

Annual Report and Accounts for the year ended 31st December 2008





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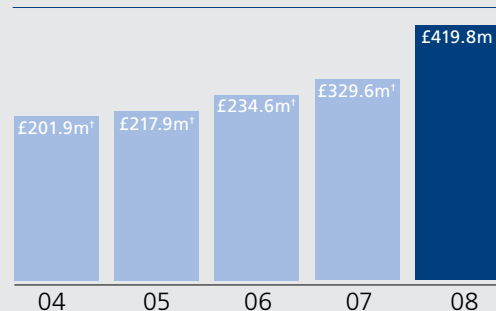
Structural steelwork galvanized by
France Galva SA

Key Financial Highlights

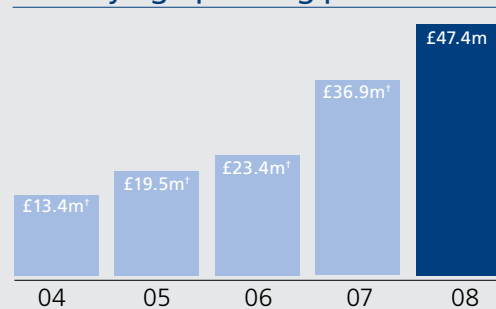
- › Record revenue and profits
- › Strong organic growth
- › Underlying earnings per share increased 23.4%
- › Dividends per share up by 14.9%

| Results from continuing businesses | 2008 | | 2007 Restated [†] |
|------------------------------------|----------------|----------------|-------------------------------|
| Revenue | £419.8m | +27.4% | £329.6m |
| Underlying operating profit* | £47.4m | +28.5% | £36.9m |
| Underlying profit before tax* | £38.9m | +25.5% | £31.0m |
| Underlying earnings per share* | 32.2p | +23.4% | 26.1p |
| Dividend per share | 10.0p | +14.9% | 8.7p |
| Net debt | £146.2m | +£28.4m | £117.8m |

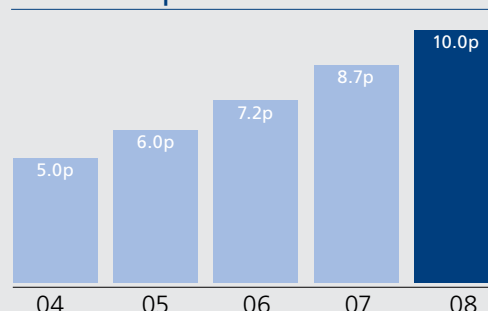
Revenue



Underlying operating profit*



Dividends per share



[†] restated to exclude the discontinued businesses of Express Reinforcements Ltd and its related activities.

* excludes the effect of business reorganisation costs, property items, amortisation of acquisition intangibles, impairments, change in the value of financial instruments and net financing return on pension obligations.



Overview

At a Glance

Hill & Smith Holdings PLC is an international Group with leading positions in the design, manufacture and supply of infrastructure products, galvanizing services and building and construction products to global markets. It serves its customers from facilities principally in the UK, France, USA, Thailand and China.

Infrastructure Products



Zoneguard barrier.

Focused on four main markets – HS Roads, HS Rail, HS Utilities and HS Security – supplying products and services such as permanent and temporary road safety barriers, street lighting columns, bridge parapets, temporary car parks, glass reinforced plastic railway platforms, variable road messaging solutions, traffic data collection systems, plastic drainage pipes and pipe supports for the power and LNG markets, energy grid components and security fencing.

With subsidiaries in the UK, the USA, Thailand and China, 41% of revenue is generated outside the UK.

For more information on Infrastructure Products please visit www.hsholdings.com

Galvanizing Services



Hot dip galvanizing.

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

Services are delivered from a network of 26 galvanizing operations in the UK, France and USA, with 71% of revenue generated outside the UK.

For more information on Galvanizing Services: please visit www.hsholdings.com

- › Continued growth in Infrastructure Products
- › Excellent organic growth for HS Roads, HS Rail and HS Utilities
- › Acquisition of Creative Pultrusions Inc. significantly adds strength to our US presence and product range
- › Very well placed to benefit from Government stimulus packages around the world

Building & Construction Products



Industrial flooring/platforms.

Supplying products such as roofing systems, safety handrails and flooring, lintels and doors in steel and, increasingly, composite materials, all with a range of uses including large infrastructure projects involving schools and other public buildings.

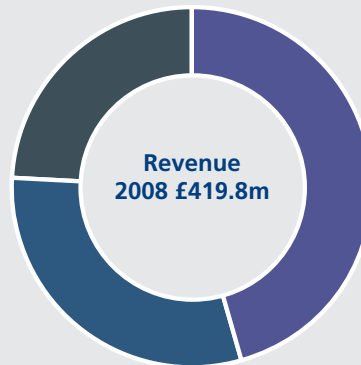
All plants are based in the UK which accounts for 87% of turnover.

For more information on Building & Construction Products: please visit www.hsholdings.com

Business mix (continuing businesses)

Revenue

| |
|--|
| Infrastructure Products £191.8m |
| Galvanizing Services £127.1m |
| Building and Construction Products £100.9m |



Profit

| |
|--|
| Infrastructure Products £23.2m |
| Galvanizing Services £19.7m |
| Building and Construction Products £4.5m |



* excludes the effect of business reorganisation costs, property items, amortisation of acquisition intangibles, impairments, change in the value of financial instruments and net financing return on pension obligations.



Overview

Chairman's Statement



David Grove
Chairman

The Group is now of a different scale and composition to what it was five years ago with 35% of revenues and 50% of profits coming from our international operations.

Introduction

This time last year I said that I looked forward to reporting another year of progress in 2008. I am therefore delighted to report that the Group has again produced a set of exceptional results for the year ended 31 December 2008, delivering another year of increased earnings and growth.

During 2008 we continued to develop the Group in line with our strategy of increasing our concentration on our core business areas, of driving growth through product innovation in both existing and new geographic markets, and through selective acquisitions. A major strength of the Group is the ability to identify growth potential in developed and developing markets and this has played a significant part in strengthening our market positions, particularly in the resilient infrastructure sector.

The Group is now of a different scale and composition to what it was five years ago with 35% of revenues and 50% of profits coming from our international operations.

Results from continuing businesses

Group revenue increased by 27.4% to £419.8m (2007: £329.6m). Profit before taxation in the period increased by 14.0% to £35.1m (2007: £30.8m) and underlying profit before taxation⁽¹⁾ increased by 25.5% to £38.9m (2007: £31.0m). Basic earnings per share increased by 1.7% to 30.0p (2007: 29.5p) whereas underlying earnings per share⁽²⁾, a more consistent and meaningful measure of performance, was 23.4% ahead of last year at 32.2p (2007: 26.1p).

The underlying earnings per share⁽²⁾ has now grown by a compound average growth rate of 29% over the past five years.

Dividends

These results, together with the Board's confidence in the Group's prospects, enable the Directors to recommend to shareholders a final dividend of 5.7p (2007: 5.1p), making a total dividend for the year of 10.0p (2007: 8.7p), an increase of 14.9%. Our progressive dividend policy has increased dividend payments by an average of 22% in each of the last three years. The dividend for the year is covered 3.2 times by underlying earnings per share⁽²⁾. The final dividend, if approved, will be paid on 10 July 2009 to those shareholders on the register at close of business on 5 June 2009.

Group strategy

Our strategic objective is to deliver a consistent growth in earnings, dividend and shareholder value, through an increasing

concentration on our core business areas. We have a strong track record based on continued product development and the redevelopment of the Group through targeted acquisitions and disposal of non-core businesses. In 2009 we will continue the strategy of selectively investing resources to further improve both our market position and geographic spread, and in product innovation to deliver value added solutions to our customers.

The Group is led by an experienced and entrepreneurial management team that has extensive knowledge of our chosen markets. The team's entrepreneurial focus and enthusiasm has been, and will continue to be, an important element of our strategy as it drives the individual businesses to innovate and respond quickly to opportunities they identify.

Finance

Cash generated from operations was strong at £54.2m (2007: £26.9m) reflecting in part the Group's increased focus on day to day cash management. The Group invested £22.5m (2007: £19.6m) in capital expenditure in furtherance of its organic growth objectives and we are confident that this investment will contribute to growth in the coming years.

Group net debt at 31 December 2008 was £146.2m (2007: £117.8m). The Group's net debt is principally denominated in Euros and US Dollars which act as a hedge against the net asset investments in overseas businesses. The material depreciation of Sterling towards the end of 2008 significantly increased the Sterling reported amounts of the foreign currency net debt. Net debt increased year on year by £32.6m due to exchange rate movements.

At year end exchange rates, the Group now has a total of over £218m of facilities at its disposal, with the principal facility being a £150m multi currency facility signed in June 2007 and which runs to June 2012. These facilities afford the Group significant headroom against its expected requirements.

Acquisitions and disposals

During the year we acquired the remaining 31.8% of Zinkinvent GmbH and at the same time divested the galvanizing operations in Benelux and Germany, thereby achieving our long term goal of 100% ownership of the galvanizing and fabrication businesses in France (France Galva SA) and the USA (Voigt & Schweitzer, Inc.). We also acquired Creative Pultrusions, Inc., a company based in Pennsylvania, USA, manufacturing glass reinforced plastic products for the infrastructure and construction markets. Both of these acquisitions contributed to our 2008 earnings in line with expectations, and significantly strengthen our market positions going forward.



Varioguard temporary barrier.

During 2008 we continued the strategic review of our non-core businesses and successfully disposed of Express Reinforcements Limited and D&J (Steels) Limited.

Board of Directors

In the announcement of the Company's interim results made on 18 August 2008 I stated that I would be retiring at the end of 2009 and in accordance with this intention I have agreed with the Board that, with effect from the conclusion of the Annual General Meeting to be held on 12 May 2009, I will become Non-executive Chairman.

Our succession planning has continued throughout the year and we are in the process of recruiting a suitable replacement for Dick Richardson, following his decision to retire from the Board at the conclusion of the Annual General Meeting to be held on 12 May 2009. The Board will report to shareholders as soon as a decision is made. Dick has contributed significantly to the development and operation of the Board over the last twelve years and along with my Board colleagues I thank him for all that he has done for the Company.

Outlook

The Board are adopting a cautious outlook for the current year in view of the uncertainty over the scale and impact of the global economic downturn and on the timing of the infrastructure spending for the various government fiscal stimulus packages. Overall we are strongly positioned in broadly resilient markets, have strong positions in those markets and improved geographical balance, all of which will help us to deal with the current economic conditions.

David Grove
Chairman

10 March 2009

Our key strengths

- › Entrepreneurial culture that enables individual businesses to respond quickly to opportunities
- › Experienced management with extensive knowledge of our chosen markets
- › Track record in identifying new opportunities to deliver innovative products and services
- › Ability to provide value-added solutions at low installed cost

⁽¹⁾ excludes the effect of business reorganisation costs, property items, amortisation of acquisition intangibles, impairments, change in the value of financial instruments and net financing return on pension obligations.



Business Review

Chief Executive's Overview



Our actions have resulted in the Group having a significant international scale, bringing potential for growth and resilience.

Overview of our performance

2008 was another year of strong growth, achieved through product development and increased market penetration, and through selective acquisitions. This strategy has been successful in continuing to transform Hill & Smith into a Group with leading international positions in its chosen markets.

We have also targeted our Infrastructure Products Group ('IPG') on further development of our involvement in the roads, rail, utilities, and security sectors of the infrastructure market. To this end, we have established HS Roads, HS Rail, HS Utilities and HS Security within the IPG.

Revenue from continuing businesses increased 27.4% to £419.8m (2007: £329.6m) which includes £71.0m from 2007 acquisitions. Organic growth was 2% and exchange rate movements contributed £8.7m helped by the appreciation of both the Euro and US Dollar versus Sterling. Underlying operating profit^(†) increased by 28.5% to £47.4m (2007: £36.9m) of which acquisitions contributed £4.1m. Exchange movements accounted for a further £2.1m (6%) year on year improvement and organic growth was again strong at 10%. Excluding the Associate income in 2007, underlying operating margin^(†) improved by 1.0% to 11.3%.

Group strategy

The strategic objective is to deliver a consistent growth in earnings, dividend and shareholder value, through an increasing concentration on the core business areas. Through a clear focus on our core strategic drivers (organic growth, geographic expansion, selective acquisitions and growth of legislative requirements) we aim to continue delivery of this objective.

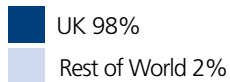
During 2008 we successfully completed a number of initiatives for all four drivers of our strategy, as highlighted opposite, including significant acquisitions and development of the product range. Our actions have resulted in the Group having a significant international scale, bringing potential for growth and resilience.

We are committed to retain our position as a preferred choice supplier in our chosen market segments. To help achieve this we have an experienced and entrepreneurial management team capable of delivering product development and value based solutions. On page 27 we have given biographical details of the key management driving our core and international businesses to ensure we remain in leading positions in our markets.

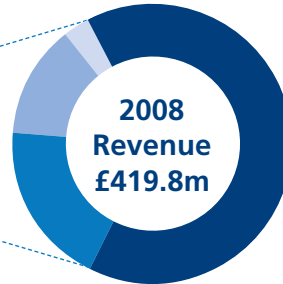
Derek Muir
Chief Executive

Growing an international Group

2006*



2008*



*Analysed by geographical origin

Divisional highlights

All three divisions performed well in the face of an increasingly challenging market environment. Infrastructure Products delivered an excellent result with organic growth from the roads, rail and utilities sectors of the infrastructure market. The acquisition of Creative Pultrusions Inc. significantly adds to our presence in the USA and our overall product range. Creative Pultrusions have already collaborated with other Group businesses, Redman Composites and Access Engineering, in supplying glass reinforced plastic (GRP) product for a rail platform at East Midlands Parkway station (please see page 16 for details).

The economic conditions impacted the tonnage volumes for our Galvanizing Services division, although volumes were up by 4.7% in our US galvanizing operation, where we completed the construction of a new galvanizing plant in Delaware USA. This new plant commenced production in January 2009.

During the year we gained full control of Zinkinvent's galvanizing and fabricating businesses in France and the USA enabling us to develop and maximise the benefits of their operations.

Our Building and Construction Products division produced a solid profit performance as some of the operations adjusted their cost base in response to weakening demand. The industrial flooring

business continued to trade well, delivering record results as their end markets remained strong.

In November 2008 we disposed of Express Reinforcements Limited, who operated in the steel reinforcing bar market, as part of our focus on higher margin core activities.

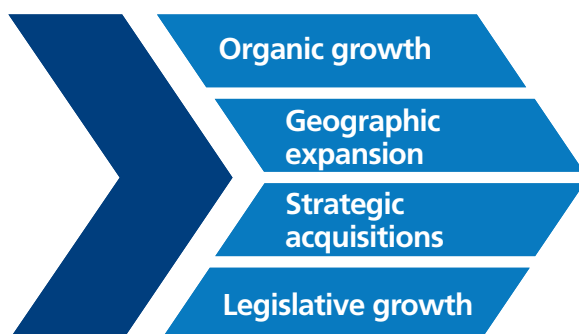
Further details of the performance of the three divisions are given on page 9 and in the Operational Review section of this report on pages 10 to 17.

Outlook

Overall the geographic and end-market diversity of the Group, together with its market leading positions and track record of delivering returns, positions it favourably to deal with the challenges and opportunities arising from the current economic conditions.

(†) excludes the effect of business reorganisation costs, property items, amortisation of acquisition intangibles, impairments, change in the value of financial instruments and net financing return on pension obligations.

Strategic Drivers



Strategy in action

- Acquisition of remaining minority shareholding of Zinkinvent
- Acquisition of Creative Pultrusions Inc.
- Launch of "TopDeck" permanent or temporary car parking solution
- Formation of Hill & Smith Inc. in the USA (Zoneguard and Security)
- Constructed new galvanizing plant in Delaware, USA
- GRP rail platform installed at East Midlands Parkway station
- Formation of British Pipe Supports (JingJiang) Ltd in China



Business Review

Divisional Highlights

BEBO pre-cast concrete arch for the A38 Dobwalls Bypass over the London to Penzance rail line



Infrastructure Products

HS Roads

Further significant growth in Varioguard rental pool (M1 widening) 148km rental pool.

Delivering of next generation of electronic traffic management signage across the UK.

Major contract launch of TopDeck at Gatwick Airport – strong future growth opportunities.

HS Rail

Further extension of product range with GRP railway platforms.

First major project for Asset International's 'Structured Solutions.'

HS Utilities

11,000m of large diameter plastic pipe delivered to the Glendoe Hydro-Electric Scheme in Scotland.

AMP4 Minworth water treatment project extended.

HS Security

Bristorm, our anti-terrorist security product, had a strong year.

Galvanizing Services

UK

Strong demand from LNG plant for structural steel, to Quarter 3.

Costs adjusted to lower levels of volume.

Europe

Selling prices held in France through better product mix.

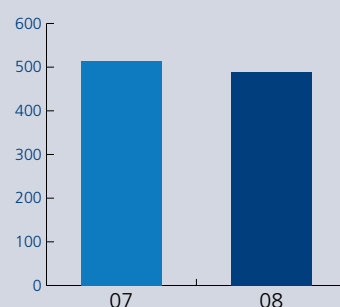
USA

Tonnage growth of 4.7%.

Road bridge refurbishment.

New Delaware plant commissioned December 2008.

Tonnages year-on-year (000's)



Building & Construction Products

Industrial Flooring

Buoyant market for power stations and water treatment plants.

Steel prices managed through the supply chain.

Roofing Systems

Strong first half of 2008.

Orderbook reduced in second half.

Steel Lintels & Residential Doors

Difficult housing market – volumes down.

Costs adjusted to lower volumes.

Revenue by Division

£191.8m
46%

Revenue by Division

£127.1m
30%

Revenue by Division

£100.9m
24%



Business Review

Operational Review

TopDeck parking

Our innovative temporary or permanent car park structure, TopDeck, made its debut in May 2008 in a £4m project at Gatwick Airport. A 700 space 'Deck' for valet parking was built in less than 28 days, using existing facilities within the Group. With increased parking congestion in airports, stations, hospitals and shopping centres, this solution has an excellent market potential.





We continued to strengthen our position in the resilient roads market in addition to introducing new products to provide solutions for our existing and new customer base.

Operational Performance

The review of each of the Group's three operating divisions of Infrastructure Products Group, Galvanizing Services and Building and Construction Products is given below:

Infrastructure Products Group ('IPG')

Our Infrastructure Products Group is focused on four main markets – roads, rail, utilities and security. We have developed HS Roads, HS Rail, HS Utilities and HS Security to drive and focus each operating unit on growing our revenue and profitability in these sectors of the infrastructure market. The extensive range of products include permanent and temporary road safety barriers, fencing, energy grid components, street lighting columns, bridge parapets, temporary car parks, GRP railway platforms, variable road messaging solutions, traffic data collection systems, plastic drainage pipes and pipe supports for the power and Liquid Natural Gas ('LNG') markets, energy grid components and security fencing.

Revenue increased by 32.1% to £191.8m in 2008 (2007: £145.2m) with organic growth, excluding exchange rate movements, of 12%. Underlying operating profit^(t) improved by 26.8% to £23.2m (2007: £18.3m) driven by strong organic growth of 15%.

During the year we experienced unprecedented increases in raw material prices, the impact of which was managed through the supply chain. This had the effect of increasing revenues without a corresponding increase in profits, resulting in a small underlying operating margin^(t) reduction, down by 0.5% to 12.1% (2007: 12.6%).

HS Roads

We continued to strengthen our position in the resilient roads market in addition to introducing new products to provide solutions for our existing and new customer base.

Excellent organic growth was delivered as the Highways Agency spend on improving network capacity continued apace. Major projects throughout the year included the widening of the M1 where our temporary safety barrier 'VARIOGUARD' and vehicle restraint system 'FLEXBEAM' were deployed. As a result of this project, the VARIOGUARD rental pool increased over the year by 20km to 148km.

(t) excludes the effect of business reorganisation costs, property items, amortisation of acquisition intangibles, impairments, change in the value of financial instruments and net financing return on pension obligations.

Another strong performance came from the supply of our new bridge parapet systems for projects in the UK, Eire and the Middle East. Our bridge parapet business enters 2009 with potential for growth from a strong export order book.

The variable electronic message signage business enjoyed a good second half performance giving rise to a substantial increase in profitability, as it delivered the next generation of variable electronic message signs on schemes across the UK under a four year Highways Agency contract. The order book is robust for 2009 with the managed motorways programme being a key area of infrastructure spend for the Highways Agency.

TopDeck, our innovative temporary or permanent car park structure, made its debut in May 2008 with a significant contract for Gatwick Airport. This was followed by a second installation for a BMW dealership in Newcastle. We believe that the TopDeck product has a great future, particularly as a solution for parking congestion at airports, rail stations, shopping centres and hospitals. We do however view 2009 with caution as this product represents a significant capital investment for customers.

We also launched a number of new perimeter barrier systems for new builds and the refurbishment of existing multi-storey car parks, the largest of which was a major project at Heathrow's Terminal 5.

Our UK lighting column operation produced an improved performance in 2008, continuing to benefit from the more efficient production and operating facilities at its new site in Chesterfield. This operation is poised to take advantage of the large anticipated spend on lighting columns by the regenerated PFI initiative, once funding is secured. The lighting column operation based in France continued to develop its strategy for niche markets and traded well, in line with expectations.

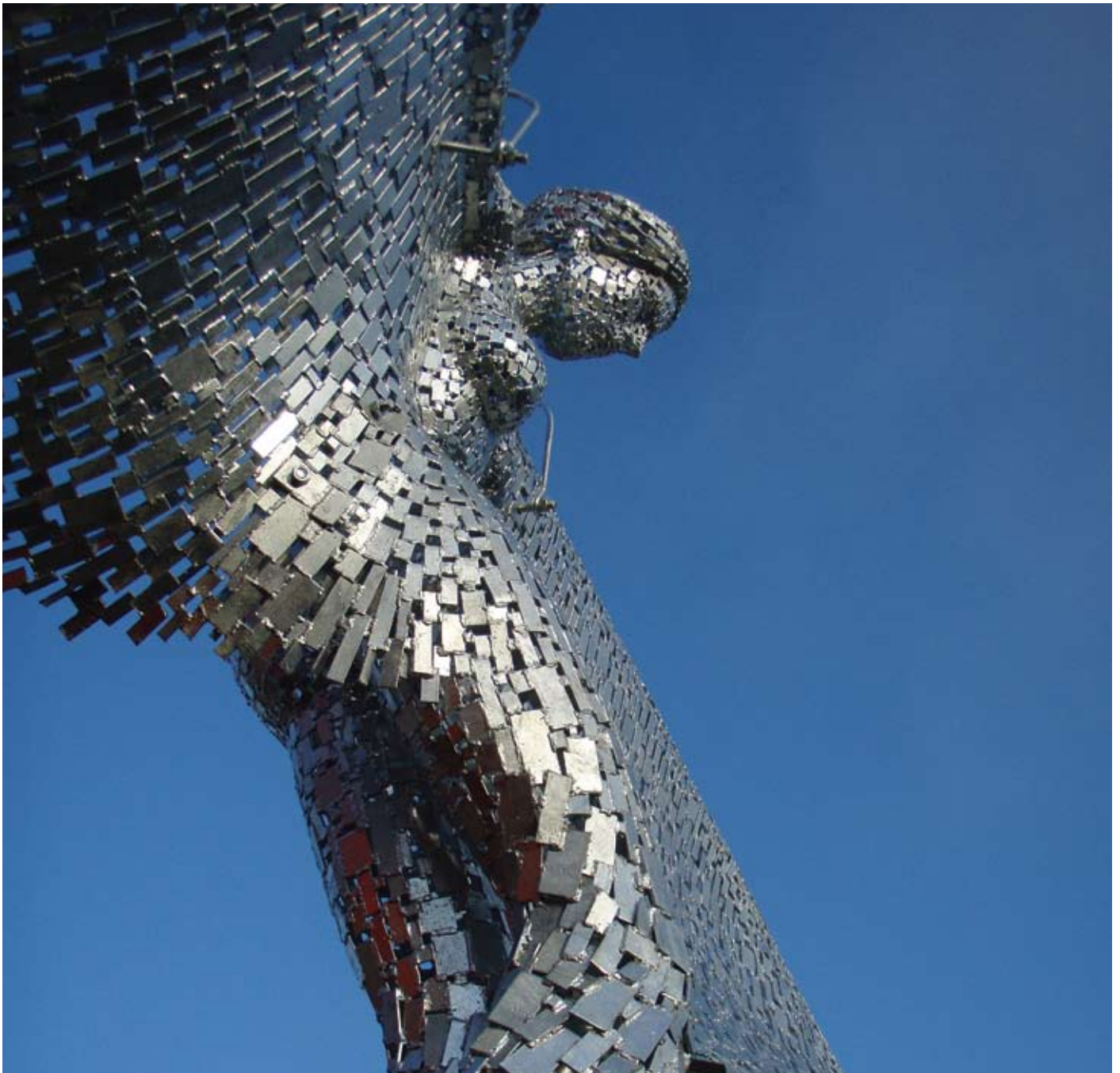


Business Review

Operational Review

Galvanizing

Standing 6.5m tall, the “Rise” sculpture was commissioned by Glasgow Harbour as part of the City’s riverside regeneration project. The statue was built by fabricating a steel frame skeleton of 12 and 16mm diameter bars, clad with a mosaic of steel flat bar. Joseph Ash used its expertise to galvanize each section and the statue was unveiled in May 2008



We are focused upon extending our product offering in the rail sector and our strategy has positioned us to take further advantage of the opportunities arising in this growing market.

HS Rail

We are focused upon extending our product offering in the rail sector and our strategy has positioned us to take further advantage of the opportunities arising in this growing market, either through established businesses or acquisitions. 2008 saw positive evidence of our success with the new 'Structured Solutions' product completing its first major project at the Dobwalls Bypass in Liskeard, Cornwall where we installed a 'BEBO' concrete rail arch.

The acquisition of Creative Pultrusions Inc. advanced the strategy of increasing our presence in the US and at the same time complementing our Group product offering and expertise to afford us additional growth opportunities.

Creative Pultrusions Inc. is an industry leader offering high-strength pultruded products in a GRP material. The acquisition has been fully integrated and we are positioning the business to take maximum advantage of expenditure arising from President Obama's economic infrastructure initiatives. In the UK we completed our first GRP railway platform for the new East Midlands Parkway station, using Creative's GRP product, an example of the complementary value of the acquisition.

HS Utilities

All our businesses performed well in the growing utilities market with energy expenditure, particularly LNG, driving demand for our products which include pipe supports, storage tanks and large diameter pipes.

Our pipe supports operation in Thailand increased revenues by 48% following the transfer of further production from the UK. This has enabled us to compete globally on price and service, supplying products to LNG, power and petrochemical projects at lower unit costs whilst retaining a level of production expertise and capacity at our UK plant, which now operates from a smaller more efficient facility. The 2009 order book for pipe supports continues to be at a healthy level.

In the USA, the V&S Utilities operation finished the year well, after a slow start, and we are encouraged by President Obama's stimulus package for national grid improvements and renewable energy projects, particularly for the transmission and substation markets served by V&S Utilities.

At the Glendoe Hydro-Electric Scheme in Scotland we completed the supply of 11,000 metres of large diameter HDPE plastic pipe. This major contract offset the reduction in the storm water attenuation market resulting from the lack of new housing projects. Increased revenues came from supplying water authorities for their AMP4 spend, mainly on upgrades to waste water treatment works and major sewage overflow schemes.

Our specialist Envirotanks operation, which manufactures large industrial storage tanks, had a record year buoyed by the supply of fuel tanks to major clients such as the MoD and Royal Mail.

HS Security

Demand for palisade fencing was lower year on year and the focus has been on the development of new fence systems and growth in overseas markets to counter this.

Bristorm, our anti-terrorist security product had a strong year, increasing the number of sites being protected by its wire rope barrier system.

Galvanizing Services

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

Revenues increased by 54.4% to £127.1m in 2008 (2007: £82.3m) with the 2007 acquisitions contributing £52.0m to the year on year growth. The reduction in zinc commodity prices together with lower volumes experienced towards the end of the year resulted in organic revenue decline of 9% overall. Underlying operating profit⁽⁺⁾ improved by 28.8% to £19.7m (2007: £15.3m) with acquisitions contributing £2.6m and a benefit from exchange of £1.7m. Excluding these improvements the performance of the division was in line with the prior year.



Business Review

Operational Review

Birmingham International Airport

Access Design and Engineering provided extensive structural and secondary steelwork used in the walkways and hand railing around the mid stations supporting Birmingham International Airport's Monorail.



The industrial flooring operations continued to trade well, producing record performances. Their end markets should remain strong as the demand for industrial flooring and safety handrails in infrastructure projects remains robust.

With the acquisition of the final minority interest in the galvanizing and fabrication businesses of Zinkinvent, we are now able to develop and expand the operations in France and the USA as wholly owned businesses. In France, volumes were down 8.2% but in the context of the market place the business performed well. In the US, volumes were up 4.7% due to high infrastructure activity. We further increased our coverage of the east coast of the US with the construction of a new plant in Delaware which started production in January 2009.

For the first three quarters our UK operations produced excellent tonnages which included 12,000 tonnes of structural steel for an LNG plant in Qatar. However, a weaker final quarter led to a 6.7% decline in UK volumes for the year as a whole.

Building and Construction Products

Building and Construction Products supplies such products as roofing systems, safety handrails and flooring, lintels and doors in steel and, increasingly, composite materials. These building and construction products are for a range of construction projects including those for schools and public buildings.

The reported 2007 revenues for this division have been restated to exclude Express Reinforcements Limited which was disposed of in November 2008. On that basis, revenues from continuing operations in 2008 fell by 1.2% to £100.9m (2007: £102.1m). However, the division generated good organic growth of £1.2m resulting in underlying operating profit⁽¹⁾ increasing by 36.4% to £4.5m (2007: £3.3m). Significant reductions in the cost base in response to falling demand levels and improved efficiencies contributed to this improved performance.

The industrial flooring operations continued to trade well, producing record performances. Their end markets should remain strong as the demand for industrial flooring and safety handrails in infrastructure projects remains robust.

Our Access Engineering and Redman Composites operations successfully completed the manufacture and installation of the GRP railway platform at the new East Midlands Parkway rail station, having been supplied with the material by Creative Pultrusions Inc.

Volumes of lintels and residential doors at Birtley Building Products were down due to the decline in the UK housebuilding market. Early action was taken to reduce costs and the business is well placed to ride out the downturn in projects and respond to any future upturn in the market.

Ash & Lacy Building Systems had a strong first half of 2008. However, as large building projects were completed the order

book has not been replenished to the same levels and action has been taken to reduce costs. The current year has started slowly as a number of PFI projects have been delayed due to funding constraints.

Bromford Iron and Steel managed the volatility of the price of steel well and produced very good results. The steel mesh production unit was closed at the time of the sale of Express Reinforcements Limited and we have now exited the commodity reinforcing bar market completely, focusing on specialised higher margin products.

Operational outlook

Government commitments to infrastructure spending during the current global economic volatility will continue to underpin the performance of many of our operations. The IPG division has seen a solid start to the year and both the UK and President Obama's recent economic stimulus plans will assist our infrastructure and galvanizing businesses domestically and in the US. We are however mindful of the fact that the spending stimulus may not impact significantly until the second half of 2009 and as our profits are normally biased marginally to the first half, this could lead to a more even profit balance in 2009.

Galvanizing in both France and the UK has experienced a material slowdown since our Interim Management Statement in November 2008. Whilst we are encouraged by galvanizing volumes in the US remaining robust and more generally the number of enquiries for major projects, these projects are likely to be skewed towards the second half of 2009 and possibly into 2010. In the meantime actions have been taken to reduce manning and operational costs accordingly.

The volumes in the building and construction sector will continue to be affected by the economic conditions and we are adopting a cautious approach to our expectations for any short term recovery for a number of the products we supply into this sector.

Derek Muir
Chief Executive



Business Review

Operational Review

Modular GRP Station platform

Combining the expertise across the Group, our Access Engineering and Redman Composites operations successfully completed a £1.4m project to manufacture and install a glass reinforced plastic ("GRP") railway platform in the new East Midlands Parkway station. Pioneered by Redman, this innovative approach used light weight materials, which allowed for a rapid six and half day installation. These light weight materials were supplied by our newly acquired subsidiary Creative Pultrusions Inc.







Business Review

Financial Review



The Group now has over £218m of facilities at its disposal which provides significant headroom against its expected requirements.

Mark Pegler
Finance Director

Overview

From our continuing operations, we generated record levels of revenue and profitability. Revenue increased by 27.4% to £419.8m (2007: £329.6m), underlying profit before taxation^(†) grew by 25.5% to £38.9m (2007: £31.0m) and underlying earnings per share^(†) were 23.4% higher at 32.2p (2007: 26.1p).

Discontinued businesses

Following the acquisition on 2 July 2007 of Zinkinvent GmbH the Group decided that it did not wish to retain the Benelux and German trading operations of that company. Accordingly, these businesses have continued to be accounted for as discontinued operations from the date of acquisition. These operations were disposed of in August 2008 for a consideration of £22.1m, including deferred consideration of £1.0m.

In November 2008, the Group exited the steel bar reinforcing market through the disposal of its interests in Express Reinforcements Limited and the cessation of its related activities. These operations have been treated as discontinued activities in 2008 and the comparatives for 2007 have been restated. Consideration receivable in respect of Express Reinforcements Limited was £13.2m (including cash balances disposed of £3.8m) which resulted in a profit on disposal of £3.1m.

Acquisitions

In July 2008 we completed the acquisition of the remaining 31.8% minority shareholding in Zinkinvent GmbH for £18.8m giving the Group 100% ownership of the galvanizing and fabrication operations in Benelux, Germany, France and the US. This was followed by the divestment of the Benelux and German businesses as reported above under 'Discontinued businesses'.

In addition to the above we acquired Creative Pultrusions Inc. in September 2008 for a cash consideration of £12.8m.

Exchange rates

The movement in exchange rates between 2007 and 2008 resulted in our reported 2008 revenue and underlying operating profit^(†) being 3% and 6% higher respectively. The Euro and US Dollar both strengthened significantly particularly later in the second half of the year. If current exchange rates of €1.12 and \$1.42 had been applied to our 2008 results, it is estimated that revenue and underlying operating profit^(†) would have been approximately 6% and 9% higher respectively.

(†) excludes the effect of business reorganisation costs, property items, amortisation of acquisition intangibles, impairments, change in the value of financial instruments and net financing return on pension obligations.

Finance costs

Net financing costs rose by £2.7m to £8.3m, principally reflecting the full year interest charge on the debt taken on to acquire Zinkinvent in July 2007 and the impact of translation due to exchange rate movements. The cash element of net financing costs is £8.0m (2007: £5.5m). Underlying operating profit^(†) covered net cash interest 5.9 times (2007: 6.7 times). Historically the Group has not entered into any material fixed interest rate agreements on its principal financing arrangements, although the Group is currently contemplating committing a proportion of its net debt to such instruments. Nevertheless, given the Group's previous policy of utilising floating interest rates, the Group expects to take advantage of recent reductions in UK and other bank base rates and reduce its finance costs in 2009.

Tax

The Group's tax charge for the year was £15.3m (2007: £10.0m). The underlying effective tax rate for the continuing businesses was 37.5% compared to 39.2% (after adjusting for the post tax Associate income) for 2007. Further details are set out in note 8. Following the acquisition of the remaining minority interest in Zinkinvent GmbH in 2008, the Group expects to be able to deliver further reductions in its underlying effective tax rate.

Cash generation and financing

Cash generated from operations was strong at £54.2m (2007: £26.9m) reflecting in part the Group's increased focus on day to day cash management. The Group invested £22.5m (2007: £19.6m) in capital expenditure in furtherance of its organic growth objectives including £5m in constructing a new US galvanizing plant in Delaware. Capital expenditure, as a multiple of depreciation and amortisation, was 1.8 times (2007: 2.2 times). Management continues to maintain strict control on capital expenditure commensurate with growth plans and funding availability. In 2009, capital expenditure is expected to be approximately £13.0m, substantially less than recent years and representing around one times

depreciation and amortisation. However, the Group will continue in its strategy of investing in selective organic growth initiatives where returns are strong and with a high degree of certainty.

Group net debt at 31 December 2008 was £146.2m (2007: £117.8m). The Group's net debt is principally denominated in Euros and US Dollars which act as a hedge against the net asset investments in overseas businesses. The material depreciation of Sterling towards the end of 2008 significantly increased the Sterling reported amount of the foreign currency net debt. Net debt increased year on year by £32.6m due to exchange rate movements.

At the year end the Group had committed facilities available of £169.3m and a further £26.6m in overdrafts and other on demand facilities. Since the year end, at constant exchange rates, the Group has increased its committed net facilities by a further £22.5m. The Group's principal debt facility is a £150m multi currency facility signed in June 2007 and which runs to June 2012. The facility amortises throughout its existence with £11.4m and £18.4m falling due for repayment in 2009 and 2010 respectively.

At year end exchange rates, the Group now has over £218m of facilities at its disposal which provides significant headroom against its expected requirements. During the year the Group remained well within its banking covenants and expects to remain so throughout 2009.

Pensions

At the year end the obligations for retirement benefits were £11.8m, an increase of £2.1m. In the UK the deficit on the defined benefits scheme increased to £10.4m as a result of a fall in the value of assets, partially offset by a higher corporate bond discount rate and reduced inflation expectations. The next triennial valuation of the UK defined benefit scheme is April 2009.

Mark Pegler
Finance Director
10 March 2009

Change in Net Debt

| | 2008 £m | 2007 £m |
|------------------------------|------------|------------|
| Operating profit | 43.4 | 36.4 |
| Depreciation & amortisation* | 12.8 | 9.2 |
| Working capital movement | (1.7) | (11.9) |
| Pensions and provisions | (2.3) | (1.2) |
| Other items | 2.0 | (5.6) |
| Operating cash flow | 54.2 | 26.9 |
| Tax paid | (16.0) | (7.8) |
| Interest paid (net) | (7.0) | (5.5) |
| Capital expenditure | (22.5) | (19.6) |
| Sale of fixed assets | 0.7 | 10.4 |
| Free cash flow | 9.4 | 4.4 |
| Dividends | (6.6) | (5.4) |
| Acquisitions and disposals | (4.3) | (70.4) |
| Share issues | 0.1 | – |
| Change in net debt | | |
| – Continuing operations | (1.4) | (71.4) |
| – Discontinued operations | 5.6 | 3.0 |
| | 4.2 | (68.4) |
| Opening net debt | (117.8) | (46.1) |
| Exchange | (32.6) | (3.3) |
| Closing net debt | (146.2) | (117.8) |

* includes £0.6m (2007: £0.4m) in respect of acquisition intangibles.



Business Review

Key Performance Indicators

The Board of Hill & Smith Holdings PLC has adopted certain financial and non-financial Key Performance Indicators (KPIs) as stated below to measure strategic and operational performance. Other similar performance indicators are used at the subsidiary business level adapted to suit the diversity and variety of the Group's operations.

| | |
|--|--|
| <p>Revenue</p> <p>Our aim is to increase revenue each year through a combination of price and volume increases, organic growth and acquisition.</p> <p>In 2008, we increased our Group revenue by 27.4% to £419.8m. Organic growth, excluding the effects of exchange movements, acquisitions and disposals, contributed 2% of this growth.</p> | <p>Subsidiary performance</p> <p>We continue to focus on year on year profit growth, the management of working capital, stock turnover, debtor and creditor days, and return on operating capital employed.</p> <p>Other indicators relating to production efficiency and customer satisfaction are monitored where these are relevant to a subsidiary's business.</p> |
| <p>Underlying operating margin</p> <p>This represents the Group's underlying operating profit^{(†)*} divided by Group revenue. In 2008 our underlying operating margin was 11.3% compared to 10.3% in the previous year.</p> | <p>Sustainability</p> <p>Further progress has been made on achievement of our identified priorities of greater energy efficiency and lower CO₂ emissions. Of particular note was the achievement of our UK galvanizing operation in reducing energy consumption year on year, from 397 kwh/tonne in 2007 to 326 kwh/tonne in 2008.</p> <p>We have added to our KPIs the CO₂ usage per £ of revenue and this will be incorporated into future reporting.</p> |
| <p>Profitability</p> <p>Our main profitability KPIs are underlying profit before tax^(†) and underlying earnings per share^(†). These measures increased in 2008 by 25.5% and 23.4% respectively compared to the previous year.</p> | <p>Health and safety</p> <p>The safety performance of each subsidiary is monitored, reviewed and reported to the Board at each Board meeting. The number of reported incidents is monitored each month, with 2008 showing a 12.3% reduction in the number of accidents. An audited scoring system is being introduced for future reporting to identify and correct any weaknesses and improve monitoring of the average time lost per accident.</p> |
| <p>Net cash from operating activities</p> <p>The Company actively monitors working capital levels in all its operations. In 2008 Group net cash inflow from operating activities was £54.2m compared to £26.9m in 2007. This increase included an adverse movement in working capital of £4.0m (2007: £13.1m adverse).</p> | |

^(†) excludes the effect of business reorganisation costs, property items, amortisation of acquisition intangibles, impairments, change in the value of financial instruments and net financing return on pension obligations.

* excluding our share of profits from associates.

Business Review

Principal Risks and Uncertainties

The Group is required to formally review the principal areas of risk and uncertainty for all its businesses in order for the major risks to be addressed at all levels.

Those general risks and uncertainties that apply to most international manufacturing businesses apply to the Group. Typically these include changes in economic conditions, legislation, regulations, political policies, taxation and the impact of changes in the dynamics of the markets the Group operates in.

Outlined below and on the following page is a description of the principal risks and uncertainties specific to our businesses, together with commentary on the monitoring and mitigation of such risks.

| Risks and uncertainties | Monitoring and mitigation |
|---|--|
| <p>Market dynamics and competition</p> <p>The Group operates in a business environment where it needs to be proactive with regards to market dynamics including customer preference, new technology, regulatory changes and competition, all of which could have an adverse effect on the financial performance of the Group.</p> | <p>We monitor those businesses most likely to be impacted by these risks and the markets in which they operate, working with customers and regulatory bodies to continue to satisfy their requirements. Our investment and commitment to research and product development continues to ensure we maintain strong competitive market positions.</p> |
| <p>Commercial relationships</p> <p>The Group benefits from close commercial relationships with a number of long standing key customers and suppliers. The loss of any of these or a significant worsening of commercial terms could have an impact on the Group's reported results.</p> | <p>The Group ensures sufficient resource is devoted to maintaining the close commercial relationships we have with customers and suppliers.</p> |
| <p>Financial risks</p> <p>The Group is exposed to a number of financial risks including credit risk, liquidity risk and market risks.</p> | <p>A description of these risks and the Group's approach to managing them is described in Note 22 and on pages 72-77 to the Group Financial Statements.</p> |
| <p>Product failure</p> <p>Many of the Group's products are supplied to the public sector for the benefit of members of the public. To the extent that any of the Group's products fail, this could generate adverse publicity and have a similar effect on the Group's reputation, its financial position and its ability to win new business.</p> | <p>Quality control procedures are applied to help ensure products are safe, compliant and fit for purpose and regular reviews are undertaken with the Group's insurance brokers.</p> |
| <p>Human resources</p> <p>Future success will depend, to a large degree, on the ability of the Group to attract and retain skilled and qualified personnel.</p> | <p>Policies and processes are reviewed and maintained to manage the risks relating to our employees. As part of these policies the Group seeks to offer competitive rates of pay and review salaries annually. Benchmarking of pay rates is undertaken along with performance appraisals and training programmes.</p> |



Business review

Risks and uncertainties

| Risks and uncertainties | Monitoring and mitigation |
|---|--|
| <p>Environmental and health & safety risks Changes in legislation and standards, or the Group's failure adequately to 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 impact on its operations, reputation and financial performance</p> | <p>Operational management work within the policies and processes laid down by the Group. Where necessary outside specialist expertise is engaged. Selective audits are carried out and recommendations and improvements monitored for implementation.</p> |
| <p>Supply of key raw materials and services In recent years there has been a significant volatility in the price of certain of the Group's key raw materials, particularly steel, which is used in the fabrication of many of the Group's products, and zinc, which is used in the Group's galvanizing operations.</p> <p>In common with all manufacturing businesses, the Group's operations are dependent on the cost and availability of energy. Any supply interruptions or increase in energy costs will have an effect on our financial performance.</p> | <p>We monitor the availability and price of key raw materials and energy and where appropriate forward purchase these where prices are forecast to increase. Where market conditions permit, any increase in raw material or energy costs are reflected in our selling prices.</p> |
| <p>Acquisitions The Group is an active acquirer. Acquisitions can involve risks that might have a material impact on the Group's financial performance and reputation.</p> | <p>Comprehensive due diligence is carried out prior to the completion of an acquisition and, where practical, representations, warranties and indemnities are obtained from vendors. A post acquisition review of the integration and performance is undertaken.</p> |
| <p>Pensions 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.</p> | <p>The Group liaises regularly with the Trustees and reviews any issues. These reviews consider risk mitigation through such actions as enhanced transfer values.</p> |

Business Review

Corporate Social Responsibility Review



FTSE4Good

Our strategy

To make the principles of Corporate Social Responsibility (CSR) part of our business to ensure high standards of corporate behaviour are maintained throughout the Group. This will be demonstrated by measured improvements in our CSR performance.

Responsibilities and accountability

The Board of Directors have implemented policies dealing with the Group's responsibilities for the environment and relationships with its various stakeholder groups, including its employees. The policies are based upon a combination of custom and practice from around the Group along with industry best practice. They are reviewed and updated, as and when necessary, to reflect changes to legislation, emerging best practice and the needs of the business. D W Muir, the Chief Executive, is the main Board Director responsible for CSR in the Group.

Operating company Managing Directors are responsible for the implementation and compliance with these policies, their communication across the business units and the supporting principles. This involves appropriate delegation in parts of the business and in eleven of the operating companies this has evolved into specific and expanded roles for individual employees who act as the CSR champion.

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 encouraged to make suggestions to improve these policies and procedures.

Key performance indicators (KPIs)

We continue to operate KPIs covering carbon (CO₂) emissions, energy consumption and health and safety. During 2008 we have been developing systems for improved waste management and related KPI reporting. This will be finalised in 2009 for incorporation into our future reporting.

2008 CSR activity

CO₂ and energy management

The Group's operating units report on a regular basis the practices for, and the improvements made in, the reduction of our CO₂ emissions.

Our UK based galvanizing operation, Joseph Ash, again achieved a year on year reduction in energy consumption, reducing it from

the level of 397 kwh/tonne in 2007 to 326 kwh/tonne for 2008. This also compares favourably to the Climate Change Levy target of 379 kwh/tonne.

Through the work with the Carbon Trust we have significantly increased the number of "smart meters" fitted to monitor and analyse electricity usage at our operating plants in the UK. Throughout the year we arranged training sessions to improve the effectiveness of these meters, resulting in further reductions in energy consumption. The installation and training programmes are increasing in scope as the initial trials demonstrate positive results. The future impact on our energy costs and CO₂ emissions will be reported.

For our UK operations CMR Energy Consultants carried out a further review of our energy consumption. The review focused on routine maintenance, the repair of compressors, reviewing and adjusting heating systems and improving lighting efficiency. A number of opportunities were identified enabling us to reduce electricity and gas consumption. The savings have been delivered at relatively low cost. In addition, our related CO₂ emissions fell by 23%. The next stage of the project is being undertaken during 2009 with the focus upon energy usage for operational equipment.

Overall our UK operations have successfully managed their CO₂ emissions during the year to achieve a 17% reduction in CO₂ tonnage per £ of revenue. This achievement exceeds our stated target of a 5% reduction in CO₂ emissions year on year.

Renewable energy

During the year we identified a suitable site and began the process of evaluating the introduction of a 2 mwh wind turbine to generate electricity for two of our UK manufacturing plants. There is however, a two-year lead time from the commencement of the project to achievement of the operational and environmental benefits, which are projected to lower our CO₂ usage by 3,000 tonnes per annum. We are currently continuing with the detailed evaluation for what is a major commitment.



Business Review

Corporate Social Responsibility Review

Vehicle fleet

Trials involving the use of tracking devices and bio diesel produced encouraging results and further evaluation is being undertaken.

We take every opportunity to work with our suppliers and liaise with customers to ensure that within our supply chain, transport is being optimised and unnecessary journeys reduced. This has resulted in saving 105,000 lorry miles at one UK operation. Where appropriate, we will implement similar initiatives.

In respect of company cars we encourage fuel efficient vehicles and now have 90% of our cars operating on diesel engines. We have also used flexible working patterns to encourage car sharing schemes for our employees.

Waste reduction

We continued to develop our systems for waste management and related reporting in order to construct suitable KPIs for reporting in 2009.

Environmental products

Through our subsidiary, Ash & Lacy Building Systems, we have actively marketed environmental roofing products, roof tiles for solar energy and rain water harvesting products, all of which complement its existing portfolio of building and construction products.

Business in the community

Throughout 2008 we encouraged greater engagement with communities in which our businesses operate. Many of our businesses and employees have been involved in a variety of local community projects ranging from sponsorship to making time available to organise fund raising events. Of particular note are employee sponsorship for Zoe's Children's Hospice, donations to St Michaels Hospice in Hereford, the Children's Safety Education Council and sponsorship of the Young Persons Musical Youth development programme at the Symphony Hall, Birmingham. In the USA our operations are highly supportive of local communities providing a variety of help to local youth organisations, mountain rescue and fire and ambulance services.

We have also donated products to local communities for uses such as:

- galvanized floor panels to a local fishing club; ideal as fishing platforms for the club members.
- our "Weholite" large diameter plastic pipe for use as an "assault course" for training guide dogs.
- galvanized products for play equipment for a local school in the USA.

Health and safety

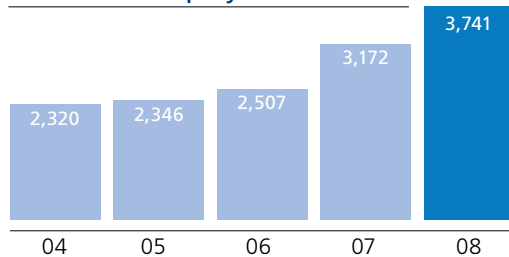
We set ourselves a target of reducing the number of accidents by 10% year on year for each of the three years 2008-2011. On a like for like basis we have met our target for 2008 achieving a 12.3% reduction in the number of accidents.

Environment

The Group's Environmental Policy is available throughout the Group and is published on our website.

Our policy requires high standards at all sites with the objective of continuous improvement in environmental performance, based on risk assessment and the management and mitigation of identified risks.

Growth in employee numbers



Employment Policies

The Group relies upon the abilities and commitment of its employees and has a clear policy objective of promoting an environment in which all employees are motivated and enabled in order to achieve their best. Employees at all levels throughout the Group are encouraged to make the fullest contribution. Fairness and equal opportunity is core to the Group's employment policy and this applies to any job applicant or matters relating to gender, age, race, sexual preference, marital status, religion, belief or disability.

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

Each operating subsidiary has employment and related policies and procedures detailed in staff handbooks or employment terms and conditions. These are reviewed and updated as necessary in the light of any legislative or employment practice changes.

The Group has policies and procedures in place to comply with the appropriate requirements of the Data Protection Act.

Employee involvement and reward

Effective communication is encouraged within the Group through subsidiary company management, the Group's website and intranet and the development of centralised briefings and training programmes

The Company continues to encourage employee share ownership through the 2005 Employee ShareSave Scheme. As at the date of this report there are 509 employees participating in this and the former 1995 SAYE Scheme.

Training and development

Our businesses are increasingly knowledge based. Employing the right people and encouraging the continuous development of the skills of our employees is key to a successful business. The development of individuals at all levels is encouraged with the objective of maximising the overall performance of the business.

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

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

The Group recognises that normally the main training method will be through each employee's immediate line manager, with most training carried out in the workplace.

We funded thirty training courses during the year covering such matters as personal development, customer care, presentation skills, performance appraisals and stress management.

Health and Safety

Our Group Health and Safety Policy forms the foundation of our health and safety management together with bespoke systems and processes for all our operations. The policy is available throughout the Group and is published on our website. The policy requires high standards at all sites with the objective of continuous improvement in health and safety performance.

The management of our health and safety performance is aligned with the operation of the business and in practice all employees are responsible for ensuring that our health and safety policies are implemented and for identifying additional areas and opportunities for further development.



Business Review

Corporate Social Responsibility Review

Our prime health and safety key performance indicators focus on accident reporting and causes. These indicators are used to monitor the effectiveness of the policy and the related management systems, on a monthly basis. During the year, the reporting was extended to cover those businesses acquired in that period.

We are working to extend our accident prevention, training and auditing programmes throughout the Group.

Our objectives for 2009 remain to work towards a 10% year on year reduction in accidents with particular focus on those sites with below average performance. We are also developing the management and reduction of the average time lost per accident.

Code of Business Operation

The Board has set down a Code of Business Operation that applies to all its directors, managers and employees. All directors, managers and employees must exercise high standards of integrity and sound ethical judgement, adhering to the letter and spirit of the Code and of all laws, rules and regulations applicable to the conduct of the Group's business.

Whistleblowing

The Board encourages employees to raise concerns about misconduct and malpractice and have adopted a Group Whistleblowing Policy and Procedure to ensure that such concerns can be raised and reviewed fairly and properly. No matters or concerns were raised during the year.

Supply chain

Our policy on the management of human rights, working conditions and the environment in the supply chain is one of a series of governance policies that are intended to underpin the Group's values.

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

It is the policy of the Group that it will only trade with suppliers who:

- meet or exceed these minimum standards; or
- demonstrate progression towards these standards over an agreed and suitable timescale.

Each operation of the Group is required to have appropriate systems in place to ensure that suppliers comply with or exceed the following requirements:

- compliance with appropriate legislation;
- provision of a safe and competent workforce employed in accordance with industry best practice;
- timely submission of tenders and delivery to the agreed specification, on time and at the agreed price; and
- co-operation with the Group and the rest of its supply chain.

Priorities for 2009:

- **CO₂ Emissions: further improvements from management and energy conservation.**
- **Health & Safety accident reduction and management of lost working time.**
- **Improved waste management.**
- **Increased levels of training and development.**
- **Review of standards for our suppliers.**

Business Review

Key Management - driving our core and international businesses

With 35% of revenue coming from our international operations, recent investments have strengthened the Group's international profile, extending its reach in the US, Europe and Asia.



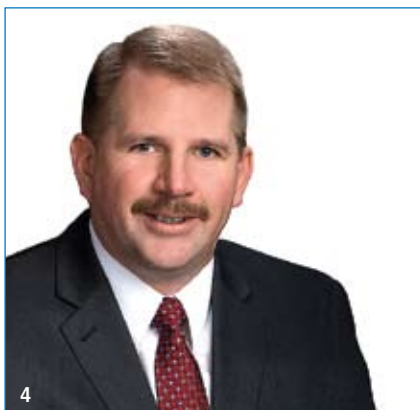
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6

1. Peter Lombardi – UK. Managing Director Industrial Flooring Products

Peter joined the Group in 2002. Prior to this he held senior positions in international manufacturing companies including General Motors Components Group, Rockwell International and Suter Plc

2. Steven Hopkins – UK. Managing Director Joseph Ash Galvanizing

A qualified chartered accountant, Steven joined Hill & Smith Holdings PLC in 1988, initially as acquisitions manager. He took over responsibility for a new, state of the art galvanizing plant in 1997, taking on his current role in 2005. He is currently Chairman of the Galvanizers Association.

3. Mark Tonks – UK. Managing Director Hill and Smith Ltd and Varley & Gulliver Ltd.

Mark Joined Hill & Smith Ltd in April 1997, becoming Sales and Marketing Director during 1998, before taking on his current role. He has played a significant part in leading product development, marketing strategies and business improvement in the Infrastructure Products Group.

4. Brian B Miller – USA. President Voigt & Schweitzer, Inc.

Brian has been with Voigt & Schweitzer, Inc. 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.

5. Yves Delot – France. President France Galva SA

Yves started his career in the galvanizing business in 1972 and has been involved in the manufacture of street lighting columns since 1988.

6. Richard Jones – Asia. President Pipe Supports Group

Richard joined Pipe Supports in 1974, became a Director in 1982 and Managing Director in 1986. He is heavily involved in setting up overseas sales networks and establishing manufacturing in low cost countries.



Governance

Board of Directors



Front row from right to left:
D L Grove (Chairman)
D W Muir (Chief Executive)
M Pegler (Finance Director)

Back row from right to left:
R E Richardson (Non-executive Director)
C J Snowdon (Non-executive Director)
H C Marshall (Non-executive Director)
J C Humphreys (Secretary to the Board)

D L Grove BA, FCA

Chairman

David, aged 60, joined the Board on 20 March 1998. He is a shareholder and non-executive director of a number of private manufacturing, distribution and investment companies. He is non-executive Chairman of Key Technologies PLC and a non-executive director of Headlam Group plc.

M Pegler BCom, ACA

Finance Director

Mark, aged 40, 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 between 2002 and 2007. After qualifying with Pricewaterhouse, he spent several years in various corporate and operational roles in international manufacturing businesses.

H C Marshall MSc, BSc

Non-executive Director

Howard, aged 65, joined the Board on 2 November 2000. Previously Chief Executive of Ash & Lacy Plc, he is also Chairman of Imaginatik Plc and, more recently, Chairman and Chief Executive of Bullough Plc. He also holds appointments as Chairman of JSJS Design plc, a Governor of Birmingham City University, non-executive director of Heart of England Tourist Board and Ijm Consultancy and Chairman of Orchestra of the Swan.

Committees

Audit Committee

Messrs Richardson (Chairman), Marshall and Snowdon

Remuneration Committee

Messrs Marshall (Chairman), Richardson and Snowdon

Nominations Committee

Messrs Grove (Chairman), Muir, Marshall, Richardson and Snowdon

D W Muir BSc, C Eng, MICE

Chief Executive

Derek, aged 48, joined the Board on 21 August 2006. He has been a senior manager within the Hill & Smith Group for many years. He was appointed Managing Director of Hill & Smith Limited, one of the Group's principal subsidiaries, in 1998 and from 2001 he was the Managing Director of the core Infrastructure Products division.

R E Richardson FCMI

Senior Non-executive Director

Dick, aged 69, joined the Board on 1 May 1997. He is Chairman of Westech Instrument Holdings PLC. He was previously Chairman and Chief Executive of Graystone PLC, Deputy Chairman and Managing Director of Goring Kerr PLC and Tace PLC.

C J Snowdon BA, FCA

Non-executive Director

Clive, aged 55, joined the Board in May 2007. Since 1997, he has held the position of Chief Executive of Umeco plc, a leading international provider of advanced composite materials and supply chain services, principally to the aerospace industry. He joined Umeco after a career which included senior roles with Vickers plc, BTR plc, Hawker Siddeley and Burnfield plc. He is a director of Midlands Aerospace Association.

Company Secretary

J C Humphreys FCIS



Directors' Report

The Directors present their forty-eighth Annual Report together with the Financial Statements for the year ended 31 December 2008.

Principal activities

During 2008 the principal activities of the Group comprised the manufacture and supply of:

- Infrastructure Products
- Galvanizing Services
- Building and Construction Products

The subsidiaries operating within these three areas of business are detailed on pages 98 to 100 inclusive.

Business review

The Company is required to set out in this report a fair review of the business of the Group during the financial year ended 31 December 2008, its position at the end of that financial year and its prospects.

The information required to be disclosed, in addition to that reported below and which is incorporated into this report by reference can be found in the Business Review, but excludes the section entitled 'Corporate Social Responsibility', with the exception of the two sections relating to employment policies and employee involvement and reward on page 25.

Results

The Group profit for the year before taxation from continuing operations amounted to £35.1m. Revenue and operating profit increased by 27.4% and 19.2% respectively compared to the previous year.

Details of the results for the year are shown on the Consolidated Income Statement on page 46 and the business segment information is given on pages 56 to 58.

Dividends

The Directors recommend the payment of a final dividend of 5.7p per Ordinary Share (2007: 5.1p per Ordinary Share) which, together with the interim dividend of 4.3p per Ordinary Share paid on 7 January 2009, makes a total distribution for the year of 10.0p per Ordinary Share (2007: 8.7p per Ordinary Share). Subject to shareholders approving this recommendation at the Annual General Meeting, the dividend will be paid on 10 July 2009 to shareholders on the register at the close of business on 5 June 2009. The latest date for receipt of Dividend Re-investment Plan elections is 19 June 2009.

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.

Share capital

The Company's issued share capital comprises a single class of share capital which is divided into Ordinary Shares of 25 pence each. Information concerning the issued share capital of the Company is set out in Note 23 to the Group Financial Statements on pages 77 to 79.

During the year, 58,696 new Ordinary Shares were issued under employee share schemes, 30,050 under the 1995 Save As You Earn Scheme, 14,000 under the 1995 Executive Share Option Scheme and 14,646 under the 2005 Executive Share Option Scheme.

All of the Company's shares are Ordinary Shares ranking equally and the rights and obligations attaching to the Company's shares are set out in the Company's Articles of Association, copies of which can be obtained from Companies House in England and Wales or by writing to the Company Secretary.

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 UKLA requirements, as the Company's shares are listed on the London Stock Exchange.

Accordingly a Resolution is put to the members of the Company at the Company's Annual General Meeting in each year (currently the authority is limited by the Resolution of the 2008 Annual General Meeting and will be limited by the Resolution to be put to the 2009 General Meeting) to market purchases not exceeding 5% of the Company's then issued share capital. The prices to be paid must be a minimum price of 25 pence per Ordinary Share (the nominal value) and a maximum price of 5% above the average of the middle market quotations for Ordinary Shares derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which any such purchase takes place.

Substantial shareholdings

As at 10 March 2009, the Directors had been advised of the following holdings representing 3% or more of the issued Ordinary Share capital of the Company:

| Company | Number of Ordinary Shares | % |
|---------------------------------------|---------------------------|------|
| Standard Life Investments | 4,173,898 | 5.52 |
| JPMorgan Asset Management | 3,491,919 | 4.62 |
| Legal & General Investment Management | 3,233,829 | 4.27 |

Directors

The Directors who served during the year ended 31 December 2008 and to the current date are as follows:

| Name | Date of Appointment |
|----------------------------------|---------------------|
| D L Grove | 20 March 1998 |
| D W Muir | 21 August 2006 |
| H C Marshall* | 2 November 2000 |
| M Pegler | 11 March 2008 |
| R E Richardson* | 1 May 1997 |
| C J Snowdon* | 11 May 2007 |
| C J Burr (retired 11 March 2008) | 2 November 2000 |

* Non-executive Directors

Biographical details of the Directors are shown on page 29. The Directors retiring by rotation at the forthcoming Annual General Meeting are D W Muir and H C Marshall who being eligible, offer themselves for re-election.

As recommended by the Combined Code, Non-executive Directors who have been in office for more than nine years will stand for re-election at the next Annual General Meeting. R E Richardson was appointed to the Board on 1 May 1997 and will not be seeking re-election at the Annual General Meeting.

No Director had any interest in any material contract or arrangement in relation to the business of the Company and any of its subsidiaries during the year. Details of the Directors' service contracts are set out in the Directors' Remuneration Report on pages 37 to 43.

Directors are appointed pursuant to the Articles of Association either by the Directors, to fill a vacancy, or by the members in general meeting, subject to the maximum number of Directors being ten. Any Director appointed by the Directors will be subject to election by the members in general meeting at the next following Annual General Meeting. Each Director is subject to re-election at least once in every 3 years and any Non-executive Director serving nine years or more is subject to annual re-election.

Directors' interests

The table below shows the beneficial interests as at the beginning of the year and as at 31 December 2008 or on the date of retirement (if earlier) of the persons who on that date were Directors (including the interests of their connected persons) in the Ordinary Shares of Hill & Smith Holdings PLC. All such interests were beneficial except as otherwise stated. However, interests in Ordinary Shares that are the subject of awards under the 2007 Long Term Incentive Plan, the 2005 Executive Share Option Scheme, the 2005 ShareSave Scheme and the 1995 SAYE Scheme discussed elsewhere, are not included in the table below but are shown on pages 42 and 43.

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

| Director | Beneficial Interest in Ordinary Shares at 1 Jan 2008 (or appointment date) | Change to beneficial interest | Beneficial Interest in Ordinary Shares at 31 Dec 2008 (or retirement date) |
|------------------------------------|--|-------------------------------|--|
| D W Muir | 9,714 | 31,120 | 40,834 |
| M Pegler (appointed 11 March 2008) | – | 4,000 | 4,000 |
| D L Grove | 669,969 | 250,000 | 919,969 |
| H C Marshall | 71,930 | 6,694 | 78,624 |
| C J Snowdon | 7,500 | 12,500 | 20,000 |
| R E Richardson | 3,859 | – | 3,859 |
| <i>Former Directors</i> | | | |
| C J Burr (retired 11 March 2008) | 130,000 | – | 130,000 |

There were no changes in the beneficial interests of the Directors in the Company's Ordinary Shares between 31 December 2008 and the date of this report.

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

Financial instruments

For financial risk management objectives and policies please see Note 22 on pages 72 to 77.

Significant agreements

The Group has a Multi currency Revolving 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.



Directors' Report continued

Research and development

During the year, the Group spent a total of £2.1m (2007: £1.1m) on research and development.

Political and charitable donations

Charitable donations amounting to £28,000 (2007: £12,000) were made in the year. There were no political contributions.

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 average credit period was 77 days (2007: 93 days). The Company's average credit period was 36 days (2007: 37 days).

Directors' and officers' liability insurance

The Company purchases and maintains liability insurance for its Directors and officers and those of the subsidiaries of the Group.

Independent Auditors

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

Disclosure of information to Auditors

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Annual General Meeting

The Annual General Meeting of the Company will be held at 11.00 a.m. on Tuesday 12 May 2009 at The Balcony Suite, National Motorcycle Museum, Solihull. Notice is sent to shareholders separately with this Report together with an explanation of the special business to be considered at the meeting.

Going concern

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 Financial Statements.

By order of the Board

John C. Humphreys
Company Secretary

10 March 2009

Corporate Governance

Governance framework

Effective governance is key to the Company's ability to operate successfully and discharge its responsibilities in a challenging global business environment. The focus is on providing a simple but effective framework of business principles, structures and controls designed to drive standards and performance across the Group and accountability to the Company's shareholders for the conduct of the Company's affairs.

The Board's commitment to a high standard of corporate governance is designed to underpin integrity within the Group and preserve investor confidence in the decisions taken by the Board. You can find out more about our approach to corporate governance by accessing the following documents online at www.hsholdings.com.

- Terms of reference for the Audit, Remuneration and Nomination Committees
- Corporate Social Responsibility Policies (inc Health & Safety)
- Business Operating Policy

Compliance with the Combined Code

With the exception of the matters detailed below, the Directors consider the Company has fully complied throughout 2008 with the principles set out in Section 1 of the UK Financial Reporting Council's Combined Code of Corporate Governance.

- *A former Chief Executive should not become the Chairman*

The appointment of D L Grove was discussed with major shareholders prior to his formal acceptance of the role. Major shareholders were supportive of the rationale behind the appointment decision and have continued to be supportive. The Board considered the significant benefits of continuity, as well as the leadership that D L Grove would bring to the role of Chairman, and has been satisfied that this has been the case.

- *The Board is to assess the Non-executive Directors' independence*

R E Richardson, Senior Independent Director, was appointed to the Board on 1 May 1997. His length of service on the Board exceeds the nine years referred to in the Combined Code. The Board considers that R E Richardson maintained an independent and rigorous approach to the Group's business and his length of service has not been an impairment to his independence. R E Richardson will not be standing for annual re-election at the forthcoming AGM and will retire.

H C Marshall's membership of the Board has always been as a Non-executive Director and his Board colleagues consider him as being independent in his approach to the role and in his judgement and character. He has no interests or relationships that affect his independent approach.

The Directors and the Board

| Name | Position | No. of years on the Board | Independent (as determined by the Board) | Audit Committee | Nominations Committee | Remuneration Committee |
|----------------|-------------------------------|---------------------------|--|-------------------|-----------------------|------------------------|
| D L Grove | Chairman | 11 | No | No | Yes (Chairman) | No |
| D W Muir | Chief Executive | 2 | No | No | Yes | No |
| M Pegler | Finance Director | 1 | No | No | No | No |
| R E Richardson | Senior Non-executive Director | 12 | Yes | Yes (Chairman) | Yes | Yes |
| H C Marshall | Non-executive Director | 8 | Yes | Yes | Yes | Yes (Chairman) |
| C J Snowdon | Non-executive Director | 2 | Yes | Yes | Yes | Yes |

The Chairman, D L Grove, has prime responsibility for leadership of the Board, sets its agenda and devotes such time to his role as is necessary to properly discharge his duties. He facilitates the effective engagement of the Non-executive Directors. He is responsible, jointly with the Chief Executive, for communication with the Company's shareholders, and representation of the Group externally. The Chief Executive, D W Muir, has executive responsibility for executing the Group's strategy and development. He leads the management of the Group with the aim of optimising long-term shareholder value by meeting key strategic and financial objectives.



Corporate Governance continued

Biographical details of all the Directors are set out on page 29.

The Company Secretary is responsible for assisting the Chairman in all matters relating to corporate governance.

Details of the terms of appointment of both the Executive and Non-executive Directors are set out on pages 40 and 41 of the Directors' Remuneration Report, which refers to Executive service contracts and Non-executive letters of appointment, copies of which are available for inspection at the Company's registered office and which will be available for inspection at the forthcoming Annual General Meeting to be held on 12 May 2009.

Re-election of Directors

In accordance with the Company's Articles, not more than one-third of the Directors are required to 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.

D W Muir and H C Marshall are the Directors retiring by rotation at the forthcoming Annual General Meeting of the Company and, being eligible, offer themselves for re-appointment. The Board and the Nominations Committee support the re-appointment of D W Muir and H C Marshall having assessed their performance, value to the Board and its Committees and their ability to continue to operate as Directors.

As recommended by the Combined Code, Non-executive Directors who have been in office for more than nine years are required to stand for re-election at the next Annual General Meeting. R E Richardson was appointed to the Board on 1 May 1997 and will not be seeking re-election at the Annual General Meeting and will retire from the Board.

The role of the Board and its effectiveness

The Board is responsible to the Company's shareholders for strategic direction, financial performance and monitoring, resource allocation, risk management, governance and internal controls. The schedule of matters reserved to the Board for its own and its Committees' decisions ensures exclusive decision-making powers over these responsibilities as well as such matters as remuneration policies, accounting policies, capital expenditure, acquisitions, disposals and financing. The Board adopts an annual timetable to ensure significant matters are given appropriate consideration and sufficient time for debate.

The Directors ensure the effectiveness of the Board through regular Board meetings and by having open lines of communication between Board members. Details of attendances at these meetings are set out below:

| Directors | Meetings | | | | | | | |
|----------------|----------|----------|-----------------|----------|------------------------|----------|-----------------------|----------|
| | Board | | Audit Committee | | Remuneration Committee | | Nominations Committee | |
| | Number | Attended | Number | Attended | Number | Attended | Number | Attended |
| D L Grove | 11 | 11 | – | – | – | – | 1 | 1 |
| D W Muir | 11 | 11 | – | – | – | – | 1 | 1 |
| M Pegler* | 11 | 11 | – | – | – | – | – | – |
| R E Richardson | 11 | 11 | 3 | 3 | 3 | 3 | 1 | 1 |
| H C Marshall | 11 | 11 | 3 | 3 | 3 | 3 | 1 | 1 |
| C J Snowdon | 11 | 11 | 3 | 3 | 3 | 3 | 1 | 1 |

* M Pegler attended three meetings as an observer prior to his appointment as a Director on 11 March 2008

The Board is supplied in a timely manner with the appropriate information to enable it to discharge its duties, including providing constructive challenge to, and scrutiny of the management of the Company. Further information is obtained by the Board from the Executive Directors and other relevant Senior Executives as the Board, particularly its Non-executive members, considers appropriate. Procedures are in place for Directors to take independent professional advice, when necessary, at the Company's expense.

The Board is supported by the Company Secretary who, under the direction of the Chairman, ensures good communication and information flows within the Board, including between Executive and Non-executive Directors and between the Board and its Committees.

Board balance and independence

Having assessed the three Non-executive Directors against the criteria set out in the Combined Code the Board continues to consider them to be independent. All three Non-executive Directors remain independent of management and free from any business or other relationship that would materially interfere with the exercise of their independent judgement. The Board membership and that of its Committees is designed to ensure that no one individual or group dominates proceedings and that the wide variety of skills allows effective leadership across the business activities of the Group.

Board development

The Board believes that the benefit of its collective experience is a valuable asset but accepts that Directors need to keep their professional knowledge up to date from time to time. Consequently, the Board has agreed guidelines for meeting their own training needs. The Board has also adopted a procedure to enable Directors to take professional advice at the Company's expense.

The Board and each of the Audit, Nominations and Remuneration Committees undertake performance evaluations. A questionnaire is circulated to Directors concerning the performance of the Board as a whole and its main committees. Once all questionnaires have been completed, the results are compiled and summarised by the Company Secretary, and the Chairman will report the collective findings to the Board and agree any actions required. The areas covered include effectiveness of individual contributions, relationships, communication and development.

Committees of the Board

The Board has three Committees, as follows:

Audit Committee

The Audit Committee consists of the three Non-executive Directors and is chaired by R E Richardson. The Company Secretary acts as its secretary. Executive Directors are invited to attend as necessary. The objectives of the Audit Committee have been confirmed in its terms of reference as:

- ensuring the integrity of the Financial Statements of the Company;
- reviewing and monitoring the Group's internal control systems;
- overseeing the effectiveness of the Group's internal audit activity;
- overseeing the Group's relationship with its external auditors; and
- ensuring that Group reporting complies in all respects with relevant statutory and required financial reporting standards, including corporate governance disclosures.

Financial Reporting: a procedure setting out responsibilities for the preparation of the Group's Financial Statements and their review by the external auditor and the Audit Committee has been documented. This also sets out the basis on which the Board makes its statement on 'Going Concern'. The Audit Committee reviewed the preliminary and interim statements prior to their approval by the Board. The Committee has also considered the external auditor's management letter and the assumptions underlying the Financial Statements prior to recommending their approval to the Board.

External Reporting: the Audit Committee has an agreed procedure setting out the basis upon which the Committee will consider and make recommendations as appropriate concerning the appointment, re-appointment or removal of the external auditor. The Committee assesses the qualification, expertise, independence and objectivity of the auditor on an annual basis and has set down a timetable and criteria for making those assessments. Policies concerning the employment of former employees of the external auditor and the use of the external auditor to perform non-audit services have been adopted. In regard to the latter, the Committee believes that there are certain non-audit services where it is cost effective for the external auditor to be used. These primarily include merger and acquisition due diligence work and pensions administration, actuarial and consultancy services. A number of activities are

prohibited including work on accounting records, internal audit, IT consultancy and advice to the Remuneration Committee. The policy is consistent with the ethical standards recommended by the Accounting Practices Board.

The Committee approves the scope and terms of engagement of each audit, and then reviews the performance of the auditor following the completion of each audit.

Remuneration Committee

The membership of the Remuneration Committee comprises the three Non-executive Directors and is chaired by H C Marshall. The Company Secretary acts as its secretary. D L Grove and D W Muir are invited to attend meetings as necessary.

Under its terms of reference, the Remuneration Committee is responsible for:

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

Full details of the role, policies and activities of the Remuneration Committee are set out in the Directors' Remuneration Report on pages 37 to 43.

Nominations Committee

The Nominations Committee comprises the three Non-executive Directors and D L Grove (Chairman) and D W Muir (Chief Executive). The Chairman of the Committee is D L Grove and the Company Secretary acts as the secretary of the Committee.

The Board understands the need to refresh its membership and, to that end, has established a Nominations Committee whose objectives are:

- ensuring that the size and composition of the Board is appropriate for the needs of the Group;
- selecting the most suitable candidate or candidates for appointment to the Board; and
- overseeing succession planning for the Board.

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

The Board has an approved standard letter for future Non-executive appointments to the Board, including expected time commitments, a fee structure and a standard programme for the induction of new Directors. The Nomination Committee met once in the year to consider succession planning and appointed consultants to source a successor for R E Richardson.



Corporate Governance continued

Internal controls

The Directors have overall responsibility for ensuring that the Group maintains a sound system of internal control to provide them with reasonable assurance that all information used within the business and for external publication is adequate. This includes financial, operational and compliance control and risk management, to ensure that assets are safeguarded and shareholders' investments protected.

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

The Board has in place risk assessment processes and established procedures to implement the relevant guidance as updated by the Financial Reporting Council (the Turnbull Committee Guidance). There is a process for identifying, managing and reviewing any changes in the risks faced by the business. This process, which is kept under continual review and improvement, has been in place during the year under review and remains in place as at the date of approval of this report. The process operates under the direction of the Board and is reviewed by the Audit Committee.

The key procedures that the Directors have established and which are designed to provide effective internal control for the Group are:

- regular Board meetings to consider a schedule of matters reserved for the Directors' consideration;
- the Audit Committee of the Board considers significant financial control matters as appropriate;
- monitoring of the financial performance of operating companies and divisions through analysis of regular financial and management reports together with continuous direct contact with operating companies and divisional management;
- consolidated reports and independent commentaries are prepared and submitted to the Board for review at formal monthly Board meetings;
- maintenance of local operating Boards and divisional management teams, enabling the Board to delegate appropriate levels of authority to a small number of subsidiary company Directors and managers, all of whom are accountable to the Group Board;
- the application of rigorous annual budgeting processes and presentations. All budgets are subject to approval at Group Board level;
- the review and comparison of detailed monthly management reports, received from each business unit, against budgets and forecasts;
- the Group has clearly defined policies for capital expenditure. These include annual budgets and appraisal and review procedures;
- adoption of a Group risk management framework that identifies responsibilities at both Group and subsidiary level for the ongoing management of risk across the business;
- programming internal audit work to take account of the risk assessment results and processes; and
- the use of external professional advisers to carry out due diligence for potential acquisitions.

Through the procedures set out above the Board has reviewed, in accordance with the Turnbull Committee Guidance, the effectiveness of the system of internal control in operation during the financial year.

Internal Audit

The Audit Committee has set down the criteria by which it will assess the effectiveness of the internal audit function on an annual basis.

In addition to the above areas of activity set out in its terms of reference, the Committee has also approved arrangements by which staff may raise concerns about possible improprieties in matters of financial reporting. This whistleblowing policy has been communicated to subsidiary companies and employees.

Group Treasury management

The Group uses financial instruments comprising borrowings, cash and liquid resources, trade receivables and payables and in particular forward currency contracts and interest rate swaps to manage financial risks associated with its underlying business activities and the financing of those activities. In the context of the increased scale of the Group's international earnings and the effects of the changing economic climate, additional resource was recruited to the Group Treasury management function during the year. This function is run purely as a service centre for the Group and its prime objective is to manage financial risk arising from liquidity, interest rates and foreign exchange.

It is, and has been throughout the period under review and up to the date of approval of this report, the Group's policy that no speculative trading in financial instruments be undertaken.

Shareholder communications and relations

The Board recognises the importance of good clear communications with shareholders. There is continuing dialogue with institutional investors to discuss the progress of the business and deal with a wide range of enquiries. This includes one-on-one meetings, presentations after the preliminary announcement for the year and the results for the half year and specific analyst presentations with feedback from the Company's brokers as necessary. Directors regularly receive copies of analyst reports and reports on movement in major shareholdings as well as key broker comments. The Chairman and Senior Independent Director are available to meet with shareholders concerning corporate governance issues, if so required. Copies of all major press releases and interim and annual reports are posted on the Company's website together with additional detail on major contracts and projects, key financial information, Company products, structure and background.

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

As with previous practice, the level of proxies cast for each resolution will be communicated following approval of each resolution at the forthcoming Annual General Meeting. After the conclusion of the meeting the final results are published through a Regulatory Information Service on the Company's website.

Directors' Remuneration Report

The Directors' Remuneration Report is divided into two parts. The first part contains commentary on the Company's remuneration policy, which is not required to be audited. The second part 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 (AGM) on 12 May 2009.

PART 1 - NOT SUBJECT TO AUDIT

Remuneration committee

The Remuneration Committee (the 'Committee') determines, on behalf of the Board, the Company's policy on remuneration and the terms of engagement of the Executive Directors and certain other agreed senior Executives.

Membership

The members of the Committee during the year were H C Marshall (Chairman), R E Richardson and C J Snowdon. The members of the Committee are the Non-executive Directors of the Company, and the Board considers them all to be independent. The Committee members have no personal financial interest, other than as shareholders, in the matters to be decided. They have no conflicts of interest arising from cross-directorships nor from any involvement in the day-to-day business of the Company. They do not participate in any form of performance related pay or pension arrangements.

Meetings

The Committee met three times in the period under review and on each occasion all the Committee members were present. The Company Secretary acts as secretary to the Committee. The Chairman and the Chief Executive also attended meetings of the Committee by invitation. No Executive Director or other attendee is present when their own remuneration is under consideration.

Responsibilities

The responsibilities of the Committee include:

- reviewing and recommending the remuneration policy for Executive Directors and certain other senior managers for the Board to approve;
- within this policy, agreeing the individual remuneration packages of the Chairman, Chief Executive, Finance Director, and certain other agreed Senior Executives;
- approving the design of, and determining targets for, any performance related pay schemes operated by the Company for the Executive Directors and certain other senior managers and approving the total payments made under such schemes;
- reviewing and recommending the design, 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 senior managers, ensuring that they are fair to the individual and to the Company. In doing so the Committee will ensure that failure is not rewarded and the duty to mitigate loss is fully recognised.

Key activities during the year

During the year the Committee:

- reviewed the remuneration policy for Executive Directors and certain other agreed senior managers;
- determined final annual bonus payments for Executive Directors and certain other senior managers with respect to the 2007 financial year;
- considered and approved awards to Executive Directors and certain other senior managers under the Company's 2007 Long Term Incentive Plan (including a review of performance conditions/targets to ensure that they were appropriately challenging);
- approved the Directors' Remuneration Report which was included in the 2007 Annual Report; and
- conducted a Committee effectiveness review which concluded that there were no items of concern.

Advisers

The Committee used the external services of Deloitte LLP as its principal external adviser during 2008 on matters relating to Executive Directors' remuneration. During the year Deloitte LLP also provided taxation advice and other non-audit services to the Company.

The Chairman and the Chief Executive also gave advice to the Committee by request. Neither the Chairman nor the Chief Executive were present when their own remuneration was under consideration.

Overall remuneration policy and purpose

Broad policy

The remuneration policy is designed to be in line with the Company's fundamental principals of fairness, being competitive and supporting the Company's corporate strategy.

The Committee believes that a consistently applied cohesive reward structure with links to corporate performance is critical in ensuring attainment of the Company's strategic goals.

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

- total rewards should be set to be fair and attractive.
- 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 interest in the Company through various share option schemes.



Directors' Remuneration Report continued

Executive remuneration

The Company operates in highly competitive environments and for it to continue to compete successfully, it is essential that the level of remuneration and benefits offered for leadership roles achieve the objectives of attraction, retention, motivation and reward of high calibre individuals.

The base salaries of Executive Directors continue to be reviewed annually. The Committee does not 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. Instead, to review salaries, the Committee uses external base salary information as a basis for considering a range of factors, including:

- the performance of the business/function under the incumbent's stewardship;
- the scope and relative complexity of the business/function;
- individual performance and experience;
- reporting relationships;
- the importance of each role within the organisation;
- the external market for talent at that level; and
- the levels of incentives, pension and other benefits which are driven from base salary.

The performance related elements of remuneration are reviewed on an annual basis. As an integral part of this process the performance conditions and targets are reviewed to ensure that they are sufficiently stretching and that they continue to be aligned with the business strategy and the creation of shareholder value. This ensures that Executive Directors' incentives are firmly aligned with the interests of shareholders.

Summary of Executive Directors' remuneration

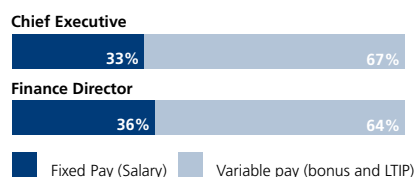
| Component | Purpose | Application | 2008 |
|---|--|--|---|
| Base salary | – Market competitive – Reflect skills and experience | – Delivered in cash – Payable monthly – Pensionable | – Benchmarked for appropriate salary levels using a company size and complexity methodology and a pay comparator group primarily with a FTSE Industrial Engineering focus |
| Pension | – Provision of competitive post-retirement benefits | <i>Chief Executive</i> – Hill & Smith Executive Pension Scheme <i>Finance Director</i> – Pension contribution | <i>Chief Executive</i> – Defined benefit arrangement which provides, at normal retirement age, a pension based upon an accrual of 1/30th of the Earnings Cap for each year of service from 1st October 1998 (see also Note under pension arrangements). <i>Finance Director</i> – a contribution of 25% of base salary to a private pension arrangement. |
| Performance related bonus | – Incentivise the attainment of corporate targets on an annual basis | – Delivered in cash – Non-pensionable | – Based on UEPS performance over one financial year. – Maximum bonus opportunity for Chief Executive and Finance Director of 100% and 75% of base salary respectively |
| 2007 Long Term Incentive Plan (LTIP) | – Incentivise growth in earnings per share over a three year period | – Discretionary annual grant of conditional share awards – Dividend equivalents apply on vested awards – Non-pensionable | – Performance measured over three financial years. – 50% of award based upon achievement of absolute growth in UEPS targets. – 50% of award based upon UEPS growth relative to other FTSE All-Share companies. – Maximum award is 100% of salary. |

Notes: UEPS (Underlying Earnings Per Share)
See page 39 for details of "Other Benefits" provided.

Detail of Executive Directors' remuneration

The remuneration policy for Executive Directors is structured to ensure a proper balance of fixed remuneration and variable performance related remuneration (linked to short and long term objectives).

The current balance of the Executive Directors remuneration between fixed and variable performance related components (excluding pension and "other benefits") is as follows:



The components of Executive Directors' remuneration are outlined in more detail below.

Fixed remuneration

Basic salary

Basic annual salaries for Executive Directors are reviewed by the Committee on an annual basis or when a material change of responsibility occurs. In making salary decisions the Committee considers salaries offered for similar roles by reference to practice across industry comparators and companies of a similar size and complexity to the Company.

The Committee is committed to managing the salaries for Executive Directors as they mature and gain further experience in a particular role. In 2008, the Chief Executive's salary was reviewed in the context of his promotion to the position in late 2007. Accordingly, the Committee determined that an increase would be appropriate which positioned the salary for 2008 towards the lower end of the appropriate benchmark ranges. Similarly, the Finance Director's base salary on appointment to the Board in March 2008 was towards the lower end of the benchmark ranges to reflect his recent appointment.

Pension arrangements

Chief Executive

D W Muir participates in the Hill & Smith Executive Pension Scheme, a defined benefit arrangement, which provides pensions and other benefits.

During the year an agreement was made with D W Muir to limit the Company's liability with respect to his pre 1 October 1998 pension benefit. Under the terms of the agreement the final pensionable earnings, to which his pre October 1998 benefits were linked, became fixed as at 6 April 2008. Accordingly no account will be taken of salary increases or bonus payments after 6 April 2008 and this element of his pension arrangement effectively became a deferred entitlement. D W Muir's post 1 October 1998 pension benefit is based upon an accrual of 1/30th of the Earnings Cap (that applied prior to 6 April 2006 and increased in line with the rules of the Scheme) for each year of pensionable service from 1 October 1998; the resultant effect being that salary and bonus increases are no longer pensionable.

Finance Director

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

The table on page 43 gives details of the changes in the value of the Executive Directors' accrued pensions during 2008. Other than as stated above, there are no other pension arrangements in place for Executive Directors.

Other benefits

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

Performance related remuneration

Cash bonus

Executive Directors are eligible for an annual performance related cash bonus. The basis for the payment of any bonus is determined by reference to underlying earnings per share performance over one financial year of the Company. The Committee is committed to only paying maximum bonuses in circumstances where stretching performance targets have been satisfied. Bonuses are not pensionable.

Long term incentive plans

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

2007 Long Term Incentive Plan (LTIP)

The Hill & Smith 2007 Long Term Incentive Plan provides for the grant of conditional share awards. Generally, awards are made to Executive Directors on an annual basis with the level of vesting determined by reference to stretching performance conditions. The maximum market value of shares pursuant to an award to any employee in respect of any financial year is 100% of that 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 14 March 2008. The value of the shares subject to the award was 100% of their base salary. The Committee also reviewed the original performance conditions and were satisfied that they continue to be aligned with the business strategy and the creation of shareholder value.

Further details of subsisting awards to Executive Directors are shown in the table on page 42.

LTIP Performance targets for subsisting awards made in 2007 and 2008

For subsisting awards made pursuant to the LTIP, the performance targets are based 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 vest.



Directors' Remuneration Report continued

Half of the award is based on the Company's UEPS performance against prescribed targets which were determined by the Committee at the time each award was granted. The Committee set a threshold 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 two threshold points of 20% and 45%.

The Committee determined that absolute UEPS targets were appropriate to incentivise the Executive Directors to develop the UEPS in line with the business plan.

The remaining half of the award is based on the Company's UEPS growth relative to the FTSE All-Share index basic earnings per share (EPS) growth (the index uses basic earnings per share only). The ranking of the Company's UEPS performance over the performance period determines the vesting for this proportion of the award, as per the vesting schedule shown in the table below:

| Performance ranking of the Company | Vesting percentage |
|---|--------------------|
| Below median | 0% |
| Between median and upper quartile | 50% |
| Between upper quartile and 100th percentile | 100% |

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 on the FTSE All-Share index.

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.

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 underlying earnings per share of the Company over a three year period is not less than the increase in the Retail Price Index plus nine per cent, over the same period.

No awards were made to Executive Directors under this scheme in 2008. For options outstanding under the 2005 Executive Share Option Scheme see the table on page 43.

2005 ShareSave Scheme

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

Executive Directors did participate in the scheme in 2008 and details are contained in the table on page 43 including those for subsisting options.

Dilution

The dilutive effect of the grants of awards is considered by the Committee when granting awards under the long term incentive 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 does not involve the issue and allotment of new shares in the Company but rather relies on the market purchase of shares.

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.

| Executive Director | Date of Service Contract | Notice period |
|--------------------|--------------------------|---------------|
| D W Muir | 4 June 2007 | 12 months |
| M Pegler | 28 November 2007 | 12 months |
| D L Grove | 9 July 1999 | 12 months |

D W Muir's service agreement provides for D W Muir to receive twelve months notice of termination 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 month's 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.

D L Grove has announced his intention to retire from the Board on 31 December 2009. As reported in the 2007 Director's Remuneration Report, by an agreement dated 6 December 2007, D L Grove waived all entitlement to future cash performance related bonus payments due under his service agreement dated 9 July 1999, in return for a one-off compensation payment of £600,000 (subject to deduction of PAYE and National Insurance). This payment was conditional upon the net sum being used by D L Grove to purchase shares in the Company and for those shares to be held until 1 January 2009. D L Grove purchased such shares on 7 December 2007 prior to receiving the cash payment

in January 2008 and has continued to hold those shares, as well as increasing his holding by a further 250,000 shares during the course of 2008.

C J Burr's service agreement terminated following early retirement from the Board on 11 March 2008. The termination of the service agreement dated 20 June 2001, which provided for twelve months notice to be given to C J Burr, resulted in compensation of £425,000 being paid to C J Burr comprising payment of salary, bonus and all other benefits (excluding pension) due under the terms of his service agreement. Further details regarding C J Burr's retirement provision are given on page 43.

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

Shareholding guidelines

During the year the Committee established a shareholding guideline under which it is expected that Executive Directors retain half of any shares which vest for awards made from 2008 onwards, pursuant to the 2007 Long Term Incentive Plan.

Policy on external appointments

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

D L Grove is a Non-executive Director of Headlam Group plc. In respect of such position he retained the fees paid to him for his services. In 2008, the total amount of such fees paid to him in respect of these services was £35,000.

Non-executive Directors

The Non-executive Directors do not have service contracts. Fees for Non-executive Directors are determined by the Chairman and Chief Executive 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 made by the Board 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.

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

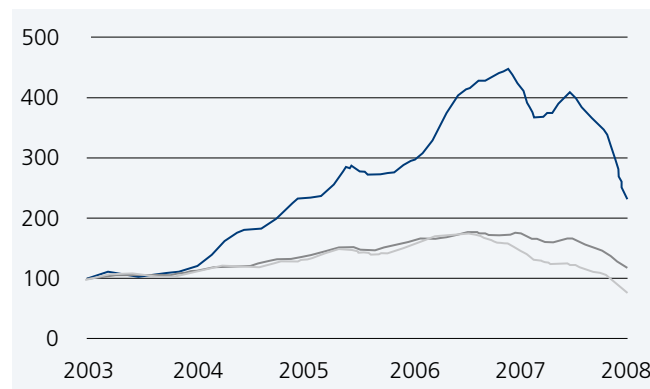
The appointments of H C Marshall, R E Richardson and C J Snowdon are governed by letters of engagement. Under the terms of their engagement, the notice period to be given by H C Marshall, R E Richardson and C J Snowdon to the Company is three months and the Company is obliged to give the same length of notice to the individual to terminate the engagement. R E Richardson has announced his decision to retire from the Board at the forthcoming AGM to be held on 12 May 2009.

Total shareholder return graphs

The UK Directors' Remuneration Report Regulations 2002 require the inclusion in the Directors' Remuneration Report of a graph showing total shareholder return (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 graph shows the TSR performance of the Company over the five year period to 31 December 2008. The Company's performance has been compared against the FTSE All-Share Index and FTSE Small Cap Index (which were chosen because they represent broad equity indices of which the Company is a constituent). The graph is based on three-month average values and has been re-based to 100 at the start of the five year period.

Hill & Smith Holdings return on investment



— Hill & Smith Holdings PLC
— FTSE All Share EX. INV. Trusts
— FTSE Small Cap EX. INV. Trusts

* Source: Thomson Financial Datastream



Directors' Remuneration Report continued

PART 2 - SUBJECT TO AUDIT

Directors' emoluments in 2008

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 2008 was £2.4 million (2007: £1.5m). The remuneration of individual Directors is set out below.

| Director | Salary /fees £000 | Performance Related Bonus £000 | Value of benefits £000 | Other £000 | Total 2008 £000 | Total 2007 £000 |
|--------------------------------------|----------------------|--------------------------------------|------------------------------|---------------|-----------------------|-----------------------|
| D W Muir | 330 | 330 | 19 | – | 679 | 505 |
| M Pegler (appointed 11 March 2008)** | 173 | 130 | 14 | – | 317 | – |
| D L Grove | 240 | – | 15 | 600† | 855 | 557 |
| H C Marshall | 39 | – | – | – | 39 | 36 |
| R E Richardson | 41 | – | – | – | 41 | 38 |
| C J Snowdon (appointed 11 May 2007) | 36 | – | – | – | 36 | 22 |
| <i>Former Directors</i> | | | | | | |
| C J Burr (retired 11 March 2008) | 29 | – | 1 | 425† | 455 | 297 |
| D S Winterbottom (retired May 2007) | – | – | – | – | – | 69 |
| Total | 888 | 460 | 49 | 1,025 | 2,422 | 1,524 |

* Payment made to D L Grove pursuant to an agreement dated 6 December 2007 compensating him for removal of future bonus entitlement and conditional upon the net sum being used to purchase shares in the company.

† Payment made to C J Burr as compensation due under his service agreement.

** M Pegler's base salary from date of appointment was £200,000 p.a. His bonus arrangement is capped at 75% of his salary. Any LTIP awards can be made to a maximum of 100% of his salary.

The Executive Directors were also granted awards of Ordinary Shares under the Company's 2007 Long Term Incentive Plan (LTIP) and the 2005 ShareSave Scheme. Details of awards made in the year under the LTIP are given below and under the ShareSave Scheme on page 43.

Long Term Incentive Plan (LTIP)

The interests of Directors at 31 December 2008, in shares that are the subject of awards under the LTIP are shown below:

| Executive Director | Award date | At 1 Jan 2008 number of shares | Awarded in 2008 number of shares | At 31 Dec 2008 number of shares | Performance period | Vesting date |
|--|---------------|---|---|--|-----------------------------|--------------|
| D W Muir | 02 Jul 2007* | 67,791† | – | 67,791 | 1 Jan 2007 -31 Dec 2009 | 1 Jan 2010 |
| | 14 Mar 2008** | – | 99,849† | 99,849 | 1 Jan 2008 - 31 Dec 2010 | 1 Jan 2011 |
| Total D W Muir | | 67,791 | 99,849 | 167,640 | | |
| M Pegler (appointed 11 March 2008) | 14 Mar 2008** | – | 60,514† | 60,514 | 1 Jan 2008 - 31 Dec 2010 | 1 Jan 2011 |
| Total M Pegler | | – | 60,514 | 60,514 | | |

No awards vested or lapsed in 2008

* The share price as calculated on 2 July 2007 in accordance with the LTIP rules was 367p.

** The share price as calculated on 14 March 2008 in accordance with the LTIP rules was 330p.

† Awards equal to 100% of the Executive's salary.

Share options

The interests of Directors, and of former Directors who served during 2008, in options to subscribe for Ordinary Shares in the Company, which include options granted under the 2005 Executive Share Option Plan, the 2005 ShareSave Scheme and 1995 SAYE Scheme, together with options granted and exercised during 2008, are included in the following table:

| | At 1 Jan 2008 number of shares | Grant price | Granted in 2008 number of shares | At 31 Dec 2008 number of shares | Dates from which exercisable | Latest expiry date |
|---|-----------------------------------|-------------|-------------------------------------|------------------------------------|---------------------------------|-----------------------|
| D W Muir | | | | | | |
| 2005 Executive Share Option Plan | 78,114 | 205p | – | 78,114 | 4 Oct 2008 | 4 Oct 2015 |
| 2005 ShareSave Scheme | – | 318p | 1,328 | 1,328 | 1 Jan 2013 | 1 Jul 2013 |
| 1995 SAYE Scheme | 12,360 | 100p | – | 12,360 | 1 Jan 2010 | 1 Jul 2010 |
| M Pegler (appointed 11 March 2008) | | | | | | |
| 2005 Executive Share Option Plan | – | – | – | – | – | – |
| 2005 ShareSave Scheme | – | 246p | 3,902 | 3,902 | 1 Dec 2011 | 1 Jun 2012 |
| D L Grove | | | | | | |
| 2005 Executive Share Option Plan | – | – | – | – | – | – |
| 2005 ShareSave Scheme | – | 318p | 759 | 759 | 1 Jan 2011 | 1 Jul 2011 |
| 1995 SAYE Scheme | 12,360 | 100p | – | 12,360 | 1 Jan 2010 | 1 Jul 2010 |
| Former Directors | | | | | | |
| C J Burr (retired 11 March 2008) | | | | | | |
| 2005 Executive Share Option Plan | – | – | – | – | – | – |
| 2005 ShareSave Scheme | – | 318p | 1,328 | 1,328 | 1 Jan 2013 | 1 Jul 2013 |
| 1995 SAYE Scheme | 12,360 | 100p | – | – | 1 Jan 2010 | 1 Jul 2010 |

Apart from the LTIP awards made to D W Muir and M Pegler on 14 March 2008 (both at 100% of their respective base salaries) and the 2005 ShareSave Scheme grant in October 2008 no further options or awards were made to Directors.

During 2008, the mid market price of Ordinary Shares in the Company ranged from 155.25p to 377.00p. The mid market price of an Ordinary Share was 201.00p on 31 December 2008.

Pensions

Defined benefits earned by Directors

| | D W Muir | C J Burr |
|--|-------------|------------|
| Age at period end | 48 | 59 |
| Accrued benefit at 31 December 2008 | £104,610 pa | £78,206 pa |
| Increase in accrued benefits excluding inflation | £22,710 pa | £13,078 pa |
| Increase in accrued benefits including inflation | £23,441 pa | £13,659 pa |
| Directors' contributions | £11,640 | £11,640 |
| Transfer value of accrued benefits at 1 January 2008 | £782,930 | £1,242,621 |
| Transfer value of accrued benefits at 31 December 2008 | £1,074,114 | £1,578,411 |

- The pension entitlement is that which would be paid annually on retirement based on service to the period end.
- The individual has the option to pay Additional Voluntary Contributions; neither the contributions nor the resulting benefits are included in the above table.
- The following is additional information relating to D W Muir's pension:
 - Normal Retirement Age: 60
 - Spouse's pension: 2/3 pension on death after retirement
 - Pension increases:
 - post April 1997 pension: increases in line with RPI, limited to 5% per annum, subject to a minimum of 3% per annum on pension accrued post 1 October 1998.
 - pre April 1997 pension: nil
 - Discretionary benefits: None
- The following is additional information relating to C J Burr's pension:
 - Normal Retirement Age: 60
 - Spouse's pension: 2/3 pension on death after retirement
 - Pension increases: increases in line with RPI, limited to 5% per annum, subject to a minimum of 3% per annum.
 - Discretionary benefits: None
 - As part of C J Burr's early retirement from the Board it was agreed that his benefits would continue to accrue for the period up to Normal Retirement Age and the pension payable at that time will be £80,000 p.a.
- The transfer value at 31 December 2008 has been calculated on the basis set by the Trustees of the Hill & Smith Executive Pension Scheme having taken actuarial advice. Previously the transfer value was calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11.

Defined contribution arrangements

M Pegler receives a payment of 25% of his base salary as a contribution to his own private pension arrangements. As from the date of his appointment as a Director the Company contributed £43,000 to M Pegler's private pension arrangement.

Transactions with Directors

There were no material transactions between the Company and the Directors during 2008.

Howard C. Marshall

Chairman, Remuneration Committee

10 March 2009



Statement of Directors' Responsibilities

in respect of the Annual report and the Financial Statements

The Directors are responsible for preparing the Annual Report and the Group and Parent Company Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company Financial Statements for each financial year. Under that law they are required to prepare the Group Financial Statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the Parent Company Financial Statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The Group Financial Statements are required by law and IFRSs as adopted by the EU to present fairly the financial position and the performance of the Group; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The Parent Company Financial Statements are required by law to give a true and fair view of the state of affairs of the Parent Company.

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 judgments 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 proper accounting records that 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 1985. 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.

Directors' responsibility statement

The Directors confirm that, to the best of their knowledge:

- the Group and Parent Company Financial Statements in this Annual Report, which have been prepared in accordance with applicable UK law and with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the Company and Group as a whole; and
- the management report (which comprises the Directors' Report and the Business Review) includes a fair review of the development and performance of the business and the position of the Company and the Group as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

John C. Humphreys
Company Secretary
10 March 2009

Independent Auditor's Report

to the members of Hill & Smith Holdings PLC

We have audited the Group and Parent Company Financial Statements (the "Financial Statements") of Hill & Smith Holdings PLC for the year ended 31 December 2008 which comprise the Consolidated Income Statement, the Consolidated and Company Balance Sheets, the Consolidated Statement of Cash Flows, the Consolidated Statement of Recognised Income and Expense and the related notes. These Financial Statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report and the Group Financial Statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU, and for preparing the Parent Company Financial Statements and the Directors' Remuneration Report in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 44.

Our responsibility is to audit the Financial Statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Financial Statements give a true and fair view and whether the Financial Statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the Financial Statements. The information given in the Directors' Report includes that specific information presented in the Business Review Report that is cross-referenced from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited Financial Statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Financial Statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the Financial Statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Financial Statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Financial Statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the Group Financial Statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31 December 2008 and of its profit for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the Parent Company Financial Statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Parent Company's affairs as at 31 December 2008;
- the Parent Company Financial Statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the Financial Statements.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
2 Cornwall Street
Birmingham
B3 2DL

10 March 2009



Consolidated Income Statement

Year ended 31 December 2008

| | | | | 2008 | 2007 (Restated) | | |
|---|-------|------------------|---------------------------|---------------|------------------|---------------------------|-------------|
| | Notes | Underlying £m | Non- Underlying* £m | Total £m | Underlying £m | Non- Underlying* £m | Total £m |
| Revenue | 1,2 | 419.8 | – | 419.8 | 329.6 | – | 329.6 |
| Trading profit | | 47.4 | (0.2) | 47.2 | 33.8 | – | 33.8 |
| Share of profits from associate | 13 | – | – | – | 3.1 | – | 3.1 |
| Amortisation of acquisition intangibles | 7 | – | (0.6) | (0.6) | – | (0.4) | (0.4) |
| Business reorganisation costs | 4 | – | (3.2) | (3.2) | – | (3.2) | (3.2) |
| Profit on sale of properties | 4 | – | – | – | – | 3.1 | 3.1 |
| Operating profit | 1,2 | 47.4 | (4.0) | 43.4 | 36.9 | (0.5) | 36.4 |
| Financial income | 6 | 1.4 | 4.5 | 5.9 | 1.7 | 4.4 | 6.1 |
| Financial expense | 6 | (9.9) | (4.3) | (14.2) | (7.6) | (4.1) | (11.7) |
| Profit before taxation | | 38.9 | (3.8) | 35.1 | 31.0 | (0.2) | 30.8 |
| Taxation | 8 | (14.6) | (0.7) | (15.3) | (11.0) | 1.0 | (10.0) |
| Profit for the year from continuing operations | | 24.3 | (4.5) | 19.8 | 20.0 | 0.8 | 20.8 |
| Discontinued operations | 3 | | | 2.9 | | | 1.8 |
| Profit for the year | | | | 22.7 | | | 22.6 |
| Attributable to: | | | | | | | |
| Equity holders of the parent | | | | 22.7 | | | 22.3 |
| Minority interest | | | | – | | | 0.3 |
| Profit for the year | | | | 22.7 | | | 22.6 |
| Continuing basic earnings per share | 9 | | | 26.2p | | | 27.2p |
| Basic earnings per share | 9 | | | 30.0p | | | 29.5p |
| Continuing diluted earnings per share | 9 | | | 25.9p | | | 26.8p |
| Diluted earnings per share | 9 | | | 29.7p | | | 29.1p |
| Dividend per share – Interim | 10 | | | 4.3p | | | 3.6p |
| Dividend per share – Final proposed | 10 | | | 5.7p | | | 5.1p |
| Total | 10 | | | 10.0p | | | 8.7p |

* Non-Underlying items represent business reorganisation costs, property items, amortisation of acquisition intangibles, impairments, change in the value of financial instruments and net financing return on pension obligations.

Consolidated Statement of Recognised Income and Expense

Year ended 31 December 2008

| | Notes | 2008 £m | 2007 £m |
|--|-------|---------------|------------|
| Exchange differences on translation of overseas operations | | 29.0 | 5.6 |
| Exchange differences on foreign currency borrowings denominated as net investment hedges | | (21.6) | (3.1) |
| Share of exchange differences on translation of overseas operations in associate | | – | (0.1) |
| Actuarial (loss)/gain on defined benefit pension schemes | 26 | (5.7) | 0.5 |
| Taxation on items taken directly to equity | 8 | 1.2 | (0.1) |
| Net income recognised directly in equity | | 2.9 | 2.8 |
| Profit for the year | | 22.7 | 22.6 |
| Total recognised income and expense for the year | | 25.6 | 25.4 |
| Attributable to: | | | |
| Equity holders of the parent | | 25.2 | 25.1 |
| Minority interest | | 0.4 | 0.3 |
| Total recognised income and expense for the year | 24 | 25.6 | 25.4 |



Consolidated Balance Sheet

As at 31 December 2008

| | Notes | 2008 £m | 2007 £m |
|--|-------|----------------|------------|
| Non-current assets | | | |
| Intangible assets | 11 | 118.6 | 92.7 |
| Property, plant and equipment | 12 | 113.6 | 92.5 |
| Available for sale financial assets | 14 | 6.4 | 5.7 |
| Other receivables | 17 | 1.3 | – |
| | | 239.9 | 190.9 |
| Current assets | | | |
| Assets held for sale | 3 | – | 51.8 |
| Inventories | 16 | 57.1 | 55.7 |
| Trade and other receivables | 17 | 97.2 | 102.2 |
| Cash and cash equivalents | 18 | 25.9 | 41.3 |
| | | 180.2 | 251.0 |
| Total assets | 1 | 420.1 | 441.9 |
| Current liabilities | | | |
| Liabilities held for sale | 3 | – | (32.1) |
| Trade and other liabilities | 19 | (90.7) | (104.2) |
| Current tax liabilities | | (6.9) | (8.1) |
| Interest bearing borrowings | 18,19 | (16.7) | (38.5) |
| | | (114.3) | (182.9) |
| Net current assets | | 65.9 | 68.1 |
| Non-current liabilities | | | |
| Other liabilities | 20 | (0.3) | (15.2) |
| Provisions for liabilities and charges | 21 | (6.7) | (4.8) |
| Deferred tax liability | 15 | (14.5) | (10.7) |
| Retirement benefit obligation | 26 | (11.8) | (9.7) |
| Interest bearing borrowings | 18,20 | (155.4) | (120.6) |
| | | (188.7) | (161.0) |
| Total liabilities | 1 | (303.0) | (343.9) |
| Net assets | 1 | 117.1 | 98.0 |
| Equity | | | |
| Share capital | 23 | 18.9 | 18.9 |
| Share premium | 24 | 27.9 | 27.8 |
| Capital redemption reserve | 24 | 0.2 | 0.2 |
| Other reserves | 24 | 4.3 | 4.3 |
| Translation reserve | 24 | 9.2 | 2.2 |
| Retained earnings | 24 | 54.5 | 43.1 |
| Equity attributable to equity holders of the parent | | 115.0 | 96.5 |
| Minority interest | 24 | 2.1 | 1.5 |
| Total equity | | 117.1 | 98.0 |

Approved by the Board of Directors on 10 March 2009 and signed on its behalf by:

D W Muir
Director

D L Grove
Director

Consolidated Statement of Cash Flows

Year ended 31 December 2008

| | Notes | £m | 2008 £m | 2007 (Restated) £m |
|---|-------|---------------|---------------|-----------------------|
| Profit before tax | | | 35.1 | 30.8 |
| Add back net financing costs | 6 | | 8.3 | 5.6 |
| Operating profit | 1,2 | | 43.4 | 36.4 |
| Adjusted for non-cash items | | | | |
| Share of profits from associate | 13 | – | | (3.1) |
| Share-based payment | 5,23 | 0.3 | | 0.3 |
| Movement in fair value of forward contracts | 7 | 0.2 | | – |
| Loss on disposal of subsidiaries | | – | | 0.1 |
| Loss on remeasurement as held for sale | 3 | – | | 0.3 |
| Gain on disposal of property, plant and equipment | 7 | (0.4) | | (3.2) |
| Depreciation | 7,12 | 11.4 | | 8.1 |
| Amortisation of intangible assets | 7,11 | 1.4 | | 1.1 |
| Impairment of intangible assets | 7,11 | 1.9 | | – |
| | | | 14.8 | 3.6 |
| Operating cash flow before movement in working capital | | | 58.2 | 40.0 |
| Decrease in inventories | | 2.3 | | 1.2 |
| Increase in receivables | | (5.2) | | (1.3) |
| Increase/(decrease) in payables | | 1.2 | | (11.8) |
| Decrease in provisions and employee benefits | | (2.3) | | (1.2) |
| Net movement in working capital | | | (4.0) | (13.1) |
| Cash generated by operations | | | 54.2 | 26.9 |
| Income taxes paid | | | (16.0) | (7.8) |
| Interest paid | | | (9.3) | (7.1) |
| Net cash from operating activities | | | 28.9 | 12.0 |
| Interest received | | 1.3 | | 1.6 |
| Loan settlement | 14 | 1.0 | | – |
| Proceeds on disposal of non-current assets | | 0.7 | | 10.4 |
| Purchase of property, plant and equipment | | (16.8) | | (14.2) |
| Purchase of intangible assets | 11 | (2.1) | | (1.4) |
| Disposal of subsidiaries | | 0.3 | | 0.4 |
| Deferred consideration received in respect of disposals | | 0.1 | | 0.2 |
| Deferred consideration paid in respect of acquisitions | | – | | (0.7) |
| Acquisitions of minority interests | | (21.0) | | (2.6) |
| Acquisitions of subsidiaries and associates | 11 | (12.8) | | (9.4) |
| Net cash used in investing activities | | | (49.3) | (15.7) |
| Issue of new shares | | 0.1 | | – |
| Dividends paid | 10 | (6.6) | | (5.4) |
| New loans raised | | – | | 147.4 |
| Repayment of loans | | (17.9) | | (113.0) |
| Repayment of loan notes | | – | | (0.1) |
| Repayment of obligations under finance leases | | (2.3) | | (2.5) |
| Net cash (used in)/from financing activities | | | (26.7) | 26.4 |
| Net (decrease)/increase in cash from continuing operations | | | (47.1) | 22.7 |
| Cash flow from assets and liabilities held exclusively for sale | | | 19.1 | 1.2 |
| Cash flow from other discontinued operations | 3 | | 8.6 | 1.8 |
| Net (decrease)/increase in cash | | | (19.4) | 25.7 |
| Cash at the beginning of the year | | | 41.3 | 14.2 |
| Effect of exchange rate fluctuations | | | 4.0 | 1.4 |
| Cash at the end of the year | 18 | | 25.9 | 41.3 |



Group Accounting Policies

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

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

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

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

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Group Financial Statements.

In the current year the Group has amended its treatment of Non-Underlying items in the Consolidated Income Statement, to reflect a more representative view of the Group's definition of underlying earnings. In addition to business reorganisation costs, property items and amortisation of acquisition intangibles included for the year ended 31 December 2007, Non-Underlying items now also include impairments, changes in the fair value of financial instruments and financial income and expense on pension obligations. All comparatives including the Consolidated Income Statement have been restated.

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 27.

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 06 to 27. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Business Review on pages 18 and 19. In addition Note 22 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 £150m multi currency facility expiring in June 2012. 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 Accounts.

New IFRS standards and interpretations adopted during 2008

In 2008 the following standards became effective and were adopted by the Group:

- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions

The adoption of this standard has not had a significant impact on the results of the Group in 2008.

New IFRS standards and interpretations not adopted

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

- IAS 1 (Revised) – Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2009).
- IAS 27 (Revised) – Consolidated and separate Financial Statements (effective for annual periods beginning on or after 1 July 2009).
- Amendment to IFRS 2 – Share-based payments (effective for annual periods beginning on or after 1 January 2009).
- IFRS 8 – Operating segments (effective for annual periods beginning on or after 1 January 2009).
- IFRIC 14 IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction (effective for annual periods beginning on or after 1 January 2009).

Upon adoption of IFRS 8, the Group will be required to disclose segment information based on the internal reports regularly reviewed by the Group's Chief Executive in order to assess each segment's performance and to allocate resources to them. Currently the Group presents segment information in respect of business and geographical segments (see Note 1). Under the management approach, the Group will continue to report its existing three operating segments as these form the basis of internal reporting.

IFRIC 14 provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the post employment benefit asset or liability may be affected by a statutory or contractual minimum funding requirement. It is not expected that the interpretation would have a material impact on the results or net assets of the Group.

The Group does not anticipate that the adoption of the remaining standards and interpretations will have a material effect on its Group 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

In respect of subsidiaries, jointly controlled entities and associated companies, goodwill on acquisition comprises the excess of the fair value of the purchase consideration and any associated acquisition costs for the investment 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.

The Group has elected not to apply IFRS 3 retrospectively. 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.

Goodwill arising on the acquisition of a minority interest in a subsidiary represents the excess of the cost of the additional investment over the carrying amount of the net assets acquired at the date of exchange.

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.

The US brand is considered to have an indefinite life and therefore is subject to annual impairment testing (see accounting policy 'Impairment of assets'). For other brands and customer lists, amortisation is provided equally over the estimated useful economic life of the assets concerned, currently up to 20 years.

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

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

Property, plant, equipment and depreciation

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

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

No depreciation is provided on freehold land.

The Group has chosen to take the first time adoption exemption available under IFRS 1 to use a previous revaluation for certain land and buildings as its deemed cost at the transition date. All other items of property, plant and equipment are stated at cost unless it is felt that this value should be impaired.



Group Accounting Policies continued

Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or represents operations acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria as a discontinued operation, the comparative Consolidated Income Statement is represented as if the operation had been discontinued from the start of the comparative period.

The results and cash flows of major lines of business that have been divested have been classified as discontinued operations and the comparatives for the year to 31 December 2007 amended accordingly.

Assets and liabilities held for sale

Assets and liabilities reclassified as held for sale

Non-current assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets (or disposal group) are measured at the lower of their carrying amount and fair value less cost to sell. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative loss.

Operations held exclusively with a view to resale

Operations acquired exclusively with a view to subsequent disposal are classified as assets and liabilities held for sale at the acquisition date only where all criteria set out in IFRS 5 are satisfied within a short period following the acquisition.

When acquired as part of a business combination, operations acquired exclusively with a view to subsequent disposal are initially measured at fair value less costs to sell. Subsequently, these operations are measured at the lower of their current carrying value and current fair value less costs to sell. Subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative loss.

Properties held for resale

Resale properties are valued at the lower of fair value less cost to sell and their carrying amount. Any surplus, deficit or impairment arising is credited or charged to the Consolidated Income Statement.

All of the above assets and liabilities held for sale are classified as current in line with IFRS 5.

Financial instruments

Financial assets and liabilities are recognised on the Group's Balance Sheet when the Group becomes a 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.

Derivative financial instruments are stated at fair value. The 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.

Interest bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the Consolidated Income Statement over the period of the borrowings on an effective interest basis.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the Consolidated Statement of Cash Flows.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Any gain or loss on translation of monetary foreign currency assets and liabilities arising from a movement in exchange rates subsequent to initial measurement is included as an exchange gain or loss in the Consolidated Income Statement.

The assets and liabilities of overseas subsidiary undertakings, including goodwill and fair value adjustments arising on acquisition, are translated at the closing exchange rate. Income statements and cash flows of such undertakings are translated into Sterling at weighted average rates of exchange, other than substantial transactions that are translated at the rate on the date of the transaction. The adjustments to period end rates are taken to the cumulative translation reserve in equity and reported in the Consolidated Statement of Recognised Income and Expense. 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.

Income from associates is recognised in the Consolidated Income Statement, translated at the average exchange rate during the period.

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 Recognised Income and Expense, 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:

| | Average | 2008 Closing | Average | 2007 Closing |
|-----------------------------------|---------|-----------------|---------|-----------------|
| Sterling to Euro (£1 = €) | 1.25 | 1.03 | 1.44 | 1.36 |
| Sterling to US Dollar (£1 = \$) | 1.84 | 1.44 | 2.03 | 2.00 |
| Sterling to Thai Baht (£1 = Baht) | 60.69 | 50.00 | 64.61 | 60.06 |

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 pretax 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.

Put option in respect of a minority interest in a subsidiary

Where the Group has an obligation to purchase shares in a subsidiary from a minority interest through a put option, a financial liability is recognised for the present value of the estimated consideration payable under the put option and the minority interest is not recognised.

In this case the fair value of the liability is estimated based on the market value for the shares in the subsidiary discounted over the period over which the consideration is payable, using a discount rate based on borrowing rates for a term corresponding to the payment period and reflecting local borrowing costs.



Group Accounting Policies continued

At each reporting date, changes in the carrying amount of the liability arising from variations in the estimated fair value of the purchase consideration (excluding the effect of the unwinding of the discount, which is accounted for as a financial expense) are recognised by adjusting the carrying amount of the goodwill recognised on initial recognition of the business combination.

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 the Group generally considers to be each of its subsidiaries in the case of the UK and then regionally in the case of France and the USA. 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 post tax discount rate based on an internally assessed weighted average cost of capital which accounts for the time value of money and the risks specific to the asset.

Leases

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

Other leases are classified as operating leases and the leased assets are not recognised on the Group's Balance Sheet. Payments made under operating leases are recognised in the Consolidated Income Statement on a straight line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

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

Government grants

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

Guarantees

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

Retirement benefits

The Group operates pension schemes under which contributions by employees and by the sponsoring companies are held in trust funds separated from the Group's finances.

Obligations for contributions to defined contribution pension schemes are recognised as an expense in the Consolidated Income Statement as incurred.

The Group's net obligation in respect of defined benefit pension schemes is calculated separately for each scheme by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. This benefit is discounted to determine its present value, and the fair value of any scheme assets is deducted. The discount rate is the yield at the Balance Sheet date on AA rated bonds that have maturity dates approximating to the terms of the Group's obligations. The calculation is performed by a qualified Actuary using the projected unit method. Scheme assets are valued at bid price.

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

All actuarial gains and losses in calculating the Group's obligation in respect of defined benefit schemes are recognised annually in reserves and reported in the Consolidated Statement of Recognised Income and Expense.

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, with the amount recognised as an expense being adjusted to reflect the actual number of options that vest except where forfeiture is due only to share prices not achieving the threshold for vesting.

In accordance with IFRS 2 transitional arrangements, no expense is recorded for equity settled options granted prior to 7 November 2002 or vested before 1 January 2005.

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 and the interest expense component of finance lease payments. All borrowing costs are recognised in the Consolidated Income Statement using the effective interest method.

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 recognised directly in equity, in which case it is recognised 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 substantially 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 affect 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 accounted for in the Financial Statements when the Group is committed to the payment of the dividend.



Notes to the Consolidated Financial Statements

1. Segmental information

Business segment analysis

| | Segment revenue £m | Segment result £m | 2008 Underlying segment result* £m | Segment revenue £m | Segment result £m | 2007 (Restated) Underlying segment result* £m |
|---|--------------------------|-------------------------|--|--------------------------|-------------------------|---|
| Income Statement – continuing | | | | | | |
| Infrastructure Products | 191.8 | 22.5 | 23.2 | 145.2 | 18.3 | 18.3 |
| Galvanizing Services [†] | 127.1 | 18.8 | 19.7 | 82.3 | 15.5 | 15.3 |
| Building and Construction Products [§] | 100.9 | 2.1 | 4.5 | 102.1 | 2.6 | 3.3 |
| Total Group | 419.8 | 43.4 | 47.4 | 329.6 | 36.4 | 36.9 |
| Net financing costs | | (8.3) | (8.5) | | (5.6) | (5.9) |
| Continuing operations profit before taxation | | 35.1 | 38.9 | | 30.8 | 31.0 |
| Taxation | | (15.3) | (14.6) | | (10.0) | (11.0) |
| Continuing operations profit after taxation | | 19.8 | 24.3 | | 20.8 | 20.0 |
| Income Statement – discontinued | | | | | | |
| Infrastructure Products | – | – | – | – | – | – |
| Galvanizing Services | 35.6 | 1.7 | – | 28.5 | 1.7 | – |
| Building and Construction Products | 84.6 | 3.4 | – | 72.5 | 1.8 | – |
| Total Group | 120.2 | 5.1 | – | 101.0 | 3.5 | – |
| Net financing costs | | (0.5) | – | | (0.4) | – |
| Discontinued operations profit before taxation | | 4.6 | – | | 3.1 | – |
| Taxation | | (1.7) | – | | (1.3) | – |
| Discontinued operations profit after taxation | | 2.9 | – | | 1.8 | – |
| Income Statement | | | | | | |
| Infrastructure Products | 191.8 | 22.5 | 23.2 | 145.2 | 18.3 | 18.3 |
| Galvanizing Services [†] | 162.7 | 20.5 | 19.7 | 110.8 | 17.2 | 15.3 |
| Building and Construction Products [§] | 185.5 | 5.5 | 4.5 | 174.6 | 4.4 | 3.3 |
| Total Group | 540.0 | 48.5 | 47.4 | 430.6 | 39.9 | 36.9 |
| Net financing costs | | (8.8) | (8.5) | | (6.0) | (5.9) |
| Profit before taxation | | 39.7 | 38.9 | | 33.9 | 31.0 |
| Taxation | | (17.0) | (14.6) | | (11.3) | (11.0) |
| Profit after taxation | | 22.7 | 24.3 | | 22.6 | 20.0 |

* Underlying segment result is stated before Non-Underlying items as defined on the Consolidated Income Statement.

[†] Includes £nil (2007: £3.1m) share of profits from associate (net of tax).

[§] Includes loss on remeasurement as held for sale £nil (2007: £0.3m).

Galvanizing Services provided £5.8m (2007: £6.4m) revenues to Infrastructure Products and £2.0m (2007: £1.3m) revenues to Building and Construction Products. Building and Construction Products provided £0.7m (2007: £1.3m) revenues to Infrastructure Products. These internal revenues, along with revenues generated from within their own segments, have been eliminated on consolidation.

1. Segmental information continued

Balance Sheet

| | Total assets £m | 2008 Total liabilities £m | Total assets £m | 2007 Total liabilities £m |
|---|-----------------------|------------------------------------|-----------------------|------------------------------------|
| Infrastructure Products | 115.8 | (32.7) | 85.7 | (25.8) |
| Galvanizing Services | 232.6 | (31.7) | 194.0 | (42.4) |
| Building and Construction Products | 45.8 | (23.4) | 69.1 | (48.5) |
| Total segment assets/(liabilities) | 394.2 | (87.8) | 348.8 | (116.7) |
| Tax and dividends | – | (24.6) | – | (21.5) |
| Provisions and retirement benefits | – | (18.5) | – | (14.5) |
| Net debt | 25.9 | (172.1) | 41.3 | (159.1) |
| | 420.1 | (303.0) | 390.1 | (311.8) |
| Assets and liabilities held for sale (Note 3) | – | – | 51.8 | (32.1) |
| Total Group | 420.1 | (303.0) | 441.9 | (343.9) |
| Net assets | 117.1 | | 98.0 | |

Capital expenditure and amortisation/depreciation

| | Capital expenditure £m | 2008 Impairment losses, amortisation and depreciation £m | Capital expenditure £m | 2007 (Restated) Impairment losses, amortisation and depreciation £m |
|---|------------------------------|--|------------------------------|---|
| Infrastructure Products | 6.6 | 3.4 | 12.1 | 3.0 |
| Galvanizing Services | 11.4 | 6.5 | 4.6 | 3.2 |
| Building and Construction Products | 1.8 | 4.8 | 3.2 | 2.9 |
| Total Group | 19.8 | 14.7 | 19.9 | 9.1 |
| Property, plant and equipment (Note 12) | 17.7 | 11.4 | 18.5 | 8.1 |
| Intangible assets (Note 11) | 2.1 | 3.3 | 1.4 | 1.1 |
| Total Group | 19.8 | 14.7 | 19.9 | 9.2 |
| Discontinued capital expenditure | – | – | (0.3) | – |
| Continuing capital expenditure | 19.8 | | 19.6 | |



Notes to the Consolidated Financial Statements continued

1. Segmental information continued

Geographical segment analysis

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

Revenues

| | Continuing £m | Discontinued £m | 2008 £m | Continuing £m | Discontinued £m | 2007 (Restated) £m |
|--------------------------|------------------|--------------------|--------------|------------------|--------------------|--------------------------|
| UK | 239.0 | 84.6 | 323.6 | 230.4 | 72.5 | 302.9 |
| Rest of Europe | 102.5 | 35.6 | 138.1 | 55.4 | 28.5 | 83.9 |
| USA | 57.0 | – | 57.0 | 24.7 | – | 24.7 |
| Asia and the Middle East | 15.1 | – | 15.1 | 15.4 | – | 15.4 |
| Rest of World | 6.2 | – | 6.2 | 3.7 | – | 3.7 |
| Total | 419.8 | 120.2 | 540.0 | 329.6 | 101.0 | 430.6 |

Below are tables showing total assets and capital expenditure by major geographical segment.

Total assets

| | 2008 £m | 2007 £m |
|-------------------------------|--------------|--------------|
| UK | 184.5 | 231.4 |
| Rest of Europe | 126.2 | 118.2 |
| USA | 103.2 | 35.3 |
| Asia | 6.2 | 5.2 |
| | 420.1 | 390.1 |
| Assets held for sale (Note 3) | – | 51.8 |
| Total Group | 420.1 | 441.9 |

Capital expenditure

| | 2008 £m | 2007 £m |
|--------------------|-------------|-------------|
| UK | 11.3 | 15.4 |
| Rest of Europe | 4.0 | 3.3 |
| USA | 4.2 | 0.6 |
| Asia | 0.3 | 0.6 |
| Total Group | 19.8 | 19.9 |

2. Operating profit

| | Continuing £m | Discontinued* £m | 2008 £m | Continuing £m | Discontinued £m | 2007 (Restated) £m |
|---------------------------------|------------------|---------------------|--------------|------------------|--------------------|--------------------------|
| Revenue | 419.8 | 120.2 | 540.0 | 329.6 | 101.0 | 430.6 |
| Cost of sales | (285.7) | (99.1) | (384.8) | (235.5) | (83.2) | (318.7) |
| Gross profit | 134.1 | 21.1 | 155.2 | 94.1 | 17.8 | 111.9 |
| Share of profits from associate | – | – | – | 3.1 | – | 3.1 |
| Distribution costs | (23.0) | (8.1) | (31.1) | (19.8) | (6.1) | (25.9) |
| Administrative expenses | (68.6) | (7.9) | (76.5) | (44.5) | (8.2) | (52.7) |
| Profit on sale of fixed assets | 0.4 | – | 0.4 | 3.2 | – | 3.2 |
| Other operating income | 0.5 | – | 0.5 | 0.3 | – | 0.3 |
| Operating profit | 43.4 | 5.1 | 48.5 | 36.4 | 3.5 | 39.9 |

* Included within administrative expenses is £3.1m profit (2007: £nil) on the disposal of Express Reinforcements Limited, offset by business reorganisation costs of £1.1m (2007: £nil) in respect of the cessation of its related activities.

3. Discontinued operations and assets held for sale

Discontinued operations

Following the acquisition on 2 July 2007 of Zinkinvent GmbH the Group decided that it did not wish to retain the Benelux and German trading operations of that company. Accordingly, these businesses were accounted for as discontinued operations from the date of acquisition. At 31 December 2007, the assets and liabilities of these businesses were separately included in the Balance Sheet at fair value as held exclusively with a view to resale. These operations and a 31.8% minority interest in Vista Investments N.V. valued at £1.7m (Note 24) were disposed of in August 2008 for a consideration of £22.1m, including deferred consideration of £1.0m. In November 2008, the Group exited the steel bar reinforcing market through the disposal of its interests in Express Reinforcements Limited and the cessation of its related activities. As a result these operations have been treated as discontinued activities and the comparatives for 2007 have been restated.

The results of the discontinued operations are as follows:

Income Statement

| | 2008 £m | 2007 (Restated) £m |
|---|--------------|--------------------------|
| Operating profit (Note 2) | 5.1 | 3.5 |
| Net financing charges (Note 6) | (0.5) | (0.4) |
| Profit before taxation | 4.6 | 3.1 |
| Taxation (Note 8) | (1.7) | (1.3) |
| Discontinued operations profit for the year | 2.9 | 1.8 |
| Cash flows | | |
| Net cash from operating activities | 5.6 | 2.1 |
| Net cash from/(used in) investing activities | 8.0 | (0.3) |
| Net cash used in financing activities | (5.0) | – |
| Cash flow from other discontinued operations | 8.6 | 1.8 |

The impact of the disposal of Express Reinforcements Limited on the Group's results is as follows:

| | 2008 £m |
|-------------------------------|---------------|
| Intangible assets | 4.0 |
| Property, plant and equipment | 3.5 |
| Inventories | 7.0 |
| Current assets | 13.4 |
| Cash and cash equivalents | 3.8 |
| Current liabilities | (22.3) |
| Deferred tax (Note 15) | (0.3) |
| Net assets | 9.1 |
| Consideration: | |
| Cash consideration | 12.8 |
| Deferred consideration | 0.4 |
| Expenses | (1.0) |
| Total net proceeds | 12.2 |
| Profit on disposal | 3.1 |
| Cash flow effect: | |
| Cash consideration | 12.8 |
| Cash left in the business | (3.8) |
| Expenses | (1.0) |
| Net cash consideration | 8.0 |



Notes to the Consolidated Financial Statements continued

3. Discontinued operations and assets held for sale continued

Assets held for sale

In addition to the Benelux and German trading operations, the assets and liabilities of D&J (Steels) Limited were also held for sale at 31 December 2007. D&J (Steels) Limited did not meet the criteria of a discontinued operation and therefore its results were included in continuing operations. Both of these businesses were disposed of in 2008. No gain or loss arose on the disposal of the businesses as they had been remeasured to their fair value prior to their disposal.

In February 2008 the sale of D&J (Steels) Limited completed, realising £0.3m cash consideration, with £0.4m being deferred to 2009. The loss on remeasurement of £0.3m was realised in 2007 (Note 4).

| | 2007 £m |
|---|---------------|
| Operations held exclusively with a view to resale | 50.0 |
| D&J (Steels) Limited held for sale | 1.8 |
| Total assets | 51.8 |
| Operations held exclusively with a view to resale | (31.0) |
| D&J (Steels) Limited held for sale | (1.1) |
| Total liabilities | (32.1) |

4. Non-Underlying items

2008

Non-Underlying items in 2008 principally comprise reorganisation and redundancy costs of £1.9m and a goodwill impairment charge of £1.9m offset by a net curtailment gain of £0.6m in respect of the Group's retirement obligations. Amounts included within financial income and expense represent the net financing return on pension obligations of £0.2m (2007: £0.6m) and the change in fair value of financial instruments of £nil (2007: £0.3m expense). Tax on Non-Underlying items includes a charge of £1.1m resulting from a change in the UK tax legislation preventing the recoverability of Industrial Buildings Allowances.

2007

The 2007 costs include £1.0m relating to the relocation and factory closures of the production facilities of Ash & Lacy Perforators Limited and the newly acquired H M Doors business. Also included is £0.4m in respect of losses incurred on the disposal of Ash & Lacy Pressings Limited and loss on remeasurement as held for sale on D&J (Steels) Limited (Note 3), two non-core Group businesses. A further £0.7m relates to relocation costs of other Group operations. There is also a charge of £1.1m relating to the changes in Directors' contracts.

The profit on sale of properties in 2007 relates to the sale of two properties located in Hayle and Levenshulme and the sale and leaseback of one operating property. No tax liability arose on these sales due to the availability of indexation allowances and capital losses for offset.

5. Employees

| | Continuing | Discontinued | 2008 | Continuing | Discontinued | 2007 (Restated) |
|---|--------------|--------------|--------------|------------|--------------|--------------------|
| The average number of people employed by the Group during the year | | | | | | |
| Infrastructure Products | 1,224 | – | 1,224 | 984 | – | 984 |
| Galvanizing Services | 1,379 | 229 | 1,608 | 945 | 234 | 1,179 |
| Building and Construction Products | 696 | 213 | 909 | 773 | 236 | 1,009 |
| | 3,299 | 442 | 3,741 | 2,702 | 470 | 3,172 |
| | £m | £m | £m | £m | £m | £m |
| The aggregate remuneration for the year | | | | | | |
| Wages and salaries | 78.4 | 12.3 | 90.7 | 61.5 | 11.5 | 73.0 |
| Share-based payments | 0.3 | – | 0.3 | 0.3 | – | 0.3 |
| Social security costs | 14.1 | 2.9 | 17.0 | 8.6 | 2.5 | 11.1 |
| Pension costs* | 2.6 | 0.2 | 2.8 | 2.5 | 0.2 | 2.7 |
| | 95.4 | 15.4 | 110.8 | 72.9 | 14.2 | 87.1 |

* Pension costs shown above exclude the effect of net curtailment gains of £0.6m (2007: £nil) on the UK defined benefit pension schemes and £0.2m (2007: £0.2m) on the overseas defined benefit pension schemes.

Details of the Directors' remuneration and share interests are given in the Directors' Remuneration Report on pages 37 to 43.

6. Net financing costs

| | Continuing £m | Discontinued £m | 2008 £m | Continuing £m | Discontinued £m | 2007 (Restated) £m |
|--|------------------|--------------------|-------------|------------------|--------------------|--------------------------|
| Interest on bank deposits | 1.2 | – | 1.2 | 0.7 | 0.1 | 0.8 |
| Interest on other loans | 0.2 | – | 0.2 | 1.0 | 0.5 | 1.5 |
| Total interest income | 1.4 | – | 1.4 | 1.7 | 0.6 | 2.3 |
| Change in fair value of financial assets and liabilities | 0.1 | – | 0.1 | – | – | – |
| Expected return on pension scheme assets (Note 26) | 4.4 | – | 4.4 | 4.4 | – | 4.4 |
| Total other income | 4.5 | – | 4.5 | 4.4 | – | 4.4 |
| Financial income | 5.9 | – | 5.9 | 6.1 | 0.6 | 6.7 |
| Interest on bank loans and overdrafts | 8.5 | 0.5 | 9.0 | 6.7 | 0.3 | 7.0 |
| Interest on finance leases and hire purchase contracts | 0.4 | – | 0.4 | 0.4 | – | 0.4 |
| Interest on other loans | 0.5 | – | 0.5 | 0.1 | 0.7 | 0.8 |
| Total interest expense | 9.4 | 0.5 | 9.9 | 7.2 | 1.0 | 8.2 |
| Change in fair value of financial assets and liabilities | 0.1 | – | 0.1 | 0.3 | – | 0.3 |
| Put option discount unwind | 0.5 | – | 0.5 | 0.4 | – | 0.4 |
| Expected interest cost on pension scheme obligations (Note 26) | 4.2 | – | 4.2 | 3.8 | – | 3.8 |
| Total other expense | 4.8 | – | 4.8 | 4.5 | – | 4.5 |
| Financial expense | 14.2 | 0.5 | 14.7 | 11.7 | 1.0 | 12.7 |
| Net financing costs | 8.3 | 0.5 | 8.8 | 5.6 | 0.4 | 6.0 |

7. Expenses and auditor's remuneration

| | Continuing £m | Discontinued £m | 2008 £m | Continuing £m | Discontinued £m | 2007 (Restated) £m |
|--|------------------|--------------------|------------|------------------|--------------------|--------------------------|
| Income Statement charges | | | | | | |
| Depreciation of property, plant and equipment: | | | | | | |
| Owned | 9.4 | 0.6 | 10.0 | 6.8 | 0.7 | 7.5 |
| Leased | 2.0 | – | 2.0 | 1.3 | – | 1.3 |
| Operating lease rentals: | | | | | | |
| Plant and machinery | 1.2 | 0.2 | 1.4 | 1.2 | 0.3 | 1.5 |
| Other | 4.3 | 0.4 | 4.7 | 3.8 | 0.7 | 4.5 |
| Research and development expenditure | 0.1 | – | 0.1 | – | 0.1 | 0.1 |
| Amortisation of acquisition intangibles | 0.6 | – | 0.6 | 0.4 | – | 0.4 |
| Amortisation of development costs | 0.7 | – | 0.7 | 0.6 | – | 0.6 |
| Amortisation of other intangible assets | 0.1 | – | 0.1 | 0.1 | – | 0.1 |
| Impairment loss | 1.9 | – | 1.9 | – | – | – |
| Fair value loss on forward exchange contracts | 0.2 | – | 0.2 | – | – | – |
| Foreign exchange loss | 0.3 | – | 0.3 | – | – | – |
| Income Statement credits | | | | | | |
| Profit on disposal of properties | – | – | – | 3.1 | – | 3.1 |
| Profit on disposal of other fixed assets | 0.4 | – | 0.4 | 0.1 | – | 0.1 |
| Grants receivable | – | 0.1 | 0.1 | – | 0.2 | 0.2 |
| Rental income | 4.0 | – | 4.0 | 4.0 | – | 4.0 |
| Fair value gain on forward exchange contracts | – | – | – | – | 0.1 | 0.1 |
| Foreign exchange gain | – | – | – | 0.1 | – | 0.1 |



Notes to the Consolidated Financial Statements continued

7. Expenses and auditor's remuneration continued

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

| | Continuing £m | Discontinued £m | 2008 £m | Continuing £m | Discontinued £m | 2007 (Restated) £m |
|--|------------------|--------------------|------------|------------------|--------------------|--------------------------|
| Hill & Smith Holdings PLC | | | | | | |
| Audit of the Company's annual accounts | 0.1 | – | 0.1 | 0.1 | – | 0.1 |
| Audit of the Company's subsidiaries | 0.4 | – | 0.4 | 0.3 | – | 0.3 |
| Other services pursuant to legislation* | 0.4 | – | 0.4 | 0.4 | – | 0.4 |
| Tax services | – | – | – | 0.1 | – | 0.1 |
| Valuation and actuarial services | 0.2 | – | 0.2 | 0.2 | – | 0.2 |
| | 1.1 | – | 1.1 | 1.1 | – | 1.1 |
| Hill & Smith Holdings PLC pension schemes | | | | | | |
| Valuation and actuarial services | 0.2 | – | 0.2 | 0.3 | – | 0.3 |
| Other services – pension administration | 0.3 | – | 0.3 | 0.3 | – | 0.3 |
| | 0.5 | – | 0.5 | 0.6 | – | 0.6 |

* Includes £0.1m (2007: £0.4m) relating to the auditor's work as reporting accountants in respect of corporate transactions, the costs of which are capitalised.

A description of the work of the Audit Committee is set out in the Corporate Governance Report on pages 35 and 36 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditors.

8. Taxation

| | Continuing £m | Discontinued £m | 2008 £m | Continuing £m | Discontinued £m | 2007 (Restated) £m |
|--|------------------|--------------------|--------------------|------------------|--------------------|--------------------------|
| Current tax | | | | | | |
| UK corporation tax | 4.3 | 0.1 | 4.4 | 3.9 | 0.4 | 4.3 |
| Overseas tax at prevailing local rates | 9.8 | 1.6 | 11.4 | 5.0 | 0.8 | 5.8 |
| | 14.1 | 1.7 | 15.8 | 8.9 | 1.2 | 10.1 |
| Deferred tax (Note 15) | | | | | | |
| Current year | 1.9 | – | 1.9 | 0.6 | – | 0.6 |
| Adjustments in respect of prior periods | 0.2 | – | 0.2 | 0.1 | – | 0.1 |
| Overseas tax at prevailing local rates | (0.9) | – | (0.9) | 0.4 | 0.1 | 0.5 |
| Tax on profit in the Income Statement | 15.3 | 1.7 | 17.0 | 10.0 | 1.3 | 11.3 |
| | | | 2008 £m | | | 2007 £m |
| Current tax | | | | | | |
| Relating to defined benefit pension schemes | | | – | | | (0.4) |
| | | | – | | | (0.4) |
| Deferred tax (Note 15) | | | | | | |
| Relating to defined benefit pension schemes | | | (1.5) | | | 0.7 |
| Relating to share-based payments | | | 0.3 | | | (0.2) |
| | | | (1.2) | | | 0.5 |
| Tax on items taken directly to equity | | | (1.2) | | | 0.1 |

8. Taxation continued

The tax charge in the Consolidated Income Statement for the period is higher (2007: higher) than the standard rate of corporation tax in the UK. The differences are explained below:

| | 2008 £m | 2007 (Restated) £m |
|--|-------------|--------------------------|
| Profit from continuing operations before tax | 35.1 | 30.8 |
| Profit from discontinued operations before tax (Note 3) | 4.6 | 3.1 |
| Profit before taxation | 39.7 | 33.9 |
| Profit before taxation multiplied by the standard rate of corporation tax in the UK of 28.5% (2007: 30%) | 11.3 | 10.2 |
| Expenses not deductible for tax purposes | 2.7 | 0.8 |
| Impairment of goodwill | 0.6 | – |
| Share of profit from associate already taxed | – | (0.5) |
| Capital profits less losses and write downs not subject to tax | (0.7) | (0.8) |
| Deferred tax benefit arising from asset disposals | – | (0.3) |
| Overseas profits taxed at higher/(lower) rates | 1.5 | 0.9 |
| Overseas losses not relieved | 0.3 | 1.0 |
| Deferred tax benefit of future reductions in UK corporation tax rates | – | (0.1) |
| Impact of change in legislation | 1.1 | – |
| Adjustments in respect of previous periods | 0.2 | 0.1 |
| Tax charge | 17.0 | 11.3 |
| Tax charge on continuing operations | 15.3 | 10.0 |
| Tax charge on discontinued operations (Note 3) | 1.7 | 1.3 |
| Tax charge | 17.0 | 11.3 |

9. Earnings per share

The weighted average number of Ordinary Shares in issue during the year was 75,623,123 (2007: 75,565,565), diluted for the effects of the outstanding dilutive share options 76,498,845 (2007: 76,550,467). Underlying earnings per share have been shown because the Directors consider that this provides valuable additional information about the underlying performance of the Group.

| | Pence per share | 2008 £m | Pence per share | 2007 (Restated) £m |
|--|--------------------|-------------|--------------------|--------------------------|
| Basic earnings | 30.0 | 22.7 | 29.5 | 22.3 |
| Discontinued business | (3.8) | (2.9) | (2.3) | (1.8) |
| Continuing basic earnings per share | 26.2 | 19.8 | 27.2 | 20.5 |
| Non-Underlying items* | 6.0 | 4.5 | (1.1) | (0.8) |
| Underlying earnings | 32.2 | 24.3 | 26.1 | 19.7 |
| Diluted earnings | 29.7 | 22.7 | 29.1 | 22.3 |
| Discontinued business | (3.8) | (2.9) | (2.3) | (1.8) |
| Continuing diluted earnings per share | 25.9 | 19.8 | 26.8 | 20.5 |
| Non-Underlying items* | 5.9 | 4.5 | (1.0) | (0.8) |
| Underlying diluted earnings | 31.8 | 24.3 | 25.8 | 19.7 |

* Non-Underlying items as defined on the Consolidated Income Statement.



Notes to the Consolidated Financial Statements continued

10. Dividends

Dividends paid in the year were the prior year's interim dividend of £2.7m (2007: £2.2m) and the final dividend of £3.9m (2007: £3.2m). Dividends declared after the Balance Sheet date are not recognised as a liability, in accordance with IAS10. The Directors have proposed a final dividend for the current year, subject to shareholder approval, as shown below:

| | Pence per share | 2008 £m | Pence per share | 2007 £m |
|----------------------|--------------------|------------|--------------------|------------|
| Equity shares | | | | |
| Interim | 4.3 | 3.2 | 3.6 | 2.7 |
| Final proposed | 5.7 | 4.3 | 5.1 | 3.9 |
| Total | 10.0 | 7.5 | 8.7 | 6.6 |

11. Intangible assets

| | Goodwill £m | Brands £m | Customer lists £m | Capitalised development costs £m | Licences £m | Total £m |
|---|----------------|--------------|-------------------------|---|----------------|--------------|
| Cost | | | | | | |
| At 1 January 2007 | 36.8 | – | 0.1 | 3.5 | – | 40.4 |
| Exchange adjustments | 2.6 | 0.8 | 0.2 | – | – | 3.6 |
| Acquisitions – subsidiaries | 37.5 | 9.0 | 1.6 | – | 0.3 | 48.4 |
| Acquisitions – minority interests | 0.7 | – | – | – | – | 0.7 |
| Additions internal | – | – | – | 0.1 | – | 0.1 |
| Additions external | – | – | – | 1.0 | 0.3 | 1.3 |
| Disposals | (0.1) | – | – | – | – | (0.1) |
| At 31 December 2007 | 77.5 | 9.8 | 1.9 | 4.6 | 0.6 | 94.4 |
| Exchange adjustments | 15.3 | 3.1 | 0.7 | – | – | 19.1 |
| Acquisitions – subsidiaries | 5.9 | 0.9 | 0.6 | – | – | 7.4 |
| Acquisitions – minority interests | 5.0 | – | – | – | – | 5.0 |
| Additions internal | – | – | – | 0.3 | – | 0.3 |
| Additions external | – | – | – | 1.7 | 0.1 | 1.8 |
| Disposal of subsidiaries | (4.0) | – | – | – | – | (4.0) |
| Disposals | – | – | – | – | (0.4) | (0.4) |
| At 31 December 2008 | 99.7 | 13.8 | 3.2 | 6.6 | 0.3 | 123.6 |
| Amortisation and impairment losses | | | | | | |
| At 1 January 2007 | – | – | – | 0.6 | – | 0.6 |
| Amortisation charge for the year | – | 0.2 | 0.2 | 0.6 | 0.1 | 1.1 |
| At 31 December 2007 | – | 0.2 | 0.2 | 1.2 | 0.1 | 1.7 |
| Exchange adjustments | – | – | 0.1 | – | – | 0.1 |
| Disposals | – | – | – | – | (0.1) | (0.1) |
| Impairment losses | 1.9 | – | – | – | – | 1.9 |
| Amortisation charge for the year | – | 0.2 | 0.4 | 0.7 | 0.1 | 1.4 |
| At 31 December 2008 | 1.9 | 0.4 | 0.7 | 1.9 | 0.1 | 5.0 |
| Carrying values | | | | | | |
| At 1 January 2007 | 36.8 | – | 0.1 | 2.9 | – | 39.8 |
| At 31 December 2007 | 77.5 | 9.6 | 1.7 | 3.4 | 0.5 | 92.7 |
| At 31 December 2008 | 97.8 | 13.4 | 2.5 | 4.7 | 0.2 | 118.6 |

2008

Goodwill of £5.9m, brands of £0.9m and customer lists of £0.6m arose on the acquisition of Creative Pultrusions Inc. in September 2008. Goodwill arises on this acquisition due primarily to the assembled workforce, technical expertise, knowhow, market share and geographical advantages afforded to the Group through this acquisition. Details of the acquisition are provided in the table on the next page.

Goodwill of £5.0m arising on the acquisition of minority interests consists of the following:

- £4.3m in respect of the purchase in July 2008 of the 31.8% minority interest in Zinkinvent GmbH. The £4.3m represents the excess of the net consideration of £18.8m over the fair value of the put option recognised on acquisition in respect of the Group's potential obligation to purchase the minorities' shareholdings.
- £0.7m in respect of the purchase in January 2008 of the minority interests in the US fabrication operations of Voigt & Schweitzer Inc. for a consideration of £2.2m.

11. Intangible assets continued

No intangible assets other than goodwill were recognised upon these acquisitions as the Group had previously recognised the intangible assets upon acquiring a majority shareholding in Zinkinvent GmbH in July 2007.

Details of acquisitions are shown below:

| | Creative Pultrusions Inc. pre-acquisition carrying amount £m | Policy alignment and provisional fair value adjustments £m | Creative Pultrusions Inc. £m |
|--|---|--|---------------------------------------|
| Intangible assets | – | 1.5 | 1.5 |
| Property, plant and equipment | 2.4 | – | 2.4 |
| Inventories | 2.0 | – | 2.0 |
| Current assets | 2.8 | – | 2.8 |
| Current liabilities | (2.2) | – | (2.2) |
| Deferred tax (Note 15) | 0.7 | – | 0.7 |
| Non-current liabilities | – | (0.3) | (0.3) |
| Shareholder's equity | 5.7 | 1.2 | 6.9 |
| Consideration | | | |
| Cash consideration in the year | | | 12.4 |
| Expenses | | | 0.4 |
| Total cost | | | 12.8 |
| Goodwill | | | 5.9 |
| Cash flow effect | | | |
| Cash consideration | | | 12.4 |
| Expenses incurred in the year | | | 0.4 |
| Net cash consideration shown in the Consolidated Statement of Cash Flows | | | 12.8 |
| Post acquisition profit for the year included in the Group's Consolidated Income Statement | | | 0.1 |

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

If the above acquisitions had occurred on 1 January 2008 the continuing results of the Group for the year would have shown revenue of £434.5m and a profit for the year of £20.6m.

2007

Goodwill of £37.5m, brands of £9.0m and customer lists of £1.6m arose on the purchase of a further 34.9% in Zinkinvent GmbH to increase the Group's investment to 68.2%. Details of the acquisition are provided in the table on the next page.

The acquisition of minority interests represents the goodwill arising on the purchase of the outstanding 10% shareholding in V&S Inc., the USA holding company within the Zinkinvent Group. The £0.7m goodwill represents the excess of consideration over the carrying value of the minority interest held within reserves (Note 24). The final 1.5% minority interest in Pipe Supports Asia was also acquired during the year.



Notes to the Consolidated Financial Statements continued

11. Intangible assets continued

Table of 2007 subsidiary acquisitions

| | Zinkinvent pre-acquisition carrying amount £m | Policy alignment and fair value adjustments £m | Zinkinvent Total £m | HM Doors £m | Total £m |
|--|---|--|---------------------------|----------------|-------------|
| Intangible assets | 0.3 | 10.6 | 10.9 | – | 10.9 |
| Property, plant and equipment | 29.7 | 7.5 | 37.2 | 0.1 | 37.3 |
| Available for sale financial assets | 5.3 | – | 5.3 | – | 5.3 |
| Subsidiary held exclusively with a view to resale | 12.5 | 4.4 | 16.9 | – | 16.9 |
| Inventories | 21.4 | (1.1) | 20.3 | 0.2 | 20.5 |
| Current assets | 30.7 | (0.4) | 30.3 | – | 30.3 |
| Cash and cash equivalents | 9.0 | – | 9.0 | – | 9.0 |
| Current interest bearing liabilities | (35.6) | – | (35.6) | – | (35.6) |
| Current liabilities | (24.3) | (1.6) | (25.9) | – | (25.9) |
| Deferred tax (Note 15) | (3.9) | (5.6) | (9.5) | – | (9.5) |
| Pension liability | – | (1.2) | (1.2) | – | (1.2) |
| Non-current interest bearing liabilities | (29.6) | 6.9 | (22.7) | – | (22.7) |
| Non-current liabilities | (0.5) | (16.8) | (17.3) | (0.1) | (17.4) |
| Net assets | 15.0 | 2.7 | 17.7 | 0.2 | 17.9 |
| Minority interest | (3.1) | – | (3.1) | – | (3.1) |
| Shareholder's equity | 11.9 | 2.7 | 14.6 | 0.2 | 14.8 |
| Consideration | | | | | |
| Transfer from associate investment | | | 29.2 | – | 29.2 |
| Cash consideration in the year | | | 17.6 | 0.2 | 17.8 |
| Expenses | | | 5.3 | – | 5.3 |
| Total cost | | | 52.1 | 0.2 | 52.3 |
| Goodwill | | | 37.5 | – | 37.5 |
| Cash flow effect | | | | | |
| Cash consideration | | | 17.6 | 0.2 | 17.8 |
| Cash and cash equivalents received in the business | | | (9.0) | – | (9.0) |
| Expenses incurred in the year | | | 2.1 | – | 2.1 |
| Gross return on investment | | | (1.5) | – | (1.5) |
| Net cash consideration shown in the Consolidated Statement of Cash Flows | | | 9.2 | 0.2 | 9.4 |
| Post acquisition profit for the year included in the Group's Consolidated Income Statement | | | 4.4 | – | 4.4 |

Goodwill arising on the acquisition mainly represented the assembled workforce, market share and geographical advantages afforded to the Group.

Cash generating units with significant amounts of goodwill

| | 2008 £m | 2007 £m |
|--|-------------|-------------|
| Continental Europe | 32.0 | 21.3 |
| USA | 35.0 | 19.4 |
| Joseph Ash Limited | 14.3 | 14.3 |
| Other cash generating units with no individually significant value | 16.5 | 22.5 |
| | 97.8 | 77.5 |

Impairment tests on the carrying values of goodwill and the US brand name of £7.0m (2007: £5.5m), which is the Group's only other indefinite life intangible asset, are performed by analysing the carrying value allocated to each significant cash generating unit against its value in use. The Group's accounting policies define cash generating units to be subsidiaries in the UK, but regions in the case of the overseas businesses. All goodwill is allocated to specific cash generating units. 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 and forecast cash flow information for a period not exceeding five years, with the exception of CA Traffic Limited, where a period of seven years has been used, due to the longer incubation period for its technological assets.

11. Intangible assets continued

An impairment charge of £1.9m (2007: £nil) was recognised in respect of the whole of the goodwill relating to Ash & Lacy Perforators Limited, a single cash generating unit which forms part of the Group's Building and Construction Products Division. This charge has been treated as a Non-Underlying Item and is included in continuing administrative expenses for the year. This charge has been recognised in response to a decline in market conditions in the building and consumer products sector. The remainder of this cash generating unit's recoverable amount is calculated on a value in use basis. The discount rate used in the impairment of this business was 9.98%.

Based on past experience and management judgement an average growth rate of 1.0% has been applied for revenues and associated cost growth. The initial measurement of the post tax weighted average cost of capital was 6.98% (pre-tax 9.55%). However, to reflect the differing risks and returns applied to the different cash generating units and the geographies in which they operate, the discount rates and growth rates respectively have been adjusted as follows:

- Continental Europe: 7.98% and 1.0%
- USA: 8.98% and 0.5%
- Joseph Ash Limited: 7.98% and 1.0%

Other cash generating units with no individually significant amounts of goodwill principally consist of subsidiaries in the Building and Construction Products and Infrastructure Products segments.

12. Property, plant and equipment

| | Land and buildings £m | Plant, machinery and vehicles £m | Total £m |
|---|--------------------------|-------------------------------------|--------------|
| Cost | | | |
| At 1 January 2007 | 18.2 | 94.5 | 112.7 |
| Exchange adjustments | 3.5 | 4.2 | 7.7 |
| Acquisitions | 28.4 | 8.9 | 37.3 |
| Assets transferred to held for sale | (0.5) | (0.5) | (1.0) |
| Disposal of subsidiaries | – | (0.2) | (0.2) |
| Additions | 2.7 | 15.8 | 18.5 |
| Disposals | (6.2) | (9.1) | (15.3) |
| At 31 December 2007 | 46.1 | 113.6 | 159.7 |
| Exchange adjustments | 11.6 | 6.4 | 18.0 |
| Acquisitions | 1.6 | 0.8 | 2.4 |
| Disposal of subsidiaries | (1.5) | (7.6) | (9.1) |
| Additions | 5.4 | 12.3 | 17.7 |
| Disposals | (4.2) | (3.8) | (8.0) |
| At 31 December 2008 | 59.0 | 121.7 | 180.7 |
| Depreciation and impairment losses | | | |
| At 1 January 2007 | 1.5 | 60.2 | 61.7 |
| Exchange adjustments | 2.1 | 3.3 | 5.4 |
| Assets transferred to held for sale | – | (0.5) | (0.5) |
| Disposals | (0.2) | (8.0) | (8.2) |
| Charge for the year – Discontinued | 0.1 | 0.6 | 0.7 |
| Charge for the year – Continuing | 0.9 | 7.2 | 8.1 |
| At 31 December 2007 | 4.4 | 62.8 | 67.2 |
| Exchange adjustments | 0.6 | 0.9 | 1.5 |
| Disposal of subsidiaries | (0.4) | (5.2) | (5.6) |
| Disposals | (2.3) | (5.7) | (8.0) |
| Charge for the year – Discontinued | – | 0.6 | 0.6 |
| Charge for the year – Continuing | 2.0 | 9.4 | 11.4 |
| At 31 December 2008 | 4.3 | 62.8 | 67.1 |
| Carrying values | | | |
| At 1 January 2007 | 16.7 | 34.3 | 51.0 |
| At 31 December 2007 | 41.7 | 50.8 | 92.5 |
| At 31 December 2008 | 54.7 | 58.9 | 113.6 |

The gross book value of land and buildings includes freehold land of £12.3m (2007: £9.2m).



Notes to the Consolidated Financial Statements continued

12. Property, plant and equipment continued

Included in the carrying value of plant, machinery and vehicles is £10.4m (2007: £10.9m) 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 £21.5m (2007: £17.4m) and accumulated depreciation of £7.0m (2007: £5.1m).

13. Investment in associate

| | Shares £m | Loan £m | Total £m |
|--|--------------|------------|-------------|
| Carrying values | | | |
| At 1 January 2007 | 20.4 | 6.8 | 27.2 |
| Exchange adjustments | 0.1 | – | 0.1 |
| Share of profit from associate | 3.1 | – | 3.1 |
| Share of exchange differences on translation of overseas operations from associate | (0.1) | – | (0.1) |
| Net investment return | (1.1) | – | (1.1) |
| Transfer to subsidiary investment | (22.4) | (6.8) | (29.2) |
| At 31 December 2007 | – | – | – |
| At 31 December 2008 | – | – | – |

The Group's share of profits from associate, which is stated net of local taxes, was £nil (2007: £3.1m).

14. Available for sale financial assets

| | Total £m |
|--------------------------------|--------------|
| Fair and carrying value | |
| At 1 January 2007 | – |
| Acquisitions | 5.3 |
| Exchange adjustments | 0.4 |
| At 31 December 2007 | 5.7 |
| Exchange adjustments | 1.6 |
| Interest receivable on loan | 0.1 |
| Loan repayment | (1.0) |
| At 31 December 2008 | 6.4 |

Available for sale financial assets consists of the 33.3% shareholding of Vista Investment N.V. in Neholl B.V., a Dutch holding company. Neholl B.V. owns 100% of Nedcoat B.V., a Dutch company with galvanizing businesses in the Benelux region. The Group neither has representation on the Board of Neholl B.V. nor is it able to influence commercial or dividend policy. For this reason the Board considers the Group does not exert significant influence over Neholl. Accordingly, the results of Neholl are not equity accounted into the results of the Group and the investment is instead held as an available for sale financial asset. The fair value of this financial asset has been derived by the Directors from their judgement as to its future profitability and cash flows and its ultimate marketability.

The Group holds a 68.2% share in Vista Investment N.V., the remaining 31.8% minority interest is disclosed in Note 24.

15. Deferred taxation

| | Intangible assets £m | Property, plant and equipment £m | Inventories £m | Retirement obligation £m | Other timing differences £m | Total £m |
|---|----------------------------|---|-------------------|--------------------------------|-----------------------------------|--------------------|
| At 1 January 2007 | (0.1) | (2.7) | – | 3.2 | 0.2 | 0.6 |
| Exchange adjustments | – | – | (0.2) | – | – | (0.2) |
| Acquisition of subsidiaries (Note 11) | (4.0) | (4.1) | (3.1) | 0.3 | 1.4 | (9.5) |
| Credited/(charged) for the year in the Consolidated Income Statement | 0.1 | (0.9) | 0.1 | (0.1) | (0.3) | (1.1) |
| Credited/(charged) for the year in the Consolidated Statement of Recognised Income and Expense | – | – | – | (0.7) | 0.2 | (0.5) |
| At 31 December 2007 | (4.0) | (7.7) | (3.2) | 2.7 | 1.5 | (10.7) |
| Exchange adjustments | (1.3) | (1.0) | (0.8) | – | (0.3) | (3.4) |
| Fair value adjustment | – | – | – | – | (1.4) | (1.4) |
| Acquisition of subsidiaries (Note 11) | – | – | – | – | 0.7 | 0.7 |
| Disposal of subsidiaries (Note 3) | – | 0.3 | – | – | – | 0.3 |
| Credited/(charged) for the year in the Consolidated Income Statement | 0.1 | (1.2) | 0.9 | (1.5) | 0.5 | (1.2) |
| Credited/(charged) for the year in the Consolidated Statement of Recognised Income and Expense | – | – | – | 1.5 | (0.3) | 1.2 |
| At 31 December 2008 | (5.2) | (9.6) | (3.1) | 2.7 | 0.7 | (14.5) |
| | | | | | 2008 £m | 2007 £m |
| Deferred tax assets | | | | | 3.6 | – |
| Deferred tax liabilities | | | | | (18.1) | (10.7) |
| Deferred tax liability | | | | | (14.5) | (10.7) |

No deferred tax asset has been recognised in respect of tax losses of £14.6m (2007: £16.1m) as their future use is uncertain. There is no time limit on the carrying forward of these losses.

No deferred tax liability has been recognised in respect of £66.3m (2007: £32.9m) of undistributed earnings of overseas subsidiaries, as the Group is able to control the timing of remittances so that any tax is not expected to arise in the foreseeable future.

A deferred tax charge of £1.1m (2007: £nil) has been made resulting from a change during the year in the UK tax legislation preventing the recoverability of Industrial Buildings Allowances.

16. Inventories

| | 2008 £m | 2007 £m |
|-------------------------------------|--------------------|------------|
| Raw materials and consumables | 29.2 | 35.6 |
| Work in progress | 8.5 | 6.8 |
| Finished goods and goods for resale | 19.4 | 13.3 |
| | 57.1 | 55.7 |

The amount of inventories expensed to the Consolidated Income Statement in the year was £273.0m (2007: £225.0m). The value of inventories written down and expensed in the Consolidated Income Statement during the year amounted to £1.0m (2007: £0.5m). The amount of inventories held at fair value less cost to sell included in the above was £nil (2007: £0.1m).

17. Trade and other receivables

| | 2008 £m | 2007 £m |
|--|--------------------|------------|
| Other non-current receivables | | |
| Deferred consideration | 1.3 | – |
| Trade and other current receivables | | |
| Trade receivables | 90.6 | 95.8 |
| Prepayments and accrued income | 5.1 | 4.4 |
| Other receivables | 1.5 | 2.0 |
| | 97.2 | 102.2 |



Notes to the Consolidated Financial Statements continued

17. Trade and other receivables continued

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

The charge to the Consolidated Income Statement in the year in respect of impairment of trade receivables was £0.5m (2007: £0.3m).

18. Cash and borrowings

| | 2008 £m | 2007 (Restated) £m |
|--|----------------|--------------------------|
| Cash and cash equivalents in the Balance Sheet | | |
| Cash and bank balances | 18.3 | 35.7 |
| Call deposits | 7.6 | 5.6 |
| Cash | 25.9 | 41.3 |
| Interest bearing loans and borrowings | | |
| Amounts due within one year (Note 19) | (16.7) | (38.5) |
| Amounts due after more than one year (Note 20) | (155.4) | (120.6) |
| Net debt | (146.2) | (117.8) |
| Change in net debt | | |
| Operating profit | 43.4 | 36.4 |
| Non-cash items | 14.8 | 3.6 |
| Operating cash flow before movement in working capital | 58.2 | 40.0 |
| Net movement in working capital | (4.0) | (13.1) |
| Operating cash flow | 54.2 | 26.9 |
| Tax paid | (16.0) | (7.8) |
| Net financing costs paid (net of investment loan settlement) | (7.0) | (5.5) |
| Capital expenditure | (22.5) | (19.6) |
| Sale of fixed assets | 0.7 | 10.4 |
| | 9.4 | 4.4 |
| Dividends paid | (6.6) | (5.4) |
| Disposals (see below) | 29.5 | 0.6 |
| Acquisitions (see below) | (33.8) | (71.0) |
| Issue of new shares | 0.1 | – |
| Net debt increase from continuing operations | (1.4) | (71.4) |
| Net cash inflow from discontinued operations | 5.6 | 3.0 |
| Net debt decrease/(increase) | 4.2 | (68.4) |
| Effect of exchange rate fluctuations | (32.6) | (3.3) |
| Net debt at the beginning of the year | (117.8) | (46.1) |
| Net debt at the end of the year | (146.2) | (117.8) |
| Acquisitions | | |
| Deferred consideration paid in respect of acquisitions | – | (0.7) |
| Acquisitions of minority interests | (21.0) | (2.6) |
| Acquisitions of subsidiaries and associates (Note 11) | (12.8) | (9.4) |
| Interest bearing liabilities on acquisition of subsidiaries and associates (Note 11) | – | (58.3) |
| Total | (33.8) | (71.0) |
| Disposals | | |
| Disposal of subsidiaries | 8.3 | 0.4 |
| Deferred consideration received in respect of disposals | 0.1 | 0.2 |
| Disposal of assets and liabilities held for sale | 21.1 | – |
| Total | 29.5 | 0.6 |

19. Current liabilities

| | 2008 £m | 2007 £m |
|--|-------------|--------------|
| Interest bearing loans and borrowings | | |
| Current portion of long term borrowings | 11.5 | 26.4 |
| Finance lease and hire purchase obligations | 2.7 | 2.6 |
| Bills of exchange | 2.5 | 9.5 |
| | 16.7 | 38.5 |
| Trade and other current liabilities | | |
| Trade payables | 51.9 | 69.8 |
| Other taxation and social security | 13.6 | 12.1 |
| Accrued expenses | 18.0 | 16.5 |
| Dividend | 3.2 | 2.7 |
| Fair value derivatives | 0.2 | – |
| Other payables | 3.8 | 3.1 |
| | 90.7 | 104.2 |

20. Non-current liabilities

| | 2008 £m | 2007 £m |
|--|--------------|--------------|
| Interest bearing loans and borrowings | | |
| Long term borrowings | 150.9 | 115.8 |
| Finance lease and hire purchase obligations | 4.5 | 4.8 |
| | 155.4 | 120.6 |
| Other non-current liabilities | | |
| Deferred government grants | 0.3 | 0.7 |
| Put option | – | 14.5 |
| | 0.3 | 15.2 |

The Articles of Association of Zinkinvent GmbH, in common with many German holding companies, provide all shareholders the right to require Zinkinvent to buy back their shares. This constitutes a put option under IAS 32, which is recognised as a liability in the 2007 Balance Sheet, without regard to the option actually being exercised. The acquisition of the minority interest in Zinkinvent GmbH in July 2008 for a consideration of £18.8m resulted in £4.3m of goodwill (Note 11) and removed this liability.

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:

| | 2008 | | 2007 | | | |
|---|---------------------------|--------------------------|--------------|---------------------------|--------------------------|--------------|
| | 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 | 4.68 | 3.0 | 2.7 | 5.64 | 3.0 | 2.6 |
| Amounts due after more than one year | | | | | | |
| Between one and two years | 4.68 | 2.0 | 1.9 | 5.64 | 3.0 | 2.3 |
| Between two and five years | 4.68 | 2.9 | 2.6 | 5.64 | 2.7 | 2.5 |
| | | 4.9 | 4.5 | | 5.7 | 4.8 |
| | | 7.9 | 7.2 | | 8.7 | 7.4 |
| Principal liability | | 7.2 | | | 7.4 | |
| Finance charges payable on outstanding commitments | | 0.7 | | | 1.3 | |

The unsecured bank borrowings carry a rate of interest of 1.5% above LIBOR/EURIBOR subject to a ratchet as defined in the facility agreement. In the USA bank borrowings that are not fixed (Note 22) are at Prime rate –0.5% and are secured against substantially all of the assets of V&S Inc. and its subsidiaries. Obligations under finance leases and hire purchase obligations are secured on the relevant assets.



Notes to the Consolidated Financial Statements continued

21. Provisions for liabilities and charges

| | Property related £m | Other regulatory £m | Other £m | Total £m |
|----------------------------|------------------------|------------------------|-------------|--------------|
| At 1 January 2007 | 0.8 | – | – | 0.8 |
| Exchange adjustments | 0.2 | 0.1 | – | 0.3 |
| On acquisition | 2.7 | 0.9 | 0.4 | 4.0 |
| Provided during the year | 0.1 | – | – | 0.1 |
| Utilised during the year | – | – | (0.4) | (0.4) |
| At 31 December 2007 | 3.8 | 1.0 | – | 4.8 |
| Exchange adjustments | 1.2 | 0.2 | – | 1.4 |
| On acquisition | – | 0.3 | – | 0.3 |
| Provided during the year | – | 0.3 | – | 0.3 |
| Utilised during the year | (0.1) | – | – | (0.1) |
| At 31 December 2008 | 4.9 | 1.8 | – | 6.7 |

Property provisions relate to potential exposure to environmental costs of properties owned by the Group and dilapidation costs on leasehold properties. Other regulatory provisions relate in the main to employment issues. The Group has sought independent expert valuations where appropriate on these matters, although there are factors outside the Group's control that give rise to uncertainties surrounding these events. The Group does not expect to be reimbursed for any of these future costs.

All provisions relate to ongoing issues which are not anticipated to be resolved or result in a cash outflow within the next 12 months.

22. 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. The Group Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

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 represents the maximum open amount without requiring approval from the Board; these limits are reviewed regularly. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis.

The Group's UK companies represent the majority of the trade receivable at 31 December 2008 with 60.4% (2007: 69.0%) and currently the only geographical region that does not insure their trade receivables is the USA, which represents 12.7% (2007: 8.7%) of the Group's trade debt. The USA has a policy of taking out trade references before granting credit limits and selectively insuring where it is deemed necessary by management.

The Group's policy is to not provide financial guarantees. At 31 December 2008 and 2007, no guarantees were outstanding.

22. Financial instruments continued

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 and as at 31 December 2008 all such debt was covered by cash and cash equivalents netting to £9.2m positive current liquidity (2007: £2.8m). The Group has an amortising £150.0m multi currency facility consisting of fixed term and revolving credit that runs to June 2012. Subsequent to the year end arrangements for the £150m multi currency facility resulted in a revised amortisation of the fixed term, which is consistent with the previous profile and using 2008 year end exchange rates is as follows:

| | £m |
|------|------|
| 2009 | 11.4 |
| 2010 | 18.4 |
| 2011 | 23.2 |
| 2012 | 62.4 |

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 £218.3m.

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.

Currency risk

The Group is primarily UK based and publishes its Consolidated Financial Statements in Sterling, but conducts business in several foreign currencies, including significant operations based in Continental Europe and the USA. 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 through 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.



Notes to the Consolidated Financial Statements continued

22. Financial instruments continued

The Group has US Dollar and Euro arrangements which are held locally and are detailed in the following table, the US Dollar notional amounts representing approximately 33.4% (2007: 36.0%) of the US Dollar year end gross borrowings.

| Country | Financial instrument | Maturity date | Rate % | Notional amounts 2008 \$m |
|---------|----------------------|-------------------|--------|---------------------------|
| USA | Swap | 1 March 2009 | 7.80 | – |
| USA | Swap | 1 April 2010 | 3.11 | 2.1 |
| USA | Swap | 1 February 2011 | 5.72 | 0.2 |
| USA | Swap | 1 July 2012 | 4.22 | 1.8 |
| USA | Swap | 1 October 2015 | 4.79 | 1.4 |
| | | | | 5.5 |
| | | | | €m |
| Belgium | Cap | 30 September 2009 | 4.30 | 4.5 |
| Belgium | Cap | 31 December 2010 | 4.30 | 1.7 |
| | | | | 6.2 |

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 2008 and 2007.

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.

| | At fair value through the Consolidated Income Statement £m | Available for sale £m | Amortised cost £m | Total carrying value £m | Fair value £m |
|--|--|-----------------------|-------------------|-------------------------|----------------|
| Cash and cash equivalents | – | – | 25.9 | 25.9 | 25.9 |
| Interest bearing loans due within one year | – | – | (16.7) | (16.7) | (16.7) |
| Interest bearing loans due after one year | – | – | (155.4) | (155.4) | (155.4) |
| Derivative liabilities | (0.2) | – | – | (0.2) | (0.2) |
| Other assets | – | 6.4 | 93.4 | 99.8 | 99.8 |
| Other liabilities | – | – | (73.7) | (73.7) | (73.7) |
| Total at 31 December 2008 | (0.2) | 6.4 | (126.5) | (120.3) | (120.3) |
| Cash and cash equivalents | – | – | 41.3 | 41.3 | 41.3 |
| Interest bearing loans due within one year | – | – | (38.5) | (38.5) | (38.5) |
| Interest bearing loans due after one year | – | – | (120.6) | (120.6) | (120.6) |
| Put option | – | – | (14.5) | (14.5) | (14.5) |
| Other assets | – | 5.7 | 97.8 | 103.5 | 103.5 |
| Other liabilities | – | – | (89.4) | (89.4) | (89.4) |
| Total at 31 December 2007 | – | 5.7 | (123.9) | (118.2) | (118.2) |

22. Financial instruments continued

The Group's financial assets, excluding short term receivables, consist mainly of cash, call deposit accounts and available for sale financial assets (Note 14), which represent a 33.3% holding in Neholl B.V. and a 19.5% holding in an unlisted company whose fair value cannot be accurately measured and is fully written down.

Where cash surpluses arise in the short term, interest is earned based on a floating rate related to bank base rate or LIBOR/EURIBOR. Where the Group's funding requirements allow longer term investment of surplus cash, management will review available options to obtain the best possible return whilst maintaining an appropriate degree of access to the funds.

The Group's financial liabilities, excluding short term creditors, are set out below. Fixed rate financial liabilities comprise Sterling, Euro and US Dollar denominated finance leases and hire purchase agreements and bank loans. Floating rate financial liabilities comprise Sterling, Euro and US Dollar bank loans and overdrafts, and Sterling finance leases and hire purchase agreements. The floating rate financial liabilities bear interest at rates related to bank base rates or LIBOR/EURIBOR.

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

The UK Parent Company holds Euro £77.8m (2007: £97.2m) and US Dollar £38.7m (2007: £nil) denominated interest bearing loans, which is predominantly used to fund its European and United States operations and includes £78.0m (2007: £37.6m) designated as a hedge of the net investment in a foreign operation. The foreign currency loss of £21.6m (2007: £3.1m) for the effective portion was recognised directly in equity netted against exchange differences on translation of foreign operations, any ineffective portion recognised in the Consolidated Income Statement is insignificant.

Fixed rate financial liabilities

| | Weighted average interest rate % | Weighted average period for which rate is fixed Years |
|--------------------------------------|----------------------------------|---|
| Sterling at 31 December 2008 | 5.7 | 1.7 |
| US Dollar at 31 December 2008 | 4.0 | 3.2 |
| US Dollar at 31 December 2007 | 4.0 | 4.2 |

(c) Maturity profile

The table below sets out the contractual maturity of the Group's financial liabilities, including estimated interest payments:

| | 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 | 11.5 | (13.2) | (1.5) | (4.0) | (3.1) | (4.6) |
| Unsecured bank borrowings | 150.9 | (164.1) | (14.4) | (18.9) | (130.7) | (0.1) |
| Finance lease obligations | 7.2 | (7.9) | (3.0) | (2.0) | (2.9) | – |
| Bills of exchange | 2.5 | (2.6) | (2.6) | – | – | – |
| Other liabilities | 73.7 | (73.7) | (73.7) | – | – | – |
| Derivative liabilities | 0.2 | (0.2) | – | (0.1) | (0.1) | – |
| Total at 31 December 2008 | 246.0 | (261.7) | (95.2) | (25.0) | (136.8) | (4.7) |
| Secured bank borrowings | 11.3 | (12.5) | (2.8) | (5.7) | (2.1) | (1.9) |
| Unsecured bank borrowings | 130.9 | (158.7) | (31.5) | (15.8) | (111.4) | – |
| Finance lease obligations | 7.4 | (8.7) | (3.0) | (3.0) | (2.7) | – |
| Bills of exchange | 9.5 | (9.6) | (9.6) | – | – | – |
| Put option | 14.5 | (17.5) | – | (3.5) | (10.5) | (3.5) |
| Other liabilities | 89.4 | (89.4) | (89.4) | – | – | – |
| Total at 31 December 2007 | 263.0 | (296.4) | (136.3) | (28.0) | (126.7) | (5.4) |



Notes to the Consolidated Financial Statements continued

22. Financial instruments continued

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

| | 2008 £m | 2007 £m |
|---|-------------|------------|
| Undrawn committed borrowing facilities | | |
| Expiring after more than one year | 21.1 | 25.9 |

Subsequent to the year end the Group has increased its committed borrowing facilities by a further £22.5m through an extension of its £150m multi currency facility and additional finance leases.

(d) Fair values

The loss in the year on the fixed rate interest swaps was £0.0m (2007: £0.3m) which is the result of US Dollar interest rates remaining lower than when the derivative was taken out. The fair value of unhedged forward exchange contracts realised in the Consolidated Income Statement as part of fair value derivatives amounted to a cost of £0.2m (2007: £0.0m). The values of the Group's other financial instruments at 31 December 2008 and 2007 were not materially different to the carrying value. Fair values were calculated using market rates where available, otherwise cash flows were discounted at prevailing rates.

The Group has impaired £1.9m (2007: £0.0m) of the carrying value of goodwill as detailed in Note 11.

(e) Credit risk

Exposure to credit risk

The exposure to credit risk is substantially mitigated by the credit insurance employed by the Group, however, in the absence of this insurance the maximum credit exposure on the carrying value of financial assets at the reporting date was:

Carrying amount

| | 2008 £m | 2007 £m |
|-------------------------------------|--------------|------------|
| Available for sale financial assets | 6.4 | 5.7 |
| Loans and receivables | 93.4 | 97.8 |
| Cash at the end of the year | 25.9 | 41.3 |
| Total | 125.7 | 144.8 |

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

Carrying value of trade receivables by geographic region

| | 2008 £m | 2007 £m |
|--------------------------|-------------|------------|
| UK | 54.7 | 62.8 |
| Rest of Europe | 23.2 | 21.7 |
| USA | 11.5 | 8.0 |
| Asia and the Middle East | 1.2 | 2.7 |
| Rest of the World | – | 0.6 |
| Total | 90.6 | 95.8 |

Carrying value of trade receivables by business segment

| | 2008 £m | 2007 £m |
|------------------------------------|-------------|------------|
| Infrastructure Products | 36.7 | 31.3 |
| Galvanizing Services | 30.0 | 33.8 |
| Building and Construction Products | 23.9 | 30.7 |
| Total | 90.6 | 95.8 |

22. Financial instruments continued

Impairment losses

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

The ageing of trade receivables at the reporting date was:

| | Gross £m | Provisions £m | 2008 Net £m | Gross £m | Provisions £m | 2007 Net £m |
|----------------------|-------------|------------------|-------------------|-------------|------------------|-------------------|
| Not past due | 61.5 | (0.1) | 61.4 | 64.1 | – | 64.1 |
| Past due 1–30 days | 19.7 | – | 19.7 | 20.3 | (0.1) | 20.2 |
| Past due 31–120 days | 9.3 | (0.2) | 9.1 | 10.9 | (0.2) | 10.7 |
| More than 120 days | 2.9 | (2.5) | 0.4 | 3.1 | (2.3) | 0.8 |
| Total | 93.4 | (2.8) | 90.6 | 98.4 | (2.6) | 95.8 |

(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 £1.3m (2007: £0.6m), which would directly impact on the Consolidated Income Statement.
- Based on a 10% weakening in Sterling against all currencies throughout the year, the impact on the Consolidated Income Statement would have been a gain of £1.3m (2007: £1.1m) and the impact directly in equity would have been a gain of £1.4m (2007: £1.0m).
- Based on a 10% strengthening in Sterling against all currencies throughout the year, the impact on the Consolidated Income Statement would have been a loss of £1.1m (2007: £0.9m) and the impact directly in equity would have been a loss of £1.1m (2007: £0.8m).

23. Called up share capital

| | 2008 £m | 2007 £m |
|---|------------|------------|
| Authorised | | |
| 100,000,000 Ordinary Shares of 25p each | 25.0 | 25.0 |
| Allotted, called up and fully paid | | |
| 75,638,724 Ordinary Shares of 25p each (2007: 75,580,028) | 18.9 | 18.9 |

In 2008 the Company issued 58,696 shares under its various share option schemes (2007: 32,369), realising £0.1m (2007: £0.0m).



Notes to the Consolidated Financial Statements continued

23. Called up share capital continued

Options outstanding over the Company's shares

| | Number of shares | 2008 Option price (p) | Number of shares | 2007 Option price (p) | Date first exercisable | Expiry date |
|---|------------------|-----------------------|------------------|-----------------------|------------------------|----------------|
| 1995 Executive Share Option Scheme | – | 69 | 14,000 | 69 | 4 August 2002 | 4 August 2009 |
| | 10,000 | 70 | 10,000 | 70 | 2 July 2004 | 2 July 2011 |
| 2008 LTIP Award (granted March 2008)* | 205,749 | – | – | – | § | § |
| 2007 LTIP Award (granted July 2007)* | 103,045 | – | 103,045 | – | § | § |
| 2005 Executive Share Option Scheme (granted October 2005)* | 280,018 | 205 | 309,310 | 205 | 4 October 2008 | 4 October 2015 |
| 2005 Non-Approved Executive Share Option Scheme (granted October 2005)* | 214,970 | 205 | 224,857 | 205 | 4 October 2008 | 4 October 2015 |
| 2007 Executive Share Option Scheme (granted April 2007)* | 298,459 | 350 | 315,605 | 350 | 13 April 2010 | 13 April 2017 |
| 2007 Non-Approved Executive Share Option Scheme (granted April 2007)* | 492,541 | 350 | 532,395 | 350 | 13 April 2010 | 13 April 2017 |
| 2008 grant of 2005 Savings Related Share Option Scheme (granted January 2008)*† | 113,529 | 318 | – | – | 1 January 2011 | 1 July 2011 |
| 2008 grant of 2005 Savings Related Share Option Scheme (granted January 2008)*† | 250,020 | 318 | – | – | 1 January 2013 | 1 July 2013 |
| 2005 grant of 1995 Savings Related Share Option Scheme (granted January 2005)*† | 981,167 | 100 | 1,065,631 | 100 | 1 January 2010 | 1 July 2010 |
| Outstanding at the end of the year | 2,949,498 | | 2,574,843 | | | |
| Exercisable at the year end | 504,988 | | 24,000 | | | |
| Not exercisable at the year end | 2,444,510 | | 2,550,843 | | | |
| Outstanding at the end of the year | 2,949,498 | | 2,574,843 | | | |

* 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 2010 for the 2007 grant and 1 January 2011 for the 2008 grant.

The remaining weighted average life of the outstanding share options is 4 years 7 months (2007: 5 years 10 months).

The movement and weighted average exercise prices of share options during the year:

| | Weighted average exercise price (p) 2008 | Number of options 2008 | Weighted average exercise price (p) 2007 | Number of options 2007 |
|---|--|------------------------|--|------------------------|
| Outstanding at the beginning of the year | 200 | 2,574,843 | 134 | 1,770,526 |
| Granted during the year | 251 | 993,494 | 312 | 951,045 |
| Exercised during the year | (119) | (58,696) | (148) | (32,369) |
| Lapsed during the year | (295) | (560,143) | (131) | (114,359) |
| Outstanding at the end of the year | 201 | 2,949,498 | 200 | 2,574,843 |

The weighted average share price on the dates of exercise during the year for the above share options was 289p (2007: 354p).

23. Called up share capital continued

Share-based payments

All option schemes marked as being subject to share-based payments have 2005, 2007 or 2008 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. 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.

| | 2008 LTIP Award | 2007 LTIP Award | 2008 grant of 2005 Savings Related Share Option Scheme | 2005 grant of 1995 Savings Related Share Option Scheme | 2007 grant of 2005 Share Option Schemes | 2005 grant of 2005 Share Option Schemes |
|------------------------------------|-----------------------|-----------------------|--|--|--|--|
| Fair value at measurement date (p) | 318 | 328 | 51/49 | 37 | 59 | 34 |
| Share price at grant date (p) | 330 | 367 | 394 | 120 | 351 | 208 |
| Exercise price (p) | 0 | 0 | 318 | 100 | 350 | 205 |
| Expected volatility (%) | 29 | 22 | 29/27 | 36 | 22 | 36 |
| Option life (years) | 3 | 3 | 3/5 | 5 | 3 | 3 |
| Dividend yield (%) | 4.6 | 3.7 | 4.6 | 3.7 | 3.7 | 3.7 |
| Risk free interest rate (%) | 3.8 | 5.1 | 4.0 | 4.5 | 5.1 | 4.5 |

The expected volatility is wholly based on the historic 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:

| | 2008 £m | 2007 £m |
|--------------------------|------------|------------|
| Expensed during the year | 0.3 | 0.3 |

24. Share premium and reserves

| | Share premium £m | Capital redemption reserve £m | Other reserves £m | Translation reserve £m | Retained earnings £m | Minority interest £m |
|--|------------------------|--|-------------------------|------------------------------|----------------------------|----------------------------|
| At 1 January 2007 | 27.8 | 0.2 | 4.3 | (0.2) | 26.0 | – |
| Total recognised income and expense for the year | – | – | – | 2.4 | 22.7 | 0.3 |
| Dividends | – | – | – | – | (5.9) | – |
| Acquisition of subsidiaries | – | – | – | – | – | 3.1 |
| Acquisition of minorities | – | – | – | – | – | (1.9) |
| Credit to equity of share-based payments | – | – | – | – | 0.3 | – |
| At 31 December 2007 | 27.8 | 0.2 | 4.3 | 2.2 | 43.1 | 1.5 |
| Total recognised income and expense for the year | – | – | – | 7.0 | 18.2 | 0.4 |
| Dividends | – | – | – | – | (7.1) | – |
| Acquisition of subsidiaries | – | – | – | – | – | 1.7 |
| Acquisition of minorities | – | – | – | – | – | (1.5) |
| Credit to equity of share-based payments | – | – | – | – | 0.3 | – |
| Shares issued | 0.1 | – | – | – | – | – |
| At 31 December 2008 | 27.9 | 0.2 | 4.3 | 9.2 | 54.5 | 2.1 |

In January 2008 the outstanding minority interests in the three fabrication businesses under Voigt & Schweitzer, Inc., the American holding company within the Zinkinvent Group, were purchased for a consideration of £2.2m.



Notes to the Consolidated Financial Statements continued

24. Share premium and reserves continued

Other reserves represent the premium on shares issued in exchange for shares of subsidiaries acquired. The Group has taken advantage of Section 131 of the Companies Act 1985.

The minority interest of £1.7m arose on the Group's purchase of a 68.2% interest in Vista Investment N.V., a Belgian holding company whose principal asset is a 33.3% shareholding in Neholl B.V., a Dutch holding company with galvanizing businesses in the Benelux region, which is held as an available for sale financial asset as disclosed in Note 14.

25. Guarantees and other financial commitments

(a) Guarantees

The Group had no financial guarantee contracts outstanding (2007: £nil).

(b) Capital commitments

| | 2008 £m | 2007 £m |
|---|------------|------------|
| Contracted for but not provided in the accounts | 0.3 | 1.0 |

(c) Operating lease commitments

The total future minimum commitments payable under non-cancellable operating leases fall into the periods as follows:

| | Land and buildings £m | 2008 Other £m | Land and buildings £m | 2007 Other £m |
|----------------------------|-----------------------------|---------------------|-----------------------------|---------------------|
| Group | | | | |
| Within one year | 5.4 | 1.8 | 4.3 | 2.2 |
| Between one and two years | 5.0 | 1.6 | 4.2 | 1.9 |
| Between two and five years | 13.3 | 1.7 | 11.7 | 2.4 |
| After five years | 26.7 | – | 28.7 | 0.2 |
| | 50.4 | 5.1 | 48.9 | 6.7 |

The total future minimum commitments receivable under non-cancellable operating leases fall into the periods as follows:

| | Land and buildings £m | 2008 Other £m | Land and buildings £m | 2007 Other £m |
|----------------------------|-----------------------------|---------------------|-----------------------------|---------------------|
| Group | | | | |
| Within one year | 0.5 | 5.5 | 0.4 | 5.7 |
| Between one and five years | 1.7 | 3.5 | 1.7 | 3.7 |
| After five years | 0.9 | – | 1.2 | – |
| | 3.1 | 9.0 | 3.3 | 9.4 |

26. Pensions

Total

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

| | UK £m | Overseas £m | 2008 £m | UK £m | Overseas £m | 2007 £m |
|--|---------------|----------------|---------------|----------|----------------|------------|
| Total fair value of scheme assets | 46.4 | 0.2 | 46.6 | 63.6 | 0.1 | 63.7 |
| Present value of scheme funded obligations | (56.8) | (1.4) | (58.2) | (72.2) | (0.9) | (73.1) |
| Present value of scheme unfunded obligations | – | (0.2) | (0.2) | – | (0.3) | (0.3) |
| Retirement benefit obligation | (10.4) | (1.4) | (11.8) | (8.6) | (1.1) | (9.7) |

26. Pensions continued

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, 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 is also a separate Group personal pension plan operated by one of the Group's subsidiaries.

The Consolidated Income Statement for the year includes a pension charge of £2.5m (2007: £2.3m), which includes the costs of the defined contribution scheme and the defined benefit scheme and which are detailed below.

All actuarial gains and losses are recognised immediately in the Consolidated Statement of Recognised Income and Expense.

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 2006 and was updated to 31 December 2008 by a qualified Actuary.

The principal assumptions used by the Actuary

| | 2008 | 2007 | 2006 | 2005 | 2004 |
|--------------------------------------|-----------------|----------|----------|-----------|----------|
| Rate of increase in salaries | 2.70% | 4.80% | 4.50% | 4.00% | 3.90% |
| Rate of increase in pensions payment | 2.60% | 3.30% | 3.00% | 2.80% | 2.65% |
| Discount rate | 6.50% | 5.70% | 5.20% | 4.75% | 5.60% |
| Inflation | 2.70% | 3.40% | 3.10% | 2.90% | 2.75% |
| Mortality table | PA92YOB* | PA92YOB* | PA92YOB* | PA92C2005 | PA92Base |

* With the addition of the short cohort for the Hill & Smith Executive Pension Scheme, approximately 1.5 years is added to the life expectancies shown below:

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

| | 2008 | 2007 | 2006 | 2005 | 2004 |
|---------------------------|-------------------|------------|------------|------------|------------|
| Males currently aged 45 | 21.0 years | 20.9 years | 20.9 years | 18.5 years | 16.9 years |
| Females currently aged 45 | 24.0 years | 23.9 years | 23.9 years | 21.4 years | 19.9 years |
| Males currently aged 65 | 19.8 years | 19.6 years | 19.6 years | 18.5 years | 16.9 years |
| Females currently aged 65 | 22.8 years | 22.7 years | 22.7 years | 21.4 years | 19.9 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.



Notes to the Consolidated Financial Statements continued

26. Pensions continued

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 value 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 2008 % | Market value 2008 £m | Rate of return expected 2007 % | Market value 2007 £m | Rate of return expected 2006 % | Market value 2006 £m |
|--|--|-------------------------------|--|-------------------------------|--|-------------------------------|
| Assets | | | | | | |
| Equities | 8.40 | 10.7 | 8.00 | 21.2 | 8.00 | 40.0 |
| Bonds | 6.50 | 25.3 | 5.70 | 28.5 | 5.20 | 6.8 |
| Gilts | 0.00 | – | 4.60 | – | 4.60 | 3.5 |
| With profits policies | 5.30 | 2.9 | 5.90 | 4.8 | 5.80 | 9.1 |
| Hedge funds | 8.00 | 5.0 | 8.00 | 5.7 | 0.00 | – |
| Currency funds | 8.40 | 2.1 | 8.40 | 2.6 | 0.00 | – |
| Cash | 3.70 | 0.4 | 4.50 | 0.8 | 4.60 | 3.0 |
| Total fair value of scheme assets | 7.08 | 46.4 | 6.92 | 63.6 | 7.02 | 62.4 |
| Present value of scheme funded obligations | | (56.8) | | (72.2) | | (72.9) |
| Retirement benefit obligation | | (10.4) | | (8.6) | | (10.5) |

| | Rate of return expected 2005 % | Market Value 2005 £m | Rate of return expected 2004 % | Market Value 2004 £m |
|--|--|-------------------------------|--|-------------------------------|
| Assets | | | | |
| Equities | | 7.50 | 8.00 | 29.3 |
| Bonds | | 4.75 | 5.60 | 6.2 |
| Gilts | | 4.10 | 4.75 | 3.1 |
| With profits policies | | 5.25 | 6.10 | 10.1 |
| Cash | | 4.10 | 4.75 | 1.5 |
| Other | | 0.00 | 8.00 | 0.4 |
| Total fair value of scheme assets | | 6.49 | 7.03 | 50.6 |
| Present value of scheme funded obligations | | | (71.4) | (57.2) |
| Retirement benefit obligation | | | (13.9) | (6.6) |

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 profit 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.

26. Pensions continued

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

| | Defined contribution schemes £m | 2008 Defined benefit schemes £m | Total £m | Defined contribution schemes £m | 2007 Defined benefit schemes £m | Total £m |
|--|------------------------------------|------------------------------------|-------------|------------------------------------|------------------------------------|-------------|
| Current service costs | 1.6 | 0.9 | 2.5 | 1.4 | 0.9 | 2.3 |
| Gain on curtailments and settlements | – | (1.8) | (1.8) | – | – | – |
| Charge/(credit) to operating profit | 1.6 | (0.9) | 0.7 | 1.4 | 0.9 | 2.3 |
| Expected return on pension scheme assets | – | (4.4) | (4.4) | – | (4.4) | (4.4) |
| Expected interest cost on pension scheme obligations | – | 4.1 | 4.1 | – | 3.8 | 3.8 |
| Total charged/(credited) to profit before tax | 1.6 | (1.2) | 0.4 | 1.4 | 0.3 | 1.7 |

Change in the present value of the defined benefit obligations

| | 2008 £m | 2007 £m |
|--|-------------|------------|
| Opening defined benefit obligations | 72.2 | 72.9 |
| Current service costs | 0.9 | 0.9 |
| Expected interest cost | 4.1 | 3.8 |
| Actuarial gains | (10.9) | (2.6) |
| Liabilities extinguished on settlement | (4.9) | – |
| Employee contributions | 0.2 | 0.2 |
| Benefits paid | (4.8) | (3.0) |
| Closing defined benefit obligations | 56.8 | 72.2 |

Changes in fair values of scheme assets

| | 2008 £m | 2007 £m |
|--|---------------|------------|
| Opening fair value of assets | 63.6 | 62.4 |
| Expected return on assets | 4.4 | 4.4 |
| Actuarial losses | (16.2) | (2.0) |
| Employer contributions | 2.3 | 1.6 |
| Employee contributions | 0.2 | 0.2 |
| Benefits paid | (4.8) | (3.0) |
| Assets distributed on settlements | (3.1) | – |
| Closing fair value of assets | 46.4 | 63.6 |
| Actual return on scheme assets | (11.8) | 2.4 |
| Expected employer contributions in the following year | | |
| Defined benefit schemes | 1.3 | 1.8 |
| Defined contribution schemes | 1.5 | 1.4 |



Notes to the Consolidated Financial Statements continued

26. Pensions continued

Amounts recognised in the Consolidated Statement of Recognised Income and Expense

| | % of scheme assets/ liabilities % | 2008 £m | % of scheme assets/ liabilities % | 2007 £m | % of scheme assets/ liabilities % | 2006 £m |
|---|--|---------------|--|------------|--|------------|
| Difference between actual and expected return on scheme assets | (35) | (16.2) | (3) | (2.0) | 3 | 2.0 |
| Experienced gain/(loss) on scheme obligations | (1) | (0.7) | (1) | (0.8) | 1 | 0.7 |
| Changes in assumptions underlying the present value of scheme obligations | 20 | 11.6 | 5 | 3.4 | (2) | (1.2) |
| Annual amount recognised | (9) | (5.3) | 1 | 0.6 | 2 | 1.5 |
| Total amount recognised | | (15.3) | | (10.0) | | (10.6) |

Amounts recognised in the Consolidated Statement of Recognised Income and Expense

| | % of scheme assets/ liabilities % | 2005 £m | % of scheme assets/ liabilities % | 2004 £m |
|---|--|------------|--|------------|
| Difference between actual and expected return on scheme assets | 9 | 5.0 | 1 | 0.5 |
| Experienced gain/(loss) on scheme obligations | 0 | (0.3) | (1) | 0.4 |
| Changes in assumptions underlying the present value of scheme obligations | (18) | (12.8) | (9) | (4.9) |
| Annual amount recognised | (11) | (8.1) | (7) | (4.0) |
| Total amount recognised | | (12.1) | | (4.0) |

Overseas

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

The Group also operates defined contributions with plans in the USA. The amount contributed to these plans during the year was £0.1m (six months to 31 December 2007: £0.0m).

The Consolidated Income Statement for the year includes a pension charge of £0.1m (six months to 31 December 2007: £0.2m), which includes the costs of the defined contribution scheme and the defined benefit scheme as detailed below.

All actuarial gains and losses are recognised immediately in the Consolidated Statement of Recognised Income and Expense.

Composition of the scheme

The Group operates defined benefit schemes in France. An actuarial valuation of the schemes was carried out by an independent Actuary as at 31 December 2008.

The principal assumptions used by the Actuary

| | 2008 | 2007 |
|--|-----------|--------------------|
| Rate of increase in salaries | 2.00% | 2.00–3.00% |
| Discount rate | 5.50% | 5.25% |
| Inflation | 2.00% | 2.00% |
| Expected long term rate of return on plan assets | 4.50% | 4.50% |
| Mortality table | TG H/F 05 | MR/FR INSEE 98 H/F |

26. Pensions continued

Assets and liabilities

The fair value 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 2008 % | Market value 2008 £m | Rate of return expected 2007 % | Market value 2007 £m |
|--|--|-------------------------------|--|-------------------------------|
| Assets | | | | |
| Cash and other insured fixed interest assets | 4.50 | 0.2 | 4.50 | 0.1 |
| Total fair value of scheme assets | 4.50 | 0.2 | 4.50 | 0.1 |
| Present value of scheme funded obligations | | (1.4) | | (0.9) |
| Present value of scheme unfunded obligations | | (0.2) | | (0.3) |
| Retirement benefit obligation | | (1.4) | | (1.1) |

Cash and other insured fixed interest assets – where assets are held in cash or a policy with a fixed interest asset allocation, the expected long term rate of return is taken to be the yields generally prevailing on such assets as at the Balance Sheet date.

Total expense recognised in the Consolidated Income Statement

| | Defined contribution schemes £m | 2008 Defined benefit schemes £m | Total £m | Defined contribution schemes £m | 2007 Defined benefit schemes £m | Total £m |
|--|--|---|--------------|--|---|-------------|
| Current service cost | 0.1 | – | 0.1 | 0.1 | 0.1 | 0.2 |
| Gain on curtailments and settlements | – | (0.2) | (0.2) | – | (0.2) | (0.2) |
| Charge/(credit) to operating profit | 0.1 | (0.2) | (0.1) | 0.1 | (0.1) | – |
| Expected interest cost on pension scheme obligations | – | 0.1 | 0.1 | – | – | – |
| Total charged/(credited) to profit before tax | 0.1 | (0.1) | – | 0.1 | (0.1) | – |

The majority of the current service cost of the defined benefit scheme is charged through administrative expenses.

Change in the present value of the defined benefit obligation

| | 2008 £m | 2007 £m |
|---|------------|------------|
| Opening defined benefit obligation | 1.2 | – |
| Acquisition | – | 1.3 |
| Current service costs | – | 0.1 |
| Expected interest cost | 0.1 | – |
| Actuarial losses | 0.1 | – |
| Benefits paid | – | (0.1) |
| Gain on curtailments and settlements | (0.2) | (0.2) |
| Exchange adjustments | 0.4 | 0.1 |
| Closing defined benefit obligation | 1.6 | 1.2 |



Notes to the Consolidated Financial Statements continued

26. Pensions continued

Changes in fair values of scheme assets

| | 2008 £m | 2007 £m |
|--|------------|------------|
| Opening fair value of assets | 0.1 | – |
| Acquisition | – | 0.1 |
| Employer contributions | – | 0.1 |
| Benefits paid | – | (0.1) |
| Exchange adjustments | 0.1 | – |
| Closing fair value of assets | 0.2 | 0.1 |
| Actual return on scheme assets | – | – |
| Expected employer contributions in the following year | | |
| Defined benefit schemes | – | 0.1 |
| Defined contribution schemes | 0.1 | 0.2 |

Amounts recognised in the Consolidated Statement of Recognised Income and Expense

| | % of scheme assets/ liabilities % | 2008 £m | % of scheme assets/ liabilities % | 2007 £m |
|--|--|--------------|--|--------------|
| Experienced loss on scheme obligations | (9) | (0.1) | 0 | – |
| Exchange rate loss on assets and liabilities | n/a | (0.3) | 0 | (0.1) |
| Amount recognised in the period | | (0.4) | | (0.1) |
| Total amount recognised | | (0.5) | | (0.1) |

27. 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 26).

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 11.

Share-based payments

In valuing the share-based payments charged in the Group's accounts, the Company has used the Black-Scholes calculation model, which makes 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 23.

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 of 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 21.

27. Accounting estimates, assumptions and judgements continued

Deferred taxation

Deferred taxation has been estimated using the best information available, including seeking the opinion of independent experts where applicable (Note 15).

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 11. 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, knowhow, 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 brand which has been successfully trading since 1956. Customer relationships have been valued based on discounted forecast turnover rates and have been deemed to have a useful economic life of five years based upon the average expected length of relationships with customers.

Fair value of available for sale financial assets

The Group's investment in Neholl B.V. included as an available for sale financial asset is held at fair value, which inherently requires a degree of estimation of its potential realisable value on sale, future earnings and cash flows. Further information regarding this asset is included in Note 14.

28. 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 37 to 43. The compensation in total for each category required by IAS24 is as follows:

| | 2008 £m | 2007 £m |
|---|------------|------------|
| Salaries and short term employee benefits | 1.3 | 2.4 |
| Non-executive Directors' fees | 0.1 | 0.1 |
| Share-based payments | 0.2 | 0.1 |
| | 1.6 | 2.6 |

During the year the Group had some minor transactions with GIL investments Limited of which D L Grove was during the year a major shareholder. All of these transactions were undertaken on an arm's length basis.



Company Balance Sheet

As at 31 December 2008

| | Notes | 2008 £m | 2007 £m |
|--|-------|----------------|------------|
| Fixed assets | | | |
| Tangible assets | 4 | 0.2 | 0.2 |
| Investments | 5 | 330.4 | 195.5 |
| | | 330.6 | 195.7 |
| Current assets | | | |
| Debtors | 6 | 56.8 | 87.8 |
| Cash at bank and in hand | | 7.5 | – |
| | | 64.3 | 87.8 |
| Creditors: amounts falling due within one year | | | |
| Bank loans and overdrafts | 7–8 | (33.3) | (38.6) |
| Other creditors | 7 | (64.9) | (76.1) |
| | | (98.2) | (114.7) |
| Net current liabilities | | (33.9) | (26.9) |
| Total assets less current liabilities | | 296.7 | 168.8 |
| Creditors: amounts falling due after more than one year | 8 | (230.9) | (100.8) |
| Net assets | | 65.8 | 68.0 |
| Share capital and reserves | | | |
| Called up share capital | 10 | 18.9 | 18.9 |
| Share premium | 11 | 27.9 | 27.8 |
| Capital redemption reserve | 11 | 0.2 | 0.2 |
| Profit and loss account | 11 | 18.8 | 21.1 |
| Equity shareholders' funds | | 65.8 | 68.0 |

Approved by the Board of Directors on 10 March 2009 and signed on its behalf by:

D W Muir
Director

D L Grove
Director

Company Reconciliation of Movements in Shareholders' Funds

As at 31 December 2008

| | 2008 £m | 2007 £m |
|--|---------------|------------|
| Loss for the year | (13.0) | (8.8) |
| Dividends received | 17.5 | – |
| Dividends expensed | (7.1) | (5.9) |
| Credit to equity of share-based payments | 0.3 | 0.3 |
| Shares issued in the year | 0.1 | – |
| Net decrease in shareholders' funds | (2.2) | (14.4) |
| Opening shareholders' funds | 68.0 | 82.4 |
| Closing shareholders' funds | 65.8 | 68.0 |



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 230(4) of the Companies Act 1985 the Company is exempt from the requirement to present its own Profit and Loss Account.

Under FRS 1 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 FRS 8 Related Party Disclosures and has not disclosed transactions or balances with entities which form part of the Group.

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 therefore are 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, in accordance with FRS 26, 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 FRS 29 and has taken the exemption under that standard from disclosure on the grounds that the Consolidated Financial Statements contain disclosures in compliance with IFRS 7 in Note 22.

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.

The principal financial instruments utilised by the Company are interest rate swaps. These instruments are used for hedging purposes in line with the Group's risk management policy. Interest differentials are taken to net interest in the Profit and Loss Account.

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

Tangible fixed assets and depreciation

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

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

Leases

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

Pension scheme arrangements

The Company participates in the Hill & Smith Executive Pension Scheme and the Hill & Smith Pension Scheme, as described in Note 13. 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 FRS 17. 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 after 7 November 2002 and those not yet vested by 31 December 2004 are not recognised as an employee expense. Those vested since 1 January 2005 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 substantially 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 FRS 19.

Ordinary dividends

Dividends payable are accounted in the Company's Financial Statements when the Company is committed to the payment of the dividend. Dividends receivable are accounted for on a cash accounting basis.

Financial guarantees

Where the Company enters into financial guarantee contracts to secure the indebtedness of other companies within its Group, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.



Notes to the Company Financial Statements

1. Profit on ordinary activities before taxation

| | 2008 £m | 2007 £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. Employees

| | 2008 | 2007 |
|---|------------|-----------|
| The average number of people employed by the Company during the year | | |
| Administrative staff | 16 | 14 |
| | £m | £m |
| The aggregate remuneration for the year | | |
| Wages and salaries | 2.3 | 2.2 |
| Share-based payments | 0.2 | 0.1 |
| Social security costs | 0.3 | 0.3 |
| Pension costs | 1.7 | 0.8 |
| | 4.5 | 3.4 |

Details of the Directors' remuneration and share interests are given in the Directors' Remuneration Report on pages 37 to 43.

3. Dividends

Dividends paid in the year were the prior year's interim dividend of £2.7m (2007: £2.2m) and the final dividend of £3.9m (2007: £3.2m). 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:

| | Pence per share | 2008 £m | Pence per share | 2007 £m |
|----------------------|--------------------|------------|--------------------|------------|
| Equity shares | | | | |
| Interim | 4.3 | 3.2 | 3.6 | 2.7 |
| Final proposed | 5.7 | 4.3 | 5.1 | 3.9 |
| Total | 10.0 | 7.5 | 8.7 | 6.6 |

4. Tangible fixed assets

| | Short leasehold properties £m | Plant, machinery and vehicles £m | Total £m |
|----------------------------|--|---|-------------|
| Cost or valuation | | | |
| At 31 December 2007 | 0.1 | 0.2 | 0.3 |
| At 31 December 2008 | 0.1 | 0.2 | 0.3 |
| Depreciation | | | |
| At 31 December 2007 | – | 0.1 | 0.1 |
| Charge for the year | – | – | – |
| At 31 December 2008 | – | 0.1 | 0.1 |
| Net book value | | | |
| At 31 December 2008 | 0.1 | 0.1 | 0.2 |
| At 31 December 2007 | 0.1 | 0.1 | 0.2 |

5. Fixed asset investments

| | Shares in subsidiary undertakings £m | Loans to subsidiary undertakings £m | Trade investments £m | Total £m |
|----------------------------|---|--|----------------------------|--------------|
| Cost | | | | |
| At 31 December 2007 | 174.9 | 23.8 | 0.8 | 199.5 |
| Exchange adjustments | 17.2 | – | – | 17.2 |
| Additions | 118.6 | – | – | 118.6 |
| Disposals | (0.9) | – | – | (0.9) |
| At 31 December 2008 | 309.8 | 23.8 | 0.8 | 334.4 |
| Provisions | | | | |
| At 31 December 2007 | 1.9 | 1.3 | 0.8 | 4.0 |
| At 31 December 2008 | 1.9 | 1.3 | 0.8 | 4.0 |
| Net book value | | | | |
| At 31 December 2008 | 307.9 | 22.5 | – | 330.4 |
| At 31 December 2007 | 173.0 | 22.5 | – | 195.5 |

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

Additions to investments principally include those made in intermediary holding companies – Hill & Smith (France) Limited £78.5m and Hill & Smith Overseas Limited £20.9m – and a further investment in Zinkinvent GmbH of £18.8m, as detailed in Note 11 to the Group Financial Statements.

In February 2008 the Company disposed of one of its non-core investments, D&J (Steels) Limited, as detailed in Note 3 to the Group Financial Statements.

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.

6. Debtors

| | 2008 £m | 2007 £m |
|---|-------------|-------------|
| Amounts owed by subsidiary undertakings | 51.3 | 82.8 |
| Corporation tax | 3.7 | 4.0 |
| Deferred tax (Note 9) | 0.1 | 0.1 |
| Other debtors | 0.8 | 0.7 |
| Prepayments and accrued income | 0.9 | 0.2 |
| | 56.8 | 87.8 |

7. Creditors: amounts falling due within one year

| | 2008 £m | 2007 £m |
|---|-------------|-------------|
| Bank loans and overdrafts | | |
| Bank loans and overdrafts | 23.3 | 14.5 |
| Current portion of long term bank loans | 10.0 | 24.1 |
| | 33.3 | 38.6 |
| Other creditors | | |
| Trade creditors | 1.8 | 2.0 |
| Other taxation and social security | 0.1 | 0.1 |
| Accruals and deferred income | 4.4 | 3.7 |
| Proposed dividend | 3.2 | 2.7 |
| Other creditors | 0.6 | 0.5 |
| Amounts owed to subsidiary undertakings | 54.8 | 67.1 |
| | 64.9 | 76.1 |



Notes to the Company Financial Statements continued

8. Creditors: amounts falling due after 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 22 of the Group Financial Statements.

| | 2008 £m | 2007 £m |
|---|--------------|------------|
| Amounts owed to subsidiary undertakings | 101.5 | – |
| Long term bank loans | 129.4 | 100.8 |
| | 230.9 | 100.8 |

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

| | 2008 £m | 2007 £m |
|---------------------------------------|--------------|------------|
| Bank loans and overdraft | | |
| Amounts due within one year | 33.3 | 38.6 |
| Amounts due after more than one year: | | |
| Between one and two years | 15.0 | 10.0 |
| Between two and five years | 215.9 | 90.8 |
| | 230.9 | 100.8 |
| | 264.2 | 139.4 |

The bank loans are unsecured and carry a rate of interest of 1.5% above LIBOR/EURIBOR subject to a ratchet as defined in the facility agreement.

9. Deferred tax

| | 2008 £m | 2007 £m |
|--|--------------|------------|
| At 1 January | (0.1) | – |
| Credited for the year in the Profit and Loss Account | – | (0.1) |
| At 31 December (Note 6) | (0.1) | (0.1) |
| Other timing differences | (0.1) | (0.1) |

10. Called up share capital

| | 2008 £m | 2007 £m |
|---|------------|------------|
| Authorised | | |
| 100,000,000 Ordinary Shares of 25p each | 25.0 | 25.0 |
| Allotted, called up and fully paid | | |
| 75,638,724 Ordinary Shares of 25p each (2007: 75,580,028) | 18.9 | 18.9 |

In 2008 the Company issued 58,696 shares under its various share option schemes (2007: 32,369), realising £0.1m (2007: £0.0m).

Details of share options and related share-based payments are contained in Note 23 to the Group Financial Statements.

11. Share premium and reserves

| | Share premium £m | Capital redemption reserve £m | Profit and Loss Account £m |
|--|---------------------|-------------------------------------|----------------------------------|
| At 1 January 2007 | 27.8 | 0.2 | 35.5 |
| Loss for the year | – | – | (8.8) |
| Credit to equity of share-based payments | – | – | 0.3 |
| Dividends expensed | – | – | (5.9) |
| At 31 December 2007 | 27.8 | 0.2 | 21.1 |
| Loss for the year | – | – | (13.0) |
| Dividends received | – | – | 17.5 |
| Credit to equity of share-based payments | – | – | 0.3 |
| Dividends expensed | – | – | (7.1) |
| Shares issued | 0.1 | – | – |
| At 31 December 2008 | 27.9 | 0.2 | 18.8 |

Details of share options and related share-based payments are contained in Note 23 to the Group Financial Statements.

12. Guarantees and other financial commitments

(a) Guarantees

The Company had no financial guarantee contracts outstanding (2007: £nil).

The Company guarantees the bank loans and overdrafts of certain subsidiary undertakings. The amount outstanding at 31 December 2008 was £25.4m (2007: £18.4m).

(b) Operating lease commitments

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

| | 2008 | | 2007 | |
|------------------|-----------------------------|-------------|-----------------------------|-------------|
| | Land and buildings £m | Other £m | Land and buildings £m | Other £m |
| After five years | 0.1 | – | 0.1 | – |

13. 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 26 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 FRS 17 Retirement Benefits.

The pension cost for the year includes contributions payable by the Company to the fund and amounted to £1.6m (2007: £0.8m), of which £1.4m (2007: £0.7m) related to additional deficit contributions as detailed in Note 26 to the Group Financial Statements. The Company also incurred costs of £1.2m to reduce the liability to deferred defined benefit pensioners, which resulted in net curtailment gains in the Group 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 26 to the Group Financial Statements.

14. Related party transactions

During the year the Company had some minor transactions with GIL investments Limited of which D L Grove was during the year a major shareholder. All of these transactions were undertaken on an arm's length basis.



Five Year Summary

31 December 2008

| | 2008 | 2007 [†] | 2006 [†] | 2005 [†] | 2004 [†] |
|------------------------------------|--------------|-------------------|-------------------|-------------------|-------------------|
| | £m | £m | £m | £m | £m |
| Revenue | 419.8 | 329.6 | 234.6 | 217.9 | 201.9 |
| Underlying operating profit* | 47.4 | 36.9 | 23.4 | 19.5 | 13.4 |
| Underlying profit before taxation* | 38.9 | 31.0 | 19.5 | 15.9 | 10.4 |
| Shareholders' funds | 115.0 | 96.5 | 77.0 | 40.3 | 34.2 |
| | Pence | Pence | Pence | Pence | Pence |
| Underlying earnings per share | 32.2 | 26.1 | 21.3 | 17.9 | 11.7 |
| Proposed dividends per share | 10.0 | 8.7 | 7.2 | 6.0 | 5.0 |

* Non-Underlying items represent business reorganisation costs, property items, amortisation of acquisition intangibles, impairments, change in the value of financial instruments and net financing return on pension obligations.

† Comparatives have been restated to remove the discontinued steel bar reinforcement business.

Financial Calendar

| | |
|---|--------------|
| Annual General Meeting | 12 May 2009 |
| Ex-dividend date for 2008 final dividend | 3 June 2009 |
| Record date 2008 final dividend | 5 June 2009 |
| Dividend Reinvestment Plan – last date for election | 19 June 2009 |
| Final 2008 ordinary dividend payable | 10 July 2009 |
| Announcement of 2009 interim results | August 2009 |

Shareholder Information

Shareholder base

Holdings of Ordinary Shares at 10 March 2009.

| | Shareholders | | Shares | |
|-------------------------|--------------|--------------|------------------|--------------|
| | Number | % | Number (million) | % |
| Holdings | | | | |
| 1-500 | 562 | 22.1 | 0.1 | 0.1 |
| 501-1,000 | 302 | 11.9 | 0.2 | 0.3 |
| 1,001-5,000 | 907 | 35.7 | 2.4 | 3.1 |
| 5,001-50,000 | 605 | 23.8 | 8.6 | 11.4 |
| 50,001-100,000 | 55 | 2.2 | 3.9 | 5.2 |
| 100,001-500,000 | 73 | 2.9 | 16.5 | 21.8 |
| 500,001-1,000,000 | 15 | 0.6 | 12.0 | 15.9 |
| above 1,000,000 | 19 | 0.8 | 31.9 | 42.2 |
| Totals | 2,538 | 100.0 | 75.6 | 100.0 |
| Shareholder type | | | | |
| Individuals | 1,849 | 72.9 | 25.2 | 33.3 |
| Institutions | 687 | 27.1 | 49.5 | 65.5 |
| Other corporates | 2 | 0 | 0.9 | 1.2 |
| Totals | 2,538 | 100.0 | 75.6 | 100.0 |

Dividend History – proposed dividends per share

| | 2004 | 2005 | 2006 | 2007 | 2008 |
|--------------|-------------|-------------|-------------|-------------|--------------|
| Interim | 2.25 | 2.60 | 3.00 | 3.60 | 4.30 |
| Final | 2.75 | 3.40 | 4.20 | 5.10 | 5.70 |
| Total | 5.00 | 6.00 | 7.20 | 8.70 | 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

The AGM will be held on Friday 12 May 2009 at 11.00 am at National Motorcycle Museum, Solihull. 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-uk.computershare.com/investor/proxy. You will need the Shareholder Reference number and PIN number printed on your Form of Proxy where you will find the full instructions.

Shareholding online

Computershare Investor Centre gives access to view your holdings online. To register click on Investor Centre on the Computershare home page www.computershare.com and follow the instructions. You will be able to:

- View all your holding details for companies registered with Computershare
- View the market value of your portfolio
- Update your contact address and personal details online
- Access current and historical market prices
- Access trading graphs
- Add additional shareholdings to your portfolio

Shareholder helpline number

There is a helpline for shareholders who have enquiries about their shareholdings. The dedicated helpline number is 0870 707 1058.

Share dealing

Share dealing services are available through Computershare Investor Services PLC. Log on to www.computershare.com/dealing/uk for internet share dealing and for telephone dealing ring 0870 703 0084.

Dividend Reinvestment Plan "DRIP"

The Company offers shareholders the facility to re-invest 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.computershare.com/investor/uk.
- New shares will be purchased as soon as possible on or after the dividend pay date.

Further information can be obtained from the Company's Registrar Computershare on 0870 707 1058.



Principal Group Businesses

Infrastructure Products Group

Asset International Limited

Large diameter plastic drainage pipes and storm water attenuation tanks

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

Barkers Engineering Limited

Fencing, galvanizing, powder coating and fasteners

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

Berry Systems (D)

Car park and industrial barriers, spring steel barriers, protection bollards, speed ramps, handrail panels

Springvale Business and Industrial Park,
Bilston, Wolverhampton, WV14 0QL
Tel: +44 (0) 1902 4991100
Fax: +44 (0) 1902 494080
sales@berrysystems.co.uk
www.berrysystems.co.uk

Brifen (D)

Wire rope safety barriers

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

Bristorm (D)

Anti-terrorist security fencing

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

Creative Pultrusions, Inc.*

Manufacturer of glass reinforced plastic products (GRP) for the infrastructure market. Incorporated in USA

214 Industrial Lane, Alum Bank,
Pennsylvania, 15521, USA
Tel: +1 (814) 839 4186
Fax: +1 (814) 839 4276
www.creativepultrusions.com

Notes:

The above is a list of 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.

* 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

CA Traffic Limited

Traffic counting and classifying equipment

Lodge Farm Business Centre,
Castletorpe, Milton Keynes,
Bucks, MK19 7ES
Tel: +44 (0) 1908 511122
Fax: +44 (0) 1908 511505
sales@c-a.co.uk
www.c-a.co.uk

Conimast International SAS*

Specialist highmast lighting columns. Incorporated in France

Z.I. La Saunier BP70,
89600 Saint Florentin,
France
Tel: +33 (0) 3 86 43 82 01
Fax: +33 (0) 3 86 43 82 10
ci@galva.fr
www.conimast.fr

Hill & Smith Limited

Highway and off-highway safety barriers, temporary highway and general workzone protection systems and corrugated steel structures

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

JA Envirotanks (D)

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

Mallatite Limited

Street and highway lighting columns

Holmewood Industrial Estate,
Hardwick View Road, Holmewood,
Chesterfield, S42 5SA
Tel: +44 (0) 1246 593280
Fax: +44 (0) 1246 593281
sales@mallatite.co.uk
www.mallatite.co.uk

Pipe Supports Limited*

Constant and variable pipe support systems

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

Pipe Supports Asia Limited*

Constant and variable pipe support systems

26/5 Moo 9, Soi Rattana Raj,
Banga-Trad Road. Km 18.2
Bangchalong, Bangplee,
Samut Prakem, 10540, Thailand
Tel: +66 (2) 312 7685/7
Fax: +66 (2) 312 7707/10
psa@pipesupports.com
www.pipesupports.com

Techspan Systems (D)

Electronic information messaging and display systems

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

TopDeck Parking (D)

Demountable car parking system

Springvale Business and Industrial Park,
Bilston, Wolverhampton, WV14 0QL
Tel: +44 (0) 1902 499400
Fax: +44 (0) 1902 494080
sales@topdeckparking.co.uk
www.topdeckparking.co.uk

Varley & Gulliver Limited

Parapets, gantries and pedestrian guardrails

57-70 Alfred Street, Sparkbrook,
Birmingham, B12 8JR
Tel: +44 (0) 121 733 2441
Fax: 44 (0) 121 766 6875
sales@v-and-g.co.uk
www.v-and-g.co.uk

V&S Utilities **

Electrical utility products and services. Incorporated in USA

1000 Buckeye Park Road,
Columbus, Ohio 43207, USA
Tel: +1 (614) 449 8261
Fax: +1 (614) 449 8851
info@hotdipgalvanizing.com
www.hotdipgalvanizing.com

Principal Group Businesses

Galvanizing Services

France Galva SA*

Galvanizing and powder coaters of steel.
Incorporated in France

Z.I. La Sauniere BP70, 89600
Saint Florentin, France
Tel: +33 (0) 3 86 43 82 01
Fax: +33 (0) 3 86 43 82 10
ci@galva.fr
www.galva.fr

Joseph Ash Limited*

Galvanizing

The Alcora Building 2,
Mucklow Hill, Halesowen,
West Midlands, B62 8DG
Tel: +44 (0) 121 504 2560
Fax: +44 (0) 121 504 2599
sales@josephash.co.uk
www.josephash.co.uk

Voigt & Schweitzer Inc.*

Galvanizing.
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 is a list of 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.

* The Company's effective interest is held indirectly for these undertakings



Principal Group Businesses

Building and Construction Products

Access Design and Engineering (D)

Specialising in GRP steelwork and metalwork contracts

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

Ash & Lacy Building Systems Limited*

Metal cladding building systems and ancillary products

Bromford Lane, West Bromwich,
West Midlands B70 7JJ
Tel: +44 (0) 121 525 1444
Fax: +44 (0) 121 525 3444
sales@ashandlacy.com
www.ashandlacy.com

Ash & Lacy Perforators Limited*

Perforated and expanded metal

PO Box 58, Alma Street, Smethwick,
West Midlands, B66 2RP
Tel: +44 (0) 121 558 8921
Fax: +44 (0) 121 565 1354
sales@ashlacyperf.co.uk
www.ashlacyperf.co.uk

Birtley Building Products Limited

Steel lintels, residential doors and galvanizing

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

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

Lionweld Kennedy Flooring Limited

Handrail and flooring structures

Marsh Road, Middlesbrough, TS1 5JS
Tel: +44 (0) 1642 245151
Fax: +44 (0) 1642 224710
sales@lk-uk.com
www.lk-uk.com

Redman Fisher Engineering Limited*

Industrial flooring, handrail systems and structures

Bean Road, Birmingham New Road,
Tipton, West Midlands, DY4 9AQ
Tel: +44 (0) 1902 880880
Fax: +44 (0) 1902 880446
sales@redmanfisher.co.uk
www.redmanfisher.co.uk

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The above is a list of 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.

* The Company's effective interest is held indirectly for these undertakings
(D) Operating division only, not a limited company

Contacts

Hill & Smith Holdings PLC

Registered Office

Westhaven House
Arleston Way
Shirley Solihull
West Midlands
B90 4LH
Tel: 0121 704 7430
Fax: 0121 704 7439

Registration details

Registered in England and Wales
Company Number: 671474

Company Website

www.hsholdings.com

Company Secretary

John C. Humphreys

Professional Advisers

Auditors

KPMG Audit Plc
2 Cornwall Street
Birmingham
B3 2DL

Brokers and Financial Advisers

Arden Partners plc
Arden House
17 Highfield Road
Birmingham
B15 3DU

Lawyers

Wragge & Co
55 Colmore Row
Birmingham
B3 2QD

Silks Solicitors
Barclays Bank Chambers
Birmingham Street
Oldbury
B69 4EZ

Registrars

Computershare Services Plc
PO Box 82
The Pavilions
Bridgwater Road
Bristol
BS99 7NH

Principal Bankers

Barclays Bank Plc
Midlands Corporate Banking Centre
PO Box 3333
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Birmingham
B3 2WN

Financial Public Relations

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No. 1 London Bridge
London
SE1 9BG



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Hill & Smith Holdings PLC



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Shirley, Solihull, B90 4LH
Tel: (0121) 704 7430 Fax: (0121) 704 7439