	% of scheme assets/ liabilities %	2010 £m	% of scheme assets/ liabilities %	2009 £m
Difference between actual and expected return on scheme assets	**8**	**(4.3)**	4	2.4	9	4.4
Experienced gain on scheme obligations	**–**	**–**	–	–	0	0.3
Changes in assumptions underlying the present value of scheme obligations	**6**	**(3.9)**	3	2.2	(16)	(10.5)
Annual amount recognised	**12**	**(8.2)**	7	4.6	(8)	(5.8)
Total amount recognised		**(24.7)**		(16.5)		(21.1)

	% of scheme assets/ liabilities %	2008 £m	% of scheme assets/ liabilities %	2007 £m
Difference between actual and expected return on scheme assets	(35)	(16.2)	(3)	(2.0)
Experienced loss on scheme obligations	(1)	(0.7)	(1)	(0.8)
Changes in assumptions underlying the present value of scheme obligations	20	11.6	5	3.4
Annual amount recognised	(9)	(5.3)	1	0.6
Total amount recognised		(15.3)		(10.0)

Overseas

In France the Group provides certain long term benefits and operates post employment defined benefit plans which provide lump sum benefits at retirement in accordance with collective labour agreements. Some of those plans are funded with insurance companies.

In the USA The Paterson Group, Inc., acquired on 16 March 2011 (note 10), operates a defined benefit pension plan comprising current and deferred pensioners such that no future benefits accrue.

The Group also operates defined contribution plans in the USA and in Sweden. The amount contributed to these plans during the year was £0.4m (2010: £0.1m).

The consolidated income statement for the year includes a pension charge within operating profit of £0.9m (2010: £0.2m), which includes the costs of the defined contribution schemes and the defined benefit schemes.

All actuarial gains and losses are recognised immediately in the consolidated statement of comprehensive income.

Composition of the schemes

The Group operates defined benefit schemes in France and the USA. Actuarial valuations of the schemes were carried out by independent actuaries as at 31 December 2011.

22. Pensions continued

The principal assumptions used by the actuaries

	2011 USA	2011 France	2010	2009	2008
Rate of increase in salaries	**0.00%**	**2.00%**	2.00%	2.00%	2.00%
Discount rate	**4.50%**	**5.00%**	4.60%	5.00%	5.50%
Inflation	**0.00%**	**2.00%**	2.00%	2.00%	2.00%
Expected long term rate of return on plan assets	**7.50%**	**4.50%**	4.00%	4.50%	4.50%
Mortality table	**94 GAR Proj. 2002**	**TH 00-02, TF 00-02**	TH 00-02, TF 00-02	TH 00-02, TF 00-02	TG H/F 05

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:

	Rate of return expected 2011 %	Market value 2011 £m	Rate of return expected 2010 %	Market value 2010 £m	Rate of return expected 2009 %	Market value 2009 £m	Rate of return expected 2008 %	Market value 2008 £m
Assets								
Cash and other insured fixed interest assets	**7.30**	**2.6**	4.00	0.1	4.50	0.2	4.50	0.2
Total fair value of scheme assets	**7.30**	**2.6**	4.00	0.1	4.50	0.2	4.50	0.2
Present value of scheme funded obligations		**(4.6)**		(1.4)		(1.4)		(1.4)
Present value of scheme unfunded obligations		**(0.1)**		(0.1)		(0.1)		(0.2)
Retirement benefit obligation		**(2.1)**		(1.4)		(1.3)		(1.4)

	Rate of return expected 2007 %	Market value 2007 £m
Assets		
Cash and other insured fixed interest assets	4.50	0.1
Total fair value of scheme assets	4.50	0.1
Present value of scheme funded obligations		(0.9)
Present value of scheme unfunded obligations		(0.3)
Retirement benefit obligation		(1.1)

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 balance sheet date.

Total expense recognised in the consolidated income statement

	2011			2010		
	Defined contribution schemes £m	Defined benefit schemes £m	Total £m	Defined contribution schemes £m	Defined benefit schemes £m	Total £m
Current service cost	**0.4**	**0.1**	**0.5**	0.1	0.1	0.2
Past service costs	**–**	**0.4**	**0.4**	–	–	–
Charge to operating profit	**0.4**	**0.5**	**0.9**	0.1	0.1	0.2
Expected return on pension scheme assets	**–**	**(0.1)**	**(0.1)**	–	–	–
Expected interest cost on pension scheme obligations	**–**	**0.2**	**0.2**	–	0.1	0.1
Total charged to profit before tax	**0.4**	**0.6**	**1.0**	0.1	0.2	0.3

Notes to the Consolidated Financial Statements continued

22. Pensions continued

Change in the present value of the defined benefit obligation

	2011 £m	2010 £m
Opening defined benefit obligation	**1.5**	1.5
Acquisitions of subsidiaries	**2.6**	–
Current service costs	**0.1**	0.1
Past service costs	**0.4**	–
Expected interest cost	**0.2**	0.1
Actuarial losses	**0.2**	–
Benefits paid	**(0.1)**	(0.1)
Employee contributions	**(0.3)**	–
Exchange adjustments	**0.1**	(0.1)
Closing defined benefit obligation	**4.7**	1.5

Changes in fair values of scheme assets

	2011 £m	2010 £m
Opening fair value of assets	**0.1**	0.2
Acquisitions of subsidiaries	**2.4**	–
Expected return on assets	**0.1**	–
Benefits paid	**(0.1)**	(0.1)
Exchange adjustments	**0.1**	
Closing fair value of assets	**2.6**	0.1
Actual return on scheme assets	**0.1**	–
Expected employer contributions in the following year		
Defined benefit schemes	**–**	–
Defined contribution schemes	**0.4**	0.1

Amounts recognised in the consolidated statement of comprehensive income

	% of scheme assets/ liabilities %	2011 £m	% of scheme assets/ liabilities %	2010 £m	% of scheme assets/ liabilities %	2009 £m	% of scheme assets/ liabilities %	2008 £m
Experienced loss on scheme obligations	**–**	**–**	(2)	–	3	–	(9)	(0.1)
Changes in assumptions underlying the present value of Scheme obligations	**(4)**	**(0.2)**	–	–	–	–	–	–
Exchange rate adjustment on assets and liabilities	**n/a**	**–**	n/a	–	n/a	0.1	n/a	(0.3)
Amount recognised in the period		**(0.2)**		–		0.1		(0.4)
Total amount recognised		**(0.6)**		(0.4)		(0.4)		(0.5)

	% of scheme assets/ liabilities %	2007 £m
Experienced loss on scheme obligations	0	–
Changes in assumptions underlying the present value of Scheme obligations	–	–
Exchange rate adjustment on assets and liabilities	n/a	(0.1)
Amount recognised in the period		(0.1)
Total amount recognised		(0.1)

23. Accounting estimates, assumptions and judgements

The principal accounting estimates, assumptions and judgements employed in the preparation of these consolidated Group financial statements which could affect the carrying amounts of assets and liabilities at the balance sheet date are as follows:

Actuarial assumptions on pension obligations

In determining the valuation of the defined benefit pension deficit, certain assumptions about the scheme have been made, notably the expected return on assets, inflation, discount rates, mortality, salary increases and pension increases. The factors affecting these assumptions are largely outside the Group's control (note 22).

Impairment of goodwill

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 is included in note 10.

Share-based payments

In valuing the share-based payments charged in the Group's accounts, the Company has used the Black–Scholes calculation model where vesting is based on non-market conditions or a Monte Carlo simulation where vesting is based on market conditions. Both models make various assumptions about factors outside the Group's control, such as share price volatility and risk free interest rates. Details of the options and assumptions used in deriving the share-based payments are disclosed in note 20.

Environmental and dilapidation provisions

Estimated environmental and dilapidation costs have been derived on the basis of the most recent assessments of the likely cost. Certain factors concerning these costs are outside the Group's control. In making this assessment the Group has sought the aid of independent experts where appropriate. Further information is included in note 18.

Deferred taxation

Deferred taxation has been estimated using the best information available, including seeking the opinion of independent experts where applicable (note 12).

Valuation of intangible assets

Where an acquisition is of a significant size, it is reviewed by independent experts to assess the specific intangibles arising from the acquisition. Brands and customer lists have been identified as part of this process and are disclosed in note 10. The reasons for the residual excess of consideration over net asset value are then identified to identify the reasons for goodwill arising, which in the case of recent acquisitions, has resulted mainly from assembled workforce, technical expertise, know how, market share and geographical advantages.

Brands have been valued based on estimated royalty rates discounted over their useful lives, which is normally 20 years, but considered indefinite for the US Voigt & Schweitzer and Carpenter & Paterson brands which have both been successfully trading for over 50 years. Customer relationships have been valued based on discounted forecast turnover rates and have been deemed to have useful economic lives of between five and ten years based upon the average expected length of relationships with customers.

24. Related party transactions

The key management are considered to be the Board of Directors of Hill & Smith Holdings PLC, whose remuneration can be seen in the Directors' remuneration report on pages 38 to 44. The compensation in total for each category required by IAS24 is as follows:

	2011 £m	2010 £m
Salaries and short term employee benefits	**1.0**	0.8
Non-executive Directors' fees	**0.2**	0.2
Pension costs	**0.1**	0.1
Share-based payments	**0.1**	0.1
	1.4	1.2

Company Balance Sheet

As at 31 December 2011

	Notes	2011 £m	2010 £m
Fixed assets			
Tangible assets	3	**0.1**	0.1
Investments	4	**291.3**	291.3
		291.4	291.4
Current assets			
Debtors	5	**19.9**	103.6
Cash at bank and in hand		–	4.0
		19.9	107.6
Creditors: amounts falling due within one year			
Bank loans and overdrafts	6,7	**(5.0)**	(28.9)
Other creditors	6	**(110.5)**	(99.7)
		(115.5)	(128.6)
Net current liabilities		**(95.6)**	(21.0)
Total assets less current liabilities		**195.8**	270.4
Creditors: amounts falling due after more than one year	7	**(46.0)**	(113.3)
Net assets		**149.8**	157.1
Share capital and reserves			
Called up share capital	9	**19.2**	19.2
Share premium	10	**29.2**	29.1
Capital redemption reserve	10	**0.2**	0.2
Profit and loss account	10	**101.2**	108.6
Equity shareholders' funds		**149.8**	157.1

Approved by the Board of Directors on 15 March 2012 and signed on its behalf by:

D W Muir
Director

M Pegler
Director

Company Number: 671474

Company Reconciliation of Movements in Shareholders' Funds

Year ended 31 December 2011

	2011 £m	2010 £m
Profit/(loss) for the year	**3.0**	(11.3)
Dividends	**(9.8)**	(8.8)
Credit to equity of share-based payments	**0.2**	0.2
Satisfaction of long term incentive payments	**(0.8)**	(0.4)
Shares issued in the year	**0.1**	0.8
Net decrease in shareholders' funds	**(7.3)**	(19.5)
Opening shareholders' funds	**157.1**	176.6
Closing shareholders' funds	**149.8**	157.1

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

The Company's financial statements have been prepared in accordance with applicable UK GAAP accounting standards and under the historical cost accounting rules.

Under Section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account.

Under FRS1 cash flow statements, the Company is exempt from the requirement to prepare a cash flow statement, on the grounds that the Company is included in its own published consolidated financial statements.

The Company has taken advantage of the exemptions contained in FRS8 Related Party Disclosures and has not disclosed transactions or balances with wholly owned subsidiaries of the Group. Related party transactions with the Company's key management personnel are disclosed in note 24 to the Group financial statements. The Company has adopted the requirements of FRS29 Financial Instruments Disclosures and has taken the exemption under that standard from disclosure on the grounds that the Group financial statements contain disclosures in compliance with IFRS7.

Investments in subsidiary undertakings

In the Company's financial statements, investments in subsidiary undertakings are stated at cost, less amounts written off for impairment. They are reviewed for impairment whenever events or circumstances indicate that the carrying value may not be recoverable.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at closing rates at the balance sheet date and the gains or losses on translation included in the profit and loss account. Non-monetary assets and liabilities are translated into sterling at historic rates of exchange and are not updated to closing rates at the balance sheet date.

This policy applies to the Company's long term bank loans denominated in foreign currencies, which are monetary items, and are therefore translated into sterling at closing rates at the balance sheet date, with exchange differences arising passing through the profit and loss account. This policy also applies to long term amounts denominated in foreign currencies owed to subsidiary undertakings and to investments denominated in foreign currencies in intermediary holding companies.

However, the Company applies fair value hedge accounting where appropriate, in accordance with FRS26, in order to hedge loans denominated in foreign currencies against all, or part, of the foreign currency denominated investments. Therefore, foreign exchange differences arising on translation into sterling of both the hedging loans and hedged investments using the closing rates at the balance sheet date are taken to the profit and loss account. Any unhedged investment balances continue to be held at cost as described above.

Financial instruments

The Company has adopted the requirements of FRS29 and has taken the exemption under that standard from disclosure on the grounds that the consolidated financial statements contain disclosures in compliance with IFRS7 in note 19.

Financial assets and liabilities are recognised on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

In accordance with its treasury policy, the Company 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.

Bank loans and overdrafts are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, bank loans and overdrafts are stated at amortised cost with any difference between cost and redemption value being recognised in the profit and loss account over the period of the borrowings on an effective interest basis.

Tangible fixed assets and depreciation

Depreciation is provided to write off the cost or valuation less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Leasehold improvements	life of the lease
Plant, machinery and vehicles	4 to 20 years

Leases
Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Pension scheme arrangements
The Company participates in the Hill & Smith Executive Pension Scheme and the Hill & Smith Pension Scheme, as described in note 12. As the Company is unable to identify its share of the Group pension scheme assets in respect of the defined benefit sections on a consistent and reasonable basis, the schemes are accounted for as if they are defined contribution schemes, as permitted by FRS17. Contributions in respect of defined contribution schemes are charged to the profit and loss account in the period to which they relate.

Share-based payments
The share option programme allows employees to acquire shares of the Company. The fair value of options granted are expensed with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

Where the Company grants options over its own shares to the employees of its subsidiaries it recognises an increase in the cost of investment in its subsidiaries equivalent to the equity settled share-based payment charge recognised in its subsidiary's financial statements with the corresponding credit being recognised directly in equity. This increase is offset in full by amounts recharged to the subsidiary, which are recognised as a reduction in the cost of investment in subsidiary.

Income tax
The charge for taxation on the profit or loss for the year represents the sum of the tax currently payable or recoverable and deferred tax. This charge is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or recoverable on the taxable result for the year. The taxable result differs from net profit or loss as reported in the profit and loss account because it excludes items of income or expense that are not taxable or not deductible. The Company's debtor or creditor for current tax is calculated using tax rates enacted or substantively enacted at the balance sheet date, and any adjustments in respect of previous years.

Deferred taxation
Deferred tax is provided, without discounting, on timing differences between the treatment of items for taxation and accounting purposes as required by FRS19.

Ordinary dividends
Dividends payable are recognised as a liability in the period in which they are approved by the Company's shareholders. Dividends receivable are accounted for on a cash accounting basis.

Financial guarantees
Where the Company enters into financial guarantee contracts to secure the indebtedness of other companies within its Group, the Company 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

1. Profit on ordinary activities before taxation

	2011 £m	2010 £m
The profit on ordinary activities is stated after charging		
Operating lease rentals – land and buildings	**0.1**	0.1

Fees paid to KPMG Audit Plc and its associates for audit and non-audit services to the Company itself are not disclosed in the individual financial statements of Hill & Smith Holdings PLC because the Group financial statements are required to disclose such fees on a consolidated basis.

2. Dividends

Dividends paid in the year were the prior year's interim dividend of £4.0m (2010: £3.5m) and the final dividend of £5.8m (2010: £5.3m). Dividends declared after the balance sheet date are not recognised as a liability. The Directors have proposed a final dividend for the current year, subject to shareholder approval, as shown below:

	2011		2010	
	Pence per share	**£m**	Pence per share	£m
Equity shares				
Interim	**5.4**	**4.2**	5.2	4.0
Final	**7.8**	**6.0**	7.5	5.8
Total	**13.2**	**10.2**	12.7	9.8

3. Tangible fixed assets

	Short leasehold properties £m	Plant, machinery and vehicles £m	Total £m
Cost or valuation			
At 31 December 2010	0.1	0.3	0.4
Additions	–	–	–
At 31 December 2011	**0.1**	**0.3**	**0.4**
Depreciation			
At 31 December 2010	–	0.3	0.3
Charge for the year	–	–	–
At 31 December 2011	**–**	**0.3**	**0.3**
Net book value			
At 31 December 2011	**0.1**	**–**	**0.1**
At 31 December 2010	0.1	–	0.1

4. Fixed asset investments

	Shares in subsidiary undertakings £m	Loans to subsidiary undertakings £m	Trade investments £m	Total £m
Cost				
At 31 December 2010	279.9	23.8	0.8	304.5
Return on capital	–	–	–	–
Additions	–	–	–	–
At 31 December 2011	**279.9**	**23.8**	**0.8**	**304.5**
Provisions				
At 31 December 2010	11.1	1.3	0.8	13.2
Impairment	–	–	–	–
At 31 December 2011	**11.1**	**1.3**	**0.8**	**13.2**
Net book value				
At 31 December 2011	**268.8**	**22.5**	**–**	**291.3**
At 31 December 2010	268.8	22.5	–	291.3

4. Fixed asset investments continued

A list of the principal businesses owned by the Company is given on pages 98 to 100. All of the Company's subsidiaries are wholly owned.

The Company also holds a trade investment of 19.5% in an unlisted company whose fair value cannot be accurately measured and is fully written down.

5. Debtors

	2011 £m	2010 £m
Amounts owed by subsidiary undertakings	**19.0**	101.0
Corporation tax	**0.2**	1.0
Deferred tax (note 8)	**0.2**	0.2
Other debtors	**0.4**	1.3
Prepayments and accrued income	**0.1**	0.1
	19.9	103.6

6. Creditors: amounts falling due within one year

	2011 £m	2010 £m
Bank loans and overdrafts (note 7)		
Bank overdrafts	**5.0**	7.9
Current portion of long term bank loans	**–**	21.0
	5.0	28.9
Other creditors		
Trade creditors	**1.5**	2.0
Other taxation and social security	**0.1**	0.1
Accruals and deferred income	**2.1**	2.1
Other creditors	**1.1**	1.0
Amounts owed to subsidiary undertakings	**105.7**	94.5
	110.5	99.7

7. 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 19 of the Group financial statements.

	2011 £m	2010 £m
Amounts owed to subsidiary undertakings	**–**	53.9
Long term bank loans	**46.0**	59.4
	46.0	113.3

The Company's bank loans and borrowings are also analysed below into the periods in which they mature:

	2011 £m	2010 £m
Bank loans and overdraft		
Amounts due within one year (note 6)	**5.0**	28.9
Amounts due after more than one year:		
Between one and two years	**–**	59.4
Between two and five years	**46.0**	–
	46.0	59.4
	51.0	88.3

The bank loans are unsecured and carry a rate of interest of 1.75% above LIBOR/EURIBOR subject to a ratchet as defined in the facility agreement.

Notes to the Company Financial Statements continued

8. Deferred tax

	2011 £m	2010 £m
At 1 January	**(0.2)**	(0.2)
Credited for the year in the profit and loss account	**–**	–
At 31 December (note 5)	**(0.2)**	(0.2)
Other timing differences	**(0.2)**	(0.2)

9. Called up share capital

	2011 £m	2010 £m
Allotted, called up and fully paid		
77.0m Ordinary Shares of 25p each (2010: 76.9m)	**19.2**	19.2

In 2011 the Company issued 0.1m shares under its various share option schemes (2010: 0.8m), realising £0.1m (2010: £0.8m). Details of share options and related share-based payments are contained in note 20 to the Group financial statements.

10. Share premium and reserves

	Share premium £m	Capital redemption reserve £m	Profit and Loss Account £m
At 1 January 2010	28.5	0.2	128.9
Profit for the year	–	–	(11.3)
Dividends	–	–	(8.8)
Credit to equity of share-based payments	–	–	0.2
Satisfaction of long term incentive payments	–	–	(0.4)
Shares issued	0.6	–	–
At 31 December 2010	**29.1**	**0.2**	**108.6**
Loss for the year	**–**	**–**	**3.0**
Dividends	**–**	**–**	**(9.8)**
Credit to equity of share-based payments	**–**	**–**	**0.2**
Satisfaction of long term incentive payments	**–**	**–**	**(0.8)**
Shares issued	**0.1**	**–**	**–**
At 31 December 2011	**29.2**	**0.2**	**101.2**

Details of share options and related share-based payments are contained in note 20 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 satsify shares awarded under the Long Term Incentive Plan is debited directly to equity. Details of the purchase of shares are contained in note 20 to the Group financial statements.

11. Guarantees and other financial commitments

(a) Guarantees

The Company had no financial guarantee contracts outstanding (2010: £nil).

The Company guarantees the bank loans and overdrafts of certain subsidiary undertakings. The amount outstanding at 31 December 2011 was £76.6m (2010: £6.3m).

(b) Operating lease commitments

Annual commitments under non-cancellable operating leases expire in the periods as detailed below:

	2011		2010	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
After five years	**0.1**	**–**	0.1	–

12. Pensions

The Company contributes to two Group pension schemes, one providing benefits accruing in the future on a defined benefit basis and a second scheme providing benefits that are on a defined contribution basis. Details of the schemes and their most recent actuarial valuations are contained in note 22 to the Group financial statements. Because the Company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis, the schemes have been accounted for by the Company as if they were defined contribution schemes, as permitted by FRS17 Retirement Benefits. There are also separate personal pension plans.

The pension cost for the year includes contributions payable by the Company to the fund and amounted to £1.5m (2010: £1.4m), of which additional deficit contributions were £1.4m (2010: £1.2m), plus £0.4m (2010: £0.4m) for the reduced liability in deferred defined benefit pensioners detailed in note 22 of the Group's consolidated financial statements. There were no outstanding or prepaid contributions at either the beginning or the end of the financial year.

Full details of the Group schemes are given in note 22 to the Group financial statements.

13. Related party transactions

The Company related party transactions are the same as those transactions disclosed for the Group in note 24 to the Group financial statements.

Five Year Summary

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Revenue	**406.2**	374.2	389.7	419.8	329.6
Underlying operating profit	**41.5**	45.9	47.0	47.4	36.9
Underlying profit before taxation	**37.4**	42.2	42.2	38.9	31.0
Shareholders' funds	**150.6**	152.1	131.4	118.2	99.2

	Pence	Pence	Pence	Pence	Pence
Underlying earnings per share	**34.5**	39.0	38.3	32.2	26.1
Proposed dividends per share	**13.2**	12.7	11.5	10.0	8.7

Financial Calendar

Annual General Meeting 2012	16 May 2012
Interim Management Statement	May 2012
Ex-dividend date for 2011 final dividend	30 May 2012
Record date 2011 final dividend	1 June 2012
Dividend Reinvestment Plan – last date for election	15 June 2012
Final 2011 ordinary dividend payable	6 July 2012
Announcement of 2012 interim results	August 2012
Interim Management Statement	November 2012
Payment of 2012 interim dividend	January 2013

Shareholder Information

Shareholder base

Holdings of ordinary shares at 15 March 2012

Range of shares	Number of Holders	%	Number of Shares	%
1-500	585	22.29	110,591	0.14
501 – 1,000	352	13.41	279,281	0.36
1,001 – 5,000	946	36.04	2,502,042	3.25
5,001 – 50,000	599	22.82	8,239,348	10.70
50,001 – 100,000	47	1.79	3,379,927	4.39
100,001 – 500,000	61	2.32	14,190,936	18.44
500,001 – 1,000,000	13	0.49	8,294,876	10.78
Above 1,000,000	22	0.84	39,969,565	51.93
Totals	**2,625**	**100**	**76,966,566**	**100**

Shareholder type

	Number of Holders	%	Number of Shares	%
Individuals	1,780	67.80	8,973,942	11.66
Institutions	794	30.26	67,290,793	87.43
Other corporate	51	1.94	701,831	0.91
Totals	**2,625**	**100**	**76,966,566**	**100**

Dividend History – proposed dividends per share

	2011	2010	2009	2008	2007
Interim	**5.4**	5.2	4.70	4.30	3.60
Final	**7.8**	7.5	6.80	5.70	5.10
Total	**13.2**	12.7	11.50	10.00	8.70

Communication with shareholders and analysts

Directors meet with major shareholders and potential investors following Interim and Final results, and at other times if requested. Presentations for analysts are also held on the day of these announcements and we keep in regular contact with analysts throughout the year.

Corporate information

The annual and interim reports are the main forms of communication with our shareholders. We have updated our website to supplement these reports with additional information. The website address is www.hsholdings.com and includes share price information, investor relations information and contact details.

Annual General Meeting (AGM)

The AGM will be held on Wednesday 16 May 2012 at 11.00 a.m. at The Village Hotel, The Green Business Park, Shirley, Solihull, B90 4GW. Full details are contained within the Notice of AGM. A proxy card is also enclosed with this statement for voting. Alternatively you can vote electronically as explained in the next paragraph.

Electronic proxy voting

To lodge your proxy vote via the internet, log on to www.eproxyappointment.com. You will need the 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.co.uk 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/dealing/uk for internet share dealing and for telephone dealing ring 0870 703 0084.

Dividend Reinvestment Plan "DRIP" (Latest date for election is 15 June 2012)

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 e-mail 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 0870 707 1058.

Principal Group Businesses

Infrastructure Products

Access Design and Engineering (D)
Access covers, gantries, security products and specialist steelwork

Halesfield 18, Telford, Shropshire
TF7 4JS
Tel: +44 (0) 1952 588788
Fax: +44 (0) 1952 685139
sales@access-design.co.uk
www.access-design.co.uk

Asset International Limited
Weholite HDPE pipes and large diameter storm water attenuation tanks

Stephenson Street, Newport,
South Wales, NP19 4XH
Tel: +44 (0) 1633 273081
Fax: +44 (0) 1633 290519
sales@assetint.co.uk
www.weholite.co.uk

Asset VRS (D)
(for address see Hill & Smith Limited)
Permanent and temporary solutions for vehicle restraints

Tel: +44 (0) 1902 499445
Fax: +44 (0) 1902 402104
sales@asset-vrs.co.uk
www.asset-vrs.co.uk

ATA Bygg-och Markprodukter AB*
Road safety barriers and road signage
Incorporated in Sweden

Box 7051, Staffans väg 7, Sollentuna,
192 07, Sweden
Tel: +46 (0) 8 98 80 70
Fax: +46 (0) 8 29 25 15
ata@ata.se
www.ata.se

Barkers Engineering Limited*
Security solutions and fasteners

Duke Street, Fenton, Stoke-on-Trent,
Staffordshire, ST4 3NS
Tel: +44 (0) 1782 319264
Fax: +44 (0) 1782 599724
sales@barkersfencing.com
www.barkersengineering.com

Bergen Pipe Supports India Private Limited*
Constant and variable pipe support systems
Incorporated in India

Flat No.4, Block – B, Third Floor,
Keerthi Enclave, NH – 5, Sullurpeta,
Nellore District, Andhra Pradesh.
Tel: +91 8125 913357
guna@pipesupports.com
www.pipesupports.com

Bergen-Power Pipe Supports, Inc.*
Constant and variable pipe support systems
Incorporated in the USA

484 Galiffa Drive, Donora, Pennsylvania,
PA 15033, USA
Tel: +1 (781) 935 9550
Fax: +1 (781)
bpwoburn@bergenpower.com
www.bergenpower.com

Bergen Pipe Supports (Jingjiang) Limited*
Constant and variable pipe support systems
Incorporated in China

West End of Fuyang Road,
South Developing District,
Jingjiang City, Jiangsu Province,
PRC, 214500, China
Tel: +86 (0) 523 8462 1515
Fax: +86 (0) 523 8462 1536
bps@pipesupports.com.cn
www.pipesupports.com

Berry Systems (D)
(for address see Hill & Smith Limited)
Car park and industrial barriers, spring steel barriers, protection bollards, speed ramps, handrail panels

Tel: +44 (0) 1902 491100
Fax: +44 (0) 1902 494080
sales@berrysystems.co.uk
www.berrysystems.co.uk

Birtley Building Products Limited*
Steel lintels and doors

Mary Avenue, Birtley, County Durham,
DH3 1JF
Tel: +44 (0) 191 410 6631
Fax: +44 (0) 191 410 0650
info@birtley-building.co.uk
www.birtley-building.co.uk

Brifen (D)
(for address see Hill & Smith Limited)
Wire rope safety fence vehicle restraints

Tel: +44 (0) 1902 499400
Fax: +44 (0) 1902 499419
enq@brifen.co.uk
www.brifen.co.uk

Bristorm (D)
(for address see Hill & Smith Limited)
Anti-terrorist security fencing

Tel: +44 (0) 1902 499400
Fax: +44 (0) 1902 499419
info@bristorm.com
www.bristorm.com

Bromford Iron & Steel Company Limited*
Hot rolled steel flats, bars, sections and profiles

Bromford Lane, West Bromwich,
West Midlands, B70 7JJ
Tel: +44 (0) 121 553 6121
Fax: +44 (0) 121 525 0913
enquiries@bromfordsteels.co.uk
www.bromfordsteels.co.uk

CA Traffic Limited
Traffic monitoring equipment and number plate recognition

Griffin Lane, Aylesbury,
Buckinghamshire, HP19 8BP
Tel: +44 (0) 1296 333499
Fax: +44 (0) 1296 333498
sales@c-a.co.uk
www.ca-traffic.co.uk

Carpenter & Paterson, Inc.*
Industrial hangers and fasteners
Incorporated in the USA

225 Merrimac Street, Woburn,
Massachusetts. 01801, USA
Tel: +1 (781) 935 7036
Fax: +1 (781) 935 9555
www.carpenterandpaterson.com

Creative Pultrusions, Inc.*
Manufacturer of fibre reinforced composite profiles
Incorporated in the USA

214 Industrial Lane, Alum Bank,
Pennsylvania, 15521, USA
Tel: +1 (814) 839 4186
Fax: +1 (814) 839 4276
crpul@pultrude.com
www.creativepultrusions.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.
(D) Operating division only, not a limited company

Infrastructure Products

Conimast International SAS*
Specialist highmast lighting columns
Incorporated in France

Z.I. La Sauniere BP70, 89600,
Saint Florentin, France
Tel: +33 (0) 3 86 43 82 00
Fax: +33 (0) 3 86 43 41 08
ci@galva.fr
www.conimast.fr

Hill & Smith Limited
Highway and off-highway safety barriers, temporary highway barriers
for workzone protection. Corrugated steel structures

Springvale Business and Industrial Park,
Bilston, Wolverhampton, WV14 0QL
Tel: +44 (0) 1902 499400
Fax: +44 (0) 1902 499419
info@hill-smith.co.uk
www.hill-smith.co.uk

Hill & Smith, Inc.*
Temporary road barrier solutions for work-zone protection
Incorporated in the USA

1000 Buckeye Park Road, Columbus,
Ohio, 43207, USA
Tel: +1 (614) 340 6294
Fax: +1 (614) 340 6296
info@hillandsmith.com
www.hillandsmith.com

Hill & Smith Infrastructure Products India Private Limited*
Road safety barrier systems, traffic monitoring and number plate recognition systems
Incorporated in India

335 Udyog Vihar, Phase IV, Gurgaon,
Haryana, 122015, India
Tel: +91 124 438 3721
Fax: +91 124 438 3720
enquiries@hsipi.in
www.hsipi.in

Hill & Smith Pty Limited*
Wire rope and fixed safety barriers
Incorporated in Australia

Unit 10, 65 Business Street, Yatala,
Queensland 4207, Australia
Birmingham, B12 0SP
Tel: +61 (0) 7 3807 8050
Fax: +61 (0) 7 3807 9189
hillandsmith.com.au

JA Envirotanks (D)
Large steel storage tanks

PO Box 16, Charles Henry Street,
Birmingham, B12 0SP
Tel: +44 (0) 121 622 4661
Fax: +44 (0) 121 622 1402
sales@iaenvirotanks.co.uk
www.jaenvirotanks.com

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
sales@lk-uk.com
www.lk-uk.com

Mallatite Limited
Manufacturer 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
sales@mallatite.co.uk
www.mallatite.co.uk

Pipe Supports Limited*
Constant and variable pipe support systems

Unit 22, West Stone, Berry Hill Industrial
Estate, Droitwich, Worcestershire, WR9
9AS
Tel: +44 (0) 1905 795500
Fax: +44 (0) 1905 794126
psl@pipesupports.com
www.pipesupports.com

Pipe Supports Asia Limited*
Constant, variable and cryogenic pipe support systems
Incorporated in Thailand

26/5 Moo 9, Soi Rattanaraj,
Bangna-Trad Road. Km 18.2,
Bangchalong, Bangplee, Samut Prakem,
10540, Thailand
Tel: +66 (2) 312 7685
Fax: +66 (2) 312 7707
psa@pipesupports.com
www.pipesupports.com

Pipe Supports Group Trading (Jingjiang) Limited*
(for address see Bergen Pipe Supports)
Materials and components trading
Incorporated in China

Redman Fisher Engineering Limited*
Specialising in industrial flooring and GRP platforms

Halesfield 18, Telford, Shropshire
TF7 4JS
Tel: +44 (0) 1952 588788
Fax: +44 (0) 1952 685117
sales@redmanfisher.co.uk
www.redmanfisher.co.uk

Techspan Systems (D)
Electronic information messaging and display systems

Griffin House, Gatehouse Way,
Aylesbury, Buckinghamshire, HP19 8BP
Tel: +44 (0) 1296 673000
Fax: +44 (0) 1296 673002
enquiries@techspan.co.uk
www.techspan.co.uk

V&S Utilities**
Electrical utility products and services.
Incorporated in the USA

1000 Buckeye Park Road, Columbus, Ohio
43207, USA
Tel: +1 (614) 449 8281
Fax: +1 (614) 449 8851
info@vsschuler.com
www.vsschuler.com

Varley & Gulliver Limited
Vehicle and pedestrian parapets, and passive sign supports

57-70 Alfred Street, Sparkbrook, Birmingham, B12 8JR
Tel: +44 (0) 121 773 2441
Fax: +44 (0) 121 766 6875
sales@v-and-g.co.uk
www.v-and-g.co.uk

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 Schular Engineering, V&S Schular Tubular Products and V&S Clark Substations, all indirectly held and all wholly owned and incorporated in the USA.
(D) Operating division only, not a limited company

Principal Group Businesses

Galvanizing Services

France Galva SA*
Galvanizing and powder coaters of steel
Incorporated in France

Z.I. La Sauniere BP70, 89600
Saint Florentin, France
Tel: +33 (0) 3 86 43 82 28
Fax: +33 (0) 3 86 43 82 29
fg@galva.fr
www.galva.fr

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
sales@josephash.co.uk
www.josephash.co.uk

Voigt & Schweitzer, LLC*
Galvanizing Services
Incorporated in the USA

1000 Buckeye Park Road, Columbus
Ohio, 43207, USA
Tel: +1 (614) 449 8281
Fax: +1 (614) 449 8851
info@hotdipgalvanizing.com
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.
(D) Operating division only, not a limited company

Directors

W H Whiteley BSc, FCMA
(Chairman and non-executive)

D W Muir BSc, CEng, MICE
(Group Chief Executive)

M Pegler BCom, FCA
(Group Finance Director)

J F Lennox CA
(non-executive)

C J Snowdon BA, FCA
(non-executive)

Contacts

Hill & Smith Holdings PLC
Registered Office
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Shirley, Solihull
West Midlands
B90 4LH
Tel: +44 (0) 121 704 7430
Fax: +44 (0) 121 704 7439

Registration Details
Registered in England and Wales
Company Number: 671474

Company Website
www.hsholdings.com

Company Secretary
John Humphreys FCIS

Professional Advisers

Auditors
KPMG Audit Plc
1 Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

Brokers and Financial Advisers
Investec Investment Banking
2 Gresham Street
London
EC2V 7QP

Principal Bankers
Barclays Bank Plc
Midlands Corporate Banking Centre
PO Box 3333
1 Snowhill
Snow Hill Queensway
Birmingham
B3 2WN

Lawyers
Wragge & Co
55 Colmore Row
Birmingham
B3 2QD

Silks Solicitors
Barclays Bank Chambers
Birmingham Street
Oldbury
B69 4EZ

Financial Public Relations
MHP Communications
60 Great Portland Street
London
W1W 7RT

Hill & Smith Holdings PLC
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