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2012

Hill & Smith Holdings PLC

Infrastructure and Galvanizing

Annual Report for the year
ended 31 December 2012

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Contents

Overview

- 3 Our Strategy
- 4 Our International Operations
- 5 Our Performance
- 6 Our Sectors
- 8 Measuring Our Performance
- 10 Principal Risks and Uncertainties

Business Review

- 14 Chairman's Statement
- 16 Review of 2012
- 16 Operational Review
- 20 Financial Review
- 24 Corporate Social Responsibility

Governance

- 30 Board of Directors and Key Executives
- 32 Chairman's Introduction
- 33 Governance Report
- 43 Audit Committee Report
- 45 Remuneration Committee Report
- 48 Directors' Remuneration Report
- 56 Directors' Report (other statutory information)
- 58 Directors' Responsibilities

Financial Statements

- 60 Independent Auditor's Report
- 61 Group Financial Statements
- 103 Company Financial Statements
- 111 Five Year Summary
- 112 Financial Calendar

Other Information

- 114 Shareholder Information
- 115 Group Subsidiaries
- 118 Other Information

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

Front Cover

Top Galvanizing of a pedestrian escalator subframe structure at Joseph Ash Chesterfield in its 15.2 metre galvanizing bath, the second largest in the UK

Middle Variaguard in use at Hammersmith flyover

Bottom Asset International Ltd provided a 10,000m³ Wehohite attenuation tank and 300 metres of associated pipework in 2.1 metre nominal diameter to help improve river and bathing water quality in Irvine and Kilmarnock Scotland

**See further information
online: hsholdings.com**

Hill & Smith Holdings PLC

We are an international group with leading positions in the 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.

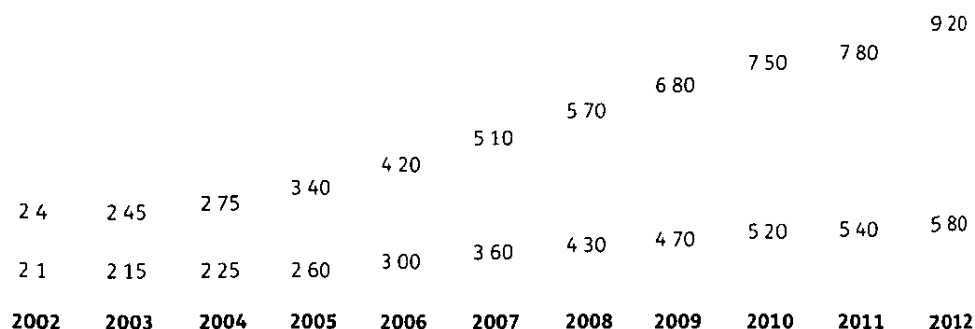
We operate from facilities in Australia, China, France, India, Sweden, Thailand, the UK and the USA.

Reasons to invest

- Resilience and opportunities through product and international diversification
- Well financed to pursue organic and acquisitive growth
- Organic revenue growth of 7.4% in 2012
- Strong cash generation
- Dividends central to the strategy and total shareholder return ethos

Our ten year track record

Dividends (pence per share)



Overview

Financial Review

Company Information

Financial Statements

Other Information

Our Strategy

Balanced profitable growth

Our strategy is to deliver balanced profitable growth through the supply of Infrastructure Products and Galvanizing Services. Our objective is to deliver at least mid, single-digit balanced organic revenue growth which, combined with selective acquisitions, will deliver growth in earnings per share. A strong focus on cash generation supports this growth strategy and enables a progressive dividend policy.

In the Infrastructure Products division, our focus is on businesses which supply into the Utilities and Roads markets, both of which enjoy long term growth dynamics. Our businesses have niche positions, high margins and provide us with access to global markets.

In Utilities, our focus is on the power generation, oil and gas and water sectors, capitalising primarily on the growing demand for new power generation in emerging markets and the replacement of ageing infrastructure in developed economies.

In Roads, we will continue to strengthen our position as an international supplier of road safety products into markets with strong infrastructure spend and regulatory controls, leveraging our products developed to European and US standards.

In the Galvanizing Services division, which serves external customers as well as our own Infrastructure Products businesses, we are focused on our existing geographies of the UK, USA and France. Growth will be achieved through increasing our geographical footprint in the USA and through potential consolidation opportunities in the UK and France.

Geographic diversification

Our target was for operating profit from manufacturing plants located overseas to reach 75% by 2013 and then to remain at or close to this level, this target was exceeded in 2012. Our overall geographic mix will be dictated by a focus on further growth in emerging markets, whilst recognising that opportunities still exist in our major developed markets of the UK and USA.

We also aim to continue to reduce our dependence on UK Government spend, now at 11% of group revenue compared to 24% in 2010. As our focus is on international growth, this percentage is now likely to remain stable despite the anticipated recovery in UK roads investment in 2013.

Target returns and leverage

Operating margins are an integral measure of the group's success and one which we will continue to drive for improvement. Improved product mix and value-added customer-focused solutions, as well as high levels of operational efficiency, are important drivers of operating margin improvement.

Our target operating margin for a business unit is 10%, although a lower margin profile may be acceptable if that business's return on capital employed (ROCE) is above 20%. A period of grace will be granted to business units which can demonstrate a plan for margin improvement to the targeted level.

We aim to create value by consistently exceeding this 20% benchmark for ROCE. There is currently an increased focus across the group for all individual business units to improve working capital and ROCE, particularly through effective management of working capital employed.

We aim to operate with an efficient balance sheet by maintaining debt at between 1.5 and 2.0 times EBITDA, which in turn allows us to complement balanced organic growth with value enhancing acquisitions.

Active portfolio management

Our strategic objective is to develop more substantial businesses in each of our chosen sectors through both organic and acquisitive growth. This, consequently, leads us to continually examine the smaller and lower performing units within the portfolio.

Our acquisition strategy is to buy businesses in markets we understand through our existing activities. The majority of targets are likely to be privately owned. We will also look at acquiring distressed businesses in the UK which complement our existing operations and therefore enable us to consolidate our market position. This in turn will allow us, in some instances, to develop our smaller business units into larger and more dominant market players. Overseas acquisitions must have a high quality existing management team in place and a proven earnings stream as it is more demanding to manage distressed businesses effectively from a distance.

We will continue to dispose of or rationalise operations that are either non-core to the market strategy set out above, or incapable of achieving our target returns, or insufficiently cash generative.

Entrepreneurial culture

We encourage an entrepreneurial culture in our business through a decentralised management structure. We provide our management teams the freedom to run and grow their own businesses supported by the resources available through being part of a larger group, whilst adhering to the levels of governance and controls appropriate for a quoted company. This culture ensures that decisions are made close to the market and that our businesses are agile and responsive to changes in their competitive environment.

The group's
product and
geographical
diversification
provides resilience
and opportunities
for future growth

Overview

Our International Operations

Percentage of £440.7m revenue shown by end market geography

UK - 45%
 Europe - 23%
 N America - 26%
 M East - 2%
 Asia - 2%
 ROW - 2%

Percentage of £44.0m underlying operating profit shown by location of the operating site

UK - 24%
 Europe - 25%
 N America - 50%
 ROW - 1%

Where we operate

Australia – new office in Queensland for the development of our wire rope and safety barrier products

China – manufacturing and trading facilities located in the Jiangsu province for the further expansion of our pipe supports business

France – the location of France Galva and Conimast where we have ten galvanizing plants and a lighting column business

India – new manufacturing facility for pipe supports and also offices for development of our Hill & Smith infrastructure products business

Sweden – location of ATA Bygg-och Markprodukter AB, the road safety barrier and signage business

Thailand – location of part of our pipe supports manufacturing capability, where we have plants near Bangkok

UK – head office and various group site locations covering our main infrastructure products businesses and network of UK galvanizing plants

USA – our V&S galvanizing and utilities 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

Overview

Business Review

Governance

Financial Statements

Appendices

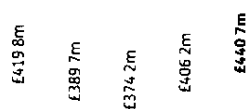
Our Performance - 2012

- Revenue growth of 8.5% with strong performances from both Infrastructure Products and Galvanizing Services.
- Underlying profit before tax up 8.0%.
- 76% of profits generated from overseas operations, including 50% from the USA, one year ahead of plan.
- Significant £17.0m reduction in net debt (down to £86.8m)
- Dividend increased by 13.6%.

	2012	2011	Change %
Revenue	£440.7m	£406.2m	+ 8.5
Underlying* operating profit	£44.0m	£41.5m	+ 6.0
Underlying* profit before tax	£40.4m	£37.4m	+ 8.0
Profit before tax	£35.2m	£25.4m	+ 38.6
Underlying* earnings per share	38.8p	34.5p	+ 12.5
Basic earnings per share	33.9p	20.9p	+ 62.2
Dividend per share	15.0p	13.2p	+ 13.6
Net debt	£86.8m	£103.8m	

Revenue

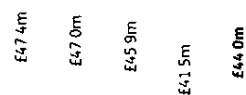
£440.7m up 8.5%



2008 2009 2010 2011 2012

Underlying operating profit

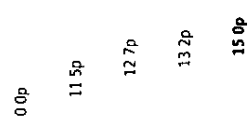
£44.0m up 6.0%



2008 2009 2010 2011 2012

Dividend per share

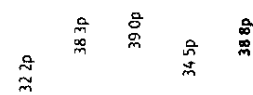
15.0p up 13.6%



2008 2009 2010 2011 2012

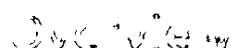
Underlying earnings per share

38.8p up 12.5%



2008 2009 2010 2011 2012

* 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 71. References to an underlying profit measure throughout this annual report are made on this basis.



Our Sectors

2012 Revenue of £440.7m - by segment

Infrastructure - 73%	Roads - 26%	Utilities - 47%	£319.8m
Galvanizing - 27%	£120.9m		

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, 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 Australia, China, France, India, Sweden, Thailand, the UK and the USA

- › 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 73% (2011 68%) of the group's revenue and 43% (2011 48%) of the group's underlying operating profit

Performance

Revenue	Underlying operating profit
£319.8m	£18.7m
up 16%	down 6%

£276.1m	£319.8m	£19.9m	£18.7m
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2011	2012	2011	2012
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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 France, the USA and the UK

- › 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 27% (2011 29%) of the group's revenue and 57% (2011 52%) of the group's underlying operating profit
- › Total volume of production from all plants, 409,000 tonnes in 2012, up 5.4%

Performance

Revenue	Underlying operating profit
£120.9m	£25.3m
up 7%	up 17%

£118.5m	£120.9m	£21.6m	£25.3m
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2011	2012	2011	2012
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Note The group's revenue for 2011 also included £11.6m (3%) for the Building and Construction segment

Overview

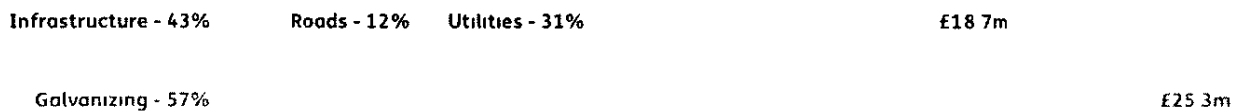
Business review

Financial review

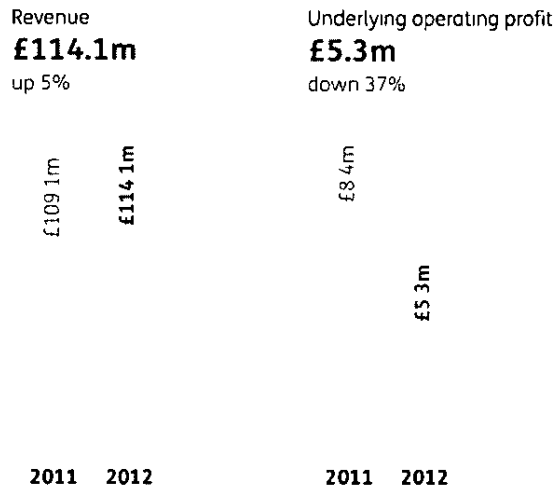
Risk factors and uncertainties

Financial instruments

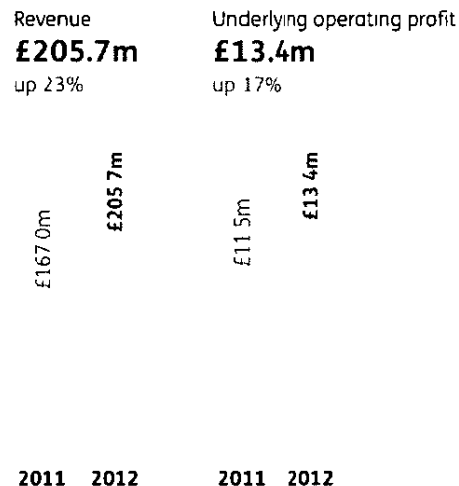
2012 Underlying Operating Profit of £44.0m - by segment



Roads



Utilities



Galvanizing volumes in tonnes (+5.4% year on year)

USA : 123,500 tonnes

- > Volume increase ▲ 16% (H1▲21%, H2▲12%)
- > All plants exceeding 2008 volumes
- > Transmission poles, bridges and solar volumes strong
- > Significant productivity gains, profitability up 34%

France : 139,000 tonnes

- > Volume decrease ▼ 1% (H1▶flat, H2▼3%)
- > 12 month contract for transmission poles assisted volumes by 6%
- > Higher energy and social employment costs adversely impacted profitability

UK : 146,500 tonnes

- > Volume increase ▲ 4% (H1▲6%, H2▲2%)
- > Q1 internal volumes strong
- > Contract for Beaulieu to Denny transmission towers, 6500 tonnes through to 2013
- > Markets for structural steel, waste to energy plants and car parks have improved

Overview

Measuring Our Performance

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 (KPIs) 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.

KPIs	Total revenue growth	Underlying operating profit margin	Underlying earnings per share (UEPS) growth																										
Link to our strategy	The group's core strategy is to deliver balanced profitable growth. This is achieved with the target of mid-single digit organic revenue growth and selective acquisitions	In line with its strategy of delivering balanced profitable growth, the group reviews underlying operating margins to assess returns achieved on revenues	The group considers UEPS growth to be its key indicator of the profitable growth of the group. Achieving acceptable UEPS growth also enables the group to maintain its progressive dividend policy																										
KPI definition	Annual % growth in revenue Annual % organic growth in revenue	Underlying operating profit as a % of total revenue	Underlying profit for the year divided by weighted average number of ordinary shares																										
2012 performance	<table><tr><th colspan="2">Total growth</th><th colspan="2">Organic growth</th></tr><tr><td>8.6%</td><td>8.5%</td><td></td><td>7.4%</td></tr><tr><td></td><td></td><td>2.9%</td><td></td></tr><tr><td>2011</td><td>2012</td><td>2011</td><td>2012</td></tr></table>	Total growth		Organic growth		8.6%	8.5%		7.4%			2.9%		2011	2012	2011	2012	<table><tr><td>10.2%</td><td>10.0%</td></tr><tr><td>2011</td><td>2012</td></tr></table>	10.2%	10.0%	2011	2012	<table><tr><td>34.5p</td><td>38.8p</td></tr><tr><td>2011</td><td>2012</td></tr><tr><td colspan="2">2011 11.5% reduction 2012 12.5% growth</td></tr></table>	34.5p	38.8p	2011	2012	2011 11.5% reduction 2012 12.5% growth	
Total growth		Organic growth																											
8.6%	8.5%		7.4%																										
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2011	2012	2011	2012																										
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34.5p	38.8p																												
2011	2012																												
2011 11.5% reduction 2012 12.5% growth																													
Comment	Organic revenue growth of 7.4% in 2012 was primarily achieved through a strong revenue performance in the Utilities segment, with the full year impact of prior year acquisitions contributing to the total revenue growth of 8.5%	The group's underlying operating profit for 2012 of £44.0m represents a 10.0% return on revenue, marginally lower than the 10.2% return achieved in 2011. Strong margins in the Galvanizing segment, particularly in the USA, largely offset the negative impact in the Roads segment resulting from reduced activity associated with the London Olympic Games	The group's UEPS for 2012 is 38.8p, an increase of 12.5% compared to 2011. The key factors contributing to this growth are an improved operating profit performance, particularly in the Galvanizing segment and in the US Utilities businesses, a reduction in interest costs resulting from lower base rates and lower levels of average net debt, and a reduction in the underlying effective tax rate to 26% (2011: 29%)																										

Overview

Business
 Financial
 Environmental
 Social
 Governance

Free cash flow	Return on invested capital (ROIC)	Health and safety	CO ₂ emissions
The group monitors free cash flow performance to ensure that its profits generate sufficient cash to support its acquisition strategy and to maintain progressive dividend payments	The group targets ROIC to ensure it maintains an efficient balance sheet and that its operations, both existing and acquired, enhance shareholder value	The health and safety performance of each subsidiary is key to our management of the group as a responsible employer and to our reputation in the markets we operate	Cost reductions and greater efficiency improve not only our operating margins but also the sustainability of our operations
Underlying free cash flow divided by underlying operating profit Underlying free cash flow is defined as operating cash flow less capital expenditure	Underlying operating profit divided by average invested capital Invested capital is defined as net assets excluding current and deferred tax, net debt, retirement benefit obligations and derivative financial instruments	Number of accidents Audit scores and bench markings	Carbon usage comparison year on year and over a three year programme
67% 102% 2011 2012	14% 15% 2011 2012	352 345 2011 2012	5% (reduction) 8% (increase) 2011 2012
The group achieved an underlying cash conversion rate of 102% in 2012. Despite the increase in volumes, working capital reduced by £3.7m over the course of the year and now represents 14.7% of annualised revenue, down from 15.5% at December 2011. Capital expenditure of £18.3m represents a multiple of 1.3 times depreciation and amortisation, higher than the benchmark 1.0 times as a result of planned investment in a new galvanizing plant in Columbus, USA.	The group aims to achieve ROIC that exceeds the group's weighted average cost of capital (currently 9.5% on a pre-tax basis), with a target return of 20%. In 2012, the group achieved ROIC of 15%, marginally ahead of the 14% achieved in 2011. The improvement in the year reflects higher levels of profitability on similar levels of average net assets.	During 2012 we achieved a marginal 1.4% reduction in the number of accidents and continued to improve our prevention management performance through the scored audit programme.	We continue to improve and refine our monitoring and management of CO ₂ emission reduction. Further details of our achievement for 2012 and our plans for 2013 are contained in the corporate social responsibility report on page 24.

Overview

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. pipe 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 the UK executive scheme, as from January 2012.

Overview

Business Review

Company Performance

Financial Performance

Operational Performance

Environmental Performance

Social Performance

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 should 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. Pressure to develop products in competitive markets with low margins, to achieve organic growth.	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. Improve policies and internal controls and apply across the group.
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 through abilities and competencies 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 due diligence 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 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. Implementation 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 code of business conduct and policies > External and internal legal, compliance and audit resources, including peer review programme > Improved training and assurance programmes > Strengthening of management with international experience

Bergen Pipe Supports foam shop in Thailand

Bergen Pipe Supports newly constructed factory in Sn City, Andhra Pradesh, India

Bergen Pipe Supports pipe shoes, manufactured for use on the 1650mm diameter GRE piping installation for a natural gas plant providing domestic and industrial supplies into Qatar

Business Review

14	Chairman's Statement
16	Review of 2012
16	Operational Review
20	Financial Review
24	Corporate Social Responsibility

See further information online: hsholdings.com

Business Review

Chairman's Statement

"Our international businesses have been the foundation of the performance in 2012, providing a diversity of markets and income streams."

Bill Whiteley Chairman

Overview

I am pleased to report another strong performance from the group's Infrastructure Products and Galvanizing Services businesses

The group's strategy of complementing organic growth with selective acquisitions, combined with the reshaping of the group over the last five years, has resulted in increased earnings, dividend and shareholder value in 2012

Our international businesses have been the foundation of the performance in 2012, providing a diversity of markets and income streams. The group has now achieved its target of 75% of profits derived from its overseas operations, one year earlier than the target of 2013

The innovative and entrepreneurial culture of the group continues to drive our success in competitive markets and challenging economic conditions and I would like to thank all our employees for their support and efforts during the year

Performance highlights

Below are the highlights of the group's performance in 2012

	2012	2011	% change
Revenue	£440.7m	£406.2m	+ 8.5
Underlying* operating profit	£44.0m	£41.5m	+ 6.0
Underlying* profit before tax	£40.4m	£37.4m	+ 8.0
Profit before tax	£35.2m	£25.4m	+ 38.6
Underlying* earnings per share	38.8p	34.5p	+ 12.5
Basic earnings per share	33.9p	20.9p	+ 62.2
Full year dividend	15.0p	13.2p	+ 13.6
Net debt	£86.8m	£103.8m	-

Further commentary on these results and the divisional performance is contained in the business review section on pages 16 to 22

Dividends

In view of the strong performance, the board is recommending a final dividend of 9.2p per share (2011: 7.8p per share) making a total dividend for the year of 15.0p per share (2011: 13.2p per share) an increase of 13.6%

We continue to perform at levels that enable us to maintain a progressive dividend policy that has increased dividend payments by an average of 10% in each of the last five years. Underlying dividend cover is a healthy 2.6 times (2011: 2.6 times). The final dividend, if approved, will be paid on 5 July 2013 to those shareholders on the register at close of business on 31 May 2013.

Governance

Key to the management of our international group is effective corporate governance

As chairman I aim to ensure that the board and our governance are as effective as possible. I have a strong experienced board, with a balance of skills appropriate to the scale and nature of the group and with a clear focus on:

- › strategic development
- › the risks involved in achieving that development
- › the international diversity of the group
- › a good understanding of the group's operations
- › performance at all levels

We have continued to make progress on the effectiveness of our governance with a greater focus on time dedicated to strategy, operational site visits, risk management and the compliance programme for an internationally diverse group. Further details of our governance activities are contained in the separate governance report.

Contents

Business Review

Going forward

Financial statement

Other information

Outlook

Trading in the USA remains strong with good order backlogs in our Utilities businesses. USA galvanizing is expected to perform at similar record levels to 2012 plus additional revenues from the increased capacity of the new plant in Ohio.

With the UK Government spend on roads now expected to increase and without the adverse impact of the Olympics this year, we expect to benefit from up to six managed motorway projects running throughout 2013. Furthermore, the number of UK water industry AMP5 projects for large diameter pipework, outfalls and attenuation tanks to prevent flooding, continues to be encouraging.

The prospects for our Bergen Pipe Supports businesses are mixed with good levels of demand in the emerging markets and ongoing weakness in the USA.

We retain an element of caution about the level of economic uncertainty within Europe which is impacting our galvanizing and lighting columns operation in France.

Elsewhere in the group we have seen a reduction of large project work, as many of the orders for such projects were in place in 2012. However, we continue to tender for new projects and anticipate these being awarded and delivered in the second half of 2013.

Overall, 2013 has started slowly, which will lead to earnings being weighted towards the later part of the year, nevertheless the board remains confident that our international diversity will continue to provide resilience in the short term and significant organic growth in the medium to longer term.

Shareholder communication

We hold our AGM on 15 May 2013 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

12 March 2013

Business Review

Review of 2012

Derek Muir
Group Chief Executive

Mark Pegler
Group Finance Director

2012 overview

The overall performance of the group for 2012 was in line with the outlook statement given at the time of our interim results in August 2012 and reiterated in our November 2012 interim management statement

The year on year comparatives reflect strong organic revenue growth within Infrastructure Products particularly in the Utilities division where we have an international footprint, offset partly by a weaker performance in the Roads division due to the London Olympics Galvanizing saw a robust performance from France and the UK and an outstanding performance from the USA

The international diversity and strength of our businesses within their respective markets, especially in the USA aided our performance Profits from the USA operations represented 50% of underlying operating profits (2011 32%) and in total 76% of profits were generated from operations outside the UK (2011 65%)

Revenue for the year increased by 8% to £440.7m (2011 £406.2m) Organic revenue growth, at constant currency, was 7.4% Adjusting for the net £9.2m revenue arising from acquisitions and disposals, revenue increased by £25.3m to £431.5m (6% higher than 2011) Underlying operating margin was relatively constant at 10.0% (2011 10.2%) Strong organic growth resulted in underlying operating profit increasing by 6% to £44.0m (2011 £41.5m) Acquisitions accounted for £0.9m of the growth in underlying operating profit Underlying operating profit before taxation was higher at £40.4m (2011 £37.4m)

Infrastructure Products

The division is focused on supplying engineered products to the roads and utilities markets in geographies where there is a prospect of sustained long term investment in infrastructure In 2012 the division accounted for 73% (2011 68%) of the group's revenue and 43% (2011 48%) of the group's underlying operating profit

Revenues increased by 16% to £319.8m (2011 £276.1m) Margins declined by 140 basis points to 5.8% (2011 7.2%) due primarily to higher than anticipated costs and operational difficulties for our new lightweight gontries and lower profitability in roads, due to the Olympics

Utilities

The requirements for new power generation in emerging economies and replacement of ageing infrastructure in developed countries, provide an excellent opportunity for the group's utilities businesses

Revenues increased to £205.7m (2011 £167.0m) which after adjusting for acquisitions and currency impacts, reflects 13% organic growth of £22.5m Underlying operating profit increased by £1.9m to £13.4m (2011 £11.5m) with acquisitions contributing £0.9m of the growth

The organic growth was driven mainly by our US based businesses V&S Utilities and Creative Pultrusions, which benefitted from a more active USA utilities market

V&S Utilities manufacture substation structures which are in demand due to the long awaited upgrade to the USA power grid together with the requirements placed on the grid to connect through to the solar and wind renewable sectors During the year we supplied complete substation packages to the North Bloomfield project for Northeast Utilities and, as part of the Texas CR62 project (Competitive Renewable Energy Zones), also supplied substation structures to AEP There remains good visibility in this arena and we have entered 2013 with a strong order book

Creative Pultrusions, our composites company in the USA, achieved a record performance delivering a number of large projects in the transmission, rail and cooling tower markets Over the year we further developed high value products for niche markets These products are lightweight, corrosion resistant and offer improved installation times, thereby substituting traditional materials There is a growing demand for composite products and this was evident in the supply of 85 railway platform extensions for the upgrade to the Wessex Line in the UK

Contents

Business Review

Overview

Financial Performance

Operating Performance

“Strong organic growth resulted in underlying operating profit increasing by 6% to £44.0m.”

The first half performance was assisted by two large projects, one of which, the supply of ballistic panels to the US Department of Defense, is unlikely to be repeated

Bergen Pipe Supports is the largest business within the Utilities division, with a global manufacturing footprint. Bergen designs and manufactures large industrial pipe supports for gas, coal and nuclear power plant applications around the world.

Manufacturing plants in the USA were successful in growing their business supplying support to petrochemical plants, power station upgrades and a major MOX nuclear weapons decommissioning plant under construction in South Carolina. There remains a hiatus on the decision of fuel type for new power plants in the USA due to the abundance and low cost of shale gas. We expect more enquiries for large gas power plants later in the year.

In August 2012 we completed the construction of our Indian factory near Chennai, which was built to supply the growth markets of power generation in India. During the year we supplied supports to three large coal-fired power stations in India from our plants in the UK and Thailand. This created operational challenges in the second half of the year as we worked through a record order book.

We ended 2012 with an order book of £16m (2011: £10m) which has continued to grow in the first two months of 2013. New orders have been particularly encouraging from our Global Supply Agreements for key projects in Australia and the Middle East.

We have strengthened the international experience of the Bergen management team with the recruitment of Andrew Logue from Siemens. This will also assist the integration of our acquisitions as we harmonise our routes to market.

The UK Water Industry's Asset Management Programme (AMP5) is now in its third year and our order book remains strong for large diameter plastic pipework, storm attenuation tanks and sewage outfalls. The increased risk of flooding and improving housing markets will see demand for our products remains strong for the foreseeable future.

Access Design, which manufactures and installs secondary steelwork, industrial flooring and handrails to AMP5 projects, started with a record order book, but the UK contracting arena has proved very challenging. We have taken action to reduce our exposure in contracting and concentrate our efforts in manufacture and supply only of industrial flooring. This has resulted in a cost reduction exercise, including a number of redundancies announced since the year end.

Large orders were received for our enhanced security products Stronguard and Bristorm to a gold mine in the Dominican Republic and an aluminium smelter in Saudi Arabia, which demonstrates our products are specified by clients who are required to protect their strategic assets. This is a growing international market where products from the UK are being specified for major projects.

Demand has continued for our newly developed solar panel mounting system which was supplied to projects in Germany, Belgium, Greece and the UK. Whilst the feed in tariffs have been reduced, lower solar panel prices have assisted the viability of the projects. We expect the UK to be our main market in 2013 as a number of large schemes are planned.

Our acquisition of Expamet Building Systems, a company based in Hartlepool supplying expanded metal products through the major builders' merchants and DIY retailers, has been integrated into Birtley Building Products, also based in the North East. The synergies of the two businesses are now being realised and the acquisition is already earnings enhancing.

Roads

Primarily in the UK, but with an increasing international presence, our Roads division designs, manufactures and supplies temporary and permanent safety products for the roads market.

Revenues increased by 5% to £114.1m (2011: £109.1m) representing 36% of the Infrastructure Products segment. At constant currencies and adjusting for the effects of acquisitions, annual growth was £1.7m (2%). Underlying operating profit of £5.3m was £3.1m lower than the prior year (2011: £8.4m) with no material effect from acquisitions or currency movements.

As anticipated, a number of major roads schemes were completed ahead of the London Olympics. There was reduced roadwork activity during both the Olympics and Paralympics which led to low utilisation of Varioguard, our temporary vehicle restraint system, in the second half of 2012.

Since the beginning of 2013 we have secured a number of long term rental contracts for Varioguard on major Managed Motorway Schemes and lane widening contracts. The largest of these schemes is on the M25 where there is currently 30km of Varioguard, which will rise to 60km in the second quarter. We anticipate the utilisation of Varioguard to return to more normalised levels in 2013.

To compensate for the reduced activity in the UK we promoted our European and USA tested road restraint systems into Australia, the Middle East and Scandinavia. As a result a number of large projects were won and completed in 2012. Our newly formed company in Australia provides an excellent foundation for future growth where we are awaiting final approval for Zoneguard and where it is already established in the rental market for temporary steel barriers.

Business Review

Review of 2012 continued

In the USA we ended the year with the strongest utilisation of Zoneguard to date. This is a result of our activities in the Southern States where construction is carried out throughout the year. We are continuing to establish distributors for Zoneguard in States where full approval has been granted and we anticipate a combination of sales and rentals going forward. The utilisation levels in 2013 have so far been encouraging and we expect to benefit from a two-year USA Roads Bill put in place at the end of 2012, which calls for the use of additional barriers in work zones.

Profitability in our lighting column businesses in France and the UK benefitted from our investments, the additional volumes from five lighting column PFI's secured in 2011 and a further PFI project for Sheffield was won in the first half of 2012. In France we are experiencing lower domestic demand due to the economic environment, however, further investment in a large automated press will reduce manufacturing costs and allow us to target more export projects.

Our first major motorway contract for new lightweight gantries was completed in 2012. As previously reported at our interim results, the costs of the design, manufacture and installation for this project exceeded initial expectations. A second project was manufactured later than the initial programme which resulted in sub-contracting the fabrication work, consequently leading to additional costs to complete the contract. The experience and knowledge gained through this new programme has resulted in improved design and more robust contract controls.

Techspan, our electronic signage business, supplied £4m of road signage for the approaches to the new Forth Bridge Crossing. We also supplied Varioguard, gantries and traffic data collection equipment to this project, which is similar to the managed motorway projects in England. The Highways Agency have placed a small order for supply in the first quarter of 2013, however, there is currently no indication of a large bulk purchase order as the design and layout of the signs continue to evolve and are yet to be finalised.

ATA, our Swedish roads business acquired in 2011, had a disappointing first half in 2012. Market conditions however, improved in the second half when we were successful bidders on larger roads projects. We expect a stronger performance in 2013 as our highway products from the UK become more established in this geography. During the year we established a branch of ATA in Norway to further penetrate the Scandinavian market.

Galvanizing Services

Offering corrosion protection services to the steel fabrication industry with multi-plant facilities in the UK, France and USA, Galvanizing Services now accounts for 27% (2011: 29%) of the group's revenue and more significantly 57% (2011: 52%) of the group's underlying operating profit.

At constant currency, revenues increased 5% to £120.9m (2011: £118.5m) whilst operating profit was higher at £25.3m (2011: £21.6m). Margin improvement in the UK and USA resulted in an overall margin of 20.9% (2011: 18.2%).

Overall, galvanizing volumes were 5% ahead of 2011 primarily due to a strong performance in the USA.

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 16% year on year, led by increased demand from utilities, transmission, bridge and solar sectors and a more positive trend on industrial production. Zinc prices remained stable throughout the year and due to the additional volumes, operational efficiencies and lower cost base we were able to improve our profitability by 34%. The construction of the new plant in Columbus, Ohio, was completed on time and on budget and will be fully operational in March 2013, providing improved operational efficiencies and adding an additional 40% capacity to the existing site.

A location for the next greenfield plant has been identified and is planned to be operational in the second half of 2014. This is part of our organic growth strategy in the USA where galvanizing is a young market growing through specification and design, encouraging architects and engineers to move from painting to galvanizing.

France

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

Volumes remained stable at prior year levels assisted by a twelve month contract for galvanizing transmission and lighting poles for a manufacturer which is re-building its galvanizing plant. Excluding the contribution from this one off contract, underlying volumes in France would have been lower by 6%. Energy and employment costs were higher which resulted in a slight reduction in profitability. We expect reduced volumes in 2013 due to the ongoing challenging economic climate in France.

UK

Our galvanizing businesses are located on nine sites, four of which are strategically adjacent to our Infrastructure Products manufacturing.

Compared to 2011, volumes improved by 4%. The improvement took place in the first quarter of 2012, due to a mild winter and increased volumes of our own infrastructure products. Later in the year we were encouraged by an improvement in the volumes of structural steel for car parks and waste to energy plants. Volumes were also assisted by the Beaulieu to Denny transmission tower project which will run through 2013. Operational improvements, together with the additional volumes resulted in improved profitability. The market remains stable and volumes are expected to be similar in 2013.

Galvanized guard rail and structures for the renovated court 17b at Queens tennis club New York The galvanizing work was undertaken by US galvanizer Voigt & Schweitzer

Machinery in operation at the newly acquired business of Expamet Building Systems (Hartlepool, UK) Showing on the left hand side is the Expamet metal beading widely used for plastered surfaces and one of Expamets leading branded products

Barkers StranGuard security fencing installed complete with a full length electric fence, protecting a CNI listed sub station

Business Review

Review of 2012 continued

Financial review

Income statement phasing	First half	Second half	Full year
2012			
Revenue £m	223.8	216.9	440.7
Underlying operating profit £m	22.7	21.3	44.0
Margin %	10.1	9.8	10.0
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

Revenue of £440.7m was £34.5m or 8% ahead of the prior year with acquisitions/disposals completed during both 2011 and 2012 contributing a net £9.2m additional revenue and £0.9m underlying operating profit. Organic revenue growth amounted to £30.0m, some 7% ahead of 2011. Underlying operating profit of £44.0m included organic growth of £2.3m, representing a 6% improvement on the previous year. Further details of the organic performance of the business are provided in the business review. The translation impact arising from changes in exchange rates, principally the US Dollar and Euro, reduced total revenue and underlying operating profit by £4.7m and £0.7m respectively.

As expected, in contrast with the second half weighted results in 2011, the phasing of revenue and underlying operating profit was more first half biased in 2012, principally reflecting the impact of the London Olympic Games on our Roads activity. The performance in 2013 is expected to revert to being more weighted to the second half, as noted in the business review.

Cash generation and financing

The group again demonstrated its cash generating abilities with strong operating cash flow of £58.4m (2011: £35.3m), including a reduction in working capital of £3.7m (2011: £16.1m increase). 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 improved to 14.7%, from 15.5% at December 2011, an underlying reduction of c. £3.5m taking into account the higher revenues. Debtor days were broadly similar to the prior year at 61 days (2011: 60 days).

Capital expenditure at £18.3m (2011: £12.6m) represents a multiple of depreciation and amortisation of 1.3 times (2011: 0.9 times). During 2012, the group expended £5.2m on a new build galvanizing facility in Columbus, Ohio, with a further £2.5m expected to be spent in 2013. Other significant items of expenditure included £1.6m in respect of the new pipe supports manufacturing facility in India and £1.5m of new manufacturing equipment for the French lighting column operation, in furtherance of the group's organic growth plans. The group continues to invest in organic growth opportunities where returns exceed internal benchmarks.

The group measures its operating cash flow performance based on its underlying cash conversion rate, defined as the ratio of underlying operating cash flow less capital expenditure to underlying operating profit. In 2012 the group achieved an underlying cash conversion rate of 101% (2011: 67%) and over the past five years has achieved an average rate of 95% despite a number of major capital projects being undertaken during that time.

Group net debt at 31 December 2012 was £86.8m, a decrease of £17.0m against 31 December 2011 (£103.8m) principally driven by the strong operating cash flow performance during 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 decreased year on year by £2.5m due to exchange rate movements.

Change in net debt

	2012 £m	2011 £m
Operating profit	39.2	32.9
Depreciation and amortisation*	16.4	16.8
Working capital movement	3.7	(16.1)
Pensions and provisions	(2.0)	(4.3)
Other items	5.2	6.0
Operating cash flow	58.4	35.3
Tax paid	(11.6)	(7.5)
Interest paid (net)	(4.3)	(7.7)
Capital expenditure	(18.3)	(12.6)
Sale of fixed assets	0.5	0.1
Free cash flow	24.7	7.6
Dividends	(10.2)	(9.8)
Acquisitions	(0.5)	(36.2)
Disposals	-	6.2
Net issue of shares	0.5	(0.7)
Change in net debt	14.5	(32.9)
Opening net debt	(103.8)	(70.6)
Exchange	2.5	(0.3)
Closing net debt	(86.8)	(103.8)

* includes £2.4m (2011: £2.2m) 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 relationships.

Maturity profile of debt facilities

	2012 £m		2011 £m
On demand	£15.7m	On demand	£12.8m
2013-2015	£3.1m	2012-2015	£7.1m
2016	£211.5m	2016	£215.4m

The principal 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 £214.6m and a further £15.7m in overdrafts and other on-demand facilities.

Business Review

The principal debt facility is subject to covenants which are tested semi-annually on 30 June and 31 December. The covenants require that the ratio of EBITDA (adjusted profit before interest, tax, depreciation and amortisation as defined in the facility agreement) to net interest costs exceeds 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 2012 were

	Actual	Covenant
Interest Cover	16.1 times	4.0 times
Net debt to EBITDA	1.5 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.

	2012 £m		2011 £m	
Underlying net cash interest				
➤ Bank loans / overdrafts	3.5		3.7	
➤ Finance leases / other	0.1	3.6	0.4	4.1
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	0.4	0.4	0.2	0.1
		4.0		7.5

Net financing costs decreased by £3.5m to £4.0m (2011 £7.5m). Net financing costs in 2011 included one-off costs of £3.3m associated with refinancing the group's principal debt facility. The net cost from pension fund financing under IAS19 was £0.4m (2011 £0.2m) 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 decreased by £0.5m to £3.6m (2011 £4.1m) directly as a result of lower margins incurred on the principal debt facility triggered by lower levels of Net Debt / EBITDA, falls in LIBOR over the period and lower levels of average net debt generally. Underlying operating profit covered net cash interest 12.2 times (2011 10.1 times).

The group has approximately 39% (2011 30%) of its gross debt of £95.7m at fixed interest rates, either through interest rate swaps or finance leases. Interest rates are predominantly denominated in US Dollars, with smaller tranches of Sterling and Euros, and closely reflect the group's debt profile.

Return on invested capital (ROIC)

The group aims to maintain ROIC above its pre-tax weighted average cost of capital (currently around 9%), with a target return of 20%. In 2012, ROIC increased to 15% (2011 14%) as a result of improved profitability on a relatively stable asset base. The group measures ROIC as the ratio of underlying operating profit to average invested capital. Invested capital is defined as net assets excluding current and deferred tax, net debt, retirement benefit obligations and derivative financial instruments.

Exchange rates

Given its international operations and markets, the group is exposed to movements in exchange rates when translating the results of international operations into Sterling. Retranslating 2011 revenue and underlying operating profit using 2012 average exchange rates would have reduced the prior year revenue and underlying operating profit by £4.7m and £0.7m respectively.

Non-underlying items

The total non-underlying items charged to operating profit in the consolidated income statement amounted to £4.8m (2011 £8.6m) and were made up of the following:

- Business reorganisation costs of £0.8m (2011 £1.2m) – principally relating to redundancies and other costs associated with site restructuring, of which £0.5m were cash costs,
- Non-cash amortisation of acquired intangible fixed assets of £2.4m (2011 £2.2m),
- Acquisition related expenses of £0.8m (2011 £0.7m) – costs associated with acquisitions expensed to the consolidated income statement in accordance with IFRS3 (Revised),
- A curtailment loss of £0.4m arising from the UK Defined Benefit Pension Scheme ceasing future accruals in November 2012, and
- Losses of £0.4m (2011 gains of £0.4m) in respect of the fair value of forward foreign currency contracts.

Non-underlying items in 2011 included

- A loss of £5.9m 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 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 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, and
- Losses on sale of properties of £0.2m.

The cash impact of the above items was an outflow of £0.9m (2011 £1.6m) with a further £0.4m expected to be spent in 2013. The non-cash element therefore amounted to £3.5m, principally due to the amortisation of acquired intangibles of £2.4m noted above.

Tax

The group's tax charge for the year was £9.1m (2011 £9.3m). The underlying effective tax rate for the group was 26% (2011 29%). The international nature of our operations does mean that the mix of profits in a particular year can impact the group's effective rate of tax. The income statement tax charge was lower than tax paid of £11.6m (2011 £7.5m) due to the beneficial impact of prior year credit following the satisfactory resolution of certain historical tax matters.

The group's net deferred tax liability is £11.2m (2011 £17.0m). A £9.2m (2011 £10.5m) deferred tax liability is provided in respect of brand names and customer relationships acquired. A further £2.0m (2011 £2.3m) is provided on the fair value revaluation of French properties acquired as part of the Zinkinvest 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.

Business Review

Review of 2012 continued

Earnings per share

The board believes that underlying earnings per share (UEPS) give 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 acquisition intangible amortisation. UEPS for the period under review increased by 12.5% to 38.8p (2011: 34.5p). The diluted UEPS was 38.5p (2011: 34.2p). Basic earnings per share was 33.9p (2011: 20.9p). The weighted average number of shares in issue was 77.0m (2011: 76.9m) with the diluted number of shares at 77.8m (2011: 77.7m) 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 2012 was £16.3m compared with £16.4m at 31 December 2011. The impact of lower discount rates (as a result of falling gilt rates) used to value the pension obligations was broadly offset by increases in value of the underlying assets.

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 2012 was £13.8m (2011: £14.3m). 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 recently completed negotiations with the trustees regarding the triennial valuation dated 5 April 2012, agreeing deficit recovery plans that require cash contributions over and above the current service accrual amounting to £2.5m for the three years to April 2016, followed by payments of £2.3m for a further seven years. The date of the next triennial review is 5 April 2015.

The schemes are closed to new members. Future accruals in the executive scheme ceased in December 2011 and in the main scheme in November 2012.

Revisions to IAS 19 will become effective in 2013 that will have the impact of increasing the net financing cost of the schemes by around £0.5m. It should be noted that the change has no impact on the group's underlying earnings, as the non-cash net financing cost on defined benefit pension schemes is treated as a non-underlying item.

Acquisitions

On 23 May 2012 the group acquired the trade and certain of the assets and liabilities of Expamet Holdings Limited and subsidiaries (In Administration), a company operating in the UK, manufacturing and distributing expanded metal products into the building and infrastructure markets. The consideration was £0.5m in cash.

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.

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 **Mark Pegler**
Group Chief Executive Group Finance Director

12 March 2013

Access Designs' newly designed and manufactured gantry being installed close to junction 2a on the M90 in Scotland

FlexBeam Hi-Flex crash barrier, supplied by our Swedish company ATA Bygg och Markprodukter AB in Nyköping, Sweden

GRP SUPERDECK mass transit decking installed at 45th Road, Courthouse Square rail station, New York, which replaced the existing concrete platform with a lightweight limited maintenance decking system. The platform comprised 13,000 square feet of SUPERDECK which was manufactured and supplied by our US company Creative Pultrusions Inc.

Business Review

Corporate Social Responsibility

Our aims

The group assesses those corporate responsibility issues material to the delivery of its strategic objectives, its long term growth and the interests of all its stakeholders. To achieve this we focus upon economic, ethical, social and sustainable policies and practices that can be appropriately applied and developed throughout the group.

The board of directors has implemented, reviewed and updated policies dealing with the group's responsibilities for the environment and relationships with its various stakeholder groups, including its employees. These policies are structured to be appropriate to country legislation, custom and practice from around the group and relevant industry best practice. The policies set the framework for the implementation and development of the corporate and social responsibility activities for the group, in the context of the delivery of the group's strategic objectives and of the interests of all stakeholders.

Responsibilities and accountability

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.

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.

Measuring our performance

In accordance with our aims, we have continued to focus our monitoring and management on carbon dioxide CO₂ emissions, energy consumption and health and safety. We have established measures and performance targets for these matters and our progress is explained under the key corporate social responsibility categories of:

- Environment - the environmental impact of our operations
- Workplace - health and safety of employees and third parties

Environment

In order to minimise the environmental impact of our operations and related costs, we:

- assess the potential impact and implement measures to mitigate these (e.g. capital expenditure projects), and
- measure consumption and emissions, to monitor and control performance efficiency and compliance with our policies.

The group's UK sites continued to make progress in reducing their CO₂ emissions through lower electricity and fuel consumption. Our second three year programme, which runs through to the end of 2013, has a target of 5% per annum reduction in CO₂ emissions. In 2011, the first year of this programme, we achieved the target for that year, with a reduction of 5%. However in 2012 we recorded an overall 8% per annum increase primarily due to the acquisition of the manufacturing business of Expamet in the UK and the increased activity within our galvanizing and infrastructure production plants.

The first disclosure of CO₂ emissions for our UK sites under the Carbon Disclosure Project (www.cdproject.net/CDPResults/CDP-FTSE-350-Climate-Change-Report-2012.pdf) was made in 2012 and we will be disclosing all our group site CO₂ emissions in 2014, for the 2013 calendar year.

We are currently being assessed for the Carbon Trust Standard in respect of our performance in 2012 and we expect to achieve that standard.

The company is a full participant of the CRC Energy Efficiency Scheme (CRC). Out of 2,097 participants in the CRC performance league table, we are ranked at number 729 (a marked improvement over our previous ranking in November 2011 of 1,301). The CRC performance league table can be seen at crc.environment-agency.gov.uk/ppl/web/pl/public/2011-12/CRCPerformanceLeagueTable20112012.

Our worldwide emissions data is already being collected in advance of the proposed UK legislation relating to "Mandatory Greenhouse Gas Emissions reporting" which is about to be placed before Parliament and will require reporting of the global emissions, from the 2014 annual report.

The localised solutions we have for waste disposal and recycling continued to be challenged and reviewed during the year, to assist monitoring of the recycling of waste across the group. This initiative is in its early stages and it is therefore not possible to provide meaningful performance data until 2013.

We reviewed the management of water usage through a third party specialist and concluded that there was little scope to reduce consumption and therefore produce material net financial savings.

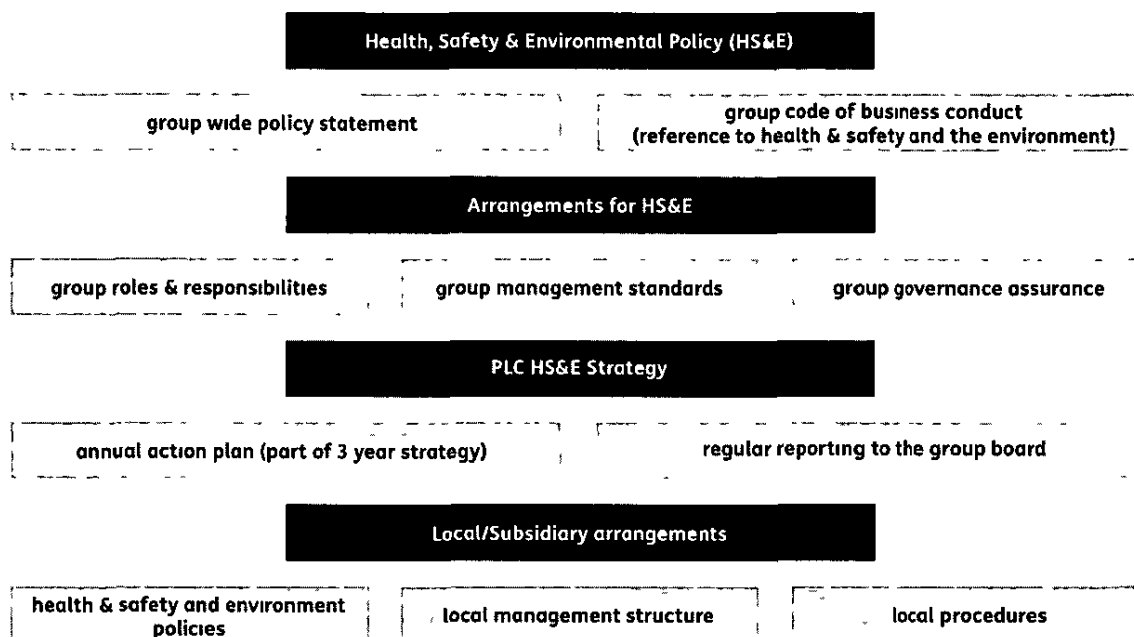
Our challenge continues to be balancing the achievement of our corporate social responsibility targets with the increased activity and development of the group's operations and products. The initiatives and monitoring, we have now put in place, such as the Carbon Disclosure Project and Carbon Trust Standard, will assist us in achieving that balance and effectively determine delivery in a realistic financial framework and timescale.

Business Review

Workplace*Health and safety*

We are committed to providing our employees and all those who visit the group's sites, with a safe and healthy workplace and environment

Below is the framework of our policies and processes for managing our health and safety and environmental responsibilities



In 2012 we made the following progress on the group's health and safety initiatives and objectives, identified for that year

Our objective/initiatives 2012	What we did												
Lowering the accident rate so that we recover to our stated target of a 10% year on year reduction	We achieved a 1.4% reduction. As can be seen from the table below our galvanizing operations reported a 7.6% increase <table><tr><td></td><td>2011</td><td>2012</td></tr><tr><td>Infrastructure</td><td>218</td><td>203</td></tr><tr><td>Galvanizing</td><td>132</td><td>142</td></tr><tr><td>Total no. of incidents/accidents</td><td>350</td><td>345</td></tr></table>		2011	2012	Infrastructure	218	203	Galvanizing	132	142	Total no. of incidents/accidents	350	345
	2011	2012											
Infrastructure	218	203											
Galvanizing	132	142											
Total no. of incidents/accidents	350	345											
Full implementation of the "safety cloud" IT system	Full implementation was achieved for all our UK sites and a programme has been set to roll this out to our international operations in 2013. Both our US and French galvanizing businesses have comprehensive locally designed software reporting and the "safety cloud" system will therefore complement rather than replace the systems for these two major businesses.												
Full assessment and analysis of international practices and any potential divisional (e.g. galvanizing) or individual company benefits	Health and safety officer exchange visits were undertaken for the US and UK galvanizing businesses and information exchanged on a group basis through our intranet communication site. We are continuing to develop this initiative with a dedicated international site and company assessment programme through an independent health and safety consultant.												
Maintenance of our current UK audit weighted average health and safety management performance score levels and where feasible, improving the average score	The UK weighted average score achieved for 2012 improved by 7% bringing the level of improvement, since inception of the measure, in 2010, to 40%. This programme is ongoing and has a target of 5% improvement for 2013.												
Use of a divisional or comparable business measure to monitor performance	Use of comparable key reporting measures across the group was further developed as part of the implementation of the "safety cloud" programme for the UK. With extension of the use of this system to our international operations, further reporting of key measures will be available for monitoring at the group level.												
Implementation of a group strategy for occupational health	This project has now been prioritised for 2013.												

Business Review

Corporate Social Responsibility continued

Employment policies

The group has a clear policy 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 a full 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.

The group gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a disadvantaged 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 group 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 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 223 employees participating, 29 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 provides 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,
- support with programmes leading to a professional or academic qualification, and
- programmes for compliance with the bribery act and our code of business conduct.

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 11 training courses covering

- IT training - Powerpoint, Excel and Outlook,
- group management development programme,
- successful supervisors programme,
- sales development programme,
- appraisal skills,
- management workshops,
- assertive communication in the workplace, and
- group health and safety forum.

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.

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 them, 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,

Business Review

Our business

Our business is divided into three main areas:

1. **Construction** (the largest part of our business)

- provision of a safe and competent workforce employed in accordance with industry best practice,
- acknowledgement of compliance with our anti-bribery and corruption policy,
- timely submission of tenders and delivery to the agreed specification, time and agreed price,
- co-operation with the group and the rest of its supply chain

Throughout 2012 we continued to focus upon roll out of our anti-bribery and corruption training programme, including reviewing our due diligence processes and engagement terms for third parties. Accordingly, the development and integration of our new code of business conduct has been deferred until the first quarter of 2013. This has been an extensive exercise requiring new policies and procedures along with a comprehensive training and implementation plan.

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. These 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.

Below is an example of community involvement by our Newport, South Wales, business, Asset International who manufacture and supply Weholite storm and water attenuation pipes.

"Student finds a new way to use Weholite -

16 year old Abigail Toller, from Yarn School in Stockton-on-Tees, has found an innovative new use for Weholite pipes in pursuit of her GCSE in Design and Technology.

Abigail approached Asset International last year looking for someone to supply the right material to make a storage drum (pictured) as part of her coursework. The drums, built using Weholite pipe of diameter 750mm rotate, allowing access to three different compartments for the storage of her art materials."

Employee initiatives - below is an example of one of the innovative posters used by France Galva to promote employee suggestions. France Galva have adopted the rhino character for a range of posters covering health and safety, good working practices and the environment.

Governance

30	Board of Directors and Key Executives
32	Chairman's Introduction
33	Governance Report
43	Audit Committee Report
45	Remuneration Committee Report
48	Directors' Remuneration Report
56	Directors' Report (other statutory information)
58	Directors' Responsibilities

See further information online: hsholdings.com

Governance

Board of Directors

W H Whiteley BSc, FCMA

Chairman and non-executive

Bill, aged 64, 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. He is chairman of Spirax Sarco Engineering plc and Brammer plc and a non-executive director of Renishaw plc.

D W Muir BSc, C Eng, MICE

Group Chief Executive

Derek, aged 52, joined the company in 1988. He was appointed to the board in 2006 and served as group managing director of the core Infrastructure Products segment from 2001. Derek has been a senior manager within the Hill & Smith group for over 25 years, having been managing director of Hill & Smith Limited, one of the group's principal subsidiaries since 1998.

M Pegler BCom, FCA

Group Finance Director

Mark, aged 44, 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

Independent non-executive

Jock, aged 56, 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 an adviser to Roland Berger, the strategy consulting firm. 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 Snowden BA, FCA

Senior independent non-executive

Clive, aged 59, 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.

Company Information	32
Business Review	33
Governance	34
Financial Statements	35
Other Information	36

Key Executives

B Miller

President and Managing Director, Voigt & Schweitzer LLC

Brian, aged 49, has been with Voigt & Schweitzer LLC since 1993 when he started as the finance director. Appointed President in 2009, he was previously employed by the accounting firms of Crowe Chizek and Company and Arthur Andersen. Brian is a licensed Certified Public Accountant.

A Logue BEng, MBA

Chief Executive, Pipe Supports Group

Andrew, aged 55, joined the Pipe Supports Group in 2012 and has 35 years of senior level business experience gained in various oil & gas, manufacturing and power generation organisations including Siemens, John Wood Group Plc, Schlumberger International and Caterpillar Inc.

M A Tonks

Managing Director, Hill & Smith Ltd

Mark, aged 50, was previously employed by NEI & Rolls Royce Plc. Mark joined Hill & Smith in 1994 and has been a senior manager within the group. Mark has extensive national and international industry relations and an in depth knowledge of the roads business. Qualifications include HNC Production Engineering and Certificate in Institute of Industrial Management. Mark's directorships include Hill & Smith Ltd, Varley & Gulliver Ltd, ATA, Hill & Smith Infrastructure Products India Private Limited and Hill & Smith, Inc.

Y Delot BSc

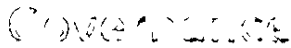
Managing Director, France Galva and Conimast

Yves, aged 65, started his career in the galvanizing business in 1972 and has been involved in the manufacture of street lighting columns since 1988. Yves has a Bachelor of Science in higher mathematics and is also the Mayor of Saint Florentin, France.

J C Humphreys FCIS

Company Secretary

John, aged 60, joined the company in November 2004, having held the position of company secretary and property director of retail opticians Dollond & Aitchinson Group Limited for 17 years and where he was a member of a successful management buy out team. Previously John had held the position of assistant company secretary at a number of industrial and retailing public listed companies.



Introduction

Bill Whiteley Chairman

Dear shareholder,

On behalf of the board, I am pleased to present the governance report for the year ended 31 December 2012

Good governance is fundamental to maximising shareholder value over the longer term. My fellow directors and I, continue to be committed to achieving profitable growth on a disciplined, controlled basis. In particular this means applying the following principles:

- › Ensuring we have appropriate controls and processes aligned with the entrepreneurial drive and ambition of the board and senior management of the group,
- › Directors setting the tone as well as the direction of the group's strategy and management, and
- › Evolving the implementation of our corporate governance so that it is in line with the group's strategy

In 2012 we have applied such principles through

- › Reviewing our strategy and our appetite for risk,
- › Re-assessing our approach to risk management as the group continues to expand internationally,
- › Continuing to be selective about the nature and fit of potential acquisitions,
- › Increasing the non-executive directors' exposure to the operating businesses and senior management,
- › Implementing new policies, procedures and training focused on governance and compliance,
- › Ensuring the remuneration of the executive directors and senior executives continue to be aligned to the overall strategic objectives,
- › The board evaluation process assessing the need for any changes in composition, balance or experience of the board, and
- › Continuation of our programme of engagement with major shareholders

Your board has a balanced perspective on business issues and a range of skills, experience, independence and knowledge of the company that enables it to effectively discharge its responsibilities for the governance of the company. Diversity on boards of directors and elsewhere in corporate life continues to be a significant theme in corporate governance. This is an issue that the board and I continue to keep under review, along with the composition of the board, both in the context of the diverse geographical and decentralised nature of the group.

In this governance report we describe how our governance ethos is applied and how the appropriate responsibilities are handled through the work of the board and its committees.

Yours sincerely

Bill Whiteley
Chairman

12 March 2013

Overview	1
Business Review	2
Governance	3
Financial statements	4
Other information	5

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 2012 complied with Section 1 of the Code. This corporate governance report, together with the separate audit committee, nominations committee and 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 subsidiary companies, operating in eight 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 and individual operating company performance and regularly liaise with selected senior executives and subsidiary company directors. The group has a structure of monthly subsidiary company 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 non-executive chairman and each committee reports to the board.

Governance structure



Audit Committee

The audit committee has responsibility for planning and reviewing the company's interim and preliminary reports and accounts, its internal controls and risk management assurance.

Chairman

J F Lennox

other members

C J Snowdon
W H Whiteley

Secretary

J C Humphreys

Remuneration Committee

The remuneration committee is responsible for the policy for the remuneration of executive directors, company secretary and senior executives and its implementation.

Chairman

C J Snowdon

other members

J F Lennox
W H Whiteley

Secretary

J C Humphreys

Nomination Committee

The nomination committee has responsibility for assisting the board with succession planning and with the selection of a new director or chairman.

Chairman

W H Whiteley

other members

J F Lennox
D W Muir
C J Snowdon

Secretary

J C Humphreys

Governance

Governance Report continued

Board of directors

Composition of the board

- W H Whiteley (chairman) - independent on appointment
- D W Muir (group chief executive) and M Pegler (group finance director) - executive directors
- C J Snowdon (senior independent director) and J F Lennox - independent non-executive directors

(The Code provides that they should comprise at least half of the board, excluding the chairman)

The biographies of the directors of the board are shown on page 30 along with any significant other commitments and appointments they may have

The directors are experienced and influential individuals from varied commercial industries, professional backgrounds and international involvement. Their diverse and balanced mix of skills and business experience are key elements to the effective functioning of the board and its committees, ensuring that matters are fully and effectively debated and challenged and that no individual or group dominates the board's decision-making processes

Board balance

Independence

Taking into account the provisions of the Code, the board has determined that during the year under review none of the non-executive directors has any relationship or circumstance which would affect their performance and the board considers all of the non-executive directors to be independent in character and judgement

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

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, including board evaluation process. Directors are able to take independent professional advice, when necessary, at the company's expense

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 and reporting on regulatory compliance, risk management and internal controls

How the board operates

The board manages the overall control of the company's affairs with reference to a formal schedule of matters reserved to the board for decision including the review and approval of key policies

In particular the board makes decisions and reviews and approves

- group strategy and operating plans,
- business development, including major investments and disposals,
- risk management,
- corporate governance,
- compliance with laws, regulations and the company's code of business conduct,
- financial reporting and audit,
- financing and treasury,
- corporate sustainability and responsibility, ethics, health and safety, the environment, and
- pension benefits and liabilities

Governance

The board has established processes designed to help maximise its performance. These processes operate from a framework of:

Operation of the board	- Board meetings are scheduled to ensure adequate time for discussion of each agenda item - Board discussions are held allowing for questions, scrutiny and constructive challenge where appropriate - Full debate allows decisions to be taken by consensus (although any dissenting views would be minuted accordingly) - other members of senior group management regularly attend and give presentations at board meetings - local managers may also attend when matters of particular significance or country relevance are proposed or being reviewed
Strategic focus	- The development of strategy is led by the chief executive officer together with the group finance director and with input, challenge, examination and ongoing testing from the non-executive directors - Group strategy is regularly addressed by the board, with strategic matters being reviewed and updated as appropriate at each main meeting. In addition, the board holds at least one annual strategy meeting. The board has particular responsibility for ensuring that the business strategies proposed are fully discussed and critically reviewed - The executive directors and members of the senior management team draw on the collective experience of the board
Board information	- Comprehensive reporting packs are provided to the board, which are designed to be clear, accurate and analytical, whilst avoiding excessive and unnecessary information - Reporting packs are normally distributed electronically three working days in advance of board meetings, enabling them to be as up-to-date as possible, whilst allowing sufficient time for their review and consideration in advance of the meeting - Clarification or amplification of reports or proposals are sought in advance of, or at, meetings as appropriate - Management accounts with commentary are distributed to the board on a monthly basis
Board knowledge	- The board regularly reviews its appetite for and management of risk in the context of the strategy and the periodic review of the group risk register - The chief executive officer and group finance director have a programme of visits to the group's business locations to review the operations and performance and to engage and support local management - In the financial year, at least one Hill & Smith Holdings PLC board meeting is held at the operational site of a subsidiary - All directors have open access to the group's key advisors, senior management and the company secretary

Meetings and attendance 2012

Below is a table of the meetings held of the board and of its committees in 2012

	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Total
Board (main meetings)		✓	✓		✓	✓		✓	✓		✓	✓	8
Board (conference call)											✓		1
AGM					✓								1
Strategy meeting						✓					✓		2
Audit committee			✓					✓			✓	✓	4
Nominations committee						✓	✓		✓				3
Remuneration committee			✓							✓		✓	3

The attendance of directors at the above meetings of the board and its committees was as shown below

	Board	Audit committee	Nominations committee	Remuneration committee
W H Whiteley	9	4	3	3
D W Muir	9	4*	1	3*
J F Lennox	9	4	3	3
M Pegler	9	4*	-	-
C J Snowdon	9	4	3	3

In attendance only

Governance

Governance Report continued

All directors of the board attended the AGM and the strategy meetings

The non-executive directors meet independently without the chairman present and also meet with the chairman independent of management

Evaluation of the performance of the board

On broadly the same basis as used in 2011, an evaluation of the board's effectiveness was undertaken internally by way of completion of a written questionnaire, collective discussion of the results of the questionnaire and separate meetings and discussions. Below is a summary of the process and results

Main elements of the questionnaire issued to each director

- › Assessment of the follow up from the evaluation exercise of 2011
- › The performance of the chairman
- › The performance of the executive and non-executive directors
- › Board composition and diversity
- › Succession planning
- › Content and operation of board meetings and quality of information presented at these meetings
- › Shareholder contact and relations

Results of the questionnaire and conclusions

The results were summarised by the company secretary in consultation with the chairman and reported to the board. Following a review of the results, the board drew conclusions and agreed the following actions

- › To further review later in the year the composition of the board with particular regard to broadening the international experience
- › Strengthening the organisational support structure for the group, particularly at the holding company
- › Reviewing in 2013 the continued membership of Bill Whiteley on the audit and remuneration committees
- › Increasing the profile of the group strategy, at the operating businesses
- › Increasing the number of operational visits by the board
- › Further consideration be given to the use of a third party facilitator for the 2013 board evaluation
- › Each of the executive directors should consider taking up one external non-executive appointment

Meetings and discussions

- › The chairman and non-executive directors met in the absence of the executive directors to discuss the performance of the executive directors
- › The non-executive directors met in the absence of the chairman to review his performance
- › Follow up by the chairman with each director, on a one to one basis, the evaluation process and conclusions

Training and advice

All directors are provided with the opportunity and encouraged to attend regular training to ensure they are kept up to date on relevant legal developments or changes, best practice and changes to commercial and financial risks. Typical training experience for directors includes attendance at seminars, forums, conferences and working groups, as well as the provision of information from the company secretary. In order to fulfil their duties, procedures are in place for directors to seek both independent advice and the advice and services of the company secretary

Conflicts

The Companies Act sets out directors' general duties concerning conflicts of interest and related matters. The board has agreed an approach and adopted guidelines for dealing with conflicts of interest and has added responsibility for authorising conflicts of interest under the schedule of matters reserved for the board. The board confirmed that it was not aware of any situations that may or did conflict with the interests of the company, other than those that may arise from directors' other appointments as disclosed in their biographies on page 30. In accordance with the articles, the board authorised the company secretary to receive notifications of conflicts of interest on behalf of the board and to make recommendations as to whether the relevant matters should be authorised by the board. The company has complied with these procedures during the year.

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 this recommendation. Accordingly, the board implemented annual re-election of all directors with effect from the annual general meeting of 16 May 2012 and all re-elections are now on an annual basis.

Committees of the board

The board has three committees - audit, nominations and remuneration. The composition responsibilities and activities of each of these committees are described below. In addition, both the audit and remuneration committee chairmen have given separate reports on pages 43 and 45. Each of the non-executive directors is a member of each of the 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. This position continues to be kept under review by the board.

The company secretary acts as secretary to all of these committees. The terms of reference of the committees are available on the company's website at www.hsholdings.com

Overview	3
Business Review	4
Governance	10
Financial Statements	11
Other Information	12

The Audit Committee

Composition of the committee

- J F Lennox (chairman) - independent non-executive director
- C J Snowdon (senior independent director) and W H Whiteley (chairman of the board)

Governance

The committee was in place throughout the year under review and for the whole of that period Jock Lennox was the chairman. Both Clive Snowdon and Jock Lennox 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 audit committee is appointed by the board from the non-executive directors of the company.

- The chairman, whose biography is included on page 30, has recent and relevant financial experience from his former position as a partner of Ernst & Young and his current other non-executive director and audit committee roles.
- The group finance director and other senior members of financial management attend and present at meetings (other than during private discussions between the committee and the external auditors).
- Representatives of the external auditors attend and present at meetings (other than during discussions regarding their performance).
- The group risk and compliance counsel attends meetings.
- The committee routinely meets the auditors without the involvement of the executive directors or senior management.

Role and responsibilities

The audit committee is responsible for monitoring and reviewing

- the integrity of the financial statements, including a review of the significant financial reporting judgements contained in them,
- the effectiveness of the group's internal control and risk management and of control over financial reporting,
- the effectiveness of the global audit and risk function, including the programme of work undertaken by that function,
- the group's policies and practices concerning business conduct and ethics, including whistleblowing,
- the group's overall approach to securing compliance with laws, regulations and company policies in areas of risk, and
- the company's relationship with the external auditor, including its independence and management's response to any major external audit recommendations.

Meetings and attendance

The committee met four times in the year to coincide with the financial reporting timetable of the group. The attendance at these meetings was

Names	Attendance 2012 Meeting
J F Lennox	4
C J Snowdon	4
W H Whiteley	4

Both Derek Muir and Mark Pegler were in attendance at each meeting.

Internal control and risk management

The board is committed to satisfying the internal control guidance for directors set out in the revised version of the Turnbull Guidance on Internal Control. In accordance with this guidance, there is an ongoing process, regularly reviewed by the directors, for identifying, evaluating, managing and mitigating (where possible) the internal controls and the significant risks faced by the group. The process for reviewing the group's internal controls has been in place throughout the 2012 financial year and up to the date of approval of this annual report.

The main elements of the group's internal financial control framework and key procedures are set out below and operate together with the group's system of risk management on page 39.

Governance

Governance Report continued

The main elements of the group's internal financial control framework and procedures include

Controls framework

Element	Key Activities
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	➤ Regular review of the group guidance and policy documentation for the preparation and reporting of financial and management information ➤ Use of comprehensive policies which are approved by the board and made available on the company website
Controls ²	➤ Local operating boards and divisional executives have appropriate pre-approved 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 including capital expenditure ➤ Controls for authorisation of 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 ➤ The review and comparison of detailed monthly management reports, received from each operating company, 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 of 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 ➤ Employment of a dedicated group risk and compliance counsel ➤ Use of a single third party tax advisor across the whole of the group

Governance

Internal Control

Key procedures

- Clearly defined responsibilities and limits of authority, including a schedule of matters that are required to be brought to the board for decision
- A comprehensive group-wide system of financial reporting, budgeting and cash forecasting and control through which financial accounts are prepared and submitted to the board monthly and revised when necessary, to monitor actual against expected performance
- The company has in place internal control and risk management systems in relation to the company's financial reporting process and the group's process for preparation of consolidated accounts. Furthermore, a review of the consolidated financial statements is completed by management to ensure that the financial position and results of the group are appropriately reflected therein
- The close involvement of the executive directors, including regular meetings with the senior management team to review all operational aspects of the business
- Business units are subject to peer reviews of the effectiveness of the design of their internal control framework. The central finance function review the results of these peer reviews and summary reporting is provided to the audit committee
- Regular meetings of the board and audit committee at which financial information is reviewed and internal control issues are reported upon and monitored. Processes are in place to ensure appropriate action is taken and where necessary, to remedy any deficiencies identified through the group's internal control procedures

Risk management

Risk management and internal control processes encompass activity to mitigate financial, operational, compliance and reputational risk. Specific processes, as described on pages 37 and 39, are also in place to ensure management maintain adequate internal control over financial reporting.

All business units and the executive management are required to maintain a process to ensure key risks are identified, evaluated and managed appropriately. This process is also applied to major business decisions or initiatives, such as capital expenditure, systems implementations, new product development, business combination activity, rationalisation or significant business strategy implementation. Additional risk management activity is focused directly towards operational risks within the business, including health and safety, product quality and environmental risk management.

Review by the group's risk and compliance counsel of specific areas of the group's operations, selected in consultation with the audit committee. Reports of the results of these reviews are discussed with the chairman of the audit committee and presented to and considered by the audit committee.

The governance, audit and risk and compliance functions give the audit committee and board visibility and understanding of the group's key risks and risk management capability and provide assurance over the quality of the group's internal control and management of key risks in line with a plan agreed by the audit committee.

Through the processes outlined

- areas for enhancement of risk management and internal controls are identified,
- action plans to deliver such enhancements are devised, and

- delivery is then monitored by management and the board or the audit committee

As part of this ongoing process of enhancement, existing policies and procedures are reviewed and where considered appropriate, amended and new policies and procedures put in place.

During the year the board considered the nature and extent of the risks it was willing to take to achieve its strategic goals and reviewed the existing internal statement of principal risks and uncertainties which are set out on pages 10 and 11.

Assurance

The board considers that the information it receives is sufficient to enable it to review the effectiveness of the group's risk management and internal controls, which manage rather than eliminate the risk of not achieving business or governance objectives. Whilst they cannot provide absolute assurance, the board believe they provide reasonable assurance against material misstatement or loss.

The Nomination Committee

Composition of the committee

- W H Whiteley (chairman) – independent on appointment
- C J Snowdon and J F Lennox – independent non-executive directors
- D W Muir – chief executive

Role of the nomination committee

The committee assists the board in the key areas of board composition, performance, succession planning and recruitment.

Having the appropriate range of high calibre directors on our board is key to determining and achieving the group's strategic objectives and ensuring that success can be sustained over the long term.

Meetings

The committee met on three occasions during the year. The attendance of these meetings was

Names	Attendance 2012 Meeting
W H Whiteley	3
C J Snowdon	3
J F Lennox	3
D W Muir	1

Appointment of new directors

All of the non-executive directors, including the chairman and the group finance director, were selected through externally facilitated recruitments. All non-executive directors are independent, as was the chairman on appointment (although not counted as such under the Code following appointment). The board believes this has created an effective group of executive and non-executive directors able to provide the required range of skills, knowledge and experience to ensure development of the group, implementation of its strategy and sound governance. During 2013, the committee does not anticipate any changes in the composition of the board but will be reviewing the merits of the appointment of an additional non-executive director in the context of the international expansion of the group.

Governance

Governance Report continued

Following initial three-year terms, the terms of non-executive directors are reviewed annually, in line with their annual retirement under the Code. The letters of appointment for the non-executive directors are available for inspection at the company's registered office and the annual general meeting ('AGM').

Non-executive directors' letters of appointment set out the time commitments normally required. Such time commitments can involve peaks of activity at particular times and all directors are expected to be flexible in managing these. Any significant changes to their other commitments are notified to the board before they arise. The board remains satisfied as to the time availability and commitment of the non-executive directors.

Re-election of directors

All directors retire at every AGM, under the UK Code. If deemed appropriate by the board, directors are proposed for re-appointment by shareholders at the forthcoming AGM. In reaching its decision to propose re-election, the board acts on the advice of the nominations committee, taking account of the results of the board evaluation commented upon on page 36.

Following the formal evaluation of the performance of the board in 2012, all directors are being proposed for re-election at the 2013 AGM. Biographies for each director can be found on page 30.

Succession planning

The committee continues to develop its succession planning for the executive and non-executive directors and the senior management in the group. This includes encouragement and facilitation of the development of each individual as well as career progression as opportunities arise. For each executive director, the board encourages the appointment of one outside, non-executive directorship.

Succession planning is reviewed at each meeting of the committee.

Board and employee diversity

Diversity within our board is key to maximising its effectiveness and the success of the business.

Whilst gender is just one element of diversity, we welcome the increased focus that this has widely received over the past year and it is a subject that the board continues to keep under review, particularly in relation to the diverse geographical and decentralised nature of the group.

Board evaluation

A summary of the key matters arising from the 2012 board evaluation led by the chairman and internally facilitated by the company secretary, is contained on page 36.

The Remuneration Committee

The role of the remuneration committee and details of how it applies the group's policy and the principles of the Code, in respect of directors' remuneration, are set out in the directors' remuneration report on pages 45 to 55.

Compliance and ethics programme

We are committed to conducting our business responsibly, ethically and in accordance with the laws and regulations to which our activities are subject. The board has training and education programmes for employees, relating to compliance within each market and function. Our recently revised code of business conduct is supported by a set of global policies issued through our group intranet and internal communications. During the year we reviewed a number of these policies and the processes to make access and governance of the same easier.

The full texts of the code of business conduct, and other group policies that comprise the compliance programme are available on the company's website at www.hsholdings.com.

The group's anti-bribery and corruption policy applies to all directors, employees (whether permanent, fixed-term, or temporary), pension trustees, consultants and other business advisers, contractors, trainees, volunteers, business agents, distributors, joint venture partners and any other person working for or performing a service on behalf of the company, its subsidiaries and associated companies in which it has a majority interest.

During the year, the company updated its anti-bribery and corruption policy. As part of this process, additional procedures were required within some of the group businesses in relation to the use of sales agents who operate in high risk areas of the world, together with the general development of stricter policies and procedures when trading in certain territories for the first time. Additional procedures have also been developed with regard to gift, hospitality and charitable donation registers.

The company has developed a specific training and communication process to ensure all relevant senior employees are aware of the group's policy and their individual obligations in helping to ensure adherence. As an addition to this, each business is required to provide an annual confirmation to the company that it has fully complied with the group's anti-bribery and corruption policy.

Our compliance and policy guidelines specify the manner in which any potential violations should be dealt with, including line manager reporting and referral to the group risk and compliance counsel. All reports are sent, in confidence, to the group risk and compliance counsel for review, and where appropriate, investigation and escalation to the audit committee as required. There is a certification requirement for all management level employees to confirm compliance with the code of business conduct and to identify areas of possible non-compliance to the group risk and compliance counsel.

The company also updated its whistleblowing policy during the year, as part of the anti-bribery and corruption communication process within the group. This enables individuals to make protected disclosures to the group risk and compliance counsel or the group company secretary or the chairman of the audit committee if they have concerns about possible improprieties in financial reporting or any other malpractices within their business.

Dialogue with shareholders

The board is managing the group ultimately on behalf of its shareholders and it undertakes this responsibility in such a way so as to maximise shareholder value over the long term and to advance the interests of all of the group's stakeholders. In this respect:

- The chief executive officer and group finance director meet with institutional shareholder representatives regularly during the year to discuss strategic and other issues as well as to give presentations on the group's results.
- The board receives reports from the company's brokers and financial public relations agency of feedback from institutional shareholders on the executive directors' presentations.
- The chairman of the remuneration committee consults with major shareholders before any significant changes in executive remuneration are implemented, the results of which are reported to the remuneration committee.

Contents

Business Review

Governance

Financial Statements

Other Information

- The company's annual report and notice of annual general meeting (AGM) are published as soon as the time required for their printing allows to provide the maximum time in advance of the AGM for feedback on these, which is shared with the relevant directors
- A presentation is given to shareholders attending the company's AGM at which shareholder participation is encouraged. All directors are present and questions and feedback are invited
- Proxy votes of shareholders for the AGM are tabulated independently by the company's registrars, provided at the AGM and published on our website shortly after the conclusion of that meeting

All directors are able and available to meet with shareholders to discuss matters and can be contacted through the company secretary. 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.

On behalf of the board

Bill Whiteley
Chairman

12 March 2013

Information

Terms of reference for the Hill & Smith board committees and copies of the principal policies of the company

Address

www.hsholdings.com

- Click on Investor Relations/Responsibilities/Committees and/or
- Click on CSR Policies

Steel piping being galvanized at a Joseph Ash UK galvanizing plant

An installation of our Brifen wire rope restraining system

Staples garage at Framingham Massachusetts where our US galvanizer Voigt & Schweitzer galvanized the steel framework comprising 272 tonnes

Overview	
Business Review	
Governance	
Financial Statements	
Other Information	

Audit Committee Report

Jock Lennox Chairman, Audit Committee

Activities

The committee's principal activities in 2012 were

Financial reporting

The committee reviewed and commented upon both the financial information and non-financial information in the group's 2011 annual report and 2012 interim report, including the interim statements prepared by management and issued in May 2012 and November 2012. A key objective was to confirm that such reports and statements presented a balanced and understandable assessment of the group's position and prospects.

The audit committee are satisfied that the financial statements presented a true and fair view of the group's financial performance and prospects. The audit committee also considered the external auditor's management letter, at the time of reviewing the 2011 annual report and financial statements and the going concern basis for preparation of those financial statements.

Interim management statements were considered by the members of the committee in their capacity as directors, rather than at specific audit committee meetings. This was considered appropriate in view of the limited amount of financial information contained in the group's interim management statements, the thorough review process undertaken by the board as a whole and the membership of the committee.

External audit

The committee approved the scope and terms of engagement of the audit for 2012 and subsequently reviews the performance of the auditor following the completion of each audit.

The audit committee has an agreed procedure setting out the basis upon which it considers and makes recommendations, as appropriate, concerning the appointment, re-appointment or removal of the external auditor. During the year, the committee carried out an evaluation of the company's external auditor KPMG Audit Plc and reviewed their effectiveness, this included obtaining feedback from the group's businesses. The review concluded that the external auditor performed their function effectively and the committee recommended to the board that a resolution for KPMG Audit Plc's re-appointment be proposed at the next AGM.

Key matters discussed with KPMG Audit Plc in the conduct of their audit were: controls, contracting, provisions, tax, impairment of intangible assets, accounting for acquisitions and accounting for pension liabilities. These matters were concluded satisfactorily.

Auditor independence

The auditor confirmed its policies on ensuring audit independence and provided the committee with a report on their own audit and quality procedures. This report was reviewed during the period under review and the committee remained satisfied of the auditor's independence and with the rotation of the external audit personnel, which complied with the professional guidelines.

Whilst the group does not consider it necessary to have a policy for rotation of external audit firms, consideration was given to placing future audits out to tender. In reaching its positive recommendation to the board for the re-appointment of KPMG Audit Plc, the committee reviewed, as part of its terms of reference, the external auditors' performance and effectiveness in the past year.

The group has a policy whereby, before any former employee of the external auditors may be employed by the group, careful consideration be given to whether the independence of the auditor will be adversely affected and approval of the audit committee is required.

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 reviewed annually and such review forms part of the terms of reference of the committee. The current 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, certain 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 engaged, 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.

During 2012, there were no fees paid to the auditors other than for audit services. Further details of the amounts paid are included in note 6 of the accounts. The engagement of the external auditor on pension services ceased in 2011.

Governance

Audit Committee Report continued

Risk management

The committee reviewed the effectiveness of the group's internal controls, risk management and related disclosures made in the annual report and financial statements. It also considered separate internal reports on treasury, IT and risk assessment, including where appropriate, reports from specialist third parties.

Updated principal risks and uncertainties, including mitigation actions, were confirmed by the executive directors on the board of the company and are more fully described on pages 10 and 11. These principal risks and uncertainties were identified by the operating businesses senior management as part of the budget preparation process. Further work was carried out by the committee during the year in developing processes for risk identification and mitigation, through the compliance programme managed by the group risk and compliance counsel.

In conjunction with the work on the new code of business conduct and the additional work on the Bribery Act, an assessment was made of the levels of due diligence covering the abilities and competencies of suppliers and agents, used throughout the group. This has resulted in improved vetting of the supply chain and agency network and enhanced risk mitigation.

The compliance programme, together with the peer review work referred to below, has provided the committee with an appropriate level of reporting and management of risks arising from the growing complexity and international footprint of the group.

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 that as part of its normal business received reports and assurances during the year, on any weaknesses. As part of that review process, the committee initiated specific peer review reports covering the integration of acquisitions, supply chain management, agency and supplier due diligence, operational controls for international businesses and the level of expertise for management of large contracting projects. The reports were supplemented with further assessment by external third parties, such as the external auditor, under the direction of the committee.

Following consideration of these reports certain actions were taken to strengthen internal controls, improve the supply chain management, restructure and refocus one of the businesses and apply the lessons learned elsewhere in the group, as appropriate.

Internal audit

The new approach to our internal auditing continued to deliver a more focused flexible result with the peer review programme and one-off reviews referred to above, producing quality and timely reports that facilitated decisive management and committee responses to issues raised. The programme has also enabled the management and the committee to share information throughout the group and to apply new practices and lessons learned. A total of eleven reports were submitted to the committee during the year covered by presentations to the committee on progress and overall results of the programme.

The group risk and compliance counsel submitted an update of the group risk register and assurance reporting, progress on the implementation of the compliance programme and the new compliance systems and training for anti-bribery and corruption.

Whistleblowing

The group has a written policy which states that if any employee in the group has reasonable grounds to believe that the group's code of business conduct is being breached by any person or group of people, he or she is able to contact the group risk and compliance counsel with full details, or if necessary the company secretary or the chairman of the audit committee.

The committee received individual reports from the group risk and compliance counsel on matters reported under the group's whistleblowing policy. In the main the incidents reported through the whistleblowing helpline related to individual employment terms or working relationships with other employees.

Terms of reference

The terms of reference for the committee were reviewed during the year. The committee considered that its terms of reference remained appropriate, that it had acted transparently and maintained a thorough understanding of the group, its business and associated risks.

Yours sincerely

Jock Lennox

Independent non-executive director
Chairman, Audit Committee

12 March 2013

Remuneration Committee Report

Clive Snowdon Chairman, Remuneration Committee

Dear shareholder,

I am pleased to present, on pages 46 to 55, the directors' remuneration report for the year ended 31 December 2012

Whilst the committee is satisfied that the current remuneration arrangements are appropriate and that rewards received under the company's incentive plans reflect the performance delivered, it will continue to keep these under review. The principal purpose of such review is to ensure continued links to our strategic objectives and incentivisation of performance through simple transparent arrangements

Key actions and decisions that we have taken during the financial year include

- Review of executive directors' and senior executive salaries,
- Review of executive directors' bonus arrangements for 2013,
- Bonus payments for the year ending 31 December 2011,
- Awards under the 2007 long term incentive plan (LTIP's),
- Review of vesting of LTIP awards made in 2009, and
- Award of Executive Share Options for senior executives within the group (excluding any senior executive participating in LTIP's)

As described in the 'business review', the company has delivered a strong performance for the year ended 31 December 2012 and a high level of free cash flow. This performance reflects positively against the board's commitment to deliver growth in a disciplined manner, positioning the business well for the future. This strong financial performance has resulted in the group chief executive and finance director each receiving a cash bonus of 85% of their base pay for the year ended 31 December 2012. In view of the group's results, the committee is satisfied that this is appropriate.

In line with emerging guidance from the Government and the Financial Reporting Council, we have introduced a new table at the start of this report, (see page 46) that summarises the total annual earnings of the executive directors as a single remuneration figure. We hope that this evolution of our reporting practice helps to create a fuller understanding of our reward policies and forms a transparent basis for engagement with key stakeholders going forward.

We have also set out on page 47 a remuneration policy table to convey the key elements of the policy and its implementation.

We look forward to receiving your support at the AGM on 15 May 2013.

Yours sincerely

Clive Snowdon
Senior independent non-executive director
Chairman, Remuneration Committee

12 March 2013

Governance

Remuneration Committee Report continued

Executive directors' total remuneration (2012)

D W Muir	£941,000
M Pegler	£588,000

The total remuneration figures stated above comprise the following elements and are further explained below

Executive Director	Salary £000's	Benefits £000's	Pension £000's	Incentive Payments £000's	LTIP Vesting £000's	Total £000's
D W Muir	425	49*	106	361	nil	941
M Pegler	271	19	68	230	nil	588

Salary

Total amount of salary in respect of that year

Benefits

All taxable benefits and any cash dividends received over the vesting period of long term incentives

Pensions

All pension related benefits including cash in lieu of pension

Incentive payments

Money or other assets awarded in the reporting year as a result of the achievement of performance conditions that related to that period (e.g. bonus)

Long term incentive plan (LTIP)

The vesting of awards made under the LTIP Scheme where the final vesting is determined as a result of the achievement of performance conditions that end on 31 December 2012. For this vesting period, the awards, which were issued in March 2009, did not achieve the vesting criteria and accordingly none vested

* a total of £23,000 (2011: £31,000) was paid in the form of subsistence which is subject to PAYE and NIC deductions

Overview

Business Review

Governance

Financial Statements

Other Information

Executive directors' remuneration arrangements (2012)

The company operates in increasingly competitive international 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. The table below gives a summary of the elements of remuneration designed to achieve objectives in relation to the executive directors.

Elements of Remuneration

	Purpose and link to strategy	Operation	Opportunity	Performance metrics	Changes in year to 31 December 2012	Page of the Report providing further details
Base salary	Help recruit and retain employees Reflects individual experience and role	Reviewed annually and fixed for twelve months commencing 1 January. Decision influenced by: › role and performance, › average change in broader workforce salary, › total organisational salary budgets, › peer group benchmarking	N/A	› Group performance › Group strategy › International dimension of the group	Directors' salaries increased by 3% p.a.	49
Benefits	Help recruit and retain employees	Directors are entitled to healthcare, car (or cash allowance) ill health and life assurance	Annual cost of benefits	None	None	50
Pension	Rewards sustained contribution	The company operates a defined contribution pension scheme or cash in lieu of pension contributions, based upon a maximum of 25% of base salary. The company has closed its defined benefits scheme but D W Muir is still a deferred member	Maximum 25% base salary	None	None	49 and 53
Incentive payments	Rewards the achievement of annual financial and strategic business objectives	Targets are reviewed annually. Bonus level is determined by the committee after the year end, based on performance against targets	Maximum % of salary 100%	The majority of the bonus is based on achievement of challenging financial objectives, both of which are aligned to the strategic objectives › 50% based on actual performance against budgeted profit before tax › 50% based on growth in the underlying earnings per share	No change has been made to the measures or weighting	50
LTIP	Incentivises directors to achieve returns for shareholders over a longer time frame	Existing LTIP was approved by shareholders in May 2007. Awards of conditional shares are made annually with vesting dependent on the achievement of performance conditions over the three subsequent years. The committee reviews the quantum of awards annually to ensure that they are in line with market rates	Maximum % of salary 100%	Awards vest at end of three year performance period based on two performance measures › Underlying earnings per share (50% of the award) › Relative TSR performance (50% of the award)	No change has been made to the measures or weighting	50 and 54 to 55

Governance

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 to be held on 15 May 2013

PART 1 – UNAUDITED INFORMATION

Remuneration committee

The members of the committee during the year were

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

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 classification of the company as a non-FTSE 350 constituent the board remains satisfied that W H Whiteley's appointment to the remuneration committee is necessary but continues to keep this under review

Responsibilities of the committee

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)

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 incentive 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 ensures that failure is not rewarded and the duty to mitigate loss is fully recognised

Meetings

The committee meets at least twice each year and met three times in the period under review in March, October and December. 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 or executive plays a part in any discussion about his own remuneration.

During the year attendance by committee members was as follows

Names	Attendance 2012 Meetings
C J Snowdon	3
J F Lennox	3
W H Whiteley	3
D W Muir	1

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 2011 financial year,
- › considered awards to each executive director and one senior executive, under the company's 2007 LTIP (including a review of the performance conditions and targets to ensure that they were appropriately challenging),
- › considered the vesting of awards made in March 2009 under the company's 2007 long term incentive plan, for the chief executive, finance director and one senior executive. None of the awards made in March 2009 satisfied the vesting performance criteria and therefore all of these awards lapsed,
- › approved the directors' remuneration report for inclusion in the 2011 annual report,
- › reviewed the level of incentive and performance criteria for the 2013 incentive arrangements for the executive directors and other senior executives,
- › considered and approved an award of share options under its 2005 executive share option scheme for senior executives (excluding participants of the 2007 LTIP), and
- › reviewed the terms of reference of the committees

Advisers

The committee did not require or use the services of external advisers during 2012 having previously taken external advice in 2010 in relation to performance related pay and awards made under the company's LTIP. 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.

Governance

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 which is appropriate to the business environment and markets it operates in. 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

Balance of executive directors' remuneration

The current balance of the executive directors' remuneration between base salary and the performance incentive (bonus) is considered by the committee to be appropriate and in line with the policy on incentivisation

Below is a split of the base salary and performance incentive (bonus) element for the executive directors

2012 (Actual)

Performance
incentive - 42.5%

Base salary - 57.5%

2013 (Expected)

Performance
incentive - 50%

Base salary - 50%

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 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

review date	D W Muir chief executive	M Pegler finance director
Previous review 1 Jan 2012	3.1% increase	3.0% increase
Review 1 Jan 2013	3.0% 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 continued development of the international scale of the group and the management of the group's net debt

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.

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.

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.

Governance

Directors' Remuneration Report *continued*

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

Performance incentive payment

Executive directors are eligible for an annual performance related cash bonus, designed to pay the maximum only in circumstances where stretching performance targets have been satisfied.

Effective from 1 January 2012, the basis for the payment of any bonus was 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 2012 financial year was as follows:

- 50% of the bonus judged against achievement of underlying actual profit before tax compared to budget
- 50% of the bonus judged against achievement of underlying earnings per share growth

Note for the 2011 financial year the weighting was 70% for underlying profit before tax achievement and 30% for underlying earnings per share growth

In all other respects the incentive scheme for 2012 remained the same as it was for 2011. The arrangements for 2012 will also be applied in the current form to the executive director's incentive arrangements for the financial year commencing 1 January 2013.

Incentive payments 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 incentive arrangement does not have any deferred element and incentive payments are not pensionable.

Long term incentive plans (LTIP's)

The company operates three share plans: the 2007 long term incentive plan, the 2005 executive share option scheme and the 2005 sharesave scheme. The LTIP is the primary long term incentive vehicle for executive directors. Prior to the implementation of the LTIP in 2007, awards were made to executive directors under the 2005 executive share option scheme. Any director or senior executive in the 2007 LTIP cannot participate in the 2005 executive share option scheme. Full details of the three share plans are set out as an appendix to this report on pages 54 and 55.

Dilution

The dilutive effect of the grants of awards is considered by the committee when granting awards under the LTIP 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 LTIP 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.

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

Executive directors may accept one external appointment as a non-executive director of other companies and retain any related fees paid to them provided always that such external appointment is not considered by the board to prevent or reduce the ability of the executive director to perform his role to the required standard. Such appointments are seen as a way in which executive directors 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, effective 1 January 2013, are set out below

chairman of the audit committee
£5,300 per annum
(£5,150 per annum 1 Jan 2012)

chairman of the remuneration committee
£4,300 per annum
(£4,150 per annum 1 Jan 2012)

senior independent director
£1,600 per annum
(£1,550 per annum 1 Jan 2012)

The non-executive directors are not eligible for performance related bonuses or the grant of awards under the company's LTIP. 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 2012 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 LTIP, the 2005 executive share option scheme and the 2005 sharesave scheme, are not included in the table below but are shown on pages 52 and 53.

None of the directors has a beneficial interest in the shares of any of the company's subsidiaries.

Current directors	Beneficial interest in ordinary shares at 1 Jan 2012	Change to beneficial interest	Beneficial interest in ordinary shares at 31 Dec 2012
W H Whiteley	22,100	-	22,100
D W Muir	116,328	-	116,328
M Pegler	19,000	6,500	25,500
C J Snowdon	33,930	5,000	38,930
J F Lennox	5,000	-	5,000

There were no changes in the beneficial interests of the directors in the company's ordinary shares between 31 December 2012 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 or be awarded ordinary shares in the company.

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 2013 compared against the FTSE All-Share Index and FTSE Small Cap Index, respectively (both excluding Investment Trusts "IT").

Governance

Directors' Remuneration Report continued

PART 2 – AUDITED INFORMATION

Directors' emoluments in 2012

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 2012 was £1.6m (2011: £1.2m). The remuneration of individual directors is set out below.

Directors	Basic salary/fees £000	Performance related bonus £000	Value of benefits £000	Total 2012 £000	Total 2011 £000
W H Whiteley	127	-	-	127	124
D W Muir	425	361	49	835	591
M Pegler	271	230	19	520	361
C J Snowdon	47	-	-	47	45
J F Lennox	46	-	-	46	45
Total	916	591	68	1,575	1,166

* A total of £23,000 (2011: £31,000) was paid to D W Muir in the form of subsistence which was 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.

2007 long term incentive plan (LTIP)

The interests of directors at 31 December 2012, in shares that are the subject of awards under the LTIP are shown below.

Directors	Award Date	At 1 Jan 2012 number of shares	Awarded in 2012 number of shares	Lapsed in 2012	At 31 Dec 2012 number of shares	Performance period 3 years from	Vesting date
D W Muir	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
	21 Mar 2012 [¥]		125,091		125,091	1 Jan 2012	1 Jan 2015
Total D W Muir		329,869	125,091	75,000	379,960		
M Pegler	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
	21 Mar 2012 [¥]		79,764		79,764	1 Jan 2012	1 Jan 2015
Total M Pegler		237,596	79,764	75,000	242,360		

‡ 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.

¥ The share price as calculated on 21 March 2012 in accordance with the LTIP rules was 339.75p.

Share options

The interests of directors, who served during 2012, in options for ordinary shares in the company, which include options granted under the 2005 executive share option scheme and the 2005 sharesave scheme, together with options granted and exercised during 2012, are included in the following table.

	At 1 Jan 2012 number of shares	Grant price	Granted in 2012 number of shares	Exercised in 2012 number of shares	At 31 Dec 2012 number of shares	Dates from which exercisable	Latest expiry date
D W Muir							
2005 executive share option scheme	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
	4,855	238p	-		4,855	1 Jan 2016	1 Jul 2016
Total D W Muir	84,297		-	78,114	6,183		
M Pegler							
2005 sharesave scheme	3,902	246p	-	3,902	-	1 Dec 2011	1 Jun 2012
Total M Pegler	3,902		-	3,902	-		

Governance

1. Introduction
2. Directors
3. Remuneration Committee
4. Nominations Committee
5. Audit Committee
6. Risk Management
7. Sustainability
8. Shareholder Engagement
9. General Information

On 20 September 2012, D W Muir exercised options to subscribe for 78,114 new ordinary shares at a price of 205p per share. Following the exercise of these options D W Muir sold 78,114 ordinary shares at a price of 375p per share on the London Stock Exchange. D W Muir accounted for the PAYE and NIC on the gain attaching to 63,468 shares. The remaining 14,646 shares were subject to capital gains tax.

Apart from the LTIP awards made to D W Muir and M Pegler on 21 March 2012 no further options or awards were made to directors.

During 2012, the mid market price of ordinary shares in the company ranged from 250.0p to 410.75p.

The mid market price of an ordinary share on 31 December 2012 was 398.0p.

Pensions

D W Muir became a deferred member of the company's defined benefit scheme on 31 October 2011 and as such has ceased, from that date, to accrue any future benefits. D W Muir's deferred pension is subject to statutory increases in line with inflation. The transfer value of D W Muir's deferred benefits increased by £792,047 from £1,766,953 at 1 January 2012 to £2,559,000 at 31 December 2012. The increase in the transfer value was due to the change in financial conditions over the period from 1 January 2012 to 31 December 2012, with decreasing yields on corporate bonds and gilts whereas expectations on inflation remained largely unchanged. D W Muir has a normal retirement date of aged 60.

D W Muir receives a cash payment in lieu of any pension contribution, equal to 25% of his base salary. In 2012 he received £106,000 as a taxable cash payment in lieu of pension.

M Pegler receives a payment of 25% of his base salary as a defined contribution to his own private pension arrangement. The company contributed £67,750 to M Pegler's private defined contribution pension arrangement in 2012.

Transactions with directors

There were no material transactions between the company and the directors during 2012.

Clive Snowdon

Senior independent non-executive director
Chairman, Remuneration Committee

12 March 2013

Governance

Appendix to Directors' Remuneration Report

2007 long term incentive plan (LTIP)

Awards

The Hill & Smith 2007 LTIP 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 21 March 2012. 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. Details of subsidising awards to executive directors are shown in the table on page 52.

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.

These measures continue to apply to any outstanding awards made before 1 January 2011 and are set out in the table below.

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	

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

In March 2012 the committee considered the vesting of awards made in March 2009 and confirmed that such awards were to lapse as they had not satisfied either of the performance criteria for vesting.

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.

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%
Between median and upper quartile	30%
Between upper quartile and 100th percentile	100%
Between the median and upper quartile on a straight line basis	

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.

Overview

Business Review

Governance

Financial Statements

Appendices

Vesting

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

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.

Awards were made under this scheme in 2012 to certain senior executives, excluding the executive directors and any other executive receiving awards under the 2007 LTIP. 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 52.

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 2012 and details are contained in the table on page 52 including those for subsisting options.

Clive Snowdon

Senior independent non-executive director
Chairman, Remuneration Committee

12 March 2013

Governance

Directors' Report (other statutory information)

Principal activities and business review

The company acts as a holding company to all the group's subsidiaries

During 2012 the principal activities of the group comprised the manufacture and supply of

- Infrastructure Products
- Galvanizing Services

Pages 3 to 22 contain further details of these areas of the business and the principal subsidiaries operating within them are set out on pages 115 to 117

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,
- key performance indicators used to measure the group's performance,
- the position of the company's business at the end of the financial year,
- a description of the principal risks and uncertainties faced by the group, and
- main trends and factors likely to affect the future development, performance and position of the company's business

Statement on corporate governance

The directors' report for Hill & Smith Holdings PLC for the year ended 31 December 2012 comprises these pages and the sections of the annual report referred to under 'directors' business review', and 'governance', which are incorporated into the directors' report by reference

Results

The group profit before taxation for the year amounted to £35.2m (2011 £25.4m). Group revenue at £440.7m was 8.5% higher than the prior year. Operating profit at £39.2m (2011 £32.9m) was 19.2% above the level for the previous year

Details of the results for the year are shown on the consolidated income statement on page 61 and the business segment information is given on pages 72 and 73

Dividends

The directors recommend the payment of a final dividend of 9.2p per ordinary share (2011 7.8p per ordinary share) which, together with the interim dividend of 5.8p per ordinary share (2011 5.4p per ordinary share) paid on 7 January 2013, makes a total distribution for the year of 15.0p per ordinary share (2011 13.2p per ordinary share). Subject to shareholders approving this recommendation at the annual general meeting, the final dividend will be paid on 5 July 2013 to shareholders on the register at the close of business on 31 May 2013. The latest date for receipt of Dividend Re-investment Plan elections is 14 June 2013

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 2012		76,954,818
Total new ordinary shares issued during the year	2005 sharesave scheme and 2005 executive share option scheme	180,525
Issued share capital 31 December 2012		77,135,343
Rights and Obligations	All issued shares rank equally. Rights and obligations attaching to the company's shares are set out in the company's articles of association	

Further details can be found in note 20 on pages 93 and 94 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 the following resolutions are to be put to the members of the company at the company's annual general meeting each year

- The authority for making market purchases of shares greater than 5% of the company's then issued share capital is limited by the resolution of the 2012 annual general meeting and will be limited by the resolution to be put to the 2013 annual general meeting. The prices to be paid for such purchases must be a minimum price of 25 pence per ordinary share (the nominal value) and a maximum price of 5% above the average of the middle market quotations for ordinary shares derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which any such purchase takes place
- The Companies (Shareholders' Rights) Regulations 2009 provide that a company can reduce the notice period for calling meetings to the shorter period of 14 clear days on two conditions: firstly that the company offers a facility for shareholders to vote by electronic means and secondly that there is an annual resolution of shareholders approving such reduction in the required minimum notice period. Approval to the calling of general meetings other than annual general meetings on 14 clear days notice was approved at the AGM on 16 May 2012 to assist the company in conducting its business and subject to any necessary matters being put to shareholders promptly. This approval remains effective until the earlier of the company's next following annual general meeting or 16 August 2013

Governance

Financial Statements

Other Information

Substantial shareholdings

As at 12 March 2013, 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 77,236,563 shares

Shareholder	Number of ordinary shares	% of issued share capital
F&C Asset Management	6,583,762	8.53
Henderson Global Investors	5,402,648	7.00
Charles Stanley, stockbrokers	4,351,776	5.64
Legal & General Investment Managers	3,448,178	4.47
Aberforth Partners	2,564,423	3.32

Directors

The names of the directors of the company who served throughout the year, including brief biographies, are set out on page 30

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 87 to 93.

Research and development

During the year, the group spent a total of £1.2m (2011: £0.9m) on research and development.

Political and charitable donations

Charitable donations amounting to £37,000 (2011: £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 page 26.

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 69 days (2011: 70 days).

The company's average credit period was 36 days (2011: 36 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 page 50.

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, 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 has established that the company's auditors are aware of that information.

Events since 31 December 2012

There were no events since 31 December 2012 to report.

Annual General Meeting

The annual general meeting of the company will be held at 11.00 a.m. on Wednesday 15 May 2013 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 112.

By order of the board

John Humphreys
Company Secretary

12 March 2013

Governance

In respect of the annual report and the financial statements

Statement of Directors' Responsibilities

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

12 March 2013

Business Review
Corporate Governance
Financial Statements
Financial Calendar

Financial Statements

60	Independent Auditor's Report
61	Group Financial Statements
103	Company Financial Statements
111	Five Year Summary
112	Financial Calendar

See further information online: hsholdings.com

The Hill & Smith Group

To the members of Hill & Smith Holdings PLC

Independent Auditor's Report

We have audited the financial statements of Hill & Smith Holdings PLC for the year ended 31 December 2012 set out on pages 61 to 112. 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 auditor

As explained more fully in the directors' responsibilities statement set out on page 58, 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 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 Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

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 2012 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, and
- 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 37 to 39 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

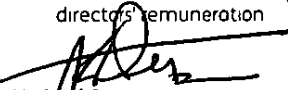
We have nothing to report in respect of the following:

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 22, in relation to going concern,
- the part of the corporate governance statement on pages 32 and 33 relating to the company's compliance with the nine provisions of the UK Corporate Governance 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

12 March 2013

Overview

Business Review

Governance

Financial Statements

Financial Review

Year ended 31 December 2012

Consolidated Income Statement

	Notes	2012			2011		
		Underlying £m	Non- underlying £m	Total £m	Underlying £m	Non- underlying £m	Total £m
Revenue	1, 2	440.7	-	440.7	406.2	-	406.2
Trading profit		44.0	(0.8)	43.2	41.5	1.6	43.1
Amortisation of acquisition intangibles	3	-	(2.4)	(2.4)	-	(2.2)	(2.2)
Business reorganisation costs	3	-	(0.8)	(0.8)	-	(1.2)	(1.2)
Acquisition costs	3	-	(0.8)	(0.8)	-	(0.7)	(0.7)
Loss on disposal of subsidiary	3	-	-	-	-	(5.9)	(5.9)
Loss on sale of properties	3	-	-	-	-	(0.2)	(0.2)
Operating profit	1, 2	44.0	(4.8)	39.2	41.5	(8.6)	32.9
Financial income	5	0.8	3.1	3.9	0.8	3.7	4.5
Financial expense	5	(4.4)	(3.5)	(7.9)	(4.9)	(7.1)	(12.0)
Profit before taxation		40.4	(5.2)	35.2	37.4	(12.0)	25.4
Taxation	7	(10.5)	1.4	(9.1)	(10.8)	1.5	(9.3)
Profit for the year attributable to owners of the parent		29.9	(3.8)	26.1	26.6	(10.5)	16.1
Basic earnings per share	8	38.8p		33.9p	34.5p		20.9p
Diluted earnings per share	8	38.5p		33.6p	34.2p		20.7p
Dividend per share – Interim	9			5.8p			5.4p
Dividend per share – Final proposed	9			9.2p			7.8p
Total	9			15.0p			13.2p

The group's definition of non-underlying items is included in the principal accounting policies on page 71

Financial Statements

Year ended 31 December 2012

Consolidated Statement of Comprehensive Income

	Notes	2012 £m	2011 £m
Profit for the year		26 1	16 1
Exchange differences on translation of overseas operations		(6 4)	(0 5)
Exchange differences on foreign currency borrowings denominated as net investment hedges		2 8	(0 4)
Effective portion of changes in fair value of cash flow hedges		(0 8)	(0 2)
Transfers to the income statement on cash flow hedges		0 3	0 8
Actuarial loss on defined benefit pension schemes	22	(0 9)	(8 4)
Taxation on items taken directly to other comprehensive income	7	(0 1)	1 6
Other comprehensive income for the year		(5 1)	(7 1)
Total comprehensive income for the year attributable to owners of the parent		21 0	9 0

Financial Statements

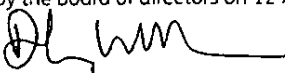
Other Information

Year ended 31 December 2012

Consolidated Balance Sheet

	Notes	2012 £m	2011 £m
Non-current assets			
Intangible assets	10	124.8	130.9
Property, plant and equipment	11	106.8	104.9
		231.6	235.8
Current assets			
Inventories	13	57.8	56.2
Trade and other receivables	14	88.7	90.8
Cash and cash equivalents	15	8.9	12.7
		155.4	159.7
Total assets	1	387.0	395.5
Current liabilities			
Trade and other liabilities	16	(84.2)	(79.5)
Current tax liabilities		(13.7)	(11.3)
Provisions for liabilities and charges	18	(0.5)	(0.5)
Interest bearing borrowings	16	(2.0)	(4.1)
		(100.4)	(95.4)
Net current assets		55.0	64.3
Non-current liabilities			
Other liabilities	17	(0.2)	(0.2)
Provisions for liabilities and charges	18	(2.8)	(3.5)
Deferred tax liability	12	(11.2)	(17.0)
Retirement benefit obligation	22	(16.3)	(16.4)
Interest bearing borrowings	17	(93.7)	(112.4)
		(124.2)	(149.5)
Total liabilities	1	(224.6)	(244.9)
Net assets	1	162.4	150.6
Equity			
Share capital	20	19.3	19.2
Share premium		29.6	29.2
Other reserves		4.5	4.5
Translation reserve		2.1	5.7
Hedge reserve		(0.9)	(0.5)
Retained earnings		107.8	92.5
Total equity		162.4	150.6

Approved by the board of directors on 12 March 2013 and signed on its behalf by

D W Muir
DirectorM Pegler
Director

Company Number 671474

Financial Statements

Year ended 31 December 2012

Consolidated Statement of Changes in Equity

	Notes	Share capital £m	Share premium £m	Other reserves ¹ £m	Translation reserves £m	Hedge reserves £m	Retained earnings £m	Total equity £m
At 1 January 2011		19.2	29.1	4.5	6.6	(0.9)	93.6	152.1
Comprehensive income								
Profit for the year		-	-	-	-	-	16.1	16.1
Other comprehensive income for the year		-	-	-	(0.9)	0.4	(6.6)	(7.1)
Transactions with owners recognised directly in equity								
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		-	-	-	-	-	(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
Comprehensive income								
Profit for the year		-	-	-	-	-	26.1	26.1
Other comprehensive income for the year		-	-	-	(3.6)	(0.4)	(1.1)	(5.1)
Transactions with owners recognised directly in equity								
Dividends	9	-	-	-	-	-	(10.2)	(10.2)
Credit to equity of share-based payments	20	-	-	-	-	-	0.3	0.3
Tax taken directly to the consolidated statement of changes in equity	7	-	-	-	-	-	0.2	0.2
Shares Issued	20	0.1	0.4	-	-	-	-	0.5
At 31 December 2012		19.3	29.6	4.5	2.1	(0.9)	107.8	162.4

¹ Other reserves represent the premium on shares issued in exchange for shares of subsidiaries acquired and £0.2m (2011: £0.2m) capital redemption reserve

Overview

Business Review

Governance

Financial Statements

Other Information

Year ended 31 December 2012

Consolidated Statement of Cash Flows

	Notes	2012	2011
		£m	£m
Profit before tax		35.2	25.4
Add back net financing costs	5	4.0	7.5
Operating profit	1, 2	39.2	32.9
Adjusted for non-cash items			
Share-based payments	4, 20	0.3	0.2
Loss on disposal of subsidiaries	3	-	5.9
Movement in fair value of forward currency contracts	3	0.4	(0.4)
Loss on disposal of non-current assets	6	0.1	0.3
Depreciation	6, 11	12.8	13.3
Amortisation of intangible assets	6, 10	3.6	3.5
Impairment of non-current assets	6, 10	0.3	-
		17.5	22.8
Operating cash flow before movement in working capital		56.7	55.7
Increase in inventories		(0.6)	(7.0)
Decrease/(increase) in receivables		0.6	(15.0)
Increase in payables		3.7	5.9
Decrease in provisions and employee benefits		(2.0)	(4.3)
Net movement in working capital		1.7	(20.4)
Cash generated by operations		58.4	35.3
Income taxes paid		(11.6)	(7.5)
Interest paid		(5.1)	(5.2)
Net cash from operating activities		41.7	22.6
Interest received		0.8	0.8
Proceeds on disposal of non-current assets		0.5	0.1
Purchase of property, plant and equipment		(17.5)	(11.9)
Purchase of intangible assets		(0.8)	(0.7)
Disposal of subsidiaries	3	-	5.1
Deferred consideration received in respect of disposals		-	1.1
Acquisitions of subsidiaries	10	(0.5)	(36.2)
Net cash used in investing activities		(17.5)	(41.7)
Issue of new shares	20	0.5	0.1
Purchase of shares for the employee benefit trust	20	-	(0.8)
Dividends paid	9	(10.2)	(9.8)
New loans and borrowings		19.1	156.7
Costs associated with refinancing revolving credit facility		-	(3.0)
Repayment of loans and borrowings		(33.4)	(134.6)
Repayment of obligations under finance leases		(3.6)	(3.8)
Net cash used in financing activities		(27.6)	4.8
Net decrease in cash		(3.4)	(14.3)
Cash at the beginning of the year		12.7	27.0
Effect of exchange rate fluctuations		(0.4)	-
Cash at the end of the year	15	8.9	12.7

Financial Statements

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 103 to 110.

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 16 to 22. The financial position of the group, its cash flows, liquidity position and borrowing facilities are described in the business review on pages 20 to 22. 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 £209.4m at 31 December 2012, 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 2012

In 2012 the following amendments had been endorsed by the EU, became effective and therefore were adopted by the group:

- Amendments to IAS 12 Income Taxes - Deferred Tax Recovery of Underlying Assets
- Amendments to IFRS 7 Financial Instruments Disclosures - Transfers of Financial Assets
- 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 and amendments has not had a material impact on the group's financial statements.

New IFRS standards, amendments and interpretations not adopted

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

- Amendments to IAS 1 Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after 1 July 2012)
- Amendments to IAS 19 Employee Benefits (effective for annual periods beginning on or after 1 January 2013)
- IAS 27 (2011) Separate Financial Statements (effective for annual periods beginning on or after 1 January 2014)
- IAS 28 (2011) Investments in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2014)
- Amendments to IAS 32 Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2014)
- Amendments to IFRS 7 Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2013)
- IFRS 10 Consolidated Financial Statements (effective for annual periods beginning on or after 1 January 2014)
- IFRS 11 Joint Arrangements (effective for annual periods beginning on or after 1 January 2014)
- IFRS 12 Disclosure of Interests in Other Entities (effective for annual periods beginning on or after 1 January 2014)
- IFRS 13 Fair Value Measurement (effective for annual periods beginning on or after 1 January 2013)

The amendment to IAS 19 makes significant changes to the recognition and measurement of the defined benefit pension expense and termination benefits and disclosures relating to all employee benefits. If the revised standard had been adopted in 2012 it is anticipated that the amendment would increase the pension cost recognised, and therefore reduce profit before taxation by approximately £0.3m. The amendment, which is effective for accounting periods commencing on or after 1 January 2013, has no cash impact and, since net financing charges on pension obligations are treated by the group as a non-underlying item, has no impact on underlying earnings. The group does not anticipate that the adoption of the other standards and amendments noted above 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

IFRS 3 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.

Financial Statements

Group Accounting Policies

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

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 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.

Notes to the financial statements	69
Financial Statements	70
Balance Sheet	70
Income Statement	71
Cash Flow Statement	72

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:

	2012		2011	
	Average	Closing	Average	Closing
Sterling to Euro (£1 = EUR)	1.23	1.23	1.15	1.20
Sterling to US Dollar (£1 = USD)	1.59	1.62	1.60	1.55
Sterling to Thai Bhat (£1 = THB)	49.25	49.46	48.87	48.79
Sterling to Swedish Krona (£1 = SEK)	10.73	10.52	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.

Financial Statements

Group Accounting Policies continued

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.

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.

Contract revenue is recognised in profit or loss in proportion to the stage of completion of the contract. Contract expenses are recognised as incurred unless they create an asset related to future contract activity. The stage of completion is assessed by reference to work performed. When the outcome of a contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognised immediately in profit or loss.

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.

The fair value of amounts payable to employees in respect of share appreciation rights settled in cash is recognised as an employee expense and corresponding increase in liabilities. The fair value of the liability is remeasured at each reporting date and spread over the period during which employees become unconditionally entitled to the payment.

Income

Expense

Financial

Financial Statements

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 with the exception of those meeting the criteria for capitalisation set out in IAS 23.

Non-underlying items

Non-underlying items are non-trading items 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 post 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.

Financial Statements

Notes to the Consolidated Financial Statements

1 Segmental information

Business segment analysis

The group has four reportable segments which are Infrastructure Products - Roads, Infrastructure Products - Utilities, Galvanizing Services and Building and Construction Products. Several operating segments that have similar economic characteristics have been aggregated into these reporting segments. A description of the activities of each of these segments is included in the group overview on page 6.

For the year ended 31 December 2012, the group has expanded its reportable segments to better reflect the way in which the group's operations are focused. Previously the Infrastructure Products segment was reported as one. In 2012 this segment has been subdivided into Roads and Utilities to reflect the inherently different characteristics in each of these market sectors in which the group operates. The group sets its strategies and targets to take account of these differing market features and the chief operating decision maker receives financial information reported on this basis.

The comparatives in this note have been restated accordingly.

Following the disposal of Ash & Lacy Building Systems Limited in July 2011, there are no businesses remaining in the Building and Construction Products segment.

The acquisition detailed in note 10 falls into the Infrastructure Products - Utilities segment.

Income Statement

	2012			2011 (restated)		
	Revenue £m	Result £m	Underlying result* £m	Revenue £m	Result £m	Underlying result* £m
Infrastructure Products - Utilities	205.7	10.2	13.4	167.0	10.0	11.5
Infrastructure Products - Roads	114.1	4.3	5.3	109.1	8.0	8.4
Infrastructure Products - Total	319.8	14.5	18.7	276.1	18.0	19.9
Galvanizing Services	120.9	24.7	25.3	118.5	21.0	21.6
Building and Construction Products	-	-	-	11.6	(6.1)	-
Total group	440.7	39.2	44.0	406.2	32.9	41.5
Net financing costs		(4.0)	(3.6)		(7.5)	(4.1)
Profit before taxation		35.2	40.4		25.4	37.4
Taxation		(9.1)	(10.5)		(9.3)	(10.8)
Profit after taxation		26.1	29.9		16.1	26.6

* Underlying result is stated before non-underlying items as defined in the accounting policies on page 71, 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 £4.1m (2011: £4.7m) revenues to Infrastructure Products - Roads and £1.8m (2011: £1.5m) revenues to Infrastructure Products - Utilities. Infrastructure Products - Utilities provided £1.9m (2011: £1.8m) revenues to Infrastructure Products - Roads. These internal revenues, along with revenues generated from within their own segments, have been eliminated on consolidation.

Balance Sheet

	2012		2011 (restated)	
	Total assets £m	Total liabilities £m	Total assets £m	Total liabilities £m
Infrastructure Products - Utilities	134.7	(39.9)	125.8	(35.8)
Infrastructure Products - Roads	56.8	(18.1)	63.5	(17.8)
Infrastructure Products - Total	191.5	(58.0)	189.3	(53.6)
Galvanizing Services	186.6	(26.4)	193.5	(26.1)
Total segment assets/(liabilities)	378.1	(84.4)	382.8	(79.7)
Taxes	-	(24.9)	-	(28.3)
Provisions and retirement benefits	-	(19.6)	-	(20.4)
Net debt	8.9	(95.7)	12.7	(116.5)
Total group	387.0	(224.6)	395.5	(244.9)
Net assets		162.4		150.6

Overview

Business Review

Corporate Governance

Financial Statements

Further Information

1 Segmental information continued

Capital expenditure and amortisation/depreciation

	2012		2011 (restated)	
	Capital expenditure £m	Impairment losses, amortisation and depreciation £m	Capital expenditure £m	Impairment losses, amortisation and depreciation £m
Infrastructure Products - Utilities	5.5	4.2	3.7	3.5
Infrastructure Products - Roads	3.4	6.2	4.0	5.8
Infrastructure Products - Total	8.9	10.4	7.7	9.3
Galvanizing Services	10.6	6.3	5.5	7.3
Building and Construction Products	-	-	0.1	0.2
Total group	19.5	16.7	13.3	16.8
Property, plant and equipment (note 11)	18.7	12.8	12.6	13.3
Intangible assets (note 10)	0.8	3.9	0.7	3.5
Total group	19.5	16.7	13.3	16.8

Geographical analysis

Revenue (irrespective of origin)

	2012 £m	2011 £m
UK	197.6	184.9
Rest of Europe	101.5	102.3
North America	114.4	92.2
The Middle East	9.3	9.5
Asia	10.3	11.6
Rest of World	7.6	5.7
Total	440.7	406.2

Total assets

	2012 £m	2011 £m
UK	138.1	145.9
Rest of Europe	98.7	102.9
North America	134.5	136.9
Asia	15.0	9.6
Rest of World	0.7	0.2
Total group	387.0	395.5

Capital expenditure

	2012 £m	2011 £m
UK	5.6	3.7
Rest of Europe	4.2	6.2
North America	7.9	2.2
Asia	1.8	1.2
Total group	19.5	13.3

Financial Statements

Notes to the Consolidated Financial Statements continued

2 Operating profit

	2012 £m	2011 £m
Revenue	440.7	406.2
Cost of sales	(297.5)	(269.3)
Gross profit	143.2	136.9
Distribution costs	(20.3)	(18.9)
Administrative expenses	(84.7)	(85.6)
Loss on disposal of non-current assets	(0.1)	(0.3)
Other operating income	1.1	0.8
Operating profit	39.2	32.9

3 Non-underlying items

Non-underlying items included in operating profit comprise the following

- Business reorganisation costs of £0.8m (2011: £1.2m), principally relating to redundancies and other costs associated with site restructuring. The cost for 2012 includes asset impairments of £0.3m.
- Amortisation of acquired intangible fixed assets of £2.4m (2011: £2.2m).
- Acquisition expenses of £0.8m (2011: £0.7m) relating to acquisitions made by the group (note 10).
- Losses on sale of properties of £nil (2011: £0.2m).
- A loss of £0.4m (2011: gain of £1.6m) in respect of the group's UK defined benefit pension obligations. The loss in 2012 relates to changes in the terms of the UK Scheme. The gains in 2011 relate to amendments to the inflation assumptions and changes in the terms of the UK Executive Scheme. In 2011 a further loss of £0.4m was recognised in respect of the group's French defined benefit pension obligations following changes in local legislation.
- Losses of £0.4m (2011: gains of £0.4m) in respect of the fair value of forward foreign currency contracts.

The costs in 2011 also included a loss of £5.9m 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:

	£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 £0.4m (2011: £0.2m) and gains in the fair value of financial instruments of £nil (2011: £0.1m).

The costs in 2011 also included expenses of £3.3m associated with the group's refinancing of its revolving credit facility.

Company

Financial Statements

Financial Statements

Financial Statements

4 Employees

	2012 No	2011 (restated) No
The average number of people employed by the group during the year		
Infrastructure Products - Utilities	1,831	1,548
Infrastructure Products - Roads	563	568
Infrastructure Products - Total	2,394	2,116
Galvanizing Services	1,258	1,260
Building and Construction Products	-	63
	3,652	3,439

	£m	£m
The aggregate remuneration for the year		
Wages and salaries	91.5	82.4
Share-based payments	0.3	0.2
Social security costs	16.3	15.9
Pension costs	2.3	1.0
	110.4	99.5

Details of the directors' remuneration and share interests are given in the directors' remuneration report on pages 45 to 53. The comparatives in this note have been restated as explained in note 1.

5 Net financing costs

	Underlying £m	Non- underlying £m	2012 £m	Underlying £m	Non- underlying £m	2011 £m
Interest on bank deposits	0.8	-	0.8	0.8	-	0.8
Change in fair value of financial assets and liabilities	-	-	-	-	0.1	0.1
Expected return on pension scheme assets (note 22)	-	3.1	3.1	-	3.6	3.6
Total other income	-	3.1	3.1	-	3.7	3.7
Financial income	0.8	3.1	3.9	0.8	3.7	4.5
Interest on bank loans and overdrafts	4.2	-	4.2	4.5	-	4.5
Interest on finance leases and hire purchase contracts	0.2	-	0.2	0.4	-	0.4
Total interest expense	4.4	-	4.4	4.9	-	4.9
Financial expenses related to refinancing	-	-	-	-	3.3	3.3
Expected interest cost on pension scheme obligations (note 22)	-	3.5	3.5	-	3.8	3.8
Financial expense	4.4	3.5	7.9	4.9	7.1	12.0
Net financing costs	3.6	0.4	4.0	4.1	3.4	7.5

Financial Statements

Notes to the Consolidated Financial Statements continued

6 Expenses and auditor's remuneration

	2012 £m	2011 £m
Income statement charges		
Depreciation of property, plant and equipment		
Owned	11.7	11.2
Leased	1.1	2.1
Operating lease rentals		
Plant and machinery	2.2	2.1
Other	3.7	3.7
Research and development expenditure	0.4	0.2
Amortisation of acquisition intangibles	2.4	2.2
Amortisation of development costs	1.1	1.2
Amortisation of other intangible assets	0.1	0.1
Impairment losses	0.3	-
Loss on disposal of non-current assets	0.1	0.3
Income statement credits		
Grants receivable	-	0.1
Rental income	7.0	7.5
Foreign exchange gain	-	0.1

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

	£m	£m
Hill & Smith Holdings PLC		
Audit of the company's annual accounts	0.1	0.1
Audit of the company's subsidiaries	0.5	0.5
Services relating to corporate finance transactions	-	0.1
	0.6	0.7
Hill & Smith Holdings PLC pension schemes		
Other services – pension administration	-	0.2
	-	0.2

A description of the work of the audit committee is set out in the audit committee report on pages 43 and 44 and includes an explanation of how auditor objectivity and independence is safeguarded when non audit services are provided by the auditor

Overview

Business Review

Governance

Financial Statements

Other Information

7 Taxation

	2012 £m	2011 £m
Current tax		
UK corporation tax	1.8	2.3
Adjustments in respect of prior periods	(0.8)	0.3
Overseas tax at prevailing local rates	13.4	8.3
	14.4	10.9
Deferred tax (note 12)		
Current year	(0.4)	0.8
Adjustments in respect of prior periods	(1.1)	(1.4)
Overseas tax at prevailing local rates	(3.3)	(0.6)
Effect of change in tax rate	(0.5)	(0.4)
Tax on profit in the consolidated income statement	9.1	9.3
Deferred tax (note 12)		
Relating to defined benefit pension schemes	0.2	(1.8)
Relating to financial instruments	(0.1)	0.2
Tax on items taken directly to other comprehensive income	0.1	(1.6)
Current tax		
Relating to share-based payments	-	-
Deferred tax (note 12)		
Relating to share-based payments	(0.2)	0.2
Tax taken directly to the consolidated statement of changes in equity	(0.2)	0.2

The tax charge in the consolidated income statement for the period is higher (2011: higher) than the standard rate of corporation tax in the UK. The differences are explained below:

	2012 £m	2011 £m
Profit before taxation	35.2	25.4
Profit before taxation multiplied by the effective rate of corporation tax in the UK of 24.5% (2011: 26.5%)	8.6	6.7
Expenses not deductible for tax purposes	0.1	0.3
Capital profits less losses and write downs not subject to tax	(1.3)	1.7
Overseas profits taxed at higher/(lower) rates	3.6	2.1
Overseas losses not relieved	0.3	-
Withholding taxes	0.2	-
Deferred tax benefit of future reductions in UK corporation tax rates	(0.5)	(0.4)
Adjustments in respect of prior periods	(1.9)	(1.1)
Tax charge	9.1	9.3

Financial Statements

Notes to the Consolidated Financial Statements continued

8 Earnings per share

The weighted average number of ordinary shares in issue during the year was 77.0m (2011: 76.9m), diluted for the effects of the outstanding dilutive share options 77.8m (2011: 77.7m). Underlying earnings per share have been shown because the directors consider that this provides valuable additional information about the underlying performance of the group.

	2012		2011	
	Pence per share	£m	Pence per share	£m
Basic earnings	33.9	26.1	20.9	16.1
Non-underlying items*	4.9	3.8	13.6	10.5
Underlying earnings	38.8	29.9	34.5	26.6
Diluted earnings	33.6	26.1	20.7	16.1
Non-underlying items*	4.9	3.8	13.5	10.5
Underlying diluted earnings	38.5	29.9	34.2	26.6

* Non-underlying items as detailed in note 3

9 Dividends

Dividends paid in the year were the prior year's interim dividend of £4.2m (2011: £4.0m) and the final dividend of £6.0m (2011: £5.8m). 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.

	2012		2011	
	Pence per share	£m	Pence per share	£m
Equity shares				
Interim	5.8	4.5	5.4	4.2
Final	9.2	7.1	7.8	6.0
Total	15.0	11.6	13.2	10.2

OVERVIEW

BUSINESS REVIEW

FINANCIALS

Financial Statements

Notes to the Financial Statements

10 Intangible assets

	Goodwill £m	Brands £m	Customer lists £m	Capitalised development costs £m	Licences £m	Total £m
Cost						
At 1 January 2011	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
Exchange adjustments	(2.3)	(0.7)	(0.3)	-	-	(3.3)
Acquisitions	-	-	0.1	-	-	0.1
Additions	-	-	-	0.8	-	0.8
At 31 December 2012	96.6	18.0	13.2	9.6	1.7	139.1
Amortisation and impairment losses						
At 1 January 2011	-	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
Exchange adjustments	-	(0.1)	(0.1)	-	-	(0.2)
Amortisation charge for the year	-	0.4	2.0	1.1	0.1	3.6
Impairment	-	-	-	0.3	-	0.3
At 31 December 2012	-	1.7	5.5	6.8	0.3	14.3
Carrying values						
At 1 January 2011	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
At 31 December 2012	96.6	16.3	7.7	2.8	1.4	124.8

Financial Statements

Notes to the Consolidated Financial Statements continued

10 Intangible assets continued 2012

On 23 May 2012 the group acquired the trade and certain of the assets and liabilities of Expamet Holdings Limited and subsidiaries (In Administration). Details of the acquisition are as follows

	Pre acquisition carrying amount £m	Policy alignment and provisional fair value adjustments £m	Total £m
Expamet Holdings Limited (In Administration)			
Intangible assets	-	0.1	0.1
Property, plant and equipment	0.4	-	0.4
Inventories	0.6	-	0.6
Total assets	1.0	0.1	1.1
Current liabilities	(0.6)	-	(0.6)
Net assets	0.4	0.1	0.5
Consideration			
Consideration in the year			0.5
Goodwill			-
Cash flow effect			
Consideration paid			0.5
Net cash consideration shown in the consolidated statement of cash flows			0.5

Customer relationships have been recognised as a specific intangible asset as a result of the acquisition. Policy alignment and fair value adjustments principally relate to harmonisation with group IFRS accounting policies, including the provisional application of fair values on consolidation.

Post acquisition the business acquired has contributed £11.0m revenue and £0.6m underlying operating profit, which are included in the group's consolidated income statement.

If the acquisition had been made on 1 January 2012 the group's results for the year would have shown revenue of £447.1m and underlying operating profit of £43.5m.

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, know-how, market share and geographical advantages afforded to the group.

Details of the acquisitions are included in the following tables

Overview

Business Review

Financials

Financial Statements

Other Information

10 Intangible assets continued

	Pre acquisition carrying amount £m	Policy alignment and fair value adjustments £m	Total £m
The Paterson Group, Inc			
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			
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 fair value adjustments principally relate to harmonisation with group IFRS accounting policies, including the application of fair values on acquisition

Financial Statements

Notes to the Consolidated Financial Statements continued

10 Intangible assets continued

Cash generating units with significant amounts of goodwill

	2012 £m	2011 £m
Galvanizing Services - France	22.5	22.9
Galvanizing Services - USA	21.0	22.0
Joseph Ash Limited	14.3	14.3
Other cash generating units with no individually significant value	38.8	39.7
	96.6	98.9

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 £10.0m (2011: £10.5m), 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 3% applied subsequent to the initial budget period based on a prudent management estimate for revenue and associated cost growth.

Pre-tax discount rates of between 13% and 17% are applied in determining the recoverable amounts of cash generating units. The discount rates are estimated based on the group's cost of capital, risk adjusted for individual unit's circumstances.

Other cash generating units with no significant amounts of goodwill principally consist of subsidiaries in the Infrastructure Products - Utilities and Infrastructure Products - Roads segments.

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.

Overview

Business Review

Corporate Governance

Financial Statements

Appendix A

11 Property, plant and equipment

	Land and buildings £m	Plant, machinery and vehicles £m	Total £m
Cost			
At 1 January 2011	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
Exchange adjustments	(1.8)	(1.4)	(3.2)
Acquisitions	-	0.4	0.4
Additions	6.9	11.8	18.7
Reclassification	-	(1.9)	(1.9)
Disposals	(0.3)	(2.8)	(3.1)
At 31 December 2012	67.0	132.3	199.3
Depreciation and impairment losses			
At 1 January 2011	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
Exchange adjustments	(0.3)	(0.5)	(0.8)
Reclassification	-	(0.5)	(0.5)
Disposals	(0.2)	(2.3)	(2.5)
Charge for the year	2.7	10.1	12.8
At 31 December 2012	12.5	80.0	92.5
Carrying values			
At 1 January 2011	48.5	54.4	102.9
At 31 December 2011	51.9	53.0	104.9
At 31 December 2012	54.5	52.3	106.8

The gross book value of land and buildings includes freehold land of £12.0m (2011: £12.7m)

Included in the carrying value of plant, machinery and vehicles is £4.5m (2011: £9.0m) 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 £27.2m (2011: £28.8m) and accumulated depreciation of £16.6m (2011: £14.8m)

During the year, assets with a cost of £1.9m and accumulated depreciation of £0.5m, have been transferred to inventories for future resale

Financial Statements

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 2011	(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
(Charged)/credited 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)
Exchange adjustments	0 3	0 2	(0 1)	-	-	0 4
Credited for the year in the consolidated income statement (note 7)	1 0	1 4	1 7	-	1 2	5 3
(Charged)/credited for the year in the consolidated statement of comprehensive income (note 7)	-	-	-	(0 2)	0 1	(0 1)
Credited for the year in the consolidated statement of changes in equity (note 7)	-	-	-	-	0 2	0 2
At 31 December 2012	(9 2)	(7 5)	0 4	4 1	1 0	(11 2)

	2012 £m	2011 £m
Deferred tax assets	1 0	0 2
Deferred tax liabilities	(12.2)	(17 2)
Deferred tax liability	(11.2)	(17 0)

No deferred tax asset has been recognised in respect of tax losses of £14.5m (2011 £14.7m) as their future use is uncertain. There is no time limit on the carrying forward of these losses.

On 26 March 2012, it was announced that the main rate of corporation tax would reduce to 24% from 1 April 2012, with a subsequent 1% reduction to reach 23% with effect from 1 April 2013. The legislation to reduce the tax rate to 23% from 1 April 2013 was substantively enacted on 3 July 2012. The deferred tax liability provided at the balance sheet date has therefore been recalculated at 23% on the basis that it will materially reverse after 1 April 2013. This recomputation has resulted in no material change in the overall deferred tax liability, with a credit of £0.5m in the consolidated income statement and a charge of £0.5m directly in equity.

The Government has also indicated that it intends to enact further reductions in the main rate of corporation tax, reducing the rate to 21% 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

	2012 £m	2011 £m
Raw materials and consumables	28.6	29 1
Work in progress	8 9	7 7
Finished goods and goods for resale	20 3	19 4
	57.8	56 2

The amount of inventories expensed to the consolidated income statement in the year was £257.1m (2011 £232.6m). The value of inventories written down and expensed in the consolidated income statement during the year amounted to £nil (2011 £nil). The amount of inventories held at fair value less cost to sell included in the above was £0.4m (2011 £0.6m).

Overview

Business Review

Corporate Governance

Financial Statements

Notes to the Financial Statements

14 Trade and other receivables

	2012 £m	2011 £m
Trade and other current receivables		
Trade receivables	81.9	84.2
Prepayments and accrued income	4.3	5.0
Other receivables	2.5	1.2
Fair value derivatives	-	0.4
	88.7	90.8

The charge to the consolidated income statement in the year in respect of impairment of trade receivables was £0.5m (2011: £1.1m)

15 Cash and borrowings

	2012 £m	2011 £m
Cash and cash equivalents in the balance sheet		
Cash and bank balances	8.8	12.6
Call deposits	0.1	0.1
Cash	8.9	12.7
Interest bearing loans and borrowings		
Amounts due within one year (note 16)	(2.0)	(4.1)
Amounts due after more than one year (note 17)	(93.7)	(112.4)
Net debt	(86.8)	(103.8)
Change in net debt		
Operating profit	39.2	32.9
Non-cash items	17.5	22.8
Operating cash flow before movement in working capital	56.7	55.7
Net movement in working capital	3.7	(16.1)
Changes in provisions and employee benefits	(2.0)	(4.3)
Operating cash flow	58.4	35.3
Tax paid	(11.6)	(7.5)
Net financing costs paid	(4.3)	(7.7)
Capital expenditure	(18.3)	(12.6)
Proceeds on disposal of non-current assets	0.5	0.1
Free cash flow	24.7	7.6
Dividends paid (note 9)	(10.2)	(9.8)
Purchase of shares for the employee benefit trust	-	(0.8)
Disposals (see below)	-	6.2
Acquisitions (note 10)	(0.5)	(36.2)
Issue of new shares (note 20)	0.5	0.1
Net debt decrease/(increase)	14.5	(32.9)
Effect of exchange rate fluctuations	2.5	(0.3)
Net debt at the beginning of the year	(103.8)	(70.6)
Net debt at the end of the year	(86.8)	(103.8)
Disposals		
Disposal of subsidiary (note 3)	-	5.1
Deferred consideration received in respect of disposals	-	1.1
Total	-	6.2

Financial Statements

Notes to the Consolidated Financial Statements continued

16 Current liabilities

	2012 £m	2011 £m
Interest bearing loans and borrowings (note 15)		
Current portion of long term borrowings	0.5	0.6
Finance lease and hire purchase obligations	1.5	3.5
	2.0	4.1
Trade and other current liabilities		
Trade payables	50.7	47.5
Other taxation and social security	10.9	10.0
Accrued expenses and deferred income	17.3	17.2
Fair value derivatives	1.0	0.5
Other payables	4.3	4.3
	84.2	79.5

17 Non-current liabilities

	2012 £m	2011 £m
Interest bearing loans and borrowings (note 15)		
Long term borrowings	93.4	110.7
Finance lease and hire purchase obligations	0.3	1.7
	93.7	112.4
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

	2012			2011		
	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	3.75	1.6	1.5	3.53	3.7	3.5
Amounts due after more than one year						
Between one and two years	4.75	0.3	0.3	4.08	1.5	1.5
Between two and five years	-	-	-	5.00	0.2	0.2
		0.3	0.3		1.7	1.7
		1.9	1.8		5.4	5.2
Principal liability		1.8			5.2	
Finance charges payable on outstanding commitments		0.1			0.2	

The unsecured bank borrowings carry a rate of interest of 1.55% above LIBOR/EURIBOR/US LIBOR subject to a ratchet as defined in the facility agreement. In the USA, borrowings that are not fixed (note 19) are at US 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.

Financial Statements

18 Provisions for liabilities and charges

	Property related £m	Other regulatory £m	Total £m
At 1 January 2011	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
Exchange adjustments	-	-	-
Utilised during the year	(0.5)	-	(0.5)
Released to consolidated income statement	(0.2)	-	(0.2)
At 31 December 2012	3.3	-	3.3

	2012 £m	2011 £m
Amounts due within one year	0.5	0.5
Amounts due after more than one year	2.8	3.5
	3.3	4.0

Provisions utilised during the year reflect cash spend associated with the closure of one of the group's manufacturing plants late in 2010. Provisions amounting to £0.2m were released where the group no longer has any known obligations. The group has sought expert valuations in relation to its property provisions where appropriate, 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.

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.

Financial Statements

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 2012 with 61% (2011 57.6%) and currently the only geographical region that does not generally insure their trade receivables is North America, which represents 17% (2011 20.4%) of the group's trade receivables. Subsidiaries in North America have 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 2012 and 2011, 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 2012 all such debt was covered by cash and cash equivalents netting to £6.9m positive current liquidity (2011 £8.6m).

In 2011 the group refinanced its principal UK revolving credit facility. The facility is a multicurrency revolving credit agreement that expires in April 2016 and has a value at 31 December 2012 of £209.4m, 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 £230.3m.

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 2012 credit exposure including cash deposited did not exceed £3.2m with any single institution (2011 £3.0m).

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, North America 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 and certain of its UK subsidiaries hold 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 29% (2011 16%) of the gross year end Sterling borrowings, 38% (2011 84%) of the Euro borrowings and 53% (2011 0%) of the US Dollar borrowings under the group's principal UK revolving credit facility. The group also has US Dollar arrangements which are held locally, the notional amounts representing approximately 12% (2011 52%) of the local US Dollar year end gross borrowings.

Financial Statements

19 Financial instruments continued

Country	Financial instrument	Maturity date	Rate excluding margin %	2012 Notional amounts £m	2012 Notional amounts €m	2012 Notional amounts \$m
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 October 2015	4 800	-	-	0 7

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 2012 and 2011, as set out in the business review on page 21.

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.

	Designated at fair value £m	Other derivatives at fair value £m	Amortised cost £m	Total carrying value £m	Fair value £m
Cash and cash equivalents	-	-	8 9	8 9	8 9
Interest bearing loans due within one year	-	-	(2 0)	(2 0)	(2 0)
Interest bearing loans due after more than one year	-	-	(93 7)	(93 7)	(93 7)
Derivative assets	-	-	-	-	-
Derivative liabilities	(1 0)	-	-	(1 0)	(1 0)
Other assets	-	-	84 4	84 4	84 4
Other liabilities	-	-	(72 3)	(72 3)	(72 3)
Total at 31 December 2012	(1 0)	-	(74 7)	(75 7)	(75 7)
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 5)	0 4	(87 4)	(87 5)	(87 5)

Financial Statements

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	-	-	-	-
Derivative financial liabilities	-	(1.0)	-	(1.0)
Total at 31 December 2012	-	(1.0)	-	(1.0)
Derivative financial assets	-	0.4	-	0.4
Derivative financial liabilities	-	(0.5)	-	(0.5)
Total at 31 December 2011	-	(0.1)	-	(0.1)

At 31 December 2012 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 and certain of its UK subsidiaries hold Euro £21.2m (2011: £31.9m) and US Dollar £35.2m (2011: £50.1m) denominated interest bearing loans, which are predominantly used to fund the group's European and United States operations and include £56.4m (2011: £82.0m) designated as a hedge of the net investment in a foreign operation. The foreign currency gain of £2.8m (2011: loss of £0.4m) 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 2012	1.5	3.2
US Dollar at 31 December 2012	1.2	3.2
Euro at 31 December 2012	1.5	3.3
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

Financial Statements

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	3.5	(3.6)	(0.5)	(0.5)	(0.9)	(1.7)
Unsecured bank borrowings	90.4	(95.9)	(1.7)	(1.7)	(92.5)	-
Finance lease obligations	1.8	(1.9)	(1.5)	(0.4)	-	-
Other liabilities	72.3	(72.3)	(72.3)	-	-	-
Derivative liabilities	1.0	(1.3)	(0.4)	(0.4)	(0.5)	-
Total at 31 December 2012	169.0	(175.0)	(76.4)	(3.0)	(93.9)	(1.7)
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)

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

	2012 £m	2011 £m
Undrawn committed borrowing facilities		
Expiring after more than one year	119.0	106.0

(d) Fair values

The loss in the year on the interest rate swaps held by the UK group was £0.4m (2011: gain of £0.4m) 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 £nil (2011: gain of £0.1m). The fair value of forward currency exchange contracts realised in the consolidated income statement as part of fair value derivatives amounted to a loss of £0.4m (2011: gain of £0.4m). The fair values of the group's other financial instruments at 31 December 2012 and 2011 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 £0.3m (2011: £nil) were recognised in respect of the carrying values of non-current assets, as detailed in note 3.

(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

	2012 £m	2011 £m
Loans and receivables	84.4	85.4
Cash at the end of the year (note 15)	8.9	12.7
Total	93.3	98.1

Financial Statements

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

	2012 £m	2011 £m
UK	50.3	48.5
Rest of Europe	15.2	17.0
North America	13.6	17.2
Asia	2.8	1.5
Total	81.9	84.2

Carrying value of trade receivables by business segment

	2012 £m	2011 (restated) £m
Infrastructure Products - Utilities	40.9	39.8
Infrastructure Products - Roads	20.5	20.9
Infrastructure Products - Total	61.4	60.7
Galvanizing Services	20.5	23.5
Total	81.9	84.2

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

	2012			2011		
	Gross £m	Provisions £m	Net £m	Gross £m	Provisions £m	Net £m
Not past due	58.6	(0.3)	58.3	61.1	(0.3)	60.8
Past due 1-30 days	16.0	(0.1)	15.9	16.3	(0.3)	16.0
Past due 31-120 days	4.8	(0.1)	4.7	6.7	(1.0)	5.7
Past due more than 120 days	4.8	(1.8)	3.0	3.1	(1.4)	1.7
Total	84.2	(2.3)	81.9	87.2	(3.0)	84.2

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

	£m
At 1 January 2011	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
Exchange adjustments	(0.1)
Charged to the consolidated income statement during the year	0.1
Utilised during the year	(0.7)
At 31 December 2012	2.3

(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 £0.7m (2011: £0.8m), which would directly impact on the consolidated income statement

Financial Statements

19 Financial instruments continued

(f) Sensitivity analysis

- 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 £2.7m (2011 £1.9m) and the impact on equity would have been a gain of £13.1m (2011 £10.7m)
- 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 £2.2m (2011 £1.6m) and the impact on equity would have been a loss of £10.7m (2011 £9.1m)

20 Called up share capital

	2012 £m	2011 £m
Allotted, called up and fully paid		
77.1m ordinary shares of 25p each (2011 77.0m)	19.3	19.2

In 2012 the company issued 0.1m shares under its various share option schemes (2011 0.1m), realising £0.5m (2011 £0.1m)

Options outstanding over the company's shares

	Number of shares	2012 Option price (p)	Number of shares	2011 Option price (p)	Date first exercisable	Expiry date
2007 LTIP Award (granted March 2012)*	263,721	-	-	-	\$	\$
2007 LTIP Award (granted March 2011)*	287,779	-	287,779	-	\$	\$
2007 LTIP Award (granted March 2010)*	247,546	-	247,546	-	\$	\$
2007 LTIP Award (granted March 2009)*	-	-	180,000	-	\$	\$
2005 approved executive share option scheme (granted October 2005)*	40,792	205	66,938	205	4 October 2008	4 October 2015
2005 unapproved executive share option scheme (granted October 2005)*	4,907	205	68,375	205	4 October 2008	4 October 2015
2007 grant of 2005 approved executive share option scheme (granted April 2007)*	183,551	350	236,830	350	13 April 2010	13 April 2017
2007 grant of 2005 unapproved executive share option scheme (granted April 2007)*	326,876	350	370,170	350	13 April 2010	13 April 2017
2012 grant of 2005 approved executive share option scheme (granted April 2012)*	125,828	316	-	-	19 April 2015	19 April 2022
2012 grant of 2005 unapproved executive share option scheme (granted April 2012)*	159,172	316	-	-	19 April 2015	19 April 2022
2008 grant of 2005 savings related share option scheme (granted January 2008)*†	122,599	318	131,350	318	1 January 2013	1 July 2013
2008 grant of 2005 savings related share option scheme (granted December 2008)*†	-	246	77,474	246	1 December 2011	1 June 2012
2008 grant of 2005 savings related share option scheme (granted December 2008)*†	134,630	246	146,067	246	1 December 2013	1 June 2014
2010 grant of 2005 savings related share option scheme (granted January 2011)*†	456,697	238	499,970	238	1 January 2016	1 July 2016
Outstanding at the end of the year	2,354,098		2,312,499			
Exercisable at the year end	556,126		819,787			
Not exercisable at the year end	1,797,972		1,492,712			
Outstanding at the end of the year	2,354,098		2,312,499			

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 2013 for the 2010 grant, 1 January 2014 for the 2011 grant and 1 January 2015 for the 2012 grant

The remaining weighted average life of the outstanding share options is 3 years 3 months (2011 3 years 2 months)

Financial Statements

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) 2012	Millions of options 2012	Weighted average exercise price (p) 2011	Millions of options 2011
Outstanding at the beginning of the year	197	2.3	206	2.0
Granted during the year	169	0.6	164	0.9
Exercised during the year	(241)	(0.1)	(50)	(0.3)
Lapsed during the year	(144)	(0.4)	(244)	(0.3)
Outstanding at the end of the year	195	2.4	197	2.3

The weighted average share price on the dates of exercise during the year for the above share options was 356p (2011 311p), and the weighted average fair value of options and awards granted in the year was 145p (2011 104p). The weighted average exercise price of outstanding options exercisable at the year end was 338p.

Share-based payments

All option schemes marked as being subject to share-based payments have 2005 to 2012 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.

	2012 grant of 2007 LTIP Award	2011 grant of 2007 LTIP Award	2010 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	2012 grant of 2005 Share Option Schemes	2007 grant of 2005 Share Option Schemes	2005 grant of 2005 Share Option Schemes
Fair value at measurement date (p)	337/194	303/171	344	44	3/3	51/49	41	59	34
Share price at grant date (p)	337	303	339	290	160	331	316	351	208
Exercise price (p)	0	0	0	238	246	318	316	350	205
Expected volatility (%)	28	28	27	21	28/24	29/25	28	22	36
Option life (years)	3	3	3	5	3/5	3/5	3	3	3
Dividend yield (%)	0.0	0.0	0.0	4.4	4.6	4.6	4.2	3.7	3.7
Risk free interest rate (%)	0.6	1.6	1.9	1.6	1.8/2.8	4.0	0.6	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:

	2012 £m	2011 £m
Expensed during the year	0.3	0.2

21 Guarantees and other financial commitments

(a) Guarantees

The group had no financial guarantee contracts outstanding (2011 £nil).

(b) Capital commitments

	2012 £m	2011 £m
Contracted for but not provided in the accounts	0.4	0.7

Financial Statements
Other Information

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

	2012		2011	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Group				
Within one year	4.4	2.2	4.4	2.1
Between one and two years	4.3	1.6	4.3	1.6
Between two and five years	10.0	1.9	11.1	1.6
After five years	13.7	0.1	16.7	-
	32.4	5.8	36.5	5.3

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

	2012		2011	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Group				
Within one year	0.6	6.1	0.6	5.0
Between one and five years	1.4	4.0	1.6	2.0
After five years	0.7	-	1.0	-
	2.7	10.1	3.2	7.0

22 Pensions

Total

The total group retirement benefit assets and obligations are detailed below

	UK £m	Overseas £m	2012 £m	UK £m	Overseas £m	2011 £m
Total fair value of scheme assets	62.0	2.5	64.5	54.9	2.6	57.5
Present value of scheme funded obligations	(75.8)	(4.9)	(80.7)	(69.2)	(4.6)	(73.8)
Present value of scheme unfunded obligations	-	(0.1)	(0.1)	-	(0.1)	(0.1)
Retirement benefit obligation	(13.8)	(2.5)	(16.3)	(14.3)	(2.1)	(16.4)

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 £1.7m (2011: £0.1m), 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.

Financial Statements

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 2012 and was updated to 31 December 2012 by a qualified actuary.

The principal assumptions used by the actuary

	2012	2011	2010	2009	2008
Rate of increase in salaries	n/a	2.00%	3.50%	3.60%	2.70%
Rate of increase in pensions payment	2.60%	2.90%	3.30%	3.40%	2.60%
Discount rate	4.20%	4.90%	5.60%	5.80%	6.50%
Inflation - RPI	2.70%	3.00%	3.50%	3.60%	2.70%
Inflation - CPI	1.95%	2.00%	-	-	-
Mortality table	116%120% S1PACMI2011 1%	116%120% S1PAmc1%	116%120% S1PAmc1%	PA92YOB	PA92YOB

* With the addition of the short cohort for the Hill & Smith executive pension scheme, approximately 1.6 years is added to the life expectancies shown below.

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

	2012	2011	2010	2009	2008
Males currently aged 45	21.8 years	21.6 years	21.6 years	21.1 years	21.0 years
Females currently aged 45	24.3 years	24.2 years	24.2 years	24.1 years	24.0 years
Males currently aged 65	20.8 years	20.0 years	20.0 years	19.9 years	19.8 years
Females currently aged 65	23.0 years	22.7 years	22.7 years	22.9 years	22.8 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 2012 %	Market value 2012 £m	Rate of return expected 2011 %	Market value 2011 £m	Rate of return expected 2010 %	Market value 2010 £m
Assets						
Equities	6.40	21.7	6.40	16.2	7.60	19.0
Bonds	3.70	33.0	4.50	29.5	5.00	27.2
With profits policies	3.90	1.4	4.10	2.5	5.30	2.3
Hedge funds	8.00	5.5	8.00	5.4	8.00	5.8
Currency funds	6.40	-	6.40	0.9	7.60	1.9
Cash	2.60	-0.4	2.80	0.4	4.00	0.4
Total fair value of scheme assets	5.00	62.0	5.40	54.9	6.27	56.6
Present value of scheme funded obligations		(75.8)		(69.2)		(66.1)
Retirement benefit obligation		(13.8)		(14.3)		(9.5)

Overview

Business Review

Governance

Financial Statements

Financial Statements

22 Pensions continued

	Rate of return expected 2009 %	Market value 2009 £m	Rate of return expected 2008 %	Market value 2008 £m
Assets				
Equities	8.00	160	8.40	107
Bonds	5.20	249	6.50	253
With profits policies	5.70	21	5.30	29
Hedge funds	8.00	56	8.00	50
Currency funds	8.00	23	8.40	21
Cash	4.40	11	3.70	04
Total fair value of scheme assets	6.49	520	7.08	464
Present value of scheme funded obligations		(67.4)		(56.8)
Retirement benefit obligation		(15.4)		(10.4)

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

	2012			2011		
	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	0.2	1.3	1.1	0.6	1.7
Past service costs	-	-	-	-	(1.1)	(1.1)
Losses/(gains) on curtailments and settlements	-	0.4	0.4	-	(0.5)	(0.5)
Charge/(credit) to operating profit	1.1	0.6	1.7	1.1	(1.0)	0.1
Expected return on pension scheme assets	-	(2.9)	(2.9)	-	(3.5)	(3.5)
Expected interest cost on pension scheme obligations	-	3.3	3.3	-	3.6	3.6
Total charged/(credited) to profit before tax	1.1	1.0	2.1	1.1	(0.9)	0.2

Financial Statements

Notes to the Consolidated Financial Statements continued

22 Pensions continued

Change in the present value of the defined benefit obligations

	2012 £m	2011 £m
Opening defined benefit obligations	69.2	66.1
Current service costs	0.2	0.6
Past service costs	-	(1.1)
Expected interest cost	3.3	3.6
Actuarial loss	7.2	3.9
Losses/(gains) on curtailments and settlements	0.4	(0.5)
Employee contributions	-	0.1
Benefits paid	(4.5)	(3.5)
Closing defined benefit obligations	75.8	69.2

Changes in fair values of scheme assets

	2012 £m	2011 £m
Opening fair value of assets	54.9	56.6
Expected return on assets	2.9	3.5
Actuarial gain/(loss)	6.7	(4.3)
Employer contributions	2.0	2.5
Employee contributions	-	0.1
Benefits paid	(4.5)	(3.5)
Closing fair value of assets	62.0	54.9
Actual return on scheme assets	9.6	(0.7)
Expected employer contributions in the following year		
Defined benefit schemes	2.5	1.8
Defined contribution schemes	1.2	1.2

Amounts recognised in the consolidated statement of comprehensive income

	% of scheme assets/ liabilities %	2012 £m	% of scheme assets/ liabilities %	2011 £m	% of scheme assets/ liabilities %	2010 £m
Difference between actual and expected return on scheme assets	11	6.7	8	(4.3)	4	2.4
Experienced loss on scheme obligations	1	(0.5)	-	-	-	-
Changes in assumptions underlying the present value of scheme obligations	9	(6.7)	6	(3.9)	3	2.2
Annual amount recognised	1	(0.5)	12	(8.2)	7	4.6
Total amount recognised		(25.2)		(24.7)		(16.5)

	% of scheme assets/ liabilities %	2009 £m	% of scheme assets/ liabilities %	2008 £m
Difference between actual and expected return on scheme assets	9	4.4	(35)	(16.2)
Experienced gain/(loss) on scheme obligations	-	0.3	(1)	(0.7)
Changes in assumptions underlying the present value of scheme obligations	(16)	(10.5)	20	11.6
Annual amount recognised	(8)	(5.8)	(9)	(5.3)
Total amount recognised		(21.1)		(15.3)

Overview

Business Review

Governance

Financial Statements

Appendices

22. Pensions continued**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 Bergen-Power Pipe Supports, Inc., 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 £0.5m (2011: £0.4m).

The consolidated income statement for the year includes a pension charge within operating profit of £0.6m (2011: £0.9m), 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 2012.

The principal assumptions used by the actuaries

	USA	2012 France	USA	2011 France	2010 France	2009 France
Rate of increase in salaries	0.00%	2.00%	0.00%	2.00%	2.00%	2.00%
Discount rate	4.50%	4.00%	4.50%	5.00%	4.60%	5.00%
Inflation	0.00%	2.00%	0.00%	2.00%	2.00%	2.00%
Expected long term rate of return on plan assets	7.50%	4.50%	7.50%	4.50%	4.00%	4.50%
Mortality table	94 GAR Proj. 2002	TH 00-02, TF 00-02	94 GAR Proj. 2002	TH 00-02, TF 00-02	TH 00-02, TF 00-02	TH 00-02, TF 00-02

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 2012 %	Market value 2012 £m	Rate of return expected 2011 %	Market value 2011 £m	Rate of return expected 2010 %	Market value 2010 £m
Assets						
Cash and other insured fixed interest assets	7.30	2.5	7.30	2.6	4.00	0.1
Total fair value of scheme assets	7.30	2.5	7.30	2.6	4.00	0.1
Present value of scheme funded obligations		(4.9)		(4.6)		(1.4)
Present value of scheme unfunded obligations		(0.1)		(0.1)		(0.1)
Retirement benefit obligation		(2.5)		(2.1)		(1.4)

	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	4.50	0.2	4.50	0.2
Total fair value of scheme assets	4.50	0.2	4.50	0.2
Present value of scheme funded obligations		(1.4)		(1.4)
Present value of scheme unfunded obligations		(0.1)		(0.2)
Retirement benefit obligation		(1.3)		(1.4)

Financial Statements

Notes to the Consolidated Financial Statements

22 Pensions continued

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

	2012			2011		
	Defined contribution schemes £m	Defined benefit schemes £m	Total £m	Defined contribution schemes £m	Defined benefit schemes £m	Total £m
Current service cost	0.5	0.1	0.6	0.4	0.1	0.5
Past service costs	-	-	-	-	0.4	0.4
Charge to operating profit	0.5	0.1	0.6	0.4	0.5	0.9
Expected return on pension scheme assets	-	(0.2)	(0.2)	-	(0.1)	(0.1)
Expected interest cost on pension scheme obligations	-	0.2	0.2	-	0.2	0.2
Total charged to profit before tax	0.5	0.1	0.6	0.4	0.6	1.0

Change in the present value of the defined benefit obligation

	2012 £m	2011 £m
Opening defined benefit obligation	4.7	1.5
Acquisitions of subsidiaries	-	2.6
Current service costs	0.1	0.1
Past service costs	-	0.4
Expected interest cost	0.2	0.2
Actuarial losses	0.5	0.2
Benefits paid	(0.4)	(0.1)
Employee contributions	-	(0.3)
Exchange adjustments	(0.1)	0.1
Closing defined benefit obligation	5.0	4.7

Changes in fair values of scheme assets

	2012 £m	2011 £m
Opening fair value of assets	2.6	0.1
Acquisitions of subsidiaries	-	2.4
Actuarial gains	0.1	-
Expected return on assets	0.2	0.1
Benefits paid	(0.3)	(0.1)
Exchange adjustments	(0.1)	0.1
Closing fair value of assets	2.5	2.6
Actual return on scheme assets	0.3	0.1
Expected employer contributions in the following year		
Defined benefit schemes	-	-
Defined contribution schemes	0.5	0.4

Financial Statements

22 Pensions continued

Amounts recognised in the consolidated statement of comprehensive income

	% of scheme assets/ liabilities %	2012 £m	% of scheme assets/ liabilities %	2011 £m	% of scheme assets/ liabilities %	2010 £m
Experienced loss on scheme obligations	2	0.1	-	-	(2)	-
Difference between actual and expected return on assets	4	0.1	-	-	-	-
Changes in assumptions underlying the present value of scheme obligations	(12)	(0.6)	(4)	(0.2)	-	-
Exchange rate adjustment on assets and liabilities	n/a	-	n/a	-	n/a	-
Amount recognised in the period		(0.4)		(0.2)		-
Total amount recognised		(1.0)		(0.6)		(0.4)

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

Financial Statements

Notes to the Consolidated Financial Statements continued

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

Construction contracts

In determining the revenue and costs to be recognised each year for work done on construction contracts, estimates are made in relation to final out-turn on each contract. On major construction contracts, it is assessed, based on past experience, that their outcome cannot be estimated reliably during the early stages of the contract, but that costs incurred will be recoverable. Once the outcome can be estimated reliably the estimates of final out-turn on each contract may include cost contingencies to take account of the specific risks within each contract that have been identified during the early stages of the contract. Management continually reviews the estimated final out-turn on contracts and makes adjustments where necessary

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 45 to 53. The compensation in total for each category required by IAS24 is as follows

	2012 £m	2011 £m
Salaries and short term employee benefits	14	10
Non-executive directors' fees	02	02
Pension costs	02	01
Share-based payments	01	01
	19	14

[Company](#)
[Financial Statements](#)
[Other Information](#)

Year ended 31 December 2012

Company Balance Sheet

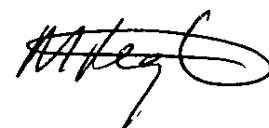
	Notes	2012 £m	2011 £m
Fixed assets			
Tangible assets	3	0.1	0.1
Investments	4	291.3	291.3
		291.4	291.4
Current assets			
Debtors	5	25.3	19.9
		25.3	19.9
Creditors amounts falling due within one year			
Bank loans and overdrafts	6,7	(4.5)	(5.0)
Other creditors	6	(103.0)	(110.5)
		(107.5)	(115.5)
Net current liabilities		(82.2)	(95.6)
Total assets less current liabilities		209.2	195.8
Creditors amounts falling due after more than one year	7	(44.2)	(46.0)
Net assets		165.0	149.8
Share capital and reserves			
Called up share capital	9	19.3	19.2
Share premium	10	29.6	29.2
Capital redemption reserve	10	0.2	0.2
Profit and loss account	10	115.9	101.2
Equity shareholders' funds		165.0	149.8

Approved by the board of directors on 12 March 2013 and signed on its behalf by

D W Muir
Director



M Pegler
Director



Financial Statements

Year ended 31 December 2012

Company Reconciliation of Movements in Shareholders' Funds

	2012 £m	2011 £m
Profit for the year	24.6	3.0
Dividends	(10.2)	(9.8)
Credit to equity of share-based payments	0.3	0.2
Satisfaction of long term incentive payments	-	(0.8)
Shares issued in the year	0.5	0.1
Net increase/(decrease) in shareholders' funds	15.2	(7.3)
Opening shareholders' funds	149.8	157.1
Closing shareholders' funds	165.0	149.8

1	Financial Statements
2	Other Information

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

Financial Statements

Company Principal Accounting Policies continued

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 22. 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.

Overview

Business Review

Governance

Financial Statements

Notes to the Company Financial Statements

1 Profit on ordinary activities before taxation

	2012 £m	2011 £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 £4.2m (2011: £4.0m) and the final dividend of £6.0m (2011: £5.8m). 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

	2012		2011	
	Pence per share	£m	Pence per share	£m
Equity shares				
Interim	5.8	4.5	5.4	4.2
Final	9.2	7.1	7.8	6.0
Total	15.0	11.6	13.2	10.2

3 Tangible fixed assets

	Short leasehold properties £m	Plant, machinery and vehicles £m	Total £m
Cost or valuation			
At 31 December 2011	0.1	0.3	0.4
Additions	-	-	-
At 31 December 2012	0.1	0.3	0.4
Depreciation			
At 31 December 2011	-	0.3	0.3
Charge for the year	-	-	-
At 31 December 2012	-	0.3	0.3
Net book value			
At 31 December 2012	0.1	-	0.1
At 31 December 2011	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 2011	279.9	23.8	0.8	304.5
Return on capital	-	-	-	-
Additions	-	-	-	-
At 31 December 2012	279.9	23.8	0.8	304.5
Provisions				
At 31 December 2011	11.1	1.3	0.8	13.2
Impairment	-	-	-	-
At 31 December 2012	11.1	1.3	0.8	13.2
Net book value				
At 31 December 2012	268.8	22.5	-	291.3
At 31 December 2011	268.8	22.5	-	291.3

Financial Statements

Notes to the Company Financial Statements continued

4 Fixed asset investments continued

A list of the principal businesses owned by the company is given on pages 115 to 117. 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

	2012 £m	2011 £m
Amounts owed by subsidiary undertakings	23.7	19.0
Corporation tax	-	0.2
Deferred tax (note 8)	0.2	0.2
Other debtors	1.3	0.4
Prepayments and accrued income	0.1	0.1
	25.3	19.9

6 Creditors amounts falling due within one year

	2012 £m	2011 £m
Bank loans and overdrafts (note 7)		
Bank overdrafts	4.5	5.0
	4.5	5.0
Other creditors		
Trade creditors	1.4	1.5
Other taxation and social security	0.1	0.1
Corporation tax	0.3	-
Accruals and deferred income	2.4	2.1
Other creditors	1.2	1.1
Amounts owed to subsidiary undertakings	97.6	105.7
	103.0	110.5

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.

	2012 £m	2011 £m
Long term bank loans	44.2	46.0
	44.2	46.0

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

	2012 £m	2011 £m
Bank loans and overdraft		
Amounts due within one year (note 6)	4.5	5.0
Amounts due after more than one year		
Between one and two years	-	-
Between two and five years	44.2	46.0
	44.2	46.0
	48.7	51.0

Overview

Business

Financials

Financial Statements

Appendices

8 Deferred tax

	2012 £m	2011 £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

	2012 £m	2011 £m
Allotted, called up and fully paid		
77.1m Ordinary Shares of 25p each (2011: 77.0m)	19.3	19.2

In 2012 the company issued 0.1m shares under its various share option schemes (2011: 0.1m), realising £0.5m (2011: £0.1m). 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 2011	29.1	0.2	108.6
Profit 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
Profit for the year	-	-	24.6
Dividends	-	-	(10.2)
Credit to equity of share-based payments	-	-	0.3
Satisfaction of long term incentive payments	-	-	-
Shares issued	0.4	-	-
At 31 December 2012	29.6	0.2	115.9

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 satisfy shares awarded under the long term incentive plan is debited directly to equity.

Financial Statements

Notes to the Company Financial Statements continued

11 Guarantees and other financial commitments

(a) Guarantees

The company had no financial guarantee contracts outstanding (2011 £nil)

The company guarantees the bank loans and overdrafts of certain subsidiary undertakings. The amount outstanding at 31 December 2012 was £68.2m (2011 £76.6m)

(b) Operating lease commitments

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

	2012		2011	
	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 £1.8m (2011 £1.5m), of which additional deficit contributions were £1.8m (2011 £1.4m), plus £nil (2011 £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.

Financial Statements

£m unless otherwise stated

Five Year Summary

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Revenue	440.7	406.2	374.2	389.7	419.8
Underlying operating profit	44.0	41.5	45.9	47.0	47.4
Underlying profit before taxation	40.4	37.4	42.2	42.2	38.9
Shareholders' funds	162.4	150.6	152.1	131.4	118.2
	Pence	Pence	Pence	Pence	Pence
Underlying earnings per share	38.8	34.5	39.0	38.3	32.2
Proposed dividends per share	15.0	13.2	12.7	11.5	10.0

Financial Statements

Financial Calendar

Annual General Meeting 2013	15 May 2013
Interim Management Statement	May 2013
Ex-dividend date for 2012 final dividend	29 May 2013
Record date 2012 final dividend	31 May 2013
Dividend Reinvestment Plan – last date for election	14 June 2013
Final 2012 ordinary dividend payable	5 July 2013
Announcement of 2013 interim results	August 2013
Interim Management Statement	November 2013
Payment of 2013 interim dividend	January 2014

Other Information

- 114 Shareholder Information
- 115 Group Subsidiaries
- 118 Other Information

See further information online: hsholdings.com

Other Information

Shareholder Information

Shareholder base

Holdings of ordinary shares at 12 March 2013

Range of Shares	Number of holders	%	Number of Shares	%
1 - 500	589	22.81	116,087	0.15
501 - 1,000	355	13.75	279,227	0.36
1,001 - 5,000	924	35.79	2,385,917	3.09
5,001 - 50,000	578	22.39	7,874,226	10.20
50,001 - 100,000	44	1.7	3,284,030	4.25
100,001 - 500,000	62	2.4	14,602,621	18.91
500,001 - 1,000,000	10	0.38	7,667,923	9.93
Above 1,000,000	20	0.78	41,026,532	53.11
Totals	2,582	100	77,236,563	100

Shareholder type

	Number of holders	%	Number of Shares	%
Individuals	1,697	65.72	6,742,802	8.73
Institutions	881	34.12	70,451,699	91.22
Other corporate	4	0.16	42,062	0.05
Totals	2,582	100	77,236,563	100

Dividend History – proposed dividends per share

	2012	2011	2010	2009	2008
Interim	5.8	5.4	5.2	4.70	4.30
Final	9.2	7.8	7.5	6.80	5.70
Total	15.0	13.2	12.7	11.50	10.00

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 15 May 2013 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 Control number, Shareholder Reference number (SRN) and PIN number printed on your Form of Proxy where you will find the full instructions.

Shareholding online

Computershare Investor Centre gives access to view your holdings online. To register click on Investor Centre on the Computershare home page www.computershare.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/sharedealingcentre for internet share dealing and for telephone dealing ring 0870 703 0084.

Dividend Reinvestment Plan "DRIP" (Latest date for election is 14 June 2013)

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.

Other Information

Principal Group Businesses

Infrastructure Products

Access Design and Engineering (D)

Access covers, gables, 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 structured wall, large diameter pipes, for use in the water and construction sectors

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 vag 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*

Manufacturer and supply of pipe supports solutions, including constant and variable effort supports

Incorporated in India

No 720, Belerica Road, Sector 22,
Sri City DTZ, Varadachipalem Mandal
Chittoor District, Andhra Pradesh, 517 541

Tel +91 8576 305 666

swaminathan@pipesupports.com

www.pipesupports.com

Bergen-Power Pipe Supports, Inc *

Manufacturer and supply of pipe supports solutions, including constant and variable effort supports

Incorporated in the USA

484 Galiffa Drive, Donora,

Pennsylvania, 15033, USA

Tel +1 (781) 935 9550

Fax +1 (781)

bpwoburn@bergenpower.com

www.bergenpower.com

Bergen Pipe Supports (Jiangsu) Limited*

Manufacturer and supply of pipe supports solutions, including constant and variable effort supports

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*

Galvanized lintels, balconies, structural fittings for construction 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.com

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

Other Information

Principal Group Businesses

Infrastructure Products

Conimast International SAS*

Specialist steel 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
contact@conimast.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
workzone 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 Pvt Limited*

Road safety barrier systems, traffic
monitoring and number plate recognition
systems
Incorporated in India
292 Udyog Vihar, Phase IV,
Gurgaon, Haryana, 122015, India
Tel +91 124 400 9208
Fax +91 124 400 9408
enquiries@hsipi.in
www.hspi.in

Hill & Smith Pty Limited*

Wire rope and fixed safety barriers
Incorporated in Australia
Unit 10, 65 Business Street, Yatala,
Queensland 4207, Australia
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@jaenvirotanks.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*

Manufacturer and supply of pipe supports
solutions, including constant and variable
effort supports
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*

Manufacturer and supply of pipe supports
solutions, including constant and variable
effort support, and cryogenic supports
Incorporated in Thailand
26/5 Moo 9, Soi Rattana Raj,
Bangna-Trad Road Km 18 2,
Bangchalong, Bangplee, Samut Prakarn,
10540, Thailand
Tel +66 (2) 312 7685
Fax +66 (2) 312 7710
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, Gotehouse 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.

Overview
 Business Review
 Governance
 Financial Statements
 Other Information

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
 contact@galva.fr
 www.francegalva.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

Vaigt & Schweitzer, LLC*

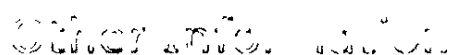
Galvanizing Services
 Incorporated in the USA
 1000 Buckeye Park Road, Columbus
 Ohio, 43207, USA
 Tel +1 (614) 449 8281
 Fax +1 (614) 449 8851
 info@hotdipgalvanizing.com
 www.hotdipgalvanizing.com

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.

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(D) Operating division only, not a limited company



Directors, Contacts & Advisors

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
Westhaven House
Arleston Way
Shirley, Solihull
West Midlands
B90 4LH

Tel +44 (0) 121 704 7430
Fax +44 (0) 121 704 7439

Registration Details
Registered in England and Wales
Company Number 671474

Company Website
www.hsholdings.com

Company Secretary
John Humphreys FCIS

Professional Advisors

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

Executive Summary
Business Review
Governance
Financial Statements
Other Information

Shareholder Notes

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Arleston Way
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