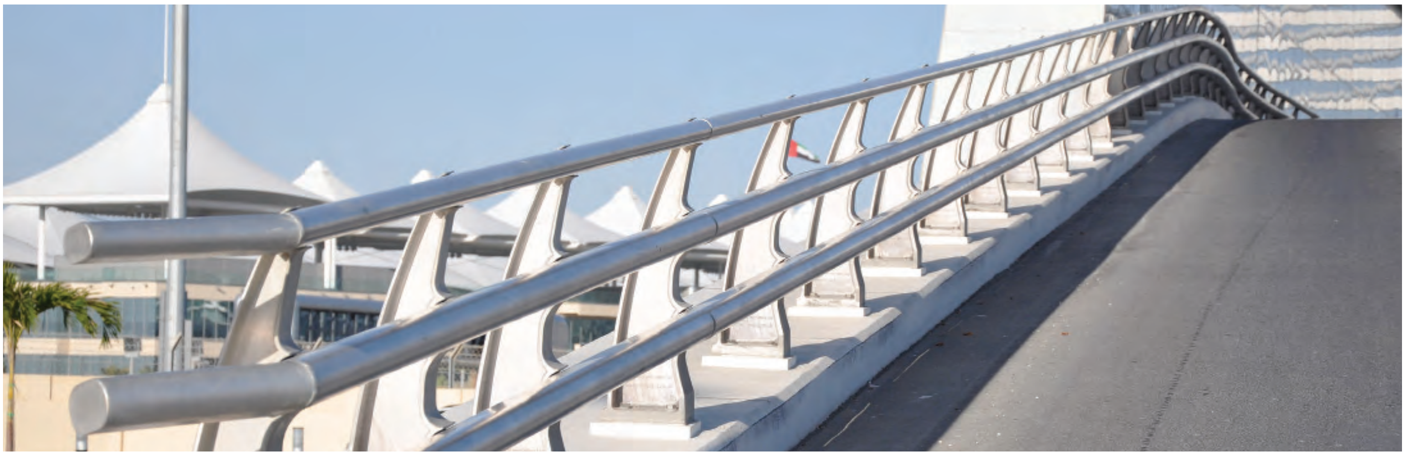
Hill & Smith Holdings PLC

2009

Annual Report and Accounts for the year ended 31 December 2009



Hill & Smith Holdings PLC

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.

Contents

Mallatite lighting columns and lanterns supplied for New Crossgate rail maintenance facility. These columns are hinged for safe maintenance.

Front Cover in descending order

Varley & Gulliver VGAN 300 parapet installed for the Formula 1 racing event in Abu Dhabi, UAE.

Techspan's AMI's used on the M1 junctions 6a-10 Managed Motorway project.

Preston Village North Shields flood alleviation scheme for Northumbrian Water using Asset International's Weholite plastic piping.

Key Financial Highlights

- Record profit before taxation and earnings per share
- Underlying earnings per share(*) up by 18.9%
- Dividends per share up by 15.0%
- Net debt substantially reduced by £58.6m
- Free cash flow increased significantly to £46.6m (2008: £9.4m)

	2009	2008	Change
Revenue	**£389.7m**	£419.8m	-7.2%
Underlying operating profit(*)	**£47.0m**	£47.4m	-0.8%
Underlying profit before tax(*)	**£42.2m**	£38.9m	+8.5%
Underlying earnings per share(*)	**38.3p**	32.2p	+18.9%
Basic earnings per share	**36.3p**	30.0p	+21.0%
Dividend per share	**11.5p**	10.0p	+15.0%
Net debt	**£87.6m**	£146.2m	-£58.6m

Revenue

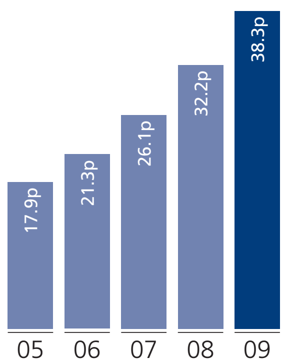
£389.7m

-7.2%

Underlying earnings per share(*)

38.3p

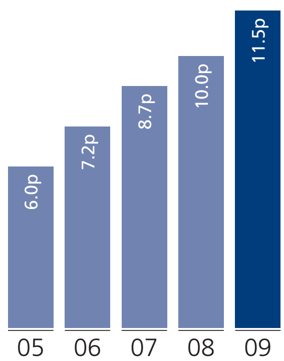
+18.9%



Dividend per share

11.5p

+15.0%



(*) Non-Underlying items represent business reorganisation costs, property items, amortisation of acquistion intangibles, impairments, gains on disposal of available for sale financial assets, change in the value of financial instruments and net financing return on pension obligations.

Chairman's Statement

"The achievement of record underlying(*) profit before tax and earnings per share for 2009 has once again demonstrated the strength of the management teams across the Group."

Bill Whiteley
Chairman

Introduction

Firstly, I am delighted to be joining the Company as your new Chairman, following the retirement of David Grove on 31 December 2009. On behalf of the Board I would like to thank David for his considerable contribution to the development of the Group and the value he has added for shareholders over the last ten years, formerly as Chief Executive and more recently as Chairman. David's achievement in creating a successful international group is much appreciated by his colleagues and Shareholders.

Together with my fellow Directors I look forward to continuing the successful development of the Group.

Overview

The achievement of record underlying(*) profit before tax and earnings per share for 2009 has once again demonstrated the strength of the management teams across the Group, the international spread and resilience of its core markets and the leading positions it has in those markets.

During the year we reacted quickly to a number of market opportunities and managed costs in line with changing demand patterns. Overall margins increased and through excellent cash management we achieved a substantial reduction in the level of net debt.

The year has not just been about the strong management of cost, margins and cash. We succeeded in maintaining our market positions, winning major contracts, extended our representation to China with a new operation for the pipe supports business and continued to refine the portfolio of businesses with strategic disposals. In addition we opened a new galvanizing plant in Delaware, USA.

Results from continuing businesses

Group revenue decreased by 7.2% to £389.7m (2008: £419.8m). Profit before taxation in the period increased by 13.1% to £39.7m (2008: £35.1m) and underlying profit before taxation(*) increased by 8.5% to £42.2m (2008: £38.9m).

Basic earnings per share increased by 21.0% to 36.3p (2008: 30.0p) whereas underlying earnings per share(*), a more consistent and meaningful measure of performance, was 18.9% ahead of last year at 38.3p (2008: 32.2p). The underlying earnings per share(*) has now grown by a compound average growth rate in excess of 21% over the past five years.

Dividends

The results for 2009, together with the Board's confidence in the Group's prospects, enable the Directors to recommend to shareholders a final dividend of 6.8p (2008: 5.7p), making a total dividend for the year of 11.5p (2008: 10.0p), an increase of 15.0%. The dividend for the year is covered 3.3 times by underlying earnings per share(*). Our progressive dividend policy has increased dividend payments by an average of 20% in each of the last three years. The final dividend, if approved, will be paid on 9 July 2010 to those shareholders on the register at close of business on 4 June 2010.

Group strategy

The business climate in 2009 dictated that the main focus was on delivery of earnings, cash generation and cost containment. However, investment continued to be made in developing products and operations for strategic markets in the road and utilities sectors. The development of the Group's interest in overseas markets remains a key priority, and projects in the US, India and China were initiated or enhanced. The pursuit of organic and acquisition growth opportunities are a priority for the current year.

Finance

Cash generated from operations was again strong at £71.0m (2008: £54.2m) reflecting both significantly lower levels of working capital and the culture of cash management now embedded throughout the organisation. Reduced capital expenditure was in line with expectations at £11.7m (2008: £22.5m) which represents a multiple of depreciation and amortisation of 0.8 times (2008: 1.8 times). The Group continues to invest selectively in available opportunities where returns are highest and which exceed internal benchmarks.

The substantial cash generation during the year resulted in Group net debt at 31 December 2009 being £87.6m, a reduction of £58.6m compared to the previous year (£146.2m).

At the year end the Group had total debt facilities available of £203.6m including committed term facilities of £177.0m. The facilities at its disposal provide significant headroom against its expected funding requirements.

Disposals
The Group made two strategic divestments during the year.

In June, the Group disposed of its ultimate minority shareholding in Neholl BV, a Netherlands based company with galvanizing operations across the Benelux region, for a net cash consideration of €5.7m (£4.9m). Although operating in the galvanizing sector this minority interest was not regarded as a long term investment opportunity. The cash proceeds were used to reduce the Group's net debt and the disposal realised a profit on sale of £1.0m.

In December, the Group sold Ash & Lacy Perforators Limited, a UK company operating in the perforated metal sector, for a consideration of £3.1m (including cash balances disposed of £2.1m) resulting in a loss on disposal of £0.6m for this non-core business.

Employees
The Group has some 3,000 employees, all of whom underpin our performance. On behalf of the Board I would like to express our thanks for their hard work and enthusiasm and congratulate them on achieving another record performance.

Board of Directors
During the year Jock Lennox joined the Board, as an independent Non-Executive Director, following the retirement of Dick Richardson at the 2009 Annual General Meeting. In addition to being a former partner at Ernst & Young, Jock has considerable experience across a wide range of industries and in international transactions and expansion. Jock also succeeded Dick Richardson as Chairman of the Audit Committee.

Howard Marshall, having completed over nine years of valuable service to the Board, will not, in line with corporate governance practice, be standing for re-election at the Annual General Meeting to be held on 7 May 2010. During his time as a Non-Executive Director Howard has brought an independent, balanced and experienced view to the Board and has contributed significantly to the development of the Group. Along with his fellow Directors and colleagues I thank Howard for all that he has done for the Company.

The future
The Board believes that the Group will continue to show resilience in its performance and good progress in the delivery of its strategy.

We have strong positions in our markets, a good geographical spread, cash generative businesses and a balance sheet and financing facility that enable us to pursue further development opportunities that may arise.

Bill Whiteley
Chairman
9 March 2010

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Business Review

Chief Executive's Review

"We delivered robust trading around the world and our overseas operations now account for over fifty per cent of total underlying operating profit(*)."

Derek Muir
Group Chief Executive

Performance

Throughout 2009 we continued to demonstrate our ability to innovate and adapt our product offering and to maximise opportunities in our core product range and geographical markets. We delivered robust trading around the world and our overseas operations now account for over fifty per cent of total underlying operating profit(*).

The year also involved a more intense focus on the management and consolidation of our operations, as we adapted our cost base to the changes in demand and the economic environment.

Net debt was significantly reduced with strong operating cash flows and early action to reduce volume related costs enabled us to deliver good operating results for 2009 in what was a difficult trading environment.

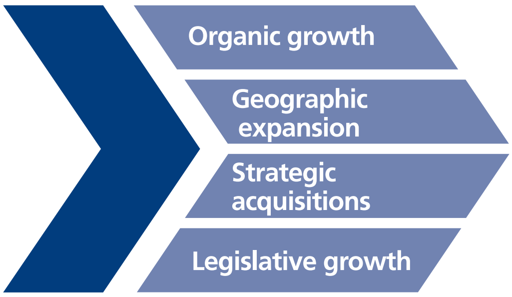
Revenue decreased by 7.2% to £389.7m (2008: £419.8m) due to lower raw material prices and volumes, especially in the Galvanizing Services division. Acquisitions completed in 2008 contributed £8.4m additional revenue and favourable appreciation of the US$ and the Euro exchange rates added a further £19.4m. Underlying operating profit(*) was maintained at £47.0m (2008: £47.4m) of which acquisitions made in 2008 accounted for £0.9m. Favourable exchange rate movements contributed a further £3.4m of profit (7.2%), and the underlying operating margin(*) improved by 0.8% to 12.1%.

A review of each of the Group's three operating divisions of Infrastructure Products, Galvanizing Services and Building and Construction Products is given on page 5 to 9.

Group Strategy

The strategic objective is to deliver a consistent growth in earnings, dividend and shareholder value. We aim to continue our track record of delivery of this objective through concentration on our core markets and a clear focus on four key strategic drivers.

Strategic drivers



Strategic drivers – Progress during 2009

Organic growth

- Completed major contract for Asia supplying our new Stronguard fencing product.
- Increased penetration in the energy/power markets.
- Achieved acceptance of Zoneguard in Canada in addition to the existing eight US States.

Geographic expansion

- New pipe supports plant in China became fully operational.
- Undertook groundwork for establishment of new representation in India for Pipe Supports and Hill & Smith infrastructure products.
- Continued USA galvanizing expansion programme with new plant in Delaware.

Strategic acquisitions

- Continued to assess acquisition of suitable businesses involved in the road and utilities sectors.

Increasing legislative requirements in our markets

- Maximised opportunities arising from committed Government spend.
- Undertook further product development for the security sector.

These actions have continued the development of our product offering and representation in generally resilient markets, where we see potential for both domestic and international growth.

Fundamental to the continued delivery of our strategy is the retention and strengthening of our position as a preferred supplier in the chosen market segments. To achieve this we have experienced and entrepreneurial management teams in place, capable of delivering product development and value based solutions.

Infrastructure Products (IP)
The IP division is focused on four main markets – roads, rail, utilities and security and accounted for 52% of total revenue for 2009. We have developed HS Roads, HS Rail, HS Utilities and HS Security to drive each business unit's growth of revenue and profitability in these sectors. The division's extensive range of products include permanent and temporary road safety barriers, fencing, overhead sign gantries, street lighting columns, bridge parapets, demountable car parks, glass reinforced plastic (GRP) railway platforms, variable road messaging solutions, traffic data collection systems, plastic drainage pipes, pipe supports for the power and liquid natural gas (LNG) markets, energy grid components and security fencing.

Revenue increased by 5.6% to £202.5m in 2009 (2008: £191.8m) which included a currency translation benefit of £6.9m. Underlying operating profit(*) was improved by 5.6% to £24.5m (2008: £23.2m), including a currency translation benefit of £1.1m. In its first full year since acquisition, Creative Pultrusions contributed an additional £8.4m revenue and £0.9m operating profit.

HS Roads
A strong performance was achieved in a number of the key business units supplying the UK roads sector, which benefitted from the UK stimulus spend focused on improving road safety and increasing the capacity of the road network.

In 2009 the Highways Agency accelerated its managed motorway programme to provide hard shoulder running at peak times on congested motorways, resulting in a record year for our variable electronic message signage business. We have a strong order book entering 2010 and the Highways Agency has now announced four contractors for the £2 billion programme, which runs through to 2014. This will create further demand for our temporary and permanent barriers, new lightweight gantries, variable electronic message signage and lighting columns.

During the year rental of our Varioguard temporary barrier reached record utilisation levels and our rental fleet was increased by 25km to 173km to accommodate the deployment of 46km on the M25 widening project, which will remain in place until the 2012 Olympics.

Our permanent vehicle restraint systems, Flexbeam, Brifen and VGAN, produced an excellent performance both in the UK and in the export markets of Scandinavia, USA and the Middle East. Also our Varley & Gulliver parapet was installed on prestigious international projects such as the YAS Island F1 Grand Prix Circuit and the Sheikh Zayed Bridge, both in Abu Dhabi.

In the UK, financing for street lighting PFI's was released for a number of projects. Mallatite, our UK street lighting operation, secured an £8m five year supply contract for 72,000 lighting columns in Surrey and a £10m contract, for the South East Coast PFI, for 100,000 lighting columns; both contracts starting in the early part of 2010. Our lighting column operation in France had a disappointing start to 2009 due to the political and financial impact of the local elections although the order intake improved in the second half, as more funds were released for infrastructure expenditure.

Business Review

Chief Executive's Review

Installation of our Top Deck demountable car parking at Asda Bristol which provides an extra 280 parking spaces for the supermarket. The car park was constructed in less than four weeks with minimal disruption to Asda's operations and delivering rapid financial returns.

"During the year rental of our Varioguard temporary barrier reached record utilisation levels and our rental fleet was increased by 25km to 173km."

In the year, TopDeck installed a large demountable car park for a supermarket project in Bristol. Although it was otherwise a disappointing period for this new product, as capital projects were impacted by the economic environment, funding for large capital projects has become more readily available and the level of interest in the product has started to improve.

We supplied our Zoneguard temporary vehicle restraint system on twenty five projects covering eight US States. In January 2010 the first Zoneguard project in Canada was completed as part of our strategy to supply into countries where the US Standard NCHRP350 is adopted.

HS Rail
The order intake in the Rail business was below our initial expectations for 2009. We have, however, started 2010 on a positive note and have recently been awarded a contract for our quick build GRP railway platform, with construction due to start in March on the first extension project. The framework of 14 contractors for the rail platform extension programme is now in place and we expect increased activity over the next three years.

HS Security
Our anti-personnel, high security systems for perimeter fencing were used on a number of strategic homeland security sites such as airports and military bases and also cash collection depots. In the year we completed our largest order for the newly developed Stronguard fencing which was supplied to a goldmining project in the Asia Pacific region. This substantial order demonstrates the strength of our product innovation and ability to penetrate new geographical markets.

HS Utilities
We continued to grow our market share of energy expenditure around the world. Our pipe supports operation in Thailand had an excellent first half in 2009 on the back of a strong order book. The second half order intake was slower due to the lack of funding for new projects but this has since improved and orders are now being placed. We anticipate 2010 to be the reverse of 2009 with a slower start but a stronger finish to the year. The new pipe supports manufacturing facility in China is fully operational and we are encouraged by the level of enquiries received.

The water authorities in the UK are moving from AMP4 (Asset Management Programme) to AMP5 and the focus will be on the improvement of storm water overflows and prevention of flooding. Our Weholite large diameter plastic pipe business had a steady year in 2009 and we are encouraged by the increase in enquiries for new storm water retention tanks from the major house builders as the sector recovers. Our order book is now back to the levels seen in 2008.

In the USA the V&S Utilities operation started the year well. However, the expected boost from the US stimulus package for national grid improvements has not yet materialised with a number of projects being delayed. Enquiry levels have now improved and we anticipate that some benefits from the stimulus will be seen in 2010.

Galvanizing Services
Our galvanizing operations provide 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. For 2009 galvanizing services generated 29% of Group revenue.

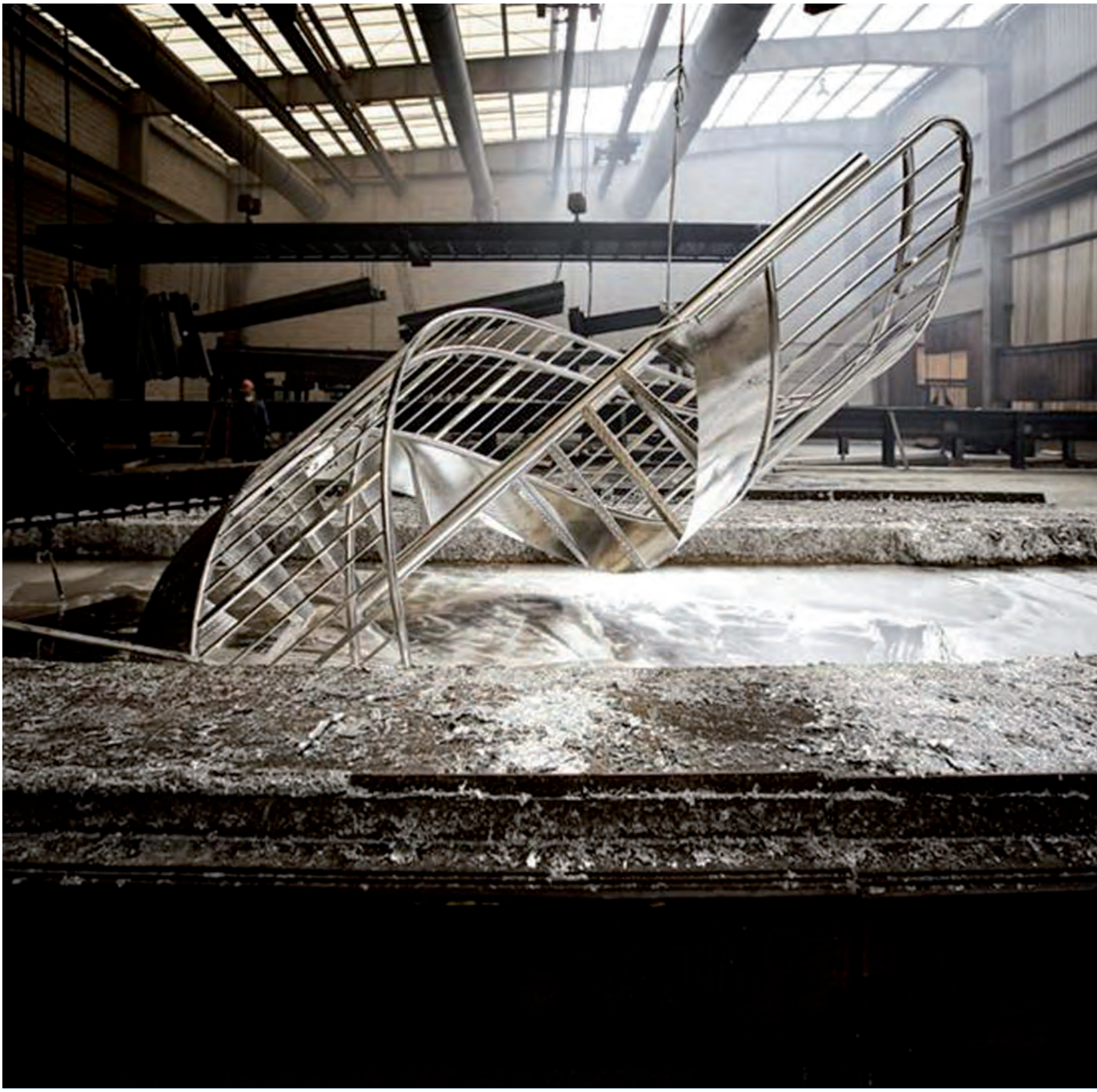
Due to the continued difficulties in the global economy, revenues declined by 10.9% to £113.2m (2008: £127.1m) despite a currency translation benefit of £12.3m. Underlying operating profit(*) of £21.4m, including currency translation benefits of £2.2m, was up 8.6% (2008: £19.7m) and operating margins improved to 18.9% (2008: 15.5%) as a result of the swift action taken during the year to control costs and adapt our working patterns to suit demand.

In the first half of 2009 we saw a 24.9% decline in galvanizing volumes, compared to the first half of 2008. The second half of the year saw a marked improvement in the trend with volume decline year on year for the second half down to 12.1%, producing an overall decline for the full year of 19.1%.

Business Review

Chief Executive's Review

Hot dip galvanizing of a spiral staircase.



"Our infrastructure markets in particular have continued to be productive, providing the Group with opportunities both in the UK and internationally."

Volumes in both the UK and France were better than expected in the second half of the year, with France Galva in particular producing a strong result for 2009 that was further improved by currency translation benefits.

In the US volumes from the anticipated stimulus spend did not materialise although the new plant in Delaware, had an excellent first year processing 7,200 tonnes and producing revenue of $4.3m. This continues to give us confidence to invest in the expansion of our US operations in readiness for the beneficial impact of the Government stimulus.

Building and Construction Products
This division supplies roofing systems, safety handrails and flooring, lintels and residential doors in steel and, increasingly, composite material. These building and construction products are for a range of UK construction projects including housing, schools and industrial buildings. Revenue in 2009 for the division represented 19% of Group revenue.

Revenues declined 26.7% to £74.0m (2008: £100.9m) reflecting the severe downturn in the UK construction market. Consequently, despite decisive action to reduce the cost base, underlying operating profit(*) fell by £3.4m to £1.1m (2008: £4.5m).

Volumes in our lintel and residential door business improved throughout the year, albeit from a low base, and the signs are encouraging for the new year.

The roofing division which supplies industrial and commercial builds was also affected by the economic climate. We do not anticipate any upturn in volumes until at least the second half of 2010 when the recently announced PFI 'Building Schools for the Future' programme will commence.

Industrial flooring volumes for the smaller, high margin projects remain depressed while the larger infrastructure projects, for which we supply product, are only now being released for the construction sector.

Outlook
Our infrastructure markets in particular have continued to be productive, providing the Group with opportunities both in the UK and internationally. In the UK we aim to maximise opportunities arising from committed spend on major infrastructure projects such as managed motorway programmes, rail platform extensions, flood alleviation schemes and health and safety on roads. In our overseas markets the increase in tendering and order placement activity in 2010 for the oil, gas, liquid natural gas and power generation markets, indicates signs of recovery.

Activity levels in our other markets continue to be impacted by the general economic climate and we do not anticipate any material increase in volumes. Nevertheless, the cost reduction initiatives put into place in 2009, together with continued focus on pricing discipline, will further strengthen the resilience of our margins and earnings.

Through its strong presence in generally robust markets, improved geographical spread and product diversity, the Group is well positioned for 2010 and beyond.

Derek Muir
Group Chief Executive
9 March 2010

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Business Review

Our Divisions

Infrastructure Products

Focused on four main markets — roads, rail, utilities and security — supplying products and services such as permanent and temporary road safety barriers, fencing, overhead sign gantries, street lighting columns, bridge parapets, demountable car parks, glass reinforced plastic railway platforms, variable road messaging solutions, traffic data collection systems, plastic drainage pipes and pipe supports for the power and LNG markets, energy grid components and security fencing.

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

Galvanizing Services

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

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

Building and Construction Products

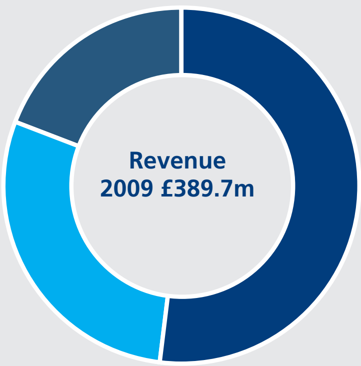
Supplying in steel and composite materials products such as roofing systems, safety handrails and flooring, lintels and doors, all with a range of uses including large infrastructure projects involving schools and other public buildings.

All plants are based in the UK.

Group Business mix

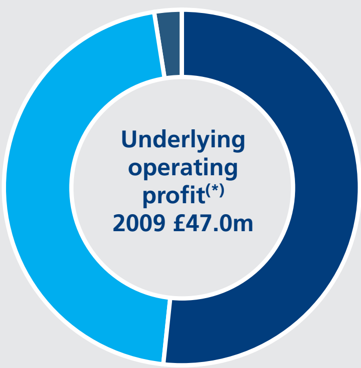
Revenue

- Infrastructure Products £202.5m
- Galvanizing Services £113.2m
- Building and Construction Products £74.0m



Underlying operating profit(*)

- Infrastructure Products £24.5m
- Galvanizing Services £21.4m
- Building and Construction Products £1.1m



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Divisional Management

"We have experienced and entrepreneurial management teams in place, capable of delivering product development and value based solutions."


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1. 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 within Infrastructure Products.

2. 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.

3. Brian Miller – USA. President Voigt & Schweitzer, LLC.
Brian has been with Voigt & Schweitzer, LLC. since 1993 when he started as the Finance Director. Appointed President in 2009, he was previously employed by the accounting firms of Crowe Chizek and Company and Arthur Andersen.

4. 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.

5. 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.

6. 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.

Business Review

Below is the Varley & Gulliver VGN 300 bridge parapet constructed on the only bridge leading to the Yas Marine hotel on the Abu Dhabi Formula 1 race circuit. VGN 300 parapet was chosen not only for its functional performance but also its aesthetic qualities.

Business Review

Financial Review

"Cash generated from operations was again strong reflecting the culture of cash management now embedded throughout the organisation."

Mark Pegler
Group Finance Director

Overview

From our continuing operations, we generated record levels of profitability despite lower revenues. Revenue decreased by 7.2% to £389.7m (2008: £419.8m). Underlying operating profit(*) of £47.0m was in line with the prior year of £47.4m resulting in underlying operating profit margins(*) improving to 12.1% (2008: 11.3%). Lower financing costs contributed to underlying profit before taxation(*) growing by 8.5% to £42.2m (2008: £38.9m) and underlying earnings per share(*) were 18.9% higher at 38.3p (2008: 32.2p).

Disposals

The Group made two divestments of non-core businesses during the year. In June, the Group disposed of its ultimate minority shareholding in Neholl BV, a Netherlands based company with galvanizing operations across the Benelux region, for a net cash consideration of €5.7m (£4.9m). The cash proceeds were used to reduce the Group's net debt and the disposal realised a profit on sale of £1.0m.

In December, the Group sold Ash & Lacy Perforators Limited, a UK company operating in the perforated metal sector for a consideration of £3.1m (including cash balances disposed of £2.1m) resulting in a loss on disposal of £0.6m.

Exchange rates

In common with other companies with international operations, revenue and underlying operating profit(*) benefitted during 2009 from favourable average exchange rates used to translate overseas earnings into Sterling compared to those utilised in 2008. Retranslating 2008 revenue and underlying operating profit(*) using 2009 average exchange rates would have increased the prior year results by £19.4m (5%) and £3.4m (7%) respectively.

The average and year end exchange rates used to translate the Group's overseas operations were as follows:

	Average		Year end	
£ Sterling	**2009**	2008	**2009**	2008
Euro	**1.12**	1.25	**1.13**	1.03
US $	**1.57**	1.84	**1.61**	1.44
Thai Baht	**53.72**	60.69	**53.87**	50.00

Finance costs

Notwithstanding the adverse impact of translation due to exchange rate movements, net financing costs fell by £3.1m to £5.2m, principally reflecting lower levels of average net debt and continued low interest rates. The net cost from pension fund financing under IAS19 was £0.5m (2008: £0.2m income) and given its non-cash nature continues to be treated as 'Non-Underlying' in the Consolidated Income Statement. The cash element of net financing costs is £4.8m (2008: £8.0m). Underlying operating profit(*) covered net cash interest 9.8 times (2008: 5.9 times).

During the first quarter of 2009 the Group took advantage of the lower interest rate environment by entering into three year interest rate swap agreements covering approximately half of its committed term debt. The interest rate swaps will contribute to protecting the Group against any adverse movements in future rates.

Tax

The Group's tax charge for the year was £12.2m (2008: £15.3m). The underlying effective tax rate(*) for the continuing businesses was 31.3% compared to 37.5% for 2008 reflecting improvements in the Group's legal structure following the acquisition of the remaining minority interest in Zinkinvent GmbH in 2008. The international nature of our operations does mean that the mix of profits in a particular year can impact the rate of tax that we pay.

Dividend

The Group has a progressive dividend policy of increasing the dividend paid to shareholders broadly in line with earnings growth, after taking into account the investment needs of the business. Consistent with this policy, the Board has recommended a final dividend in respect of 2009 of 6.8 pence, making the full year dividend 11.5 pence, an increase of 15.0% on the total paid in respect of 2008 (10.0 pence). Underlying dividend(*) cover was a healthy 3.3 times (2008: 3.2 times).

Cash generation and financing

Cash generated from operations was again strong at £71.0m (2008: £54.2m) reflecting both significantly lower levels of working capital and the culture of cash management now embedded throughout the organisation. Reduced capital expenditure was in line with expectations at £11.7m (2008: £22.5m) which represents a multiple of depreciation and amortisation of 0.8 times (2008: 1.8 times). The Group

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continues to invest selectively in available opportunities where returns are highest and which exceed internal benchmarks.

The substantial cash generation during the year resulted in Group net debt at 31 December 2009 being £87.6m, a reduction of £58.6m against 31 December 2008 (£146.2m). The Group's net debt remains principally denominated in Euros and US Dollars which act as a hedge against the net asset investments in overseas businesses. Net debt decreased year on year by £11.7m due to exchange rate movements.

Change in Net Debt

	2009 £m	2008 £m
Operating profit	**44.9**	43.4
Depreciation and amortisation†	**15.0**	12.8
Working capital movement	**11.8**	(1.7)
Pensions and provisions	**(1.2)**	(2.3)
Other items	**0.5**	2.0
Operating cash flow	**71.0**	54.2
Tax paid	**(9.6)**	(16.0)
Interest paid (net)	**(3.7)**	(7.0)
Capital expenditure	**(11.7)**	(22.5)
Sale of fixed assets	**0.6**	0.7
Free cash flow	**46.6**	9.4
Dividends	**(7.5)**	(6.6)
Acquisitions and disposals	**7.1**	(4.3)
Shares issues	**0.7**	0.1
Change in net debt		
– Continuing operations	**46.9**	(1.4)
– Discontinued operations	**—**	5.6
	46.9	4.2
Opening net debt	**(146.2)**	(117.8)
Exchange	**11.7**	(32.6)
Closing net debt	**(87.6)**	(146.2)

† Includes £0.9m (2008: £0.6m) in respect of acquisition intangibles.

At the year end the Group had committed facilities available of £177.0m and a further £26.6m in overdrafts and other on demand facilities. The Group's principal debt facility is a £150m multi currency facility signed in June 2007 and which runs to June 2012. Funding available under this facility at 31 December 2009 amounted to £146.0m. The facility amortises throughout its existence with £16.9m and £21.5m falling due for repayment in 2010 and 2011 respectively.

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

The results of the covenant calculations at 31 December 2009 were:

	Actual	Covenant
Interest Cover	12.8 times	4.0 times
Net debt to EBITDA	1.3 times	3.0 times

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

Pensions

The Hill & Smith Executive Pension Scheme and the Hill & Smith Pension Scheme (the 'Schemes') remain the largest employee benefit obligations within the Group. In common with many other UK companies, the Schemes are mature having significantly more pensioners and deferred pensioners than active participating members.

Subsequent to the year end the Group agreed the triennial valuation for the two UK defined benefit pension plans as at 5 April 2009. This valuation resulted in a funding deficit of £26.7m. A recovery plan has been agreed with the Trustees that requires deficit funding payments of £1.9m for three years, followed by payments of £2.3m for a further seven years. The current level of deficit funding amounts to £0.6m. The date of the next triennial review will be 5 April 2012.

The IAS19 deficit at 31 December 2009 for the Group's defined benefit plans was £16.7m, up from £11.8m in the prior year. The increase principally reflects lower corporate bond yields together with higher inflation expectations.

Mark Pegler
Group Finance Director
9 March 2010

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. Other similar performance indicators are used at the subsidiary business level adapted to suit the diversity and variety of the Group's operations.

Revenue

Our aim is to increase revenue each year through a combination of price and volume increases, organic growth and acquisition.

In 2009, our Group revenue fell by 7.2% to £389.7m, primarily as a result of lower volumes, raw material prices and the general economic climate.

Underlying operating margin(*)

This represents the Group's underlying operating profit(*) divided by Group revenue. In 2009 our underlying operating margin(*) was 12.1% compared to 11.3% in the previous year.

Profitability

The Group measures profitability KPIs at all levels. The final results for 2009 produced year on year increases in underlying profit before tax(*) and underlying earnings per share(*) of 8.5% and 18.9% respectively.

Net cash from operating activities

The Company actively monitors working capital levels in all its operations. In 2009 the Group generated free cash flow of £46.6m (2008: £9.4m) including a working capital inflow of £11.8m driven by the Group's continued focus on working capital management.

Health and safety

The health and safety performance of each subsidiary is monitored and reviewed at each monthly Board meeting. The number of reported accidents is monitored each month and appropriate action taken. In 2009 we achieved a 33% year on year reduction in the number of accidents.

From the new programme of site audits, carried out by external consultants, a weighted scoring system has now been introduced for benchmarking and targeting an overall improvement in health and safety performance.

Sustainability

We continue to track our performance on CO_2 emission reduction and have added CO_2 tonnes per £m of revenue to our internal reporting. Further details of our achievement for 2009 and our plans for 2010, are contained in the Corporate Social Responsibility Report on pages 18 and 19.

(*) Non-Underlying items represent business reorganisation costs, property items, amortisation of acquisition intangibles, impairments, gains on disposal of available for sale financial assets, change in the value of financial instruments and net financing return on pension obligations.

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. Outlined below is a description of the principal risks and uncertainties specific to our businesses, together with commentary on the monitoring and mitigation of such risks. Related details are provided in Note 26 on page 85.

Market dynamics and competition

The Group operates in a business environment where it needs to be proactive 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.

The Group derives part of its revenue from Government spending on infrastructure projects, such as road and rail and any timing, funding or policy issues can have an adverse impact on key areas of the business.

Our investment and commitment to research and product development continues to ensure we maintain strong competitive market positions. 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 and where necessary expanding our geographical reach and product portfolio.

Commercial relationships

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.

The Group ensures sufficient resource is devoted to maintaining the close working relationships we have with customers and suppliers.

Product failure

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.

Where appropriate, accreditation, regulatory approval and testing are undertaken to reach required compliance levels. Quality control procedures are applied in tandem with the compliance requirements to ensure products are safe and fit for purpose. Regular reviews are also undertaken with the Group's insurance brokers.

Supply of key raw materials

In recent years there has been 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.

We monitor the availability and price of key raw materials and forward purchase these where judged to be appropriate. Where market conditions permit, any increase in raw material or energy costs are reflected in our selling prices.

Financial risks

The Group is exposed to a number of financial risks including credit risk, liquidity risk and market risks.

A description of these risks and the Group's approach to managing them is described in Note 21 and on pages 71 - 76 to the Group Financial Statements.

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.

The Group liaises regularly with the Trustees on all aspects, including assessment of the risks factors, appropriate mitigating actions and investment performance of the assets.

Environmental and health and safety risks

Changes in legislation and standards, or the Group's failure to adequately control environmental risks, may have an adverse effect on the Group. A serious failure on the part of the Group to adequately control its health and safety risks could have an adverse impact on its operations, reputation and financial performance.

Operational management work within the policies and processes laid down by the Group. Where appropriate outside specialist expertise is engaged and recommendations and improvements monitored for implementation as necessary.

Business Review

Corporate Social Responsibility

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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 and our business activities being conducted in a responsible, fair and balanced manner.

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. These policies are reviewed and updated, as and when necessary, to reflect changes to legislation, emerging best practice and the needs of the business; they set the framework for the implementation and development of the CSR activities throughout the Group. D W Muir, the Chief Executive, is the main Board Director responsible for CSR in the Group.

Operating company Managing Directors are responsible for compliance with the Group's policies, their communication across the business units and implementation of the supporting principles. This involves appropriate delegation in parts of the operating companies and in certain cases has evolved into specific and expanded roles for individual employees who act as the local 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 (CO_2) emissions, energy consumption and health and safety.

Priorities for 2009

In our last Annual Report we identified the following priorities:

- *Further improvements in energy conservation and management of CO_2 emissions.*
  Our CO_2 emissions were reduced by 9%, exceeding our annual target of 5%.

  As a result of lower production volumes in our galvanizing plants, which adversely affected energy usage efficiency, the saving of 1.8%, on Co_2 tonnes per £m of revenue, was not as high as in previous years.

- *Health and safety accident reduction and management of lost working time.*
  Across the Group we achieved a 33% reduction in the number of accidents. Our management and recording of lost working time has also improved and will allow us to effectively monitor and set realistic targets.

- *Improved waste management*
  A number of operations have implemented waste recycling schemes and initiatives to reduce packaging. We are continuing to review opportunities to effect improvements and structure suitable reporting and monitoring criteria for 2010.

- *Increased levels of training and development*
  Overall levels of training and development were maintained and in certain instances increased as a number of operating companies applied for compliance and standards recognition.

  Mallatite Limited based in Chesterfield were awarded ISO 14001 which was added to their OHSAS 18001 and ISO 9001 achievements. The industrial flooring operation at Lionweld Kennedy in Middlesbrough was also presented with the RoSPA gold award in recognition of its training and health and safety performance.

- *Review of standards for our suppliers*
  Increased compliance with the standards referred to on page 21 and with our Code of Business Operation, has resulted in improved quality, delivery and control. We are continuing to work on this issue in 2010.

CO_2 and energy management

The Group's operating units liaise with our external energy consultants and the Carbon Trust, on the practices and initiatives for the improvement in the reduction of our CO_2 emissions. As we come to the final year of our three year programme we are looking at the next stage of energy and CO_2 management, particularly in relation to the Carbon Reduction Commitment ("CRC"). In conjunction with our consultants and the Carbon Trust we are reviewing our management of the CRC.

For the UK operations, our consultants carried out further reviews of energy consumption, focusing upon routine maintenance, the repair of compressors, reviewing and adjusting heating systems and improving lighting efficiency. Savings have been produced at relatively low cost and have contributed to our overall 9% year on year, reduction in CO_2 emissions.

Wind turbine

Having carried out a detailed evaluation of the introduction of a 2 mwh wind turbine, at the only site potentially suitable, we concluded that the project was neither economically or operationally viable.

Vehicle fleet

Both in respect of our commercial fleet and company car fleet we have:

- fitted GPS tracking devices to delivery vehicles – reducing engine idling times by 80%;
- continued our collaboration with suppliers to further reduce the number of lorry miles for deliveries;
- upon replacement, further encouraged the use of lower emission company cars, as manufacturers improve the CO_2 performance;
- encouraged the use of car sharing and cycling schemes amongst our employees.

Waste reduction

Throughout the Group initiatives involving relatively little expenditure have been implemented to improve recycling and packaging usage. Joseph Ash (Telford plant) invested in a machine to handle aerosol paint cans, transforming them from hazardous waste to saleable scrap. At another Joseph Ash galvanizing plant in Chesterfield we installed an additional flux treatment plant that reduces chemical usage, wastage and through greater energy efficiency, CO_2 emissions.

We continue to assess individual opportunities and an appropriate overall strategy for the management of waste.

Environment

Our Environmental 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 environmental performance, based on risk assessment and the management and mitigation of identified risks.

Of particular note during the year was the achievement of the ISO 14001 accreditation for Mallatite in the UK.

At the beginning of the year one of our UK operations installed a rainwater harvesting system to capture surface water run-off. The tanks for the system are manufactured from Weholite plastic pipe made by another Group operation, Asset International, and store 300,000 litres of rainwater that can be used in the plants production process. Construction, operations and maintenance of the harvesting system were neither labour or energy intensive.

Plastic Weholite storm water and storage piping is an example of an environmentally friendly product manufactured by the Group. Asset International completed a project for Severn Trent Water using Weholite which will deliver an extra saving of CO_2 equal to 2,600 tonnes, compared to alternative products.

Business in the community

As in previous years our businesses have been involved in a variety of local community projects. In the UK we have extended our relationship with Business in the Community and are currently developing with them a scheme to benefit local schools through work place awareness and training.

Other companies across the Group engaged with their local communities on schemes ranging from Eco-School assistance to local charity funding and event support and sponsorship. In the USA and Thailand we also sponsored the planting of over 1,000 trees.

Health and safety performance 2009

We set ourselves a target of reducing the number of accidents by 10% year on year for each of the three years 2008-2011. We have again met our target for 2009 with the achievement of a substantial 33% reduction in the number of accidents year on year.

Unfortunately two fatalities occurred at our sites during the year. The first incident resulted from a working at height accident at Bromford Lane, West Midlands, where a third party was carrying out works under the direction and control of a new tenant, from outside the Group, who was in occupation of a building on our site. The second incident occurred at our V&S LLC galvanizing plant in Michigan, USA where an employee was involved in an accident whilst a crane was in operation. Both incidents are currently the subject of investigation by the relevant enforcement authorities.

Over the past year we have:

- undertaken eleven site audits reviewing management systems and activities;
- actioned appropriate audit report findings to ensure continuous improvement in our health and safety performance;
- investigated, where appropriate reportable (RIDDOR) accidents and implemented any necessary changes to procedures.

Business Review

Corporate Social Responsibility

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 are core to the Group's employment policy and this applies to not only any job applicant or matters relating to gender, age, race, sexual preference, marital status, religion, belief or disability but also promotion development and training. The Group has a policy of non-discrimination and does not tolerate bullying or harassment in any form.

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

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

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 the subsidiary company management, the Group's website and intranet and the development of centralised briefings and training programmes

The Group continues to encourage employee share ownership through the 2005 Employee ShareSave Scheme.

Training and development

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

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

- induction training;
- health and safety training;
- programmes relating to the enhancement of knowledge/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;
- support with programmes leading to a professional or academic qualification.

The Group recognises that normally the main training method will be through each employee's immediate line manager, with most training carried out in the workplace. Training is primarily delivered through internal resources with assistance from external providers as and when required.

Health and Safety

Health and Safety is a key issue for the Group. 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.

As a result of a review undertaken during the year by external consultants we have identified the following key issues for greater effectiveness of our policy:

- Resource requirements.
- Setting new standards.
- Communications.
- Corporate reporting.
- Procurement.

An action plan has been developed for implementation in 2010 to address these issues and achieve improved effectiveness and 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. In support of this we regularly use our intranet for communication on health and safety matters and the exchange of information and ideas arising from our quarterly Group Health and Safety Committee meetings.

Our prime health and safety key performance indicators focus on accident reporting and cause. These indicators are used to monitor the effectiveness of the policy implementation and the related management systems.

We have also developed for our UK sites a scored auditing system, benchmarking the individual business unit's health and safety performance. This scoring system is a product of the programme of site audits carried out during 2009 and will facilitate greater levels of monitoring and targeted improvement.

The main objective for 2010 remains the continued achievement of a 10% year on year reduction in accidents.

Code of Business Operation

The Board has set down a Code of Business Operation that applies to all Directors, managers and employees in the Group. 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. This Code is currently being reviewed with the assistance of external advice and through the internal audit function.

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. As with the Code of Business Operation the effectiveness of the Whistleblowing Policy and Procedure is under review.

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;
- co-operation with the Group and the rest of its supply chain.

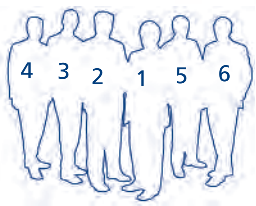
We continue to monitor compliance and the actions taken by subsidiaries to improve the standards laid down.

Priorities for 2010:

- Review of our main CSR initiatives and KPIs.
- New policies for Health and Safety, Whistleblowing and Code of Business Operations.
- A new 3 year plan for energy, CO_2 emissions and CRC management.
- Further improvement of our management of waste.
- Achievement of 10% annual reduction in the number of accidents.
- Improvement in the average weighted scored performance arising from the health and safety audit programme.

Governance

Board of Directors



1 W H Whiteley(*) (Chairman)
2 D W Muir (Group Chief Executive)
3 M Pegler (Group Finance Director)
4 J F Lennox(*)
5 H C Marshall(*)
6 C J Snowdon(*)

(*) **Non-Executive Director**

Committees

Audit Committee

Messrs Lennox (Chairman), Marshall, Snowdon and Whiteley

Remuneration Committee

Messrs Marshall (Chairman), Lennox, Snowdon and Whiteley

Nominations Committee

Messrs Whiteley (Chairman), Lennox, Marshall, Muir and Snowdon

Company Secretary

J C Humphreys FCIS

Directors' Biographies

W H Whiteley BSc, FCMA

Chairman and Non-Executive

Bill, aged 61, joined the Board on 1 January 2010. He has spent the majority of his career at international engineering group Rotork plc, where he was Chief Executive from 1996 to 2008. In July 2009, he became Chairman of Spirax Sarco Engineering plc, the FTSE 250 engineering group. He is also a Non-Executive Director of Brammer plc and Renishaw plc.

M Pegler BCom, ACA

Group Finance Director

Mark, aged 41, joined the Company as Finance Director designate on 7 January 2008 and was appointed to the Board on 11 March 2008. Mark has extensive experience on an international level having been Group Finance Director of Whittan Group Limited, a private equity backed business, between 2002 and 2007. After qualifying with Price Waterhouse, he spent several years in various corporate and operational roles in international manufacturing businesses.

H C Marshall MSc, BSc

Non-Executive

Howard, aged 66, joined the Board on 2 November 2000. He is currently the Chairman of JSJS Design plc and a Director of LJM Consultancy. He was previously Chief Executive of Ash & Lacy plc, Chairman and Chief Executive of Bullough plc, Chairman of Imaginatik Plc, Governor of the Birmingham City University and Chairman of Orchestra of the Swan. Howard is Chairman of the Remuneration Committee.

D W Muir BSc, C Eng, MICE

Group Chief Executive

Derek, aged 49, joined the Board on 21 August 2006. He has been a senior manager within the Hill & Smith Group for 22 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 Group Managing Director of the core Infrastructure Products segment.

C J Snowdon BA, FCA

Non-Executive

Clive, aged 56, 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 and is currently Chairman of Midlands Aerospace Alliance. Clive is the Senior Independent Director.

J F Lennox CA

Non-Executive

Jock, aged 53, joined the Board in May 2009. He is a Non-Executive Director of Oxford Instruments plc, a member of the Advisory Board of Alchemy and a member of the Council of the Institute of Chartered Accountants of Scotland. He is also a Director of Golden Lane Housing Ltd. Jock was formerly a Partner of Ernst & Young where he began his career in 1977, becoming a Partner in 1988. Jock is Chairman of the Audit Committee.

Directors' Report

The Directors present their 49th Annual Report together with the Financial Statements for the year ended 31 December 2009.

Principal activities
During 2009 the principal activities of the Group comprised the manufacture and supply of:

– Infrastructure Products
– Galvanizing Services
– Building and Construction Products

Pages 5 to 9 contain further details of these three areas of the business and the subsidiaries operating within them are set out on pages 96 to 97.

Business review
A review of the development and performance of the business of the Group during the financial year ended 31 December 2009, detailing its position at the end of that financial year, key performance indicators, a description of the principal risks and uncertainties and its prospects is provided in this report.

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 pages 20and 21).

Results
The Group profit before taxation for the year, from continuing operations, amounted to £39.7m (2008: £35.1m). Group revenue at £389.7m was 7.2% lower on the prior year, mainly as a result of lower volumes, raw material prices and the general economic slowdown. Operating profit at £44.9m (2008: £43.4m) was 3.5% above the level for the previous year.

Details of the results for the year are shown on the Consolidated Income Statement on page 44 and the business segment information is given on pages 55 to 57.

Dividends
The Directors recommend the payment of a final dividend of 6.8p per Ordinary Share (2008: 5.7p per Ordinary Share) which, together with the interim dividend of 4.7p per Ordinary Share (2008: 4.3p per Ordinary Share) paid on 7 January 2010, makes a total distribution for the year of 11.5p per Ordinary Share (2008: 10.0p per Ordinary Share). Subject to shareholders approving this recommendation at the Annual General Meeting, the dividend will be paid on 9 July 2010 to shareholders on the register at the close of business on 4 June 2010. The latest date for receipt of Dividend Re-investment Plan elections is 18 June 2010.

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

Exchange traded	The Company's ordinary shares are listed on the Main Market of the London Stock Exchange.	
Class	Single class of ordinary shares of 25p each	
New ordinary shares issued during the year	Employee share schemes	
	1995 Save As You Earn Scheme	159,489
	1995 Executive Share Option Scheme	10,000
	2005 Executive Share Option Scheme	274,290
	Total new ordinary shares issued	443,779
Rights & Obligations	All issued shares rank equally. Rights and obligations attaching to the Company's shares are set out in the Company's Articles of Association.	

For further details of share capital see Note 22 on page 76 of the Group Financial Statements.

There are no restrictions on the transfer of shares in the Company provided they are fully paid up and the Company does not hold any lien over them and as the shares rank equally none of them carry any special rights with regards to control of the Company. Such equal rights apply to shares acquired through any of the Company's employee share schemes and those shares so acquired carry no lesser or greater rights than shares acquired in the Company in any other way. Accordingly there are no restrictions on voting rights attaching to any shares, whether relating to the level of shareholding or otherwise.

The Company is not aware of any arrangements between shareholders of the Company that may result in restrictions on the transfer of Ordinary Shares or voting rights. In relation to the purchase by the Company of its own shares the rules relating thereto are set out in the Company's Articles of Association which state that the Directors' powers to authorise such purchase by the Company are subject to the provisions of the relevant statutes and also the UK Listing Authority requirements, as the Company's shares are listed on the London Stock Exchange.

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 2009 Annual General Meeting and will be limited by the Resolution to be put to the 2010 General Meeting) for approval to make market purchases not exceeding 5% of the Company's then issued share capital. The prices to be paid must be a minimum price of 25 pence per Ordinary Share (the nominal value) and a maximum price of 5% above the average of the middle market quotations for Ordinary Shares derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which any such purchase takes place.

Substantial shareholdings
As at 9 March 2010, the Directors had been advised of the following holdings representing 3% or more of the voting rights of the issued Ordinary Share capital of the Company:

Company	Number of Ordinary Shares	% of Issued Share Capital
F&C Asset Management	6,962,860	9.06
Henderson Global Investors	5,188,560	6.75
Legal & General Investment Management	3,091,158	4.02
Invesco Perpetual	2,483,086	3.23
Discretionary Unit Fund Managers	2,323,038	3.02

Directors
The Directors who served during the year ended 31 December 2009 and to the current date are as follows:

Name	Date of Appointment	Date of Resignation/ Retirement	AGM Re-election	AGM Election
D L Grove(*)	20 March 1998	31 December 2009		
J F Lennox(*)	12 May 2009			7 May 2010
H C Marshall(*)	2 November 2000			
D W Muir	21 August 2006			
M Pegler	11 March 2008			
R E Richardson(*)	1 May 1997	12 May 2009		
C J Snowdon(*)	11 May 2007		7 May 2010	
W H Whiteley(*)	1 January 2010			7 May 2010

(*) Non-Executive Directors.

Biographical details of the Directors are shown on page 23. Details of the Directors' service contracts and letters of engagement are set out in the Directors' Remuneration Report on pages 37 and 38.

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 a general meeting at the next Annual General Meeting. Each Director is subject to re-election at least once in every three years and any Non-Executive Director serving nine years or more is subject to annual re-election.

The Director retiring by rotation at the forthcoming Annual General Meeting is C J Snowdon who being eligible, offers himself for re-election. J F Lennox and W H Whiteley were appointed as Non-Executive Directors by the Board on 12 May 2009 and 1 January 2010 respectively and in accordance with the Company's Articles of Association, will retire and offer themselves for election at the next Annual General Meeting. Both appointments follow the retirements of R E Richardson and D L Grove. The Board recommends to shareholders the re-election of C J Snowdon and the election of J F Lennox and W H Whiteley.

Directors' Report

H C Marshall, having served more than nine years as a Non-Executive Director, is subject to annual re-election at the next Annual General Meeting. H C Marshall has decided not to stand for re-election.

Directors' interests

The table below shows the beneficial interests as at the beginning of the year and as at 31 December 2009 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, and disclosed elsewhere, are not included in the table below but are shown on pages 39 and 40.

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

	Beneficial interest in Ordinary Shares at 1 Jan 2009 (or appointment date)	Change to beneficial interest	Beneficial interest in Ordinary Shares at 31 Dec 2009 (or retirement date)
Directors			
D L Grove (retired 31 December 2009)	919,969	(60,000)	859,969
J F Lennox (appointed 12 May 2009)	—	2,500	2,500
H C Marshall	78,624	—	78,624
D W Muir	40,834	—	40,834
M Pegler	4,000	—	4,000
C J Snowdon	20,000	5,000	25,000
Former Directors			
R E Richardson (retired 12 May 2009)	3,859	—	3,859

There were no changes in the beneficial interests of the Directors in the Company's Ordinary Shares between 31 December 2009 and the date of this report, other than the exercise by D W Muir, in accordance with the UK Listing Rules, of 12,360 options under the 1995 SAYE Scheme, which matured and became exercisable on 1 January 2010. Mr Muir continues to hold the shares in his name.

W H Whiteley was appointed a Director on 1 January 2010 and held prior to this date 3,000 ordinary shares in the Company, purchased on 30 December 2009.

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

Conflicts

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

The Company amended its Articles of Association in May 2008 to deal with, amongst other things, the provisions of conflict of interest in the Companies Act 2006 which came into force in October 2008. As a result, the Company has procedures for the disclosure and review of any conflicts, or potential conflicts, of interest which the Directors may have and for the authorisation, where considered appropriate, of such conflict matters by the Board. Any potential conflicts of interest in relation to newly appointed Directors are considered by the Board prior to appointment.

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.

Financial instruments

The financial risk management objectives and policies are as detailed in Note 21 on pages 71 to 76.

Significant agreements

There are no agreements between the Group and its Directors or employees providing for compensation for loss of office or employment that occurs because of a change of control, other than revised notice periods and termination payments for D W Muir and M Pegler set out in the Director's Remuneration Report on page 38.

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.

There are no other significant agreements to which the Group is a party that take effect, alter or terminate upon a change of control of the Group.

Research and development

During the year, the Group spent a total of £0.7m (2008: £2.1m) on research and development.

Political and charitable donations

Charitable donations amounting to £35,000 (2008: £28,000) were made in the year principally to local charities serving the communities in which the Group operates. There were no political contributions.

Employment policies

Details of the Group's Employment Policies are set out on pages 20 and 21.

Supplier payment policy

Individual operating companies within the Group are responsible for establishing and adhering to appropriate policies for the payment of their suppliers. The companies agree terms and conditions under which business transactions with suppliers are conducted. The Group does not follow any code or standard on payment practice but it is the Group's policy that, provided a supplier is complying with the relevant terms and conditions, including the prompt and complete submission of all required documentation, payment will be made in accordance with the agreed terms. It is the Group's policy to ensure that suppliers know the terms on which payments will take place when transactions are agreed. The Group's average credit period was 75 days (2008: 77 days). The Company's average credit period was 36 days (2008: 36 days).

Independent auditor

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

Disclosure of information to auditors

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

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.

Annual General Meeting

The Annual General Meeting of the Company will be held at 11.00 am on Friday 7 May 2010 at The Village Hotel, The Green Business Park, Shirley, Solihull, B90 4GW. Notice is sent to shareholders separately with this Report, together with an explanation of the special business to be considered at the meeting.

Other important dates can be found in the Financial Calendar on page 94.

Company information

Further information on the Company is available on the Group website: www.hsholdings.com.

By order of the Board

John Humphreys
Company Secretary
9 March 2010

Corporate Governance

Governance framework

Effective governance is key to the Company's ability to operate successfully and discharge its responsibilities. 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.

The following paragraphs, together with the Directors' Remuneration Report contained on pages 34 to 41 provide a description of how the main supporting principles of corporate governance have been applied within the Company during 2009.

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.
- Whistleblowing Policy and Procedure.

Compliance with the Combined Code

Subject to the '*Exceptions*' detailed below, the Directors consider the Company has throughout 2009 fully complied with the principles set out in Section 1 of the UK Financial Reporting Council's Combined Code of Corporate Governance (the Code).

'Exceptions'

- A former Chief Executive should not become the Chairman.

Major shareholders were, and continued to be, supportive of the rationale behind the appointment of D L Grove as Chairman. At the time of the appointment the Board considered the significant benefits of continuity, as well as the leadership that D L Grove brought to the role of Chairman and has been satisfied that this has been the case.

Having held the post of Chairman since May 2007 D L Grove has, with effect from 31 December 2009, retired from his position as a Non-Executive Director and as Chairman of the Company and accordingly this 'exception' to compliance with the Code no longer applies.

In December 2009 the Board announced the appointment of W H Whiteley, as a Non-Executive Director and as the new Chairman of the Board, effective from 1 January 2010. The Board is fully satisfied that on his appointment as Chairman W H Whiteley was independent in character and judgement and satisfied the requirements of the Code applying to a Chairman on appointment.

- 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 exceeded the nine years referred to in the Combined Code. The Board considered that R E Richardson maintained an independent and rigorous approach to the Group's business and his length of service was not an impairment to his independence.

R E Richardson retired from the Board on 12 May 2009 and J F Lennox was appointed in his place as an Independent Non-Executive Director. For the purposes of the Code, J F Lennox is deemed to be independent.

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 Board is fully satisfied that both C J Snowdon (who offers himself for re-election at the Annual General Meeting) and J F Lennox (who offers himself for election, following his appointment during the year) are independent in character and judgement and that there are no circumstances or relationships which are likely to affect their character and judgement.

Composition of the Board

As from 1 January 2010 the composition of the Board comprises three independent Non-Executive Directors (W H Whiteley, Chairman, C J Snowdon, Senior Independent Director and J F Lennox) two Executive Directors (D W Muir and M Pegler) and H C Marshall, a Non-Executive Director who, although not deemed independent by the Code, is deemed independent by the Board. Accordingly the composition of the Board during the year has moved towards complete compliance with the Code and this position will be fully achieved by the conclusion of the next Annual General Meeting.

The Directors and the Board

Directors	Position	No. of years on the Board	Independent (as determined by the Code/Board)	Audit Committee	Nominations Committee	Remuneration Committee
W H Whiteley	Chairman (appointed 1 January 2010)	—	Yes	Yes	Yes (Chairman)	Yes
D W Muir	Chief Executive	3	No	No	Yes	No
M Pegler	Finance Director	2	No	No	No	No
H C Marshall	Non-Executive Director	9	Yes	Yes	Yes	Yes (Chairman)
C J Snowdon	Non-Executive Director (Senior Independent Director)	2	Yes	Yes	Yes	Yes
J F Lennox	Non-Executive Director (appointed 12 May 2009)	—	Yes	Yes (Chairman)	Yes	Yes

The Chairman has prime responsibility for leadership of the Board, sets its agenda, devotes such time to his role as is necessary to properly discharge his duties and 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 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.

The changes in the composition of the Board during the year are noted in the Directors' Report. Biographical details of all the Directors are set out on page 23.

All Directors have access to the Company Secretary who is responsible for ensuring legal and regulatory compliance. The Company Secretary is responsible for assisting the Chairman in all matters relating to corporate governance. The Company Secretary also acts as Secretary to each of the Audit, Nominations and Remuneration Committees.

Details of the terms of appointment of both the Executive and Non-Executive Directors are set out on pages 37 and 38 of the Directors' Remuneration Report, which refers to Executive Director's service contracts and Non-Executive Director's letters of engagement, 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 7 May 2010. The Non-Executive Directors of the Company, including the Chairman, do not participate in any bonus, share option or share ownership schemes and there are no pension benefits or payments.

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.

C J Snowdon is the Director retiring by rotation at the forthcoming Annual General Meeting of the Company and, being eligible, offers himself for re-election. The Board and the Nominations Committee support the re-election of C J Snowdon having assessed his performance, value to the Board and its Committees and his ability to continue to operate as a Director.

As recommended by the 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. H C Marshall was appointed to the Board on 2 November 2000 and will not be seeking re-election at the Annual General Meeting. He will be retiring from the Board with effect from the conclusion of that meeting.

Election of Directors

Following the appointments of J F Lennox (12 May 2009) and W H Whiteley (1 January 2010) as Non-Executive Directors, both will retire and offer themselves for election at the Annual General Meeting to be held on 7 May 2010.

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.

Corporate Governance

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 Board normally meets ten times per year to consider the matters referred to above and any other related issues. All Directors attended meetings in person or by telephone.

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

Directors	Plc Board (10 meetings)	Audit Committee (3 meetings)	Remuneration Committee (5 meetings)	Nominations Committee (1 meeting)
D L Grove	8	—	—	1
J F Lennox	6	2	2	1
H C Marshall	10	3	5	1
D W Muir	10	—	—	1
M Pegler	10	—	—	1
R E Richardson	4	1	3	—
C J Snowdon	10	3	5	1

Notes:

- J F Lennox was appointed on 12 May 2009 and attended all possible Board and Committee meetings. He also attended one Board meeting as an observer, prior to his appointment.
- W H Whiteley attended one Board meeting and one Remuneration Committee meeting in December 2009 as an observer prior to his appointment on 1 January 2010.
- M Pegler attended the Nominations Committee as an observer.
- R E Richardson retired 12 May 2009.

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 four Non-Executive Directors against the criteria set out in the Combined Code the Board considers all of them to be independent. All four 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.

Senior Independent Director

During the year C J Snowdon was appointed the Senior Independent Director, replacing R E Richardson.

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.

There is in place a performance evaluation process for the Board and each of the Audit, Nominations and Remuneration Committees. This process involves the circulation of a questionnaire to Directors, through the Company Secretary. The Chairman, with the assistance of the Company Secretary, reports the collective findings to the Board and agrees any actions to be taken. The areas covered include effectiveness of individual contributions, relationships, communication and development. The current process is under review to determine its scope, effectiveness and value to the Board.

Committees of the Board
The Board has three Committees, as follows:

Audit Committee
The Audit Committee consists of four Non-Executive Directors and is chaired by J F Lennox. 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 Group's Financial Statements;
- 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;
- ensuring that Group reporting complies in all respects with relevant statutory and required financial reporting standards, including corporate governance disclosures.

A review and update of the terms of reference was undertaken in November 2009 and approved by the Board. Details can be found on the Company's website at www.hsholdings.com.

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 four Non-Executive Directors and is chaired by H C Marshall. D W Muir is 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;
- 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 34 to 41.

Nominations Committee
The Nominations Committee comprises four Non-Executive Directors and D W Muir (Chief Executive). The Chairman of the Committee is W H Whiteley.

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;
- overseeing succession planning for the Board.

Corporate Governance

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 engagement letter for Non-Executive appointments to the Board, including expected time committments, a fee structure and a programme for the induction of new Directors. During the year the Committee appointed consultants to recruit a replacement for D L Grove as Chairman and met once formally, along with the Executive Directors, to decide upon the appointment of his successor.

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 best 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;
- Group guidance and policy documentation for the preparation of financial and management information;
- monitoring of the financial performance of operating companies and divisions through analysis of regular financial and management reports;
- continuous direct contact with operating companies and divisional management and attendance at monthly subsidiary board meetings;
- 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;
- clearly defined policies and controls for capital expenditure that include annual budgets, 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;
- 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. No significant matters were raised in the reports made to the Audit Committee during the year.

Whistleblowing

If any employee in the Group has reasonable grounds to believe that the Group Business Operating Policy is being breached by any person or group of people, he or she is able to contact the Company Secretary with full details. The Company has a "Whistleblowing" policy which is on display at its operations and which can be viewed on its website at www.hsholdings.com.

Group Treasury management

The Group uses financial instruments and derivatives 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. 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. Further information on these matters is set out in Note 21 on pages 71 to 76 including the Group's arrangements for credit insurance.

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 or derivatives be undertaken.

Shareholder communications and relations

The Board recognises the importance of good clear communications with shareholders. There is regular dialogue with institutional investors and analysts to discuss the progress of the business and deal with a wide range of enquiries. This includes meetings and presentations after the announcement of the results for the year and the half year with feedback from the Company's brokers as necessary. Directors regularly receive copies of analyst reports and reports on movement in major shareholdings as well as key broker comments. The Chairman and Senior Independent Director are available to meet with shareholders concerning corporate governance issues, if so required. Copies of all major press releases and interim and annual reports are posted on the Company's website together with additional detail on major contracts and projects, key financial information, 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, Nominations and Remuneration Committees will be in attendance at the forthcoming Annual General Meeting, which will be convened on at least 20 working days' notice.

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

Further information regarding the share capital structure of the Company is contained in the Directors' Report on pages 24 to 27.

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 on 7 May 2010.

PART 1 – *(Not subject to Audit)*

Remuneration Committee (the "Committee")

Membership
The members of the Committee during the year were H C Marshall (Chairman), J F Lennox (appointed 12 May 2009), R E Richardson (retired 12 May 2009) and C J Snowdon. W H Whiteley was appointed to the Committee as from 1 January 2010. All members of the Committee are Non-Executive Directors of the Company, are regarded as independent and do not participate in any form of performance related pay or pension arrangements.

Meetings
The Committee met five 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
As set out on page pages 31 and 32 of the Corporate Governance Report, the Committee determines, on behalf of the Board, the Company's policy on remuneration and the terms of engagement of the Executive Directors, certain other agreed Senior Executives and the fees of the Chairman. The Committee operates under clear written terms of reference (available on the Company's website: www.hsholdings.com).

The responsibilities of the Committee include:

- reviewing and recommending the remuneration policy for Executive Directors and certain other agreed Senior Executives, for the Board to approve;
- within this policy, agreeing the individual remuneration packages;
- approving the design of, and determining targets for, any performance related pay schemes operated by the Company for the Executive Directors and certain other agreed Senior Executives and approving the total payments made under such schemes;
- reviewing and recommending the design of, and any changes to, all share incentive plans for approval by the Board and shareholders;
- reviewing the terms and conditions to be included in the service agreements for Executive Directors and certain other agreed Senior Executives;
- approving the terms of any compensation package in the event of early termination of contracts of Executive Directors or certain other agreed Senior Executives, ensuring that they are fair to the individual and to the Company. In 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 and determined the appropriate individual remuneration packages of Executive Directors and certain other agreed Senior Executives;
- determined the fees for the Chairman;
- determined final annual bonus payments for Executive Directors and certain other agreed Senior Executives for the 2008 financial year;
- considered and approved awards to Executive Directors and one other agreed Senior Executive 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 2008 Annual Report.

Advisers

To the extent required the Committee used the external services of Deloitte LLP as its principal external adviser during 2009 on matters relating to the Executive Directors' base salaries and performance related pay.

Separately 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.

Overall Remuneration policy and purpose

Broad policy
The remuneration policy is designed to be in line with the Company's fundamental principles 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 key to 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.

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;
- 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 arrangements

Component	Purpose	Application	Delivery/Criteria
Base salary	Market competitive Reflect skills and experience	Payable monthly Pensionable and used for pension contributions	External benchmarking review of appropriate salary levels and review of performance, experience and related factors.
Performance related bonus	Incentivise the attainment of corporate targets on an annual basis	Paid annually Non-pensionable	Based on UEPS performance over one financial year. Maximum bonus opportunity for both Chief Executive and Finance Director is 100% of base salary.
2007 Long Term Incentive Plan (LTIP)	Incentivise growth in earnings per share over a three year period	Discretionary annual grant of conditional share awards. Maximum award is 100% of salary. Non-pensionable	Performance measured over three financial years. Vesting of award is as follows: – 50% based upon achievement of absolute growth in UEPS targets. – 50% based upon UEPS growth relative to other FTSE All-Share companies basic EPS growth.
Pension	Provision of competitive post-retirement benefits	Chief Executive – Hill & Smith Executive Pension Scheme Finance Director – Pension contribution	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 1 October 1998 (see also Note under pension arrangements). A contribution of 25% of base salary to a private pension arrangement.

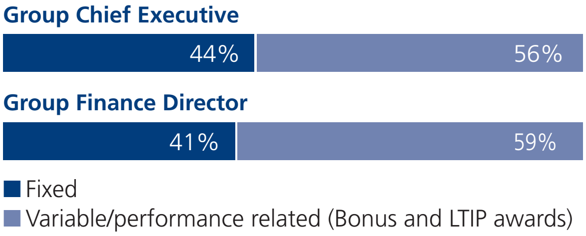
Notes: UEPS (Underlying Earnings Per Share)
See page 36 for details of 'Other Benefits' provided.

Directors' Remuneration Report

Detail of Executive Directors' remuneration

The remuneration policy for Executive Directors is structured to ensure a proper balance of fixed 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 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 Deloitte LLP report commissioned by the Committee, for the 1 January 2008 remuneration review, placed the base salaries for both the Chief Executive and Finance Director at the lower end of the benchmark ranges. As both were relatively new in their respective positions the Committee acknowledged that the benchmarking positions were at that time appropriate and that future reviews would take into account further experience and maturity gained in the particular roles.

A subsequent similar benchmarking exercise for the 1 January 2009 review was undertaken by Deloitte LLP, taking into account company complexity and size weightings, to produce appropriate positioning of the salaries for both the Chief Executive and Finance Director.

As a result of this external benchmarking exercise and the factors of performance and additional experience, the Chief Executive's and Finance Director's salaries were reviewed and aligned to the mid-point between the median of the core bench marking comparator group and the median of the Deloitte LLP weighted company complexity and size measure.

Pension arrangements

Chief Executive

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

Under this arrangement D W Muir's pension benefit is based upon an accrual of 1/30th of the Earnings Cap (applying prior to 6 April 2006 and increased in line with the rules of the Scheme) for each year of pensionable service calculated from 1 October 1998. The table on page 40 gives details of the changes in the value of D W Muir's accrued pensions during 2009.

Finance Director

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

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

Other benefits

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

Performance related remuneration

Cash bonus

Executive Directors are eligible for an annual performance related cash bonus. The 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. As a result of the remuneration review for the 1 January 2009 the Finance Director's maximum bonus entitlement was set at 100% of base salary. This alteration was made so as to align his benefits with the benchmarked core comparator group and the Deloitte LLP weighted complexity and size measure and to reflect the Committee's and Chief Executive's assessment of his performance since appointment.

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 Director or employee in respect of any financial year is 100% of that Director's or employee's base salary. Awards are not pensionable and may not generally be assigned or transferred.

Awards to the Chief Executive and Finance Director were made on 25 March 2009. The value of the shares subject to the award was equal to 31% of the Chief Executive's salary and 48% of the Finance Director's salary. These awards were set in the context of the low level of the share price and were fixed at 75,000 shares each for the Chief Executive and Finance Director. 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 39.

For 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.

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%. For the 25 March 2009 award only the stretch level of 45% was reduced to 40% to reflect the lower percentage of salary each of these individual awards represented.

The Committee continues to believe that absolute UEPS targets are 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:

UEPS performance ranking of the Company in FTSE All-Share index	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 in 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 2009. For options outstanding under the 2005 Executive Share Option Scheme see the table on page 40.

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 2009 and details are contained in the table on page 40 including those for subsisting options.

Dilution
The dilutive effect of the grants of awards is considered by the Committee when granting awards under the long term incentive and share option plans. In accordance with its commitment, the percentage of the issued share capital that could be allocated under all of the Company's employee share plans over a period of ten years should be under 10%. Currently the LTIP, as the principal long term incentive vehicle for Executive Directors, does not have a dilutive effect because it 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.

Directors' Remuneration Report

Current service agreements as at the date of this Report:

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

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

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

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

D L Grove announced his intention to retire from the Board on 31 December 2009 and consequently his service agreement dated 9 July 1999 terminated on this date without cost to the Company.

Shareholding guidelines

The Committee has 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 2009, 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.

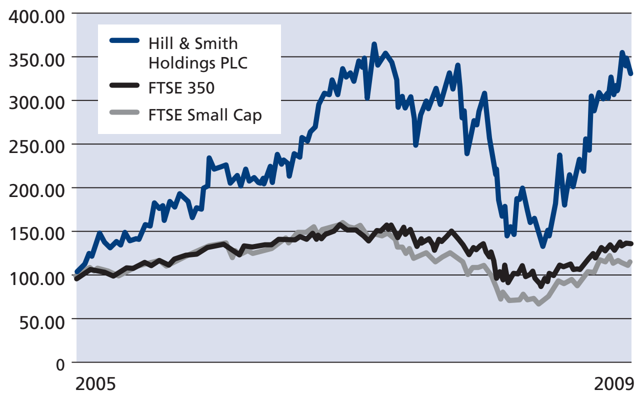
The appointments of all the Non-Executive Directors are governed by letters of engagement. Under the terms of their engagement, the notice period to be given by the Non-Executive Directors to the Company is three months and the Company is obliged to give the same length of notice to each individual Director to terminate their engagement. H C Marshall will not be standing for re-election to the Board at the forthcoming Annual General Meeting to be held on 7 May 2010.

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 2009. 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 total return on investment



PART 2 – *(Subject to Audit)*

Directors' emoluments in 2009

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 2009 was £1.5m (2008: £2.4m). The remuneration of individual Directors is set out below.

Directors	Salary/fees £000	Performance Related Bonus £000	Value of benefits £000	**Total 2009 £000**	Total 2008 £000
D W Muir	375	355	20	**750**	679
M Pegler (appointed 11 March 2008)	240	227	14	**481**	317
D L Grove	115	—	15	**130**	855*
J F Lennox (appointed 12 May 2009)	23	—	—	**23**	—
H C Marshall	42	—	—	**42**	39
C J Snowdon	41	—	—	**41**	36
Former Directors					
C J Burr (retired 11 March 2008)	—	—	—	**—**	455†
R E Richardson (retired 12 May 2009)	18	—	—	**18**	41
Total	854	582	49	**1,485**	2,422

* 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.

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

Long Term Incentive Plan (LTIP)

The interests of Directors at 31 December 2009, in shares that are the subject of awards under the LTIP are shown below:

Executive Director	Award date	At 1 Jan 2009 number of shares	Awarded in 2009 number of shares	At 31 Dec 2009 number of shares	Performance period 3 years from	Vesting date
D W Muir	02 Jul 2007*	67,791	—	67,791	1 Jan 2007	1 Jan 2010
	14 Mar 2008†	99,849	—	99,849	1 Jan 2008	1 Jan 2011
	25 Mar 2009‡	—	75,000	75,000	1 Jan 2009	1 Jan 2012
Total D W Muir		167,640	75,000	242,640		
M Pegler	14 Mar 2008†	60,514	—	60,514	1 Jan 2008	1 Jan 2011
	25 Mar 2009‡	—	75,000	75,000	1 Jan 2009	1 Jan 2012
Total M Pegler		60,514	75,000	135,514		

No awards vested or lapsed in 2009.

* 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.
‡ The share price as calculated on 25 March 2009 in accordance with the LTIP rules was 154p.

Directors' Remuneration Report

Share options

The interests of Directors, and of former Directors who served during 2009, 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 2009, are included in the following table:

	At 1 Jan 2009 number of shares	Grant price	Granted in 2009 number of shares	At 31 Dec 2009 number of shares	Dates from which exercisable	Latest expiry date
D W Muir						
2005 Exec Share Option Plan	78,114	205p	—	78,114	4 Oct 2008	4 Oct 2015
2005 ShareSave Scheme	1,328	318p	—	1,328	1 Jan 2013	1 Jul 2013
1995 SAYE Scheme	12,360	100p	—	12,360	1 Jan 2010	1 Jul 2010
M Pegler						
2005 ShareSave Scheme	3,902	246p	—	3,902	1 Dec 2011	1 Jun 2012
D L Grove						
2005 ShareSave Scheme	759	318p	—	759	1 Jan 2011	1 Jul 2011
1995 SAYE Scheme	12,360	100p	—	12,360	I Jan 2010	1 Jul 2010

Apart from the LTIP awards made to D W Muir and M Pegler on 25 March 2009 no further options or awards were made to Directors.

During 2009, the mid market price of Ordinary Shares in the Company ranged from 140p to 365p. The mid market price of an Ordinary Share on 31 December 2009 was 344p.

Pensions

Defined benefits earned by Directors	*D W Muir*
Age at period end	49
Accrued benefit at 31 December 2009	£114,001 pa
Increase in accrued benefits excluding inflation	£6,880 pa
Increase in accrued benefits including inflation	£9,391 pa
Director's contributions	£12,210
Transfer value of accrued benefits at 1 January 2009	£1,074,114
Transfer value of accrued benefits at 31 December 2009	£1,425,140

1 The pension entitlement is that which would be paid annually on retirement based on service to the period end and includes the deferred pension element for pre 1 October 1998 service which, as from 6 April 2008, has ceased any linkage to salary.

2 The increase in accrued benefits is on account of the additional benefits from one more year of service and the change made on 6 April 2008 in respect of service pre 1 October 1998 which is subject to statutory revaluation as a deferred benefit.

3 The individual has the option to pay Additional Voluntary Contributions; neither the contributions nor the resulting benefits are included in the above table.

4 The following is additional information relating to the Director's pension:

(a) Normal Retirement Age:	60
(b) Spouse's pension:	2/3 pension on death after retirement
(c) Pension increases:	
– post April 1997 pension	increases in line with RPI, limited to 5% per annum, subject to a minimum of 3% per annum on pension accrued post 1 October 1998.
– pre April 1997 pension	nil
(d) Discretionary benefits:	None

5 The transfer value at 31 December 2009 has been calculated on the basis set by the Trustees of the Hill & Smith Executive Pension Scheme having taken actuarial advice.

Defined contribution arrangements
M Pegler receives a payment of 25% of his base salary as a contribution to his own private pension arrangements. The Company contributed £60,000 to M Pegler's private pension arrangement in 2009.

Transactions with Directors
There were no material transactions between the Company and the Directors during 2009.

Howard Marshall
Chairman, Remuneration Committee
9 March 2010

Statement of Directors' Responsibilities

in respect of the Annual Report and the Financial Statements

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

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

Under Company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the Group Financial Statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the Parent Company Financial Statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Parent Company Financial Statements;
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its Financial Statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

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

Responsibility Statement of the Directors in respect of the Annual Financial Report

We confirm that to the best of our knowledge:

- the Group and Parent Company Financial Statements in the 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 or loss of the Company and Group as a whole;
- 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 Group as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board.

John Humphreys
Company Secretary

9 March 2010

Independent Auditor's Report

to the members of Hill & Smith Holdings PLC

We have audited the Financial Statements of Hill & Smith Holdings PLC for the year ended 31 December 2009 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Balance Sheet, the Consolidated Statement of Changes in Equity, the Parent Company Reconciliation of Movements in Shareholders' Funds, the Consolidated Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in the preparation of the Group Financial Statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the Parent Company Financial Statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 42, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the Financial Statements

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

Opinion on Financial Statements

In our opinion:

- the Financial Statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2009 and of the Group's profit for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the Parent Company Financial Statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice;
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group Financial Statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements; and
- the information given in the Corporate Governance Report set out on pages 32 and 33 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the Financial Statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company Financial Statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a Corporate Governance Statement has not been prepared by the Company.

Under the Listing Rules we are required to review:

- the Directors' Statement, set out on page 27, in relation to going concern; and
- the part of the Corporate Governance Report beginning on page 28 relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

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

9 March 2010

Consolidated Income Statement

Year ended 31 December 2009

	Notes	**2009** Underlying £m	**2009** Non-Underlying* £m	**2009** Total £m	2008 Underlying £m	2008 Non-Underlying* £m	2008 Total £m
Revenue	1,2	**389.7**	**–**	**389.7**	419.8	–	419.8
Trading profit		**47.0**	**(0.5)**	**46.5**	47.4	(0.2)	47.2
Amortisation of acquisition intangibles	7	**–**	**(0.9)**	**(0.9)**	–	(0.6)	(0.6)
Business reorganisation costs	4	**–**	**(1.8)**	**(1.8)**	–	(3.2)	(3.2)
Gain on disposal of available for sale financial assets	4	**–**	**1.0**	**1.0**	–	–	–
Profit on sale of properties	4	**–**	**0.1**	**0.1**	–	–	–
Operating profit	1,2	**47.0**	**(2.1)**	**44.9**	47.4	(4.0)	43.4
Financial income	6	**0.7**	**3.4**	**4.1**	1.4	4.5	5.9
Financial expense	6	**(5.5)**	**(3.8)**	**(9.3)**	(9.9)	(4.3)	(14.2)
Profit before taxation		**42.2**	**(2.5)**	**39.7**	38.9	(3.8)	35.1
Taxation	8	**(13.2)**	**1.0**	**(12.2)**	(14.6)	(0.7)	(15.3)
Profit for the year from continuing operations		**29.0**	**(1.5)**	**27.5**	24.3	(4.5)	19.8
Discontinued operations	3			**–**			2.9
Profit for the year				**27.5**			22.7
Attributable to:							
Equity holders of the parent				**27.5**			22.7
Minority interest				**–**			–
Profit for the year				**27.5**			22.7
Continuing basic earnings per share	9	**38.3p**		**36.3p**	32.2p		26.2p
Basic earnings per share	9			**36.3p**			30.0p
Continuing diluted earnings per share	9			**35.9p**			25.9p
Diluted earnings per share	9			**35.9p**			29.7p
Dividend per share — Interim	10			**4.7p**			4.3p
Dividend per share — Final proposed	10			**6.8p**			5.7p
Total	10			**11.5p**			10.0p

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

Consolidated Statement of Comprehensive Income

Year ended 31 December 2009

	Notes	2009 £m	2008 £m
Profit for the year		**27.5**	22.7
Exchange differences on translation of overseas operations		**(15.1)**	29.0
Exchange differences on foreign currency borrowings denominated as net investment hedges	21	**10.8**	(21.6)
Effective portion of changes in fair value of cash flow hedges		**(0.6)**	–
Net change in fair value of available for sale financial assets		**1.0**	–
Net change in fair value of available for sale financial assets transferred to profit or loss		**(1.0)**	–
Actuarial loss on defined benefit pension schemes	25	**(5.7)**	(5.7)
Taxation on items taken directly to other comprehensive income	8	**1.8**	1.2
Other comprehensive income for the year		**(8.8)**	2.9
Total comprehensive income for the year		**18.7**	25.6
Attributable to:			
Equity holders of the parent		**19.0**	25.2
Minority interest		**(0.3)**	0.4
Total comprehensive income for the year		**18.7**	25.6

Consolidated Balance Sheet

As at 31 December 2009

	Notes	2009 £m	2008 (Restated) £m
Non-current assets			
Intangible assets	11	**109.8**	118.6
Property, plant and equipment	12	**105.1**	113.6
Available for sale financial assets	13	**–**	6.4
Other receivables	16	**1.1**	1.3
		216.0	239.9
Current assets			
Inventories	15	**43.8**	57.1
Trade and other receivables	16	**76.8**	97.2
Cash and cash equivalents	17	**41.1**	25.9
		161.7	180.2
Total assets	1	**377.7**	420.1
Current liabilities			
Trade and other liabilities	18	**(74.7)**	(87.5)
Current tax liabilities		**(8.3)**	(6.9)
Interest bearing borrowings	17,18	**(31.2)**	(16.7)
		(114.2)	(111.1)
Net current assets		**47.5**	69.1
Non-current liabilities			
Other liabilities	19	**(0.2)**	(0.3)
Provisions for liabilities and charges	20	**(5.0)**	(6.7)
Deferred tax liability	14	**(12.7)**	(14.5)
Retirement benefit obligation	25	**(16.7)**	(11.8)
Interest bearing borrowings	17,19	**(97.5)**	(155.4)
		(132.1)	(188.7)
Total liabilities	1	**(246.3)**	(299.8)
Net assets	1	**131.4**	120.3
Equity			
Share capital	22	**19.0**	18.9
Share premium		**28.5**	27.9
Other reserves	23	**4.5**	4.5
Translation reserve		**5.2**	9.2
Hedge reserve		**(0.6)**	–
Retained earnings		**74.8**	57.7
Equity attributable to equity holders of the parent		**131.4**	118.2
Minority interest		**–**	2.1
Total equity		**131.4**	120.3

Approved by the Board of Directors on 9 March 2010 and signed on its behalf by:

D W Muir
Director

M Pegler
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2009

	Note	Share capital £m	Share premium £m	Hedge reserve £m	Other reserves £m	Translation reserve £m	Retained earnings £m	Minority interest £m	Total equity £m
At 1 January 2008 as previously reported		18.9	27.8	–	4.5	2.2	43.1	1.5	98.0
Restatement	10	–	–	–	–	–	2.7	–	2.7
At 1 January 2008 (restated)		18.9	27.8	–	4.5	2.2	45.8	1.5	100.7
Total comprehensive income for the year		–	–	–	–	7.0	18.2	0.4	25.6
Dividends (restated)	10	–	–	–	–	–	(6.6)	–	(6.6)
Change in ownership interest in subsidiaries		–	–	–	–	–	–	0.2	0.2
Credit to equity of share-based payments	22	–	–	–	–	–	0.3	–	0.3
Shares issued	22	–	0.1	–	–	–	–	–	0.1
At 31 December 2008 (restated)		**18.9**	**27.9**	**–**	**4.5**	**9.2**	**57.7**	**2.1**	**120.3**
Total comprehensive income for the year		**–**	**–**	**(0.6)**	**–**	**(4.0)**	**23.6**	**(0.3)**	**18.7**
Dividends	10	**–**	**–**	**–**	**–**	**–**	**(7.5)**	**–**	**(7.5)**
Change in ownership interest in subsidiaries	4	**–**	**–**	**–**	**–**	**–**	**–**	**(1.8)**	**(1.8)**
Credit to equity of share-based payments	22	**–**	**–**	**–**	**–**	**–**	**0.5**	**–**	**0.5**
Tax taken directly to the Consolidated Statement of Changes in Equity	8	**–**	**–**	**–**	**–**	**–**	**0.5**	**–**	**0.5**
Shares issued	22	**0.1**	**0.6**	**–**	**–**	**–**	**–**	**–**	**0.7**
At 31 December 2009		**19.0**	**28.5**	**(0.6)**	**4.5**	**5.2**	**74.8**	**–**	**131.4**

Consolidated Statement of Cash Flows

Year ended 31 December 2009

	Notes	£m	2009 £m	£m	2008 £m
Profit before tax			**39.7**		35.1
Add back net financing costs	6		**5.2**		8.3
Operating profit	1,2		**44.9**		43.4
Adjusted for non-cash items:					
Share-based payment	5,22	**0.5**		0.3	
Movement in fair value of forward contracts	7	**–**		0.2	
Loss on disposal of subsidiaries	4	**0.6**		–	
Gain on disposal of available for sale financial assets	4	**(1.0)**		–	
Gain on disposal of property, plant and equipment	7	**(0.1)**		(0.4)	
Depreciation	7,12	**13.0**		11.4	
Amortisation of intangible assets	7,11	**2.0**		1.4	
Impairment of non-current assets	7,11,12	**0.5**		1.9	
			15.5		14.8
Operating cash flow before movement in working capital			**60.4**		58.2
Decrease in inventories		**9.4**		2.3	
Decrease/(increase) in receivables		**15.1**		(5.2)	
(Decrease)/increase in payables		**(12.7)**		1.2	
Decrease in provisions and employee benefits		**(1.2)**		(2.3)	
Net movement in working capital			**10.6**		(4.0)
Cash generated by operations			**71.0**		54.2
Income taxes paid			**(9.6)**		(16.0)
Interest paid			**(4.4)**		(9.3)
Net cash from operating activities			**57.0**		28.9
Interest received		**0.7**		1.3	
Loan settlement	13	**–**		1.0	
Proceeds on disposal of non-current assets		**0.6**		0.7	
Purchase of property, plant and equipment		**(9.7)**		(16.8)	
Purchase of intangible assets	11	**(0.7)**		(2.1)	
Disposal of available for sale financial assets	4	**4.9**		–	
Disposal of subsidiaries	4	**0.7**		0.3	
Deferred consideration received in respect of disposals		**0.8**		0.1	
Acquisitions of minority interests		**–**		(21.0)	
Refund/(payment) in respect of acquisitions of subsidiaries and associates	11	**0.7**		(12.8)	
Net cash used in investing activities			**(2.0)**		(49.3)
Issue of new shares	22	**0.7**		0.1	
Dividends paid	10	**(7.5)**		(6.6)	
New loans raised		**16.2**		–	
Repayment of loans		**(43.2)**		(17.9)	
Repayment of obligations under finance leases		**(4.9)**		(2.3)	
Net cash used in financing activities			**(38.7)**		(26.7)
Net increase/(decrease) in cash from continuing operations			**16.3**		(47.1)
Cash flow from assets and liabilities held exclusively for sale			**–**		19.1
Cash flow from other discontinued operations	3		**–**		8.6
Net increase/(decrease) in cash			**16.3**		(19.4)
Cash at the beginning of the year			**25.9**		41.3
Effect of exchange rate fluctuations			**(1.1)**		4.0
Cash at the end of the year	17		**41.1**		25.9

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 86 to 93.

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

Judgments 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 26.

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 4 to 21. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Business Review on pages 14 and 15. In addition, Note 21 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 2009

In 2009 the following standards had been endorsed by the EU, became effective and therefore were adopted by the Group:

- IAS1 (Revised) — Presentation of Financial Statements
- IAS23 (Revised) — Borrowing costs
- Amendment to IAS10 — Events after the accounting period
- Amendment to IFRS2 — Share-based payments
- Amendment to IFRS7 — Financial Instruments: Disclosures
- IFRS8 — Operating segments
- IFRIC14 IAS19 — The limit on a defined benefit asset, minimum funding requirements and their interaction

Following the adoption of IFRS8 — Operating segments as at 1 January 2009, the Group now determines and presents operating segments based on the information that is presented internally to the Group's Chief Executive, who is the Group's Chief Operating Decision Maker. However, the Group continues to report the same three operating segments since these form the basis of internal reporting.

Following the adoption of the amendment to IAS10 — Events after the accounting period, the Group now accounts for dividends when they are declared. Accordingly, the prior year comparatives have been restated and the effect of this is shown in Note 10.

The adoption of the remaining standards and interpretations has not had a significant impact on the results for the year.

Group Accounting Policies

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

- IAS27 (Revised) — Consolidated and separate financial statements (effective for annual periods beginning on or after 1 July 2009)
- IFRS3 (Revised) — Business Combinations (effective for business combinations taking place in annual periods beginning on or after 1 July 2009)
- IFRIC16 — Hedges of a Net Investment in a Foreign Operation

The Group does not anticipate that the adoption of the above standards and interpretations will have a material effect on its Financial Statements on initial adoption.

Measurement convention
The Group Financial Statements are prepared on the historical cost basis except where the measurement of balances at fair value is required as explained below.

Intangible assets
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 IFRS3 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 IFRS1 to use a previous revaluation for certain land and buildings as its deemed cost at the transition date. All other items of property, plant and equipment are stated at cost unless it is felt that this value should be impaired.

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.

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, as follows:

- Derivative financial instruments are stated at fair value. The unhedged gain or loss on remeasurement to fair value is recognised immediately in the Consolidated Income Statement.
- The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the Balance Sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties.
- The fair value of foreign exchange contracts is the estimated amount that the Group would receive or pay to terminate such contracts at the Balance Sheet date, taking into account the forward exchange rates prevailing at that date.

Where derivative financial instruments are used to hedge the cash flow risk, such as interest rate swaps, the effective part of any gain or loss on the fair value of cash flow hedges is recognised in the Consolidated Statement of Comprehensive Income and in the hedge reserve, while any ineffective part is recognised immediately in the Consolidated Income Statement. Amounts recorded in the hedge reserve are subsequently reclassified to the Consolidated Income Statement when the interest expense is actually recognised.

To qualify for hedge accounting the hedging relationship must meet several conditions with respect to documentation, probability of occurrence, hedge effectiveness and reliability of measurement. At the inception of the transaction, the Group documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking the hedge transaction. This process includes linking all derivatives designated as hedges to specific assets and liabilities or to specific firm commitments or forecast transactions. The Group also documents its assessment, at hedge inception and on a half yearly basis, as to whether the derivatives that are used in hedging transactions have been, and are likely to continue to be, effective in offsetting changes in fair value or cash flows of hedged items.

Interest bearing borrowings are recognised initially at fair value 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.

Group Accounting Policies

Foreign currencies

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

The assets and liabilities of overseas subsidiary undertakings, including goodwill and fair value adjustments arising on acquisition, are translated at the closing exchange rate. Income statements and cash flows of such undertakings are translated into Sterling at weighted average rates of exchange, other than substantial transactions that are translated at the rate on the date of the transaction. The adjustments to period end rates are taken to the cumulative translation reserve in equity and reported in the Consolidated Statement of Comprehensive Income. When an overseas operation is disposed of, in part or in full, the relevant amount in the translation reserve is transferred to profit or loss.

Foreign currency differences arising on the retranslation of a financial liability designated as a hedge of a net investment in a foreign operation are recognised directly in equity and reported in the Consolidated Statement of Comprehensive Income, to the extent that the hedge is effective. To the extent that the hedge is ineffective, such differences are recognised in profit or loss. When the hedged part of a net investment is disposed of, the associated cumulative amount in the translation reserve is transferred to profit or loss as an adjustment to the profit or loss on disposal.

The principal exchange rates used were as follows:

		2009		2008
	Average	**Closing**	Average	Closing
Sterling to Euro (£1 = €)	**1.12**	**1.13**	1.25	1.03
Sterling to US Dollar (£1 = $)	**1.57**	**1.61**	1.84	1.44
Sterling to Thai Baht (£1 = Baht)	**53.72**	**53.87**	60.69	50.00

Inventories

Inventories are stated at the lower of cost and net realisable value. In determining the cost of raw materials, consumables and goods purchased for resale, the FIFO or average cost method is used. Cost for work in progress and finished goods comprises direct materials, direct labour and an appropriate proportion of attributable overheads.

Provisions

A provision is recognised in the Balance Sheet when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

In accordance with the Group's environmental policy and applicable legal requirements, a provision for site restoration in respect of contaminated land is recognised as an obligation arises.

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

Impairment of assets

The carrying amounts of the Group's non-financial assets, other than inventories (see accounting policy 'Inventories') and deferred tax balances (see accounting policy 'Deferred taxation'), are reviewed at each Balance Sheet date to determine whether there is an indication of impairment. Impairment reviews are undertaken at the level of each significant cash generating unit, which are no larger than operating segments as defined in IFRS8 — Segmental reporting. If such an indication exists, the relevant asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of the asset or its cash generating unit exceeds its recoverable amount.

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

The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

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

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 Comprehensive Income.

Share-based payment transactions
The fair value of shares/options granted is recognised as an employee expense, with a corresponding increase in equity reserves. The fair value is calculated at the grant date and spread over the period during which the employees become unconditionally entitled to the shares/options. The Black–Scholes model has been adopted as the method of evaluating the fair value of the options. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no adjustment for differences between expected and actual outcomes.

Group Accounting Policies

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 substantively enacted at the Balance Sheet date, and any adjustments to tax payable in respect of previous years.

Deferred taxation

Deferred tax is provided in full using the Balance Sheet liability method and represents the tax expected to be payable or recoverable on the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets and liabilities not resulting from a business combination that affects neither accounting or taxable profit, and differences relating to investments in subsidiaries to the extent that they will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the Balance Sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. The carrying amount of deferred tax assets is reviewed at each Balance Sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Ordinary dividends

Dividends are accounted for in the Financial Statements when the Group declares the payment of the dividend.

Notes to the Consolidated Financial Statements

1. Segmental information

Business segment analysis

The Group has three reportable segments which are Infrastructure Products, Galvanizing Services and Building and Construction Products. Several operating segments which have similar economic characteristics have been aggregated into these reporting segments.

	2009 Revenue £m	**2009 Result £m**	**2009 Underlying result* £m**	2008 Revenue £m	2008 Result £m	2008 Underlying result* £m
Income Statement — continuing						
Infrastructure Products	**202.5**	**23.5**	**24.5**	191.8	22.5	23.2
Galvanizing Services	**113.2**	**21.2**	**21.4**	127.1	18.8	19.7
Building and Construction Products	**74.0**	**0.2**	**1.1**	100.9	2.1	4.5
Total Group	**389.7**	**44.9**	**47.0**	419.8	43.4	47.4
Net financing costs		**(5.2)**	**(4.8)**		(8.3)	(8.5)
Continuing operations profit before taxation		**39.7**	**42.2**		35.1	38.9
Taxation		**(12.2)**	**(13.2)**		(15.3)	(14.6)
Continuing operations profit after taxation		**27.5**	**29.0**		19.8	24.3
Income Statement — discontinued						
Infrastructure Products	**–**	**–**	**–**	–	–	–
Galvanizing Services	**–**	**–**	**–**	35.6	1.7	–
Building and Construction Products	**–**	**–**	**–**	84.6	3.4	–
Total Group	**–**	**–**	**–**	120.2	5.1	–
Net financing costs		**–**	**–**		(0.5)	–
Discontinued operations profit before taxation		**–**	**–**		4.6	–
Taxation		**–**	**–**		(1.7)	–
Discontinued operations profit after taxation		**–**	**–**		2.9	–
Income Statement						
Infrastructure Products	**202.5**	**23.5**	**24.5**	191.8	22.5	23.2
Galvanizing Services	**113.2**	**21.2**	**21.4**	162.7	20.5	19.7
Building and Construction Products	**74.0**	**0.2**	**1.1**	185.5	5.5	4.5
Total Group	**389.7**	**44.9**	**47.0**	540.0	48.5	47.4
Net financing costs		**(5.2)**	**(4.8)**		(8.8)	(8.5)
Profit before taxation		**39.7**	**42.2**		39.7	38.9
Taxation		**(12.2)**	**(13.2)**		(17.0)	(14.6)
Profit after taxation		**27.5**	**29.0**		22.7	24.3

* Underlying result is stated before Non-Underlying items as defined on the Consolidated Income Statement, and is the measure of segment profit used by the Chief Operating Decision Maker. The Result columns are included as additional information.

Infrastructure Products provided £0.7m (2008: £0.3m) revenues to Building and Construction Products. Galvanizing Services provided £4.8m (2008: £5.8m) revenues to Infrastructure Products and £1.8m (2008: £2.0m) revenues to Building and Construction Products. Building and Construction Products provided £0.5m (2008: £0.7m) revenues to Infrastructure Products. These internal revenues, along with revenues generated from within their own segments, have been eliminated on consolidation.

Notes to the Consolidated Financial Statements

1. Segmental information continued

Balance Sheet

	2009 Total assets £m	2009 Total liabilities £m	2008 Total assets £m	2008 Total liabilities (Restated) £m
Infrastructure Products	**109.7**	**(35.4)**	115.8	(32.7)
Galvanizing Services	**193.2**	**(24.6)**	232.6	(31.7)
Building and Construction Products	**33.7**	**(14.9)**	45.8	(23.4)
Total segment assets/(liabilities)	**336.6**	**(74.9)**	394.2	(87.8)
Taxes	**–**	**(21.0)**	–	(21.4)
Provisions and retirement benefits	**–**	**(21.7)**	–	(18.5)
Net debt	**41.1**	**(128.7)**	25.9	(172.1)
Total Group	**377.7**	**(246.3)**	420.1	(299.8)
Net assets		**131.4**		120.3

Capital expenditure and amortisation/depreciation

	2009 Capital expenditure £m	2009 Impairment losses, amortisation and depreciation £m	2008 Capital expenditure £m	2008 Impairment losses, amortisation and depreciation £m
Infrastructure Products	**8.7**	**6.9**	6.6	3.4
Galvanizing Services	**4.3**	**6.5**	11.4	6.5
Building and Construction Products	**0.7**	**2.1**	1.8	4.8
Total Group	**13.7**	**15.5**	19.8	14.7
Property, plant and equipment (Note 12)	**13.0**	**13.4**	17.7	11.4
Intangible assets (Note 11)	**0.7**	**2.1**	2.1	3.3
Total Group	**13.7**	**15.5**	19.8	14.7

1. Segmental information continued

Geographical segment analysis

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

Revenues

	2009 £m	Continuing £m	Discontinued £m	2008 £m
UK	**207.5**	239.0	84.6	323.6
Rest of Europe	**93.8**	102.5	35.6	138.1
USA	**59.0**	57.0	–	57.0
The Middle East	**12.3**	6.5	–	6.5
Asia	**9.5**	8.6	–	8.6
Rest of World	**7.6**	6.2	–	6.2
Total	**389.7**	419.8	120.2	540.0

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

Total assets

	2009 £m	2008 £m
UK	**189.0**	184.5
Rest of Europe	**93.3**	126.2
USA	**87.6**	103.2
Asia	**7.8**	6.2
Total Group	**377.7**	420.1

Capital expenditure

	2009 £m	2008 £m
UK	**7.3**	11.3
Rest of Europe	**2.0**	4.0
USA	**3.9**	4.2
Asia	**0.5**	0.3
Total Group	**13.7**	19.8

2. Operating profit

	2009 £m	Continuing £m	Discontinued £m	2008 £m
Revenue	**389.7**	419.8	120.2	540.0
Cost of sales	**(262.0)**	(285.7)	(99.1)	(384.8)
Gross profit	**127.7**	134.1	21.1	155.2
Distribution costs	**(20.0)**	(23.0)	(8.1)	(31.1)
Administrative expenses	**(63.5)**	(68.6)	(7.9)	(76.5)
Profit on sale of fixed assets	**0.1**	0.4	–	0.4
Other operating income	**0.6**	0.5	–	0.5
Operating profit	**44.9**	43.4	5.1	48.5

Notes to the Consolidated Financial Statements

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. 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. As a result these operations have been treated as discontinued activities.

The results of the discontinued operations are as follows:

Income Statement

	2008 £m
Operating profit (Note 2)	5.1
Net financing charges (Note 6)	(0.5)
Profit before taxation	4.6
Taxation (Note 8)	(1.7)
Discontinued operations profit for the year	2.9
Cash flows	
Net cash from operating activities	5.6
Net cash from investing activities	8.0
Net cash used in financing activities	(5.0)
Cash flow from other discontinued operations	8.6

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 14)	(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

4. Non-Underlying items

Non-Underlying items in 2009 include a gain of £1.0m in relation to the disposal of the Group's ultimate minority interest in Neholl BV which was held as an available for sale financial asset:

	2009 £m
Available for sale financial assets (Note 13)	5.7
Minority interest	(1.8)
Shareholder's equity	3.9
Consideration:	
Cash consideration	5.0
Expenses	(0.1)
Total net proceeds	4.9
Profit on disposal	1.0
Cash flow effect:	
Cash consideration	5.0
Expenses	(0.1)
Net cash consideration shown in the Consolidated Statement of Cash Flows and Note 17	4.9

The Group realised a loss on the disposal of Ash & Lacy Perforators Limited as follows:

	2009 £m
Property, plant and equipment	1.1
Inventories	0.2
Current assets	1.4
Cash and cash equivalents	2.1
Current liabilities	(1.2)
Net Assets	3.6
Consideration:	
Cash consideration	2.9
Deferred consideration	0.2
Expenses	(0.1)
Total net proceeds	3.0
Loss on disposal	(0.6)
Cash flow effect:	
Cash consideration	2.9
Cash left in the business	(2.1)
Expenses	(0.1)
Net cash consideration shown in the Consolidated Statement of Cash Flows and Note 17	0.7

Also included are a £0.1m gain on the sale of land, reorganisation and redundancy costs of £1.2m (2008: £1.9m) and intangible amortisation and impairment charges of £1.4m (2008: £2.5m offset by a net curtailment gain of £0.6m in respect of the Group's retirement obligations). Amounts included within financial income and expense represents the net financing return on pension obligations of £0.5m cost (2008: £0.2m income) and the gain on the fair value of financial instruments of £0.1m (2008: £nil). Tax on Non-Underlying items includes a charge of £0.1m (2008: £1.1m) resulting from a change in the UK tax legislation preventing the recoverability of Industrial Buildings Allowances.

Notes to the Consolidated Financial Statements

5. Employees

	2009	Continuing	Discontinued	2008
The average number of people employed by the Group during the year				
Infrastructure Products	**1,316**	1,224	–	1,224
Galvanizing Services	**1,294**	1,379	229	1,608
Building and Construction Products	**622**	696	213	909
	3,232	3,299	442	3,741

	£m	£m	£m	£m
The aggregate remuneration for the year				
Wages and salaries	**76.6**	78.4	12.3	90.7
Share-based payments	**0.5**	0.3	–	0.3
Social security costs	**13.4**	14.1	2.9	17.0
Pension costs*	**2.2**	2.6	0.2	2.8
	92.7	95.4	15.4	110.8

* Pension costs shown above exclude the effect of net curtailment gains of £nil (2008: £0.6m) on the UK defined benefit pension schemes and £nil (2008: £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 34 to 41.

6. Net financing costs

	Underlying £m	**Non-Underlying £m**	**2009 £m**	Underlying £m	Non-Underlying £m	2008 £m
Interest on bank deposits	**0.7**	**–**	**0.7**	1.2	–	1.2
Interest on other loans	**–**	**–**	**–**	0.2	–	0.2
Total interest income	**0.7**	**–**	**0.7**	1.4	–	1.4
Change in fair value of financial assets and liabilities	**–**	**0.1**	**0.1**	–	0.1	0.1
Expected return on pension scheme assets (Note 25)	**–**	**3.3**	**3.3**	–	4.4	4.4
Total other income	**–**	**3.4**	**3.4**	–	4.5	4.5
Financial income	**0.7**	**3.4**	**4.1**	1.4	4.5	5.9
Interest on bank loans and overdrafts	**4.8**	**–**	**4.8**	8.5	–	8.5
Interest on finance leases and hire purchase contracts	**0.5**	**–**	**0.5**	0.4	–	0.4
Interest on other loans	**0.2**	**–**	**0.2**	0.5	–	0.5
Total interest expense	**5.5**	**–**	**5.5**	9.4	–	9.4
Change in fair value of financial assets and liabilities	**–**	**–**	**–**	–	0.1	0.1
Put option discount unwind	**–**	**–**	**–**	0.5	–	0.5
Expected interest cost on pension scheme obligations (Note 25)	**–**	**3.8**	**3.8**	–	4.2	4.2
Total other expense	**–**	**3.8**	**3.8**	0.5	4.3	4.8
Financial expense	**5.5**	**3.8**	**9.3**	9.9	4.3	14.2
Continuing net financing costs/(income)	**4.8**	**0.4**	**5.2**	8.5	(0.2)	8.3
Discontinued operations			**–**			0.5
Net financing costs			**5.2**			8.8

7. Expenses and Auditor's remuneration

	2009 £m	Continuing £m	Discontinued £m	2008 £m
Income Statement charges				
Depreciation of property, plant and equipment:				
Owned	**10.6**	9.4	0.6	10.0
Leased	**2.4**	2.0	–	2.0
Operating lease rentals:				
Plant and machinery	**1.5**	1.2	0.2	1.4
Other	**4.4**	4.3	0.4	4.7
Research and development expenditure	**0.2**	0.1	–	0.1
Amortisation of acquisition intangibles	**0.9**	0.6	–	0.6
Amortisation of development costs	**1.0**	0.7	–	0.7
Amortisation of other intangible assets	**0.1**	0.1	–	0.1
Impairment loss	**0.5**	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	**0.1**	–	–	–
Profit on disposal of other fixed assets	**–**	0.4	–	0.4
Grants receivable	**0.1**	–	0.1	0.1
Rental income	**5.6**	4.0	–	4.0
Foreign exchange gain	**0.2**	–	–	–

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

	2009 £m	Continuing £m	Discontinued £m	2008 £m
Hill & Smith Holdings PLC				
Audit of the Company's annual accounts	**0.1**	0.1	–	0.1
Audit of the Company's subsidiaries	**0.4**	0.4	–	0.4
Other services*	**0.1**	0.4	–	0.4
Valuation and actuarial services	**0.1**	0.2	–	0.2
	0.7	1.1	–	1.1
Hill & Smith Holdings PLC pension schemes				
Valuation and actuarial services	**0.2**	0.2	–	0.2
Other services — pension administration	**0.3**	0.3	–	0.3
	0.5	0.5	–	0.5

* Includes £nil (2008: £0.1m) 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 31 and 32 and includes an explanation of how auditor objectivity and independence is safeguarded when non audit services are provided by the Auditor.

Notes to the Consolidated Financial Statements

8. Taxation

	2009 £m	Continuing £m	Discontinued £m	2008 £m
Current tax				
UK corporation tax	**5.0**	4.3	0.1	4.4
Adjustments in respect of prior periods	**(1.8)**	–	–	–
Overseas tax at prevailing local rates	**7.9**	9.8	1.6	11.4
	11.1	14.1	1.7	15.8
Deferred tax (Note 14)				
Current year	**(0.2)**	1.9	–	1.9
Adjustments in respect of prior periods	**0.7**	0.2	–	0.2
Overseas tax at prevailing local rates	**0.6**	(0.9)	–	(0.9)
Tax on profit in the Income Statement	**12.2**	15.3	1.7	17.0

	2009 £m	2008 £m
Current tax		
Relating to foreign exchange	**0.1**	–
Relating to share-based payments	**(0.1)**	–
	–	–
Deferred tax (Note 14)		
Relating to defined benefit pension schemes	**(1.6)**	(1.5)
Relating to financial instruments	**(0.2)**	–
Relating to share-based payments	**–**	0.3
Tax on items taken directly to other comprehensive income	**(1.8)**	(1.2)

	2009 £m	2008 £m
Deferred tax (Note 14)		
Relating to share-based payments	**(0.5)**	–
Tax taken directly to the Consolidated Statement of Changes in Equity	**(0.5)**	–

The tax charge in the Consolidated Income Statement for the period is higher (2008: higher) than the standard rate of corporation tax in the UK. The differences are explained below:

	2009 £m	2008 £m
Profit from continuing operations before tax	**39.7**	35.1
Profit from discontinued operations before tax (Note 3)	**–**	4.6
Profit before taxation	**39.7**	39.7
Profit before taxation multiplied by the standard rate of corporation tax in the UK of 28.0% (2008: 28.5%)	**11.1**	11.3
Expenses not deductible for tax purposes	**0.5**	2.7
Impairment of goodwill	**–**	0.6
Capital profits less losses and write downs not subject to tax	**(0.3)**	(0.7)
Overseas profits taxed at higher/(lower) rates	**1.7**	1.5
Overseas losses not relieved	**0.1**	0.3
Withholding taxes	**0.2**	–
Impact of change in legislation	**–**	1.1
Adjustments in respect of previous periods	**(1.1)**	0.2
Tax charge	**12.2**	17.0
Tax charge on continuing operations	**12.2**	15.3
Tax charge on discontinued operations (Note 3)	**–**	1.7
Tax charge	**12.2**	17.0

9. Earnings per share

The weighted average number of Ordinary Shares in issue during the year was 75.8m (2008: 75.6m), diluted for the effects of the outstanding dilutive share options 76.5m (2008: 76.5m). Underlying earnings per share have been shown because the Directors consider that this provides valuable additional information about the underlying performance of the Group.

	2009		2008	
	Pence per share	**£m**	Pence per share	£m
Basic earnings	**36.3**	**27.5**	30.0	22.7
Discontinued business	**–**	**–**	(3.8)	(2.9)
Continuing basic earning per share	**36.3**	**27.5**	26.2	19.8
Non-Underlying items*	**2.0**	**1.5**	6.0	4.5
Underlying earnings	**38.3**	**29.0**	32.2	24.3
Diluted earnings	**35.9**	**27.5**	29.7	22.7
Discontinued business	**–**	**–**	(3.8)	(2.9)
Continuing diluted earning per share	**35.9**	**27.5**	25.9	19.8
Non-Underlying items*	**2.0**	**1.5**	5.9	4.5
Underlying diluted earnings	**37.9**	**29.0**	31.8	24.3

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

10. Dividends

Dividends paid in the year were the prior year's interim dividend of £3.2m (2008: £2.7m) and the final dividend of £4.3m (2008: £3.9m). Dividends declared after the Balance Sheet date are not recognised as a liability, in accordance with IAS10. The Directors have proposed the following interim dividend and a final dividend for the current year, subject to shareholder approval, as shown below:

	2009		2008	
	Pence per share	**£m**	Pence per share	£m
Equity shares				
Interim	**4.7**	**3.6**	4.3	3.2
Final	**6.8**	**5.3**	5.7	4.3
Total	**11.5**	**8.9**	10.0	7.5

The Group previously had a policy of recognising dividends when they were committed, however, subsequent to the amendment of IAS10 — Events after the accounting period, this policy has been aligned so that dividends are now recognised when they are declared. This has resulted in the restatement of the 2008 Consolidated Balance Sheet. The effect of this restatement is reflected in the Consolidated Statement of Changes in Equity and increases the opening retained earnings as at 1 January 2008 by £2.7m, the dividend in 2008 is reduced by £0.5m to £6.6m and the dividend accrual of £3.2m as at 31 December 2008 has been removed from Note 18. On the grounds of materiality no restated Consolidated Balance Sheet as at 1 January 2008 has been presented.

Notes to the Consolidated Financial Statements

11. Intangible assets

	Goodwill £m	Brands £m	Customer lists £m	Capitalised development costs £m	Licences £m	Total £m
Cost						
At 1 January 2008	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**
Exchange adjustments	**(5.9)**	**(1.3)**	**(0.3)**	**–**	**–**	**(7.5)**
Additions internal	**–**	**–**	**–**	**0.1**	**–**	**0.1**
Additions external	**0.1**	**–**	**–**	**0.5**	**–**	**0.6**
Disposal of subsidiaries	**(1.9)**	**–**	**–**	**–**	**–**	**(1.9)**
At 31 December 2009	**92.0**	**12.5**	**2.9**	**7.2**	**0.3**	**114.9**
Amortisation and impairment losses						
At 1 January 2008	–	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**
Exchange adjustments	**–**	**–**	**(0.1)**	**–**	**–**	**(0.1)**
Disposals of subsidiaries	**(1.9)**	**–**	**–**	**–**	**–**	**(1.9)**
Impairment losses	**–**	**–**	**–**	**0.1**	**–**	**0.1**
Amortisation charge for the year	**–**	**0.3**	**0.6**	**1.0**	**0.1**	**2.0**
At 31 December 2009	**–**	**0.7**	**1.2**	**3.0**	**0.2**	**5.1**
Carrying values						
At 1 January 2008	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
At 31 December 2009	**92.0**	**11.8**	**1.7**	**4.2**	**0.1**	**109.8**

2009

During the year the Group received a refund of consideration previously paid of £0.7m (Note 17) due to Creative Pultrusions Inc. not achieving certain targets as laid out in the sale and purchase agreement. A fair value adjustment of £0.7m (Note 14) in respect of deferred tax on the intangible fixed assets of Creative Pultrustions Inc. was also made, but no prior year adjustment in respect of the latter was made on the grounds of materiality.

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 consisted 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 LLC for a consideration of £2.2m.

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.

11. Intangible assets continued

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 14)	0.7	–	0.7
Non-current liabilities (Note 20)	–	(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 and Note 17			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.

Cash generating units with significant amounts of goodwill

	2009 £m	2008 £m
Galvanizing Services – France	**29.7**	32.0
Galvanizing Services – USA	**21.1**	23.6
Joseph Ash Limited	**14.3**	14.3
Other cash generating units with no individually significant value	**26.9**	27.9
	92.0	97.8

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

Impairment tests on the carrying values of goodwill and the US brand name of £6.3m (2008: £7.0m), 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. All goodwill is allocated to specific cash generating units whch are in all cases no larger than operating segments. Value in use is calculated for each cash generating unit as the net present value of that unit's discounted future cash flows. These cash flows are based on budget cash flow information for a period of one year with an average growth rate of 1.0% applied subsequent to the initial budget period based on a prudent management estimate for revenue and associated cost growth.

Notes to the Consolidated Financial Statements

11. Intangible assets continued

An impairment charge of £nil (2008: £1.9m) was recognised in respect of the whole of the goodwill relating to Ash & Lacy Perforators Limited, a single cash generating unit which was disposed of in 2009 and formed part of the Group's Building and Construction Products Division. This charge was treated as a Non-Underlying item and was included in continuing administrative expenses. The initial measurements of the post tax and pre tax weighted average costs of capital were respectively 8.09% and 11.24% (2008: 6.98% and 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 pre tax discount rates and growth rates respectively have been adjusted as follows:

- Galvanizing Services – France: 16.82% and 1.0% (2008: 12.28% and 1.0%)
- Galvanizing Services – USA: 18.26% and 1.0% (2008: 13.82% and 0.5%).
- Joseph Ash Limited: 15.37% and 1.0% (2008: 11.16% and 1.0%)

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

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

12. Property, plant and equipment

	Land and buildings £m	Plant, machinery and vehicles £m	Total £m
Cost			
At 1 January 2008	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**
Exchange adjustments	**(4.5)**	**(2.8)**	**(7.3)**
Disposal of subsidiaries	**–**	**(10.3)**	**(10.3)**
Additions	**1.5**	**11.5**	**13.0**
Disposals	**(0.2)**	**(2.0)**	**(2.2)**
At 31 December 2009	**55.8**	**118.1**	**173.9**
Depreciation and impairment losses			
At 1 January 2008	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**
Exchange adjustments	**(0.3)**	**(0.5)**	**(0.8)**
Disposal of subsidiaries	**–**	**(9.2)**	**(9.2)**
Disposals	**–**	**(1.7)**	**(1.7)**
Charge for the year	**2.3**	**10.7**	**13.0**
Impairment provision	**–**	**0.4**	**0.4**
At 31 December 2008	**6.3**	**62.5**	**68.8**
Carrying values			
At 1 January 2008	41.7	50.8	92.5
At 31 December 2008	54.7	58.9	113.6
At 31 December 2009	**49.5**	**55.6**	**105.1**

The gross book value of land and buildings includes freehold land of £11.4m (2008: £12.3m).

Included in the carrying value of plant, machinery and vehicles is £13.5m (2008: £10.4m) in respect of assets held under finance lease and hire purchase contracts.

Included within plant, machinery and vehicles are assets held for hire with a cost of £26.3m (2008: £21.5m) and accumulated depreciation of £9.4m (2008: £7.0m).

13. Available for sale financial assets

	Total £m
Fair and carrying value	
At 1 January 2008	5.7
Exchange adjustments	1.6
Interest receivable on loan	0.1
Loan repayment	(1.0)
At 31 December 2008	**6.4**
Exchange adjustments	**(0.7)**
Disposal (Note 4)	**(5.7)**
At 31 December 2009	**–**

Available for sale financial assets consisted of a 33.3% shareholding of Vista Investment NV in Neholl BV, a Dutch holding company. The Group disposed of its 68.2% holding in Vista Investments NV on 26 June 2009 for a consideration of £5.0m, this transaction also removed the 31.8% minority interest held by Mr Lars Baumguertel as shown in the Consolidated Statement of Changes in Equity. On the date of disposal, the fair value was measured resulting in a £1.0m gain which was recognised directly in equity. The asset disposal recycled the £1.0m gain to the Consolidated Income Statement as a gain on disposal of available for sale financial assets.

14. Deferred taxation

	Intangible assets £m	Property, plant and equipment £m	Inventories £m	Retirement obligation £m	Other timing differences £m	Total £m
At 1 January 2008	(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 (Note 8)	0.1	(1.2)	0.9	(1.5)	0.5	(1.2)
Credited/(charged) for the year in the Consolidated Statement of Comprehensive Income (Note 8)	–	–	–	1.5	(0.3)	1.2
At 31 December 2008	**(5.2)**	**(9.6)**	**(3.1)**	**2.7**	**0.7**	**(14.5)**
Exchange adjustments	**0.5**	**0.6**	**0.2**	**–**	**–**	**1.3**
Fair value adjustment (Note 11)	**(0.7)**	**–**	**–**	**–**	**–**	**(0.7)**
Credited/(charged) for the year in the Consolidated Income Statement (Note 8)	**0.1**	**(1.2)**	**0.9**	**0.5**	**(1.4)**	**(1.1)**
Credited for the year in the Consolidated Statement of Comprehensive Income (Note 8)	**–**	**–**	**–**	**1.6**	**0.2**	**1.8**
Credited for the year in the Consolidated Statement of Changes in Equity (Note 8)	**–**	**–**	**–**	**–**	**0.5**	**0.5**
At 31 December 2009	**(5.3)**	**(10.2)**	**(2.0)**	**4.8**	**–**	**(12.7)**

	2009 £m	2008 £m
Deferred tax assets	**1.7**	3.6
Deferred tax liabilities	**(14.4)**	(18.1)
Deferred tax liability	**(12.7)**	(14.5)

No deferred tax asset has been recognised in respect of tax losses of £14.1m (2008: £14.6m) as their future use is uncertain. There is no time limit on the carrying forward of these losses.

A deferred tax charge of £0.1m (2008: £1.1m) has been made resulting from a change during the prior year in the UK tax legislation preventing the recoverability of Industrial Buildings Allowances.

Notes to the Consolidated Financial Statements

15. Inventories

	2009 £m	2008 £m
Raw materials and consumables	**24.1**	29.2
Work in progress	**7.6**	8.5
Finished goods and goods for resale	**12.1**	19.4
	43.8	57.1

The amount of inventories expensed to the Consolidated Income Statement in the year was £251.0m (2008: £273.0m). The value of inventories written down and expensed in the Consolidated Income Statement during the year amounted to £0.3m (2008: £1.0m). The amount of inventories held at fair value less cost to sell included in the above was £nil (2008: £nil).

16. Trade and other receivables

	2009 £m	2008 £m
Other non-current receivables		
Deferred consideration	**1.1**	1.3
Trade and other current receivables		
Trade receivables	**70.5**	90.6
Prepayments and accrued income	**4.0**	5.1
Other receivables	**2.3**	1.5
	76.8	97.2

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 £0.6m (2008: £0.5m).

17. Cash and borrowings

	2009 £m	2008 £m
Cash and cash equivalents in the Balance Sheet		
Cash and bank balances	**30.1**	18.3
Call deposits	**11.0**	7.6
Cash	**41.1**	25.9
Interest bearing loans and borrowings		
Amounts due within one year (Note 18)	**(31.2)**	(16.7)
Amounts due after more than one year (Note 19)	**(97.5)**	(155.4)
Net debt	**(87.6)**	(146.2)
Change in net debt		
Operating profit	**44.9**	43.4
Non-cash items	**15.5**	14.8
Operating cash flow before movement in working capital	**60.4**	58.2
Net movement in working capital	**11.8**	(1.7)
Changes in provisions and employee benefits	**(1.2)**	(2.3)
Operating cash flow	**71.0**	54.2
Tax paid	**(9.6)**	(16.0)
Net financing costs paid (net of investment loan settlement)	**(3.7)**	(7.0)
Capital expenditure	**(11.7)**	(22.5)
Sale of fixed assets	**0.6**	0.7
Free cash flow	**46.6**	9.4
Dividends paid (Note 10)	**(7.5)**	(6.6)
Disposals (see below)	**6.4**	29.5
Acquisitions (see below)	**0.7**	(33.8)
Issue of new shares	**0.7**	0.1
Net debt decrease/(increase) from continuing operations	**46.9**	(1.4)
Net cash inflow from discontinued operations	**–**	5.6
Net debt decrease	**46.9**	4.2
Effect of exchange rate fluctuations	**11.7**	(32.6)
Net debt at the beginning of the year	**(146.2)**	(117.8)
Net debt at the end of the year	**(87.6)**	(146.2)
Acquisitions		
Acquisition of minority interests	**–**	(21.0)
Refund/(payment) in respect of acquisition of subsidiaries and associates (Note 11)	**0.7**	(12.8)
Total	**0.7**	(33.8)
Disposals		
Disposal of subsidiaries (Note 4)	**0.7**	8.3
Disposal of available for sale financial assets (Note 4)	**4.9**	–
Deferred consideration received in respect of disposals	**0.8**	0.1
Disposal of assets and liabilities held for sale	**–**	21.1
Total	**6.4**	29.5

Notes to the Consolidated Financial Statements

18. Current liabilities

	2009 £m	2008 (Restated) £m
Interest bearing loans and borrowings (Note 17)		
Current portion of long term borrowings	**17.8**	11.5
Finance lease and hire purchase obligations	**3.9**	2.7
Bills of exchange	**9.5**	2.5
	31.2	16.7
Trade and other current liabilities		
Trade payables	**44.3**	51.9
Other taxation and social security	**10.0**	13.6
Accrued expenses	**15.6**	18.0
Fair value derivatives	**0.7**	0.2
Other payables	**4.1**	3.8
	74.7	87.5

The dividend accrued for 2008 of £3.2m has been removed as a result of the change in Group policy in line with IAS10 (Note 10).

19. Non-current liabilities

	2009 £m	2008 £m
Interest bearing loans and borrowings (Note 17)		
Long term borrowings	**88.8**	150.9
Finance lease and hire purchase obligations	**8.7**	4.5
	97.5	155.4
Other non-current liabilities		
Deferred government grants	**0.2**	0.3

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:

			2009			2008
	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	**4.36**	**4.4**	**3.9**	4.68	3.0	2.7
Amounts due after more than one year						
Between one and two years	**4.41**	**4.3**	**4.0**	4.68	2.0	1.9
Between two and five years	**4.40**	**4.9**	**4.7**	4.68	2.9	2.6
		9.2	**8.7**		4.9	4.5
		13.6	**12.6**		7.9	7.2
Principal liability		**12.6**			7.2	
Finance charges payable on outstanding commitments		**1.0**			0.7	

The unsecured bank borrowings carry a rate of interest of 1.35% above LIBOR/EURIBOR subject to a ratchet as defined in the facility agreement. In the USA bank borrowings that are not fixed (Note 21) are at LIBOR +1.5% and are secured against substantially all of the assets of V&S LLC and its subsidiaries. Obligations under finance leases and hire purchase obligations are secured on the relevant assets.

20. Provisions for liabilities and charges

	Property related £m	Other regulatory £m	Total £m
At 1 January 2008	3.8	1.0	4.8
Exchange adjustments	1.2	0.2	1.4
On acquisition (Note 11)	–	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**
Exchange adjustments	**(0.3)**	**(0.2)**	**(0.5)**
Utilised during the year	**–**	**(1.2)**	**(1.2)**
At 31 December 2009	**4.6**	**0.4**	**5.0**

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.

21. 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 represent 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 2009 with 66.7% (2008: 60.4%) and currently the only geographical region that does not insure their trade receivables is the USA, which represents 9.9% (2008: 12.7%) 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 2009 and 2008, no guarantees were outstanding.

Notes to the Consolidated Financial Statements

21. 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 2009 all such debt was covered by cash and cash equivalents netting to £9.9m positive current liquidity (2008: £9.2m). The Group has an amortising £150.0m multi currency facility consisting of fixed term and revolving credit that runs to June 2012. The repayment profile using 2009 year end exchange rates is as follows:

	£m
2010	16.9
2011	21.5
2012	62.0

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 £203.6m.

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

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

The Group has hedged its investment in US and European operations by way of financing the acquisitions through like denominations 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.

The UK Parent Company holds Sterling, US Dollar and Euro derivative instruments, designed to reduce the Group's exposure to interest rate fluctuations, as set out opposite. The notional amounts represent approximately 46.5% (2008: 0.0%) of the gross year end Sterling borrowings, 56.3% (2008: 0.0%) of the Euro borrowings and 44.9% (2008: 0.0%) of the US Dollar borrowings all held in the UK. The Group also has US Dollar and Euro arrangements which are held locally and are detailed in the following table, the US Dollar notional amounts representing approximately 29.8% (2008: 33.4%) of the local US Dollar year end gross borrowings.

21. Financial instruments continued

Country	Financial instrument	Maturity date	Rate excluding margin %	2009 Notional amounts £m	2009 Notional amounts €m	2009 Notional amounts $m
UK	Swap	2 January 2012	2.230		**7.0**	
UK	Swap	7 June 2012	2.360		**16.1**	
UK	Swap	7 June 2012	2.325		**9.1**	
UK	Swap	7 June 2012	2.550	**4.1**		
UK	Swap	7 June 2012	2.610	**4.1**		
UK	Swap	7 June 2012	2.280			**23.3**
USA	Swap	1 April 2010	3.100			**1.9**
USA	Swap	1 February 2011	5.700			**0.1**
USA	Swap	1 July 2012	4.200			**1.6**
USA	Swap	1 October 2015	4.800			**1.2**
Belgium	Cap	30 March 2010	4.300		**1.5**	
Belgium	Cap	30 March 2011	4.300		**0.4**	

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 2009 and 2008.

There were no changes in the Group's approach to capital management during the year.

(b) Total financial assets and liabilities

The table below sets out the Group's accounting classification of its financial assets and liabilities and their fair values as at 31 December. The fair values of all financial assets and liabilities are not materially different to the carrying values.

	Held for trading £m	Available for sale £m	Amortised cost £m	Total carrying value £m	Fair value £m
Cash and cash equivalents	**–**	**–**	**41.1**	**41.1**	**41.1**
Interest bearing loans due within one year	**–**	**–**	**(31.2)**	**(31.2)**	**(31.2)**
Interest bearing loans due after more than one year	**–**	**–**	**(97.5)**	**(97.5)**	**(97.5)**
Derivative liabilities	**(0.7)**	**–**	**–**	**(0.7)**	**(0.7)**
Other assets	**–**	**–**	**73.9**	**73.9**	**73.9**
Other liabilities	**–**	**–**	**(64.0)**	**(64.0)**	**(64.0)**
Total at 31 December 2009	**(0.7)**	**–**	**(77.7)**	**(78.4)**	**(78.4)**
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 more than 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)

Notes to the Consolidated Financial Statements

21. Financial instruments continued

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either as a direct price or indirectly derived from prices.
- Level 3: inputs for the asset or liability that are not based on observable market data.

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Derivative financial liabilities	–	(0.7)	–	(0.7)
At 31 December 2009	**–**	**(0.7)**	**–**	**(0.7)**

At 31 December 2009 the Group did not have any liabilities classified at Level 1 or Level 3 in the fair value hierarchy. There have been no transfers in any direction in the year.

The reconciliation of movements in Level 3 fair value measurements of financial assets is as follows:

	Available for sale £m
At 1 January 2009	6.4
Exchange adjustments	(0.7)
Credited for the year in the Consolidated Statement of Comprehensive Income	1.0
Disposal of available for sale financial assets	(4.9)
Disposal of related minority interest	(1.8)
At 31 December 2009	**–**

The Group's financial assets, excluding short term receivables, consist mainly of cash and call deposit accounts.

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

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

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

The UK Parent Company holds Euro £49.5m (2008: £77.8m) and US Dollar £32.2m (2008: £38.7m) denominated interest bearing loans, which are predominantly used to fund its European and United States operations and includes £81.7m (2008: £78.0m) designated as a hedge of the net investment in a foreign operation. The foreign currency gain of £10.8m (2008: loss of £21.6m) 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 2009	**3.3**	**1.8**
US Dollar at 31 December 2009	**2.5**	**2.5**
Euro at 31 December 2009	**2.3**	**2.4**
Sterling at 31 December 2008	5.7	1.7
US Dollar at 31 December 2008	4.0	3.2

21. Financial instruments continued

(c) Maturity profile

The table below sets out the contractual cash flows associated with the Group's financial liabilities, including estimated interest payments, analysed by maturity:

	Carrying amounts £m	Contractual cash flows £m	Due within one year £m	Due between one and two years £m	Due between two and five years £m	Due after more than five years £m
Secured bank borrowings	**6.6**	**(6.9)**	**(1.0)**	**(0.7)**	**(2.2)**	**(3.0)**
Unsecured bank borrowings	**100.0**	**(103.8)**	**(18.6)**	**(22.7)**	**(62.5)**	**–**
Finance lease obligations	**12.6**	**(13.6)**	**(4.4)**	**(4.3)**	**(4.9)**	**–**
Bills of exchange	**9.5**	**(9.6)**	**(9.6)**	**–**	**–**	**–**
Other liabilities	**64.0**	**(64.0)**	**(64.0)**	**–**	**–**	**–**
Derivative liabilities	**0.7**	**(5.7)**	**(2.9)**	**(1.8)**	**(0.8)**	**(0.2)**
Total at 31 December 2009	**193.4**	**(203.6)**	**(100.5)**	**(29.5)**	**(70.4)**	**(3.2)**
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)

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

	2009 £m	2008 £m
Undrawn committed borrowing facilities		
Expiring after more than one year	**57.4**	21.1

(d) Fair values

The loss in the year on the interest rate swaps held by the UK Parent Company was £0.6m (2008: £nil) which is recognised directly in equity as these instruments are accounted for as cash flow hedges. Any ineffective portion of these hedges is taken to the Consolidated Income Statement and was insignificant. The gain in the year on the US fixed rate interest swaps taken to the Consolidated Income Statement was £0.1m (2008: £nil). 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 £nil (2008: £0.2m). The values of the Group's other financial instruments at 31 December 2009 and 2008 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 non-current assets by £0.5m (2008: £1.9m) of their carrying values as detailed in Notes 11 and 12.

(e) Credit risk

Exposure to credit risk

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

Carrying amount	**2009 £m**	2008 £m
Available for sale financial assets (Note 13)	**–**	6.4
Loans and receivables	**73.9**	93.4
Cash at the end of the year (Note 17)	**41.1**	25.9
Total	**115.0**	125.7

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	**2009 £m**	2008 £m
UK	**47.0**	54.7
Rest of Europe	**15.6**	23.2
USA	**7.0**	11.5
Asia and the Middle East	**0.9**	1.2
Total (Note 16)	**70.5**	90.6

Notes to the Consolidated Financial Statements

21. Financial instruments continued

Carrying value of trade receivables by business segment

	2009 £m	2008 £m
Infrastructure Products	**38.4**	36.7
Galvanizing Services	**19.6**	30.0
Building and Construction Products	**12.5**	23.9
Total (Note 16)	**70.5**	90.6

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:

	2009 Gross £m	2009 Provisions £m	2009 Net £m	2008 Gross £m	2008 Provisions £m	2008 Net £m
Not past due	**53.2**	**(0.3)**	**52.9**	61.5	(0.1)	61.4
Past due 1–30 days	**13.8**	**(1.0)**	**12.8**	19.7	–	19.7
Past due 31–120 days	**5.0**	**(0.4)**	**4.6**	9.3	(0.2)	9.1
More than 120 days	**1.8**	**(1.6)**	**0.2**	2.9	(2.5)	0.4
Total	**73.8**	**(3.3)**	**70.5**	93.4	(2.8)	90.6

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

	£m
At 1 January 2008	2.8
Exchange adjustments	0.4
Charged to the Consolidated Income Statement during the year	0.5
Utilised during the year	(0.9)
At 31 December 2008	**2.8**
Exchange adjustments	**(0.1)**
Charged to the Consolidated Income Statement during the year	**0.6**
Utilised during the year	**–**
At 31 December 2009	**3.3**

(f) Sensitivity analysis

In managing interest rate and currency risks the Group aims to reduce the impact of short term fluctuations on the Group's earnings. Over the longer term, however, permanent changes in foreign exchange and interest rates may have an impact on consolidated earnings. At the end of the reporting periods, the effects of hypothetical changes in interest and currency rates are as follows:

- Based on average month end net debt balances that are not subject to an interest rate swap, if interest rates had varied throughout the year by 1% the positive or negative variation on the year's result would have been £0.4m (2008: £1.3m), 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 £1.8m (2008: £1.3m) and the impact directly in equity would have been a gain of £3.4m (2008: £1.4m).
- 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 £1.4m (2008: £1.1m) and the impact directly in equity would have been a loss of £2.8m (2008: £1.1m).

22. Called up share capital

	2009 £m	2008 £m
Allotted, called up and fully paid		
76.1m Ordinary Shares of 25p each (2008: 75.6m)	**19.0**	18.9

In 2009 the Company issued 0.5m shares under its various share option schemes (2008: 0.1m), realising £0.7m (2008: £0.1m).

22. Called up share capital continued

Options outstanding over the Company's shares

	Number of shares 2009	Option price (p) 2009	Number of shares 2008	Option price (p) 2008	Date first exercisable	Expiry date
1995 Executive Share Option Scheme	**–**	**–**	10,000	70	2 July 2004	2 July 2011
2007 LTIP Award (granted March 2009)*	**180,000**	**–**	–	–	§	§
2007 LTIP Award (granted March 2008)*	**205,749**	**–**	205,749	–	§	§
2007 LTIP Award (granted July 2007)*	**103,045**	**–**	103,045	–	§	§
2005 Executive Share Option Scheme (granted October 2005)*	**136,323**	**205**	280,018	205	4 October 2008	4 October 2015
2005 Non-Approved Executive Share Option Scheme (granted October 2005)*	**84,375**	**205**	214,970	205	4 October 2008	4 October 2015
2007 grant of 2005 Approved Executive Share Option Scheme (granted April 2007)*	**247,021**	**350**	298,459	350	13 April 2010	13 April 2017
2007 grant of 2005 Non-Approved Executive Share Option Scheme (granted April 2007)*	**450,979**	**350**	492,541	350	13 April 2010	13 April 2017
2008 grant of 2005 Savings Related Share Option Scheme (granted January 2008)*†	**81,165**	**318**	113,529	318	1 January 2011	1 July 2011
2008 grant of 2005 Savings Related Share Option Scheme (granted January 2008)*†	**190,913**	**318**	250,020	318	1 January 2013	1 July 2013
2008 grant of 2005 Savings Related Share Option Scheme (granted December 2008)*†	**121,396**	**246**	212,321	246	1 December 2011	1 June 2012
2008 grant of 2005 Savings Related Share Option Scheme (granted December 2008)*†	**222,691**	**246**	318,380	246	1 December 2013	1 June 2014
2005 grant of 1995 Savings Related Share Option Scheme (granted January 2005)*†	**778,325**	**100**	981,167	100	1 January 2010	1 July 2010
Outstanding at the end of the year	**2,801,982**		3,480,199			
Exercisable at the year end	**220,698**		504,988			
Not exercisable at the year end	**2,581,284**		2,975,211			
Outstanding at the end of the year	**2,801,982**		3,480,199			

* 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, 1 January 2011 for the 2008 grant and 1 January 2012 for the 2009 grant.

The remaining weighted average life of the outstanding share options is 3 years 4 months (2008: 4 years 7 months).

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

	Weighted average exercise price (p) 2009	**Millions of options 2009**	Weighted average exercise price (p) 2008	Millions of options 2008
Outstanding at the beginning of the year	**201**	**3.5**	200	2.6
Granted during the year	**0**	**0.2**	251	1.6
Exercised during the year	**(163)**	**(0.5)**	(119)	(0.1)
Lapsed during the year	**(270)**	**(0.4)**	(295)	(0.6)
Outstanding at the end of the year	**192**	**2.8**	201	3.5

The weighted average share price on the dates of exercise during the year for the above share options was 248p (2008: 289p), and the weighted average fair value of options and awards granted in the year was 133p (2008: 68p).

Notes to the Consolidated Financial Statements

22. Called up share capital continued

Share-based payments

All option schemes marked as being subject to share-based payments have 2005, 2007, 2008 or 2009 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.

	2009 grant of 2007 LTIP Award	2008 grant of 2007 LTIP Award	2007 grant of 2007 LTIP Award	December 2008 grant of 2005 Savings Related Share Option Scheme	January 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)	133	318	328	3/3	51/49	37	59	34
Share price at grant date (p)	154	330	367	160	331	120	351	208
Exercise price (p)	0	0	0	246	318	100	350	205
Expected volatility (%)	30	29	22	28/24	29/25	36	22	36
Option life (years)	3	3	3	3/5	3/5	5	3	3
Dividend yield (%)	4.6	4.6	3.7	4.6	4.6	3.7	3.7	3.7
Risk free interest rate (%)	2.1	3.8	5.1	1.8/2.8	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:

	2009 £m	2008 £m
Expensed during the year	**0.5**	0.3

23. Reserves

With the disposal of Vista Investment NV on 26 June 2009, the final minority interest was removed (Notes 4 and 13).

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

Other reserves represent the premium on shares issued in exchange for shares of subsidiaries acquired and £0.2m (2008: £0.2m) capital redemption reserve.

24. Guarantees and other financial commitments

(a) Guarantees

The Group had no financial guarantee contracts outstanding (2008: £nil).

(b) Capital commitments

	2009 £m	2008 £m
Contracted for but not provided in the accounts	**0.2**	0.3

(c) Operating lease commitments

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

	2009		2008	
	Land and buildings £m	**Other £m**	Land and buildings £m	Other £m
Group				
Within one year	**4.6**	**1.8**	5.4	1.8
Between one and two years	**4.6**	**1.2**	5.0	1.6
Between two and five years	**12.1**	**1.4**	13.3	1.7
After five years	**23.6**	**–**	26.7	–
	44.9	**4.4**	50.4	5.1

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

	2009		2008	
	Land and buildings £m	**Other £m**	Land and buildings £m	Other £m
Group				
Within one year	**0.7**	**6.6**	0.5	5.5
Between one and five years	**2.2**	**3.0**	1.7	3.5
After five years	**1.9**	**–**	0.9	–
	4.8	**9.6**	3.1	9.0

Notes to the Consolidated Financial Statements

25. Pensions

Total

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

	UK £m	**Overseas £m**	**2009 £m**	UK £m	Overseas £m	2008 £m
Total fair value of scheme assets	**52.0**	**0.2**	**52.2**	46.4	0.2	46.6
Present value of scheme funded obligations	**(67.4)**	**(1.4)**	**(68.8)**	(56.8)	(1.4)	(58.2)
Present value of scheme unfunded obligations	**–**	**(0.1)**	**(0.1)**	–	(0.2)	(0.2)
Retirement benefit obligation	**(15.4)**	**(1.3)**	**(16.7)**	(10.4)	(1.4)	(11.8)

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 are also separate personal pension plans.

The Consolidated Income Statement for the year includes a pension charge of £1.9m (2008: £2.5m), 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 Comprehensive Income.

Composition of the Scheme

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

The principal assumptions used by the Actuary

	2009	2008	2007	2006	2005
Rate of increase in salaries	**3.60%**	2.70%	4.80%	4.50%	4.00%
Rate of increase in pensions payment	**3.40%**	2.60%	3.30%	3.00%	2.80%
Discount rate	**5.80%**	6.50%	5.70%	5.20%	4.75%
Inflation	**3.60%**	2.70%	3.40%	3.10%	2.90%
Mortality table	**PA92YOB****	PA92YOB*	PA92YOB*	PA92YOB*	PA92C2005

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

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

	2009	2008	2007	2006	2005
Males currently aged 45	**21.1 years**	21.0 years	20.9 years	20.9 years	18.5 years
Females currently aged 45	**24.1 years**	24.0 years	23.9 years	23.9 years	21.4 years
Males currently aged 65	**19.9 years**	19.8 years	19.6 years	19.6 years	18.5 years
Females currently aged 65	**22.9 years**	22.8 years	22.7 years	22.7 years	21.4 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.

25. 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 2009 %	**Market value 2009 £m**	Rate of return expected 2008 %	Market value 2008 £m	Rate of return expected 2007 %	Market value 2007 £m
Assets						
Equities	**8.00**	**16.0**	8.40	10.7	8.00	21.2
Bonds	**5.20**	**24.9**	6.50	25.3	5.70	28.5
With profits policies	**5.70**	**2.1**	5.30	2.9	5.90	4.8
Hedge funds	**8.00**	**5.6**	8.00	5.0	8.00	5.7
Currency funds	**8.00**	**2.3**	8.40	2.1	8.40	2.6
Cash	**4.40**	**1.1**	3.70	0.4	4.50	0.8
Total fair value of scheme assets	**6.49**	**52.0**	7.08	46.4	6.92	63.6
Present value of scheme funded obligations		**(67.4)**		(56.8)		(72.2)
Retirement benefit obligation		**(15.4)**		(10.4)		(8.6)

	Rate of return expected 2006 %	Market Value 2006 £m	Rate of return expected 2005 %	Market Value 2005 £m
Assets				
Equities	8.00	40.0	7.50	36.1
Bonds	5.20	6.8	4.75	7.0
Gilts	4.60	3.5	4.10	3.4
With profits policies	5.80	9.1	5.25	8.8
Cash	4.60	3.0	4.10	2.2
Total fair value of scheme assets	7.02	62.4	6.49	57.5
Present value of scheme funded obligations		(72.9)		(71.4)
Retirement benefit obligation		(10.5)		(13.9)

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.

Notes to the Consolidated Financial Statements

25. 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

	2009			2008		
	Defined contribution schemes £m	**Defined benefit schemes £m**	**Total £m**	Defined contribution schemes £m	Defined benefit schemes £m	Total £m
Current service costs	**1.4**	**0.5**	**1.9**	1.6	0.9	2.5
Gain on curtailments and settlements	**–**	**–**	**–**	–	(1.8)	(1.8)
Charge/(credit) to operating profit	**1.4**	**0.5**	**1.9**	1.6	(0.9)	0.7
Expected return on pension scheme assets	**–**	**(3.3)**	**(3.3)**	–	(4.4)	(4.4)
Expected interest cost on pension scheme obligations	**–**	**3.7**	**3.7**	–	4.1	4.1
Total charged/(credited) to profit before tax	**1.4**	**0.9**	**2.3**	1.6	(1.2)	0.4

Change in the present value of the defined benefit obligations

	2009 £m	2008 £m
Opening defined benefit obligations	**56.8**	72.2
Current service costs	**0.5**	0.9
Expected interest cost	**3.7**	4.1
Actuarial loss/(gain)	**10.2**	(10.9)
Liabilities extinguished on settlement	**–**	(4.9)
Employee contributions	**0.1**	0.2
Benefits paid	**(3.9)**	(4.8)
Closing defined benefit obligations	**67.4**	56.8

Changes in fair values of scheme assets

	2009 £m	2008 £m
Opening fair value of assets	**46.4**	63.6
Expected return on assets	**3.3**	4.4
Actuarial gain/(loss)	**4.4**	(16.2)
Employer contributions	**1.7**	2.3
Employee contributions	**0.1**	0.2
Benefits paid	**(3.9)**	(4.8)
Assets distributed on settlements	**–**	(3.1)
Closing fair value of assets	**52.0**	46.4
Actual return on scheme assets	**7.7**	(11.8)
Expected employer contributions in the following year		
Defined benefit schemes	**2.7**	1.3
Defined contribution schemes	**1.4**	1.5

25. Pensions continued

Amounts recognised in the Consolidated Statement of Comprehensive Income

	% of scheme assets/ liabilities %	2009 £m	% of scheme assets/ liabilities %	2008 £m	% of scheme assets/ liabilities %	2007 £m
Difference between actual and expected return on scheme assets	**9**	**4.4**	(35)	(16.2)	(3)	(2.0)
Experienced gain/(loss) on scheme obligations	**0**	**0.3**	(1)	(0.7)	(1)	(0.8)
Changes in assumptions underlying the present value of scheme obligations	**(16)**	**(10.5)**	20	11.6	5	3.4
Annual amount recognised	**(8)**	**(5.8)**	(9)	(5.3)	1	0.6
Total amount recognised		**(21.1)**		(15.3)		(10.0)

Amounts recognised in the Consolidated Statement of Comprehensive Income

	% of scheme assets/ liabilities %	2006 £m	% of scheme assets/ liabilities %	2005 £m
Difference between actual and expected return on scheme assets	3	2.0	9	5.0
Experienced gain/(loss) on scheme obligations	1	0.7	0	(0.3)
Changes in assumptions underlying the present value of scheme obligations	(2)	(1.2)	(18)	(12.8)
Annual amount recognised	2	1.5	(11)	(8.1)
Total amount recognised		(10.6)		(12.1)

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 £0.2m (2008: £0.1m).

The Consolidated Income Statement for the year includes a pension charge of £0.2m (2008: £0.1m), 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 Comprehensive Income.

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 2009.

The principal assumptions used by the Actuary

	2009	2008	2007
Rate of increase in salaries	**2.00%**	2.00%	2.00–3.00%
Discount rate	**5.00%**	5.50%	5.25%
Inflation	**2.00%**	2.00%	2.00%
Expected long term rate of return on plan assets	**4.50%**	4.50%	4.50%
Mortality table	**TH 00-02, TF 00-02**	TG H/F 05	MR/FR INSEE 98 H/F

Notes to the Consolidated Financial Statements

25. 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 2009 %	**Market value 2009 £m**	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	0.2	4.50	0.1
Total fair value of scheme assets	**4.50**	**0.2**	4.50	0.2	4.50	0.1
Present value of scheme funded obligations		**(1.4)**		(1.4)		(0.9)
Present value of scheme unfunded obligations		**(0.1)**		(0.2)		(0.3)
Retirement benefit obligation		**(1.3)**		(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

	2009			2008		
	Defined contribution schemes £m	**Defined benefit schemes £m**	**Total £m**	Defined contribution schemes £m	Defined benefit schemes £m	Total £m
Current service cost	**0.2**	**–**	**0.2**	0.1	–	0.1
Gain on curtailments and settlements	**–**	**–**	**–**	–	(0.2)	(0.2)
Charge/(credit) to operating profit	**0.2**	**–**	**0.2**	0.1	(0.2)	(0.1)
Expected interest cost on pension scheme obligations	**–**	**0.1**	**0.1**	–	0.1	0.1
Total charged/(credited) to profit before tax	**0.2**	**0.1**	**0.3**	0.1	(0.1)	–

Change in the present value of the defined benefit obligation

	2009 £m	2008 £m
Opening defined benefit obligation	**1.6**	1.2
Expected interest cost	**0.1**	0.1
Actuarial (gain)/loss	**(0.1)**	0.1
Gain on curtailments and settlements	**–**	(0.2)
Exchange adjustments	**(0.1)**	0.4
Closing defined benefit obligation	**1.5**	1.6

Changes in fair values of scheme assets

	2009 £m	2008 £m
Opening fair value of assets	**0.2**	0.1
Exchange adjustments	**–**	0.1
Closing fair value of assets	**0.2**	0.2
Actual return on scheme assets	**–**	–
Expected employer contributions in the following year		
Defined benefit schemes	**–**	–
Defined contribution schemes	**0.2**	0.1

Amounts recognised in the Consolidated Statement of Comprehensive Income

	% of scheme assets/ liabilities %	**2009 £m**	% of scheme assets/ liabilities %	2008 £m	% of scheme assets/ liabilities %	2007 £m
Experienced loss on scheme obligations	**3**	**–**	(9)	(0.1)	0	–
Exchange rate adjustment on assets and liabilities	**n/a**	**0.1**	n/a	(0.3)	n/a	(0.1)
Amount recognised in the period		**0.1**		(0.4)		(0.1)
Total amount recognised		**(0.4)**		(0.5)		(0.1)

26. 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 25).

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 22.

Environmental and dilapidation provisions

Estimated environmental and dilapidation costs have been derived on the basis of the most recent assessments of the likely cost. Certain factors concerning these costs are outside the Group's control. In making this assessment the Group has sought the aid of independent experts where appropriate. Further information is included in Note 20.

Deferred taxation

Deferred taxation has been estimated using the best information available, including seeking the opinion of independent experts where applicable (Note 14).

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, know how, market share and geographical advantages.

Brands have been valued based on estimated royalty rates discounted over their useful lives, which is normally 20 years, but considered indefinite for the US Voigt & Schweitzer 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.

27. 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 34 to 41. The compensation in total for each category required by IAS24 is as follows:

	2009 £m	2008 £m
Salaries and short term employee benefits	**1.2**	1.3
Non-executive Directors' fees	**0.2**	0.1
Pension costs	**0.1**	0.1
Share-based payments	**0.3**	0.2
	1.8	1.7

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 along with any trading between subsidiary companies or between segments were undertaken on an arm's length basis.

Company Balance Sheet

As at 31 December 2009

	Notes	**2009** £m	2008 (Restated) £m
Fixed assets			
Tangible assets	3	**0.1**	0.2
Investments	4	**333.3**	330.4
		333.4	330.6
Current assets			
Debtors	5	**72.0**	56.8
Cash at bank and in hand		**17.4**	7.5
		89.4	64.3
Creditors: amounts falling due within one year			
Bank loans and overdrafts	6, 7	**(16.7)**	(33.3)
Other creditors	6	**(93.6)**	(61.7)
		(110.3)	(95.0)
Net current liabilities		**(20.9)**	(30.7)
Total assets less current liabilities		**312.5**	299.9
Creditors: amounts falling due after more than one year	7	**(135.9)**	(230.9)
Net assets		**176.6**	69.0
Share capital and reserves			
Called up share capital	9	**19.0**	18.9
Share premium	10	**28.5**	27.9
Capital redemption reserve	10	**0.2**	0.2
Profit and loss account	10	**128.9**	22.0
Equity shareholders' funds		**176.6**	69.0

Approved by the Board of Directors on 9 March 2010 and signed on its behalf by:

D W Muir
Director

M Pegler
Director

Company Number: 671474

Company Reconciliation of Movements in Shareholders' Funds

As at 31 December 2009

	2009 £m	2008 (Restated) £m
Profit for the year	**113.9**	4.5
Dividends (restated)	**(7.5)**	(6.6)
Credit to equity of share-based payments	**0.5**	0.3
Shares issued in the year	**0.7**	0.1
Net increase/(decrease) in shareholders' funds	**107.6**	(1.7)
Opening shareholders' funds as previously reported	**69.0**	68.0
Restatement (Note 2)	**–**	2.7
Opening shareholders' funds (restated)	**69.0**	70.7
Closing shareholders' funds	**176.6**	69.0

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 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own Profit and Loss Account.

Under FRS1 Cash Flow Statements, the Company is exempt from the requirement to prepare a Cash Flow Statement, on the grounds that the Company is included in its own published Consolidated Financial Statements.

The Company has taken advantage of the exemptions contained in FRS8 Related Party Disclosures and has not disclosed transactions or balances with wholly owned subsidiaries of the Group.

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 where appropriate, in accordance with FRS26, in order to hedge loans denominated in foreign currencies against all, or part, of the foreign currency denominated investments. Therefore, foreign exchange differences arising on translation into Sterling of both the hedging loans and hedged investments using the closing rates at the Balance Sheet date are taken to the Profit and Loss Account. Any unhedged investment balances continue to be held at cost as described above.

Financial instruments

The Company has adopted the requirements of FRS29 and has taken the exemption under that standard from disclosure on the grounds that the Consolidated Financial Statements contain disclosures in compliance with IFRS7 in Note 21.

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

In accordance with its treasury policy, the Company does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

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

Tangible fixed assets and depreciation

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

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

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

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

Share-based payments
The share option programme allows employees to acquire shares of the Company. The fair value of options granted 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 substantively enacted at the Balance Sheet date, and any adjustments in respect of previous years.

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

Ordinary dividends
Dividends payable are accounted in the Company’s Financial Statements when the Company declares 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

	2009 £m	2008 £m
The profit on ordinary activities is stated after charging		
Operating lease rentals — land and buildings	**0.1**	0.1

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

2. Dividends

Dividends paid in the year were the prior year's interim dividend of £3.2m (2008: £2.7m) and the final dividend of £4.3m (2008: £3.9m). 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:

	2009		2008	
	Pence per share	£m	Pence per share	£m
Equity shares				
Interim	**4.7**	**3.6**	4.3	3.2
Final	**6.8**	**5.3**	5.7	4.3
Total	**11.5**	**8.9**	10.0	7.5

The restatement of prior year balances results from dividend recognition in line with FRS21 (IAS10 from a Group perspective), which is more fully explained in Note 10 of the Group Financial Statements.

3. Tangible fixed assets

	Short leasehold properties £m	Plant, machinery and vehicles £m	Total £m
Cost or valuation			
At 31 December 2008	0.1	0.2	0.3
At 31 December 2009	**0.1**	**0.2**	**0.3**
Depreciation			
At 31 December 2008	–	0.1	0.1
Charge for the year	–	0.1	0.1
At 31 December 2009	**–**	**0.2**	**0.2**
Net book value			
At 31 December 2009	**0.1**	**–**	**0.1**
At 31 December 2008	0.1	0.1	0.2

4. Fixed asset investments

	Shares in subsidiary undertakings £m	Loans to subsidiary undertakings £m	Trade investments £m	Total £m
Cost				
At 31 December 2008	309.8	23.8	0.8	334.4
Exchange adjustments	(12.1)	–	–	(12.1)
Additions	18.7	–	–	18.7
Transferred to Group undertakings	(3.7)	–	–	(3.7)
At 31 December 2009	**312.7**	**23.8**	**0.8**	**337.3**
Provisions				
At 31 December 2008	1.9	1.3	0.8	4.0
At 31 December 2009	**1.9**	**1.3**	**0.8**	**4.0**
Net book value				
At 31 December 2009	**310.8**	**22.5**	**–**	**333.3**
At 31 December 2008	307.9	22.5	–	330.4

A list of the principal businesses owned by the Company is given on pages 96 and 97. All of the Company's subsidiaries are wholly owned.

Additions represent a further investment in an intermediary holding company, Hill & Smith Overseas Limited of £18.7m. In May 2009 the Company transferred its investments in Barkers Engineering Limited (£1.9m) and Birtley Building Products Limited (£1.8m) to one of the Group's intermediary holding companies, Hill & Smith Galvanized Products Limited for a consideration of £15.7m.

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

5. Debtors

	2009 £m	2008 £m
Amounts owed by subsidiary undertakings	**69.4**	51.3
Corporation tax	**0.6**	3.7
Deferred tax (Note 8)	**0.2**	0.1
Other debtors	**1.4**	0.8
Prepayments and accrued income	**0.4**	0.9
	72.0	56.8

6. Creditors: amounts falling due within one year

	2009 £m	2008 (Restated) £m
Bank loans and overdrafts (Note 7)		
Bank overdrafts	**–**	23.3
Current portion of long term bank loans	**16.7**	10.0
	16.7	33.3
Other creditors		
Trade creditors	**1.4**	1.8
Other taxation and social security	**0.1**	0.1
Accruals and deferred income	**3.0**	4.4
Other creditors	**0.9**	0.6
Amounts owed to subsidiary undertakings	**88.2**	54.8
	93.6	61.7

Notes to the Company Financial Statements

7. Creditors: amounts falling due after more than one year

The Company's interest bearing loans and borrowings are detailed below. Further information on the Company's exposure to interest rate and foreign currency risk is provided in Note 21 of the Group Financial Statements.

	2009 £m	2008 £m
Amounts owed to subsidiary undertakings	**53.9**	101.5
Long term bank loans	**82.0**	129.4
	135.9	230.9

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

	2009 £m	2008 £m
Bank loans and overdraft		
Amounts due within one year (Note 6)	**16.7**	33.3
Amounts due after more than one year:		
Between one and two years	**21.2**	15.0
Between two and five years	**60.8**	114.4
	82.0	129.4
	98.7	162.7

The bank loans are unsecured and carry a rate of interest of 1.35% above LIBOR/EURIBOR subject to a ratchet as defined in the facility agreement.

8. Deferred tax

	2009 £m	2008 £m
At 1 January	**(0.1)**	(0.1)
Credited for the year in the Profit and Loss Account	**(0.1)**	–
At 31 December (Note 5)	**(0.2)**	(0.1)
Other timing differences	**(0.2)**	(0.1)

9. Called up share capital

	2009 £m	2008 £m
Allotted, called up and fully paid		
76.1m Ordinary Shares of 25p each (2008: 75.6m)	**19.0**	18.9

In 2009 the Company issued 0.5m shares under its various share option schemes (2008: 0.1m), realising £0.7m (2008: £0.1m).

Details of share options and related share-based payments are contained in Note 22 to the Group Financial Statements.

10. Share premium and reserves

	Share premium £m	Capital redemption reserve £m	Profit and Loss Account (Restated) £m
At 1 January 2008	27.8	0.2	23.8
Profit for the year	–	–	4.5
Dividends	–	–	(6.6)
Credit to equity of share-based payments	–	–	0.3
Shares issued	0.1	–	–
At 31 December 2008	**27.9**	**0.2**	**22.0**
Profit for the year	**–**	**–**	**113.9**
Dividends	**–**	**–**	**(7.5)**
Credit to equity of share-based payments	**–**	**–**	**0.5**
Shares issued	**0.6**	**–**	**–**
At 31 December 2009	**28.5**	**0.2**	**128.9**

Details of share options and related share-based payments are contained in Note 22 to the Group Financial Statements.

11. Guarantees and other financial commitments

(a) Guarantees

The Company had no financial guarantee contracts outstanding (2008: £nil).

The Company guarantees the bank loans and overdrafts of certain subsidiary undertakings. The amount outstanding at 31 December 2009 was £9.1m (2008: £25.4m).

(b) Operating lease commitments

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

	2009 Land and buildings £m	**2009** Other £m	2008 Land and buildings £m	2008 Other £m
After five years	**0.1**	**–**	0.1	–

12. Pensions

The Company contributes to two Group pension schemes, one providing benefits accruing in the future on a defined benefit basis and a second scheme providing benefits that are on a defined contribution basis. Details of the schemes and their most recent actuarial valuations are contained in Note 25 to the Group Financial Statements. Because the Company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis, the schemes have been accounted for by the Company as if they were defined contribution schemes, as permitted by FRS17 Retirement Benefits. There are also separate personal pension plans.

The pension cost for the year includes contributions payable by the Company to the fund and amounted to £0.7m (2008: £1.6m), of which additional deficit contributions were £0.6m (2008: £1.4m plus £1.2m for the reduced liability in deferred defined benefit pensioners detailed in Note 25 of the Group's Consolidated Financial Statements). There were no outstanding or prepaid contributions at either the beginning or the end of the financial year.

Full details of the Group schemes are given in Note 25 to the Group Financial Statements.

13. Related party transactions

The Company related party transactions are the same as those transactions disclosed for the Group in Note 27 to the Group Financial Statements.

Five Year Summary

	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Revenue	**389.7**	419.8	329.6	234.6	217.9
Underlying operating profit*	**47.0**	47.4	36.9	23.4	19.5
Underlying profit before taxation*	**42.2**	38.9	31.0	19.5	15.9
Shareholders' funds	**131.4**	118.2	99.2	77.0	40.3
	Pence	Pence	Pence	Pence	Pence
Underlying earnings per share	**38.3**	32.2	26.1	21.3	17.9
Proposed dividends per share	**11.5**	10.0	8.7	7.2	6.0

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

Financial Calendar

Annual General Meeting	7 May 2010
Interim Management Statement	May 2010
Ex dividend date for 2009 final dividend	2 June 2010
Record date 2009 final dividend	4 June 2010
Dividend Reinvestment Plan — last date for election	18 June 2010
Final 2009 ordinary dividend payable	9 July 2010
Announcement of 2010 interim results	August 2010
Interim Management Statement	November 2010
Payment of 2010 interim dividend due	January 2011

Shareholder Information

Shareholder base

Holdings of Ordinary Shares at 9 March 2010.

	Shareholders		Shares	
	Number	%	Number	%
Holdings				
1–500	572	21.69	107,709	0.14
501–1,000	329	12.48	259,330	0.34
1,001–5,000	944	35.80	2,456,430	3.20
5,001–50,000	627	23.78	8,928,590	11.62
50,001–100,000	56	2.12	3,855,148	5.01
100,001–500,000	76	2.88	17,510,679	22.80
500,001–1,000,000	11	0.42	9,262,249	12.06
above 1,000,000	22	0.83	34,436,614	44.83
Totals	**2,637**	**100.00**	**76,816,749**	**100.00**
Shareholder type				
Individuals	1,838	69.70	13,891,264	18.08
Institutions	756	28.67	62,281,147	81.08
Other corporate	43	1.63	644,338	0.84
Totals	**2,637**	**100.00**	**76,816,749**	**100.00**

Dividend History – pence per share

	2005	2006	2007	2008	2009
Interim	2.60	3.00	3.60	4.30	4.70
Final	3.40	4.20	5.10	5.70	6.80*
Total	6.00	7.20	8.70	10.00	11.50

* Proposed

Communication with shareholders and analysts

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

Corporate information

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

Annual General Meeting (AGM)

The AGM will be held on Friday 7 May 2010 at 11 am at The Village Hotel, The Green Business Park, Shirley, Solihull, B90 4GW. Full details are contained within the Notice of AGM. A proxy card is also enclosed with this statement for voting. Alternatively you can vote electronically as explained in the next paragraph.

Electronic proxy voting

To lodge your proxy vote via the internet, log on to www.eproxyappointment.com. You will need the Shareholder Reference number and PIN number printed on your Form of Proxy where you will find the full instructions.

Shareholding online

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

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

Share dealing

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

Dividend Reinvestment Plan 'DRIP' (Latest date for election is 18 June 2010)

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.
  - Click on "Register Now" to sign up to the Investor Centre. This will allow you to carry out a number of share related transactions online, including opting for the DRIP
  - You will be required to fill in your Shareholder Reference Number (SRN) and your postcode, together with your e-mail address. You will also be asked to select a User name (ID) and password of your choice.
  - Once registered select "Reinvestment Plans" from the left hand menu and amend your current cash dividend instruction, confirming acceptance of the DRIP terms and conditions.
- New shares will be purchased as soon as possible on or after the dividend pay date.

Shareholder helpline number

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

Principal Group Businesses

Infrastructure Products

Asset International Limited
Large diameter plastic 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

British Pipe Supports (Jingjiang) Limited*
Constant and variable pipe support systems

West End of Fuyang Road
South Developing District
Jingjiang City
Jiangsu Province
PRC, 214500, China
Tel: +86 (0) 523 8462 1530
Fax: +86 (0) 523 8462 1550
bps@pipesupports.com.cn

CA Traffic Limited
Traffic counting and classifying equipment

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

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

Conimast International SAS*
Specialist highmast lighting columns
Incorporated in France

Z.I. La Sauniere BP70,
89600 Saint Florentin,
France
Tel: +33 (0) 3 86 43 82 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

Berry Systems (D)
Car park and industrial barriers, spring steel barriers, protection bollards, speed ramps, handrail panels

Tel: +44 (0) 1902 4991100
Fax: +44 (0) 1902 494080
sales@berrysystems.co.uk
www.berrysystems.co.uk

Brifen (D)
Wire rope safety barriers

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

Bristorm (D)
Anti-terrorist security fencing

Tel: +44 (0) 1902 499400
Fax: +44 (0) 1902 499419
simon.box@hill-smith.co.uk
www.bristorm.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

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@iaenvirotanks.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
Incorporated in Thailand

26/5 Moo 9, Soi Rattanaraj,
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

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 service
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.hotdipgalvanzing.com

Notes:
The above lists the Company's subsidiary undertakings, except for some intermediate holding companies and certain other undertakings of minor importance. Except where indicated, the undertakings are subsidiaries incorporated in Great Britain.
* 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.

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

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

Voigt & Schweitzer, LLC*
Galvanizing
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

Building and Construction Products

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

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

Access Design and Engineering (D)
Specialising in GRP, steelwork and metalwork contracts

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Notes:
The above lists the Company's subsidiary undertakings, except for some intermediate holding companies and certain other undertakings of minor importance. Except where indicated, the undertakings are subsidiaries incorporated in Great Britain.
* The Company's effective interest is held indirectly for these undertakings.
(D) Operating division only, not a limited company.

Contacts

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Westhaven House
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Shirley, Solihull
West Midlands
B90 4LH
Tel: 0121 704 7430
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Registration Details
Registered in England and Wales
Company Number: 671474

Company Website
www.hsholdings.com

Company Secretary
John Humphreys FCIS

Professional Advisers

Auditors
KPMG Audit Plc
1 Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

Brokers
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 Investor Services PLC
PO Box 82
The Pavilions
Bridgwater Road
Bristol
BS99 7NH

Principal Bankers
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Midlands Corporate Banking Centre
PO Box 3333
15 Colmore Row
Birmingham
B3 2WN

Financial Public Relations
Hogarth Partnership Limited
No. 1 London Bridge
London
SE1 9BG

Notes

Notes

Flowforge open steel flooring and tubular ballastrade system supplied by Access Design for Minworth, Warwickshire, waste water treatment plant.

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