2010

Annual Report and Accounts for the year ended 31 December 2010

Hill & Smith Holdings PLC

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

A fire escape galvanized by France Galva for the Système U retail group head office in France.

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Front Cover in descending order

V&S LLC's galvanized welded studs on 64' beams for the Tappanzee Bridge in New York.

Pipe Supports shoe for LNG plant project in Yemen, manufactured by Pipe Supports Asia Ltd.

Varley & Gulliver parapet for the HQ building Al Raha Beach, Abu Dhabi.

Cautionary Statement

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

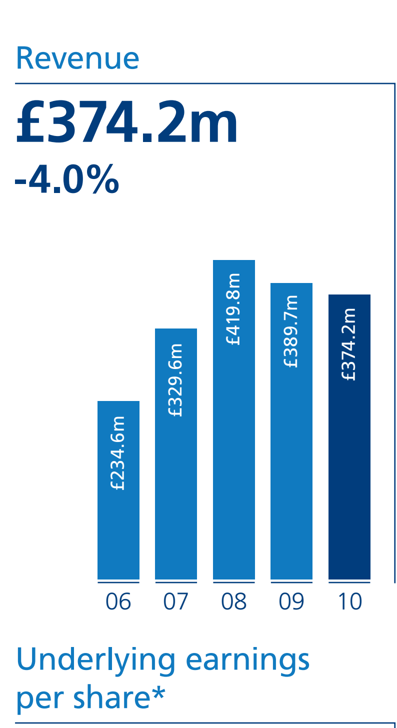
Key Financial Highlights

- Resilient performance in challenging conditions
- 55% of underlying operating profit* generated from non-UK operations
- Strong performance in Galvanizing Services
- Reduction in net debt – down from £87.6m to £70.6m
- Dividend for the year of 12.7 pence per share, up 10.4%

Revenue

£374.2m

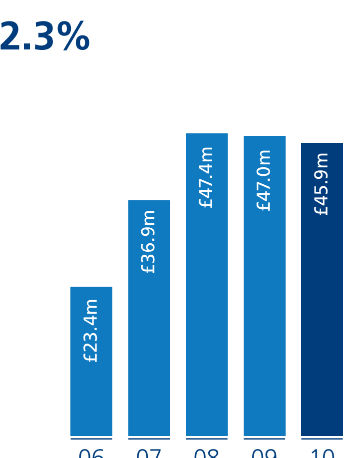
-4.0%



Underlying operating profit*

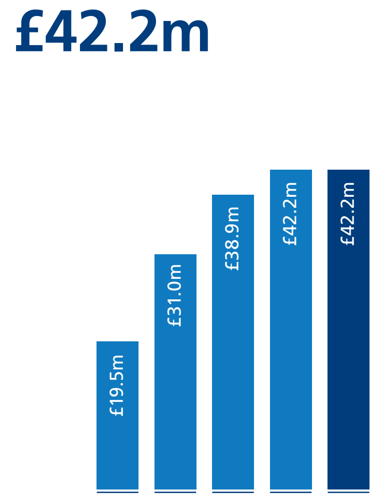
£45.9m

-2.3%



Underlying profit before tax*

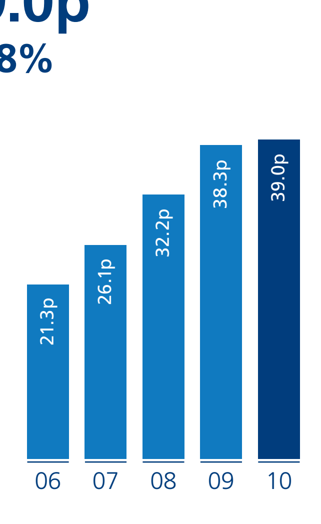
£42.2m



Underlying earnings per share*

39.0p

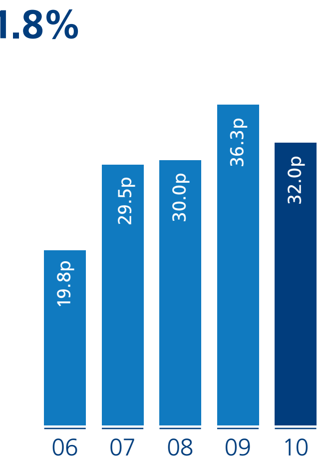
+1.8%



Basic earnings per share

32.0p

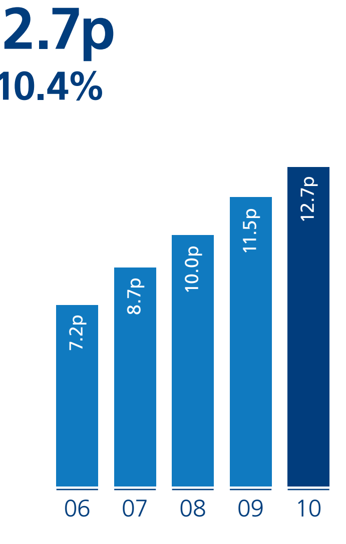
-11.8%



Dividend per share

12.7p

+10.4%



* Underlying profit measures exclude non-underlying items which represent business reorganisation costs, acquisition related expenses, property items, amortisation of acquisition intangibles, impairments, gains on disposals of available for sale financial assets, change in the value of financial instruments and net financing returns on pension obligations. References to an underlying profit measure throughout this Annual Report are defined on this basis.

Chairman's Statement

Bill Whiteley
Chairman

Overview

I am pleased to report that despite the challenging trading conditions the Group delivered a resilient earnings performance and strong cashflow in 2010. This performance, from markets that experienced varying levels of demand, is a testimony to our strategy of having a Group with a diversity of products and geographical representation in markets with growth potential. Evidence of this strategy is the generation of 55% of our underlying operating profit from our overseas operations and, during the year, utilising our existing knowledge and expertise to develop our business in China and India.

The Galvanizing Services operations in France, USA and the UK had mixed fortunes as demand levels varied during the year. Overall, margins remained strong with the lower cost base and careful management of raw material costs, contributing to an exceptional performance.

The uncertainty over the UK Government spending review impacted the performance of the infrastructure roads businesses and whilst the Managed Motorway Projects are still proceeding, it will be at a slower rate than previously experienced.

Demand in the utilities market for our pipe supports products started the year slower than anticipated but picked up in the fourth quarter, with the momentum carrying through into the new financial year.

We have taken steps to rationalise the number of sites in our industrial flooring operation, in the galvanizing services business in the UK and in the utility fabrication businesses in the USA. These actions, together with similar actions taken in 2009, leave us with a lower cost base but still well positioned to maximise profitability from future increases in demand.

Financial Highlights

Revenue for the year decreased by 4.0% to £374.2m (2009: £389.7m) reflecting the lower levels of demand and the disposal of a non-core business in December 2009.

We achieved an underlying profit before tax of £42.2m (2009: £42.2m) which was an excellent outcome for the year in the context of the challenging economic conditions our businesses faced.

Basic earnings per share fell by 11.8% to 32.0p (2009: 36.3p) however, underlying earnings per share increased by 1.8% to 39.0p (2009: 38.3p). Our underlying earnings per share has now grown by a compound average rate in excess of 16% over the past five years.

We continued our strong management of cash and working capital with net debt at 31 December 2010 having been reduced to £70.6m (2009: £87.6m) an improvement of £17.0m.

Dividends

Reflecting the Board's confidence in the resilience of the results and the importance of dividends as part of total shareholder returns, the Directors intend to recommend a final dividend of 7.5p per share (2009: 6.8p), making a total dividend for the year of 12.7p (2009: 11.5p), an increase of 10.4%. The final dividend, if approved, will be paid on 8 July 2011 to those shareholders on the register at close of business on 3 June 2011.

Our progressive dividend policy has increased our dividend payments by an average of 15.3% in each of the last five years. Underlying dividend cover remains a healthy 3.1 times (2009: 3.3 times).

Employees

On behalf of the Board I would like to thank all our employees for their contribution to the achievement of another successful year for the Group.

Prospects

As expected, trading in the first two months of the year has continued to be challenging. However, we have recently seen a strong order intake in our utilities businesses and, therefore, our views of the overall results for the full year remain unchanged.

In the medium to longer term, we remain confident that our business model and strategy for international expansion will continue to deliver attractive growth and value. We will continue to seek out profitable long term growth opportunities where we can leverage our scale and expertise. We are therefore delighted to also announce today the acquisition of a North American pipes supports business, The Paterson Group, Inc., which not only gives us a well established presence in the US nuclear and thermal power generation market but, when combined with our existing pipe supports businesses, creates a leading global player in this niche market.

The Group is lean, well financed, has excellent positions in its core markets of Infrastructure Products and Galvanizing Services, and a clear focus on further expansion in international markets with clear long term growth dynamics.

Bill Whiteley
Chairman

9 March 2011

Varley & Gulliver's parapet for the HQ building Al Raha Beach, Abu Dhabi.

Business Review

Derek Muir
Chief Executive

Mark Pegler
Group Finance Director

2010 Performance

The Group again delivered a robust performance in generally challenging economic conditions.

The first half benefitted from UK Government fiscal stimulus, whilst the second half was more challenging in the UK due to the uncertainty created around the Comprehensive Spending Review in October. Second half trading was stronger in our overseas markets and as a result of a better than expected final two months in our overseas galvanizing businesses, underlying profit before tax was maintained at the prior year level and marginally ahead of that indicated in the Interim Management Statement of 11 November 2010. Overseas operations now account for 55% of total underlying operating profit.

Revenue decreased by 4.0% to £374.2m (2009: £389.7m) of which 1.8% was due to the disposal of a non-core business in the prior year. Increased revenues in Galvanizing Services were offset by lower revenues in Infrastructure Products. Underlying operating profit of £45.9m was marginally below the prior year (2009: £47.0m), reflecting record profits from Galvanizing Services, a lower contribution from Infrastructure Products and Building and Construction Products broadly unchanged. Underlying operating margins improved 20 basis points to 12.3% (2009: 12.1%) a reflection of our cost reduction initiatives implemented in both 2009 and 2010. There was no material impact from exchange movements.

Underlying profit before taxation was unchanged at £42.2m (2009: £42.2m) and profit before taxation was £35.3m (2009: £39.7m).

Group Strategy

These resilient results, in the face of challenging trading conditions, demonstrate the benefits of the way in which we have continued to reshape and grow the Group internationally and at the same time strengthen its financial position.

The Group continues to create and exploit niche positions for Infrastructure Products, which together with the Galvanizing Services division, gives us strong international presence in the core businesses of roads and utilities. Long term growth in these businesses is being driven by a combination of infrastructure spending, energy consumption and regulatory change.

The Group's geographical footprint has been progressively broadened with operations in the UK, France, USA, Thailand and China, and a developing position in India. As a result 55% of underlying operating profit in 2010 was generated by operations outside of the UK (compared to 2% four years ago). The benefits of the recent investment in our US Galvanizing Services businesses are showing through with strong trading in this market.

Our pipe supports facility in China, commissioned in 2009 to serve the fast growing utilities market, contributed to profit in 2010 and we are now in the process of commissioning a plant in India, again to serve an emerging market.

Major Acquisitions

The acquisition of The Paterson Group, announced today, further strengthens our strategy to create a global pipe supports business. This acquisition not only allows the Group access to the North American markets but more importantly one of its businesses, Bergen-Power Pipe Supports, Inc., has significant experience in the nuclear pipe supports market and has an ASME nuclear certification. Bergen has supplied nuclear pipe supports to 49 of the 104 nuclear plants in the USA over the past 50 years. This acquisition, combined with our current ability to manufacture in China, Thailand and the UK, will allow us to fully leverage the potential of the increasing demand for nuclear and thermal power generation pipe supports throughout the world.

The strength of our balance sheet allows us to continue to pursue acquisition opportunities which bring new products and technologies to the Group, further strengthen our market positions and extend our geographic footprint. Our focus is on businesses that fit with our strategy for operating in markets where the right macro growth dynamics exist for our Infrastructure Products and Galvanizing Services.

Operational Review

Infrastructure Products

The division is focused on supplying engineered products to the roads and utilities markets in geographies where there is long term investment in infrastructure. In 2010, the division accounted for 50.9% (2009: 52.0%) of the Group's revenue and 42.7% (2009: 52.2%) of the Group's underlying operating profit.

Revenues decreased by 5.9% to £190.5m (2009: £202.5m). Margins declined by 180 basis points to 10.3% (2009: 12.1%) due to reduced volume, as customer capital expenditure plans were put on hold in 2009 and 2010. Underlying operating profit decreased by 20.0% to £19.6m (2009: £24.5m).

Roads

The UK roads programme generated strong demand in the first half, through the Highways Agency Managed Motorway Programme and additional fiscal stimulus spend. The second half was more challenging due to the uncertainty created around the Comprehensive Spending Review where projects previously planned were either put on hold, spread over a longer period or cancelled.

The outcome of the Comprehensive Spending Review in October confirmed a marked reduction in spending on new road projects in the UK. We were however, pleased to see confirmation that the Managed Motorway Programme will proceed, albeit on a more protracted timescale, with the first scheme starting in the final quarter of 2011.

During the year rental of Varioguard, our temporary barrier, achieved record utilisation levels. This will continue in 2011 as our product is deployed in large quantities on the M25 widening and on the M1 J10-13 around Luton.

Our permanent vehicle restraint systems: Flexbeam, Brifen and VGAN had another excellent year, both in the UK and in the export markets of Scandinavia and the Middle East. We continue to explore markets where there is strong forecast infrastructure spend and a necessity to upgrade existing road networks as we develop and test new vehicle restraint products to satisfy European and American Standards, which are widely recognised around the world.

Our lighting column operation in France had an encouraging year with increased volumes and benefitted from our investment in automated manufacture contributing to greater profitability. With over 65% of columns now requiring a secondary coating we are further investing in a new powder coating plant on the Conimast site in Saint Florentin. This will enable us to coat both our own production and external work from our galvanizing customers.

In the UK our lighting column operation commenced the supply of the Surrey, South Coast and Coventry PFI's, all of which have secured long term business and offset the reduction in local authority spending experienced in the second half.

We continue to make progress in the USA with Zoneguard, our temporary steel vehicle restraint system. In a number of key states such as Pennsylvania, where a large road construction programme is planned, Zoneguard has been given approval for use on construction projects. Throughout the year we increased our rental fleet as high utilisation was experienced during the construction season of May to November.

Utilities

The requirement for new power generation in emerging economies and the replacement of infrastructure in developed countries provides us with a great platform for the Group's infrastructure businesses to supply the utilities market.

The Group's pipe supports business supplies large industrial pipe supports for petrochemical, gas, coal and nuclear power plants around the world. Combining this existing established business with the recent acquisition of The Paterson Group, Inc. and related companies will enable us to become a global leading supplier in this marketplace.

In 2010 the pipe supports business started the year with a lower order book, due to the reduction of new major project awards in 2009; consequently the first half produced lower revenue and profitability, compared with the same period in 2009. However, the business delivered an excellent performance in the third quarter and by the end of 2010 orders for 2011 were back at peak 2007/08 levels. Current orders include pipe hangers for a number of power plants in India and cryogenic pipe supports for a new LNG plant in Singapore. The investment in China moved into profit in 2010 and enters 2011 with a robust level of orders. The order intake for India now stands at £9m as we enter the first phase of construction for our new manufacturing facility in Sri, north of Chennai.

The UK water industry's AMP5 (Asset Management Programme) started slowly in April, but gained momentum giving us a strong order book as we enter 2011, including a £1.8m contract to supply pipework for Crossness sewage treatment works in London. The requirement for storm water attenuation for new housing developments increased in 2010 and whilst not back to 2008 levels, signs are encouraging as the need to prevent flooding is a high priority for the water authorities.

In the USA our utilities fabrication business experienced lower demand levels resulting in revenue and profitability being substantially below the prior year. Notwithstanding a slight recovery in the fourth quarter we have taken the decision to rationalise the business onto two sites, closing a third site in Alabama. This rationalisation gives us a leaner operation and we are encouraged by the trading and order book in the first two months of 2011.

Business Review

Galvanizing Services

Offering corrosion protection services to the steel fabrication industry with multi-plant facilities in three countries, Galvanizing Services now accounts for 30.8% (2009: 29.0%) of the Group's revenue and more significantly 54.5% (2009: 45.5%) of the Group's underlying operating profit.

Revenues at constant currency increased 3.6% to £115.4m (2009: £113.2m). Underlying operating profit at constant currency improved 19.0% to £25.0m (2009: £21.4m) resulting in an improved operating margin of 21.7% (2009: 18.9%).

Overall galvanizing volumes were broadly in line with 2009, with the first half showing favourable uplifts in France and the UK, offset by weaker demand in USA. This position reversed in the second half as the USA provided a strong finish to the year.

Overall, margins remained strong, with the overseas plants in particular benefitting from the strong supply chain management, lower operational cost management and ongoing efficiency initiatives.

USA

Located in the North East of the country, we are the market leader with six plants offering local services and extensive support to fabricators and manufacturers of highway bridges, construction, utilities, OEM and the transportation markets.

Volumes were up 6.9% year on year despite a slow start in the first half of 2010 (down 5.3%). However, from May the demand improved and the second half produced volumes up by 19.8%. Raw material cost increases were carefully managed and as volumes increased the operating efficiency gain improved profitability. Our recent investment in the Delaware and Taunton plants, which have shown the most improvement in 2010, demonstrated the benefit of investment in new modern plants that produce high quality product, high levels of service and operating efficiency. This market continues to provide further opportunity for growth as more infrastructure projects convert from painting to the longer lasting cost effective solution of galvanizing.

France

The business has ten strategically located galvanizing plants serving each local market. As part of the manufacturing supply chain, we have delivered high levels of service and quality to maintain our position as market leaders.

Volumes in 2010 were similar to those for 2009, and despite the increased zinc prices, the business achieved a level of profitability in line with the excellent performance for 2009.

Investments in two powder coating paint facilities at our existing plants were approved and are currently being constructed to become operational in the second half of 2011. This will give us the ability to offer the options of powder coating and galvanizing services to our customers.

UK

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

Year on year, volumes were down 3.8%, driven by lower construction activity in the final quarter, which was affected by the bad weather in December. This was further exacerbated by the overall reduction in construction projects.

As part of the ongoing cost management programme we closed a galvanizing facility in Oldbury in June, with production being transferred to a sister plant in Telford.

Building and Construction Products

This is our smallest division, accounting for 18.3% (2009: 19.0%) of Group revenue and 2.8% (2009: 2.3%) of underlying operating profit. The division supplies roofing systems, safety handrails and flooring, lintels and residential doors for a range of UK construction projects, including housing, schools and industrial buildings.

Revenues were £68.3m, £1.4m ahead of the prior year, after adjusting for the disposal of Ash & Lacy Perforators Limited (sold in December 2009). Underlying operating profit of £1.3m was slightly ahead of 2009 in spite of the reduced demand and profitability in the industrial flooring business. In December we completed a rationalisation of the manufacturing sites producing industrial flooring by closing the facility at Tipton and moving production to our plant in Middlesbrough. The lower operational cost base that this rationalisation provides is expected to improve profitability on similar volumes.

Recovery in the housing market provided additional volumes for the steel lintel and residential door business which combined with the lower operating costs, increased profitability.

Financial Review

Cash generation and financing

Continued focus on cash generation and its management was again evident in 2010 with some £51.7m of cash generated from operations (2009: £71.0m). Working capital was tightly managed, in spite of marginally higher investment and significantly higher zinc and steel raw material costs. Capital expenditure at £15.2m (2009: £11.7m) was more reflective of the expected run rate and represents a multiple of depreciation and amortisation of 1.1 times (2009: 0.8 times). The Group continues to invest in organic growth opportunities where returns exceed internal benchmarks.

The cash generation during the year resulted in Group net debt at 31 December 2010 being £70.6m, a reduction of £17.0m against 31 December 2009 (£87.6m). 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 £0.7m due to exchange rate movements.

Change in Net Debt

	2010 £m	2009 £m
Operating profit	**39.6**	44.9
Depreciation & amortisation*	**15.0**	15.0
Working capital movement	**(1.3)**	11.8
Pensions and provisions	**(2.3)**	(1.2)
Other items	**0.7**	0.5
Operating cash flow	**51.7**	71.0
Tax paid	**(9.4)**	(9.6)
Interest paid (net)	**(3.4)**	(3.7)
Capital expenditure	**(15.2)**	(11.7)
Sale of fixed assets	**0.9**	0.6
Free cash flow	**24.6**	46.6
Dividends	**(8.8)**	(7.5)
Purchase own shares	**(0.4)**	–
Acquisitions and disposals	**0.1**	7.1
Net issue of shares	**0.4**	0.7
Change in net debt	**16.3**	46.9
Opening net debt	**(87.6)**	(146.2)
Exchange	**0.7**	11.7
Closing net debt	**(70.6)**	(87.6)

* Includes £0.9m (2009: £0.9m) in respect of acquisition intangibles.

At the year end the Group had committed debt facilities available of £154.9m and a further £26.6m in overdrafts and other on demand facilities. Subsequent to the year end, £24.0m of the on demand facilities have been converted to committed facilities, expiring March 2012. The conversion was undertaken at minimal cost to the Group. 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 2010 amounted to £128.4m. The facility amortises throughout its existence with £21.3m falling due for repayment in 2011. The Group has already commenced negotiations with carefully selected providers of new debt facilities in order to replace the principal facility which, as noted above, expires in June 2012. Whilst the margin applicable to any new facility is expected to be marginally above the current cost, the availability of finance on favourable terms is not expected to be an issue.

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

The results of the covenant calculations at 31 December 2010 were:

	Actual	Covenant
Interest Cover	16.2 times	4.0 times
Net debt to EBITDA	1.2 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 its disposal provide significant headroom against the Group's expected funding requirements.

Finance costs

Net financing costs fell by £0.9m to £4.3m, principally reflecting lower levels of average net debt and lower interest margins resulting from stronger covenant ratios. The net cost from pension fund financing under IAS19 was £0.6m (2009: £0.5m) 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 £3.7m (2009: £4.8m). Underlying operating profit covered net cash interest 12.4 times (2009: 9.8 times).

Business Review

The Group has approximately 59% of its gross debt of £97.6m at fixed interest rates, either through interest rate swaps or finance leases. The interest rate swaps have expiry dates in 2011-2015 and further details are contained in Note 19 to the Financial Statements.

Exchange rates
Given the increasingly diverse nature of its geographical footprint the Group is exposed to movements in exchange rates when translating the results of international operations into Sterling. However, during 2010 the translational benefit of the appreciation of the US Dollar was broadly offset by the depreciation of the Euro against Sterling resulting in a minimal impact year on year. Retranslating 2009 revenue and underlying operating profit using 2010 average exchange rates would have reduced the prior year results by £1.3m and £0.1m respectively.

Non-Underlying Items
The total non-underlying items charged to operating profit in the Consolidated Income Statement amounted to £6.3m (2009: £2.1m) and were made up of the following:

- Business reorganisation costs £5.7m (2009: £1.8m) – principally relating to the closure of three manufacturing plants, two in the UK and one in the USA, and other redundancy costs. Included is an asset impairment charge of £0.4m. Cash costs of £2.2m were incurred in 2010 with a further £2.2m expected to be expended over the period 2011–2014. In total, some 193 people left the Group due to business reorganisation in 2010.
- Release of environmental provisions £1.3m (2009: £nil) – a review of environmental issues and provisions principally relating to the 2007 acquisition of Zinkinvent GmbH identified that the Group was carrying provisions for potential issues which have either been remedied or for which spend is expected to be less than that originally provided for.
- Amortisation of acquired intangible fixed assets £0.9m (2009: £0.9m) – the charge relates to the non-cash amortisation of intangible assets arising from acquisitions. There were no material acquisitions during 2010 and, as a result, there was no change compared to 2009.
- Acquisition related expenses £1.0m (2009: £nil) – costs associated with acquisitions (whether aborted, completed or on-going) expensed to the Consolidated Income Statement following adoption of IFRS3 (Revised) during 2010.

Tax
The Group's tax charge for the year was £10.7m (2009: £12.2m). The underlying effective tax rate for the Group was 29% compared to 31% for 2009 reflecting improvements in the Group's legal and financing structure. The international nature of our operations does mean that the mix of profits in a particular year can impact the effective rate of tax that we pay.

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.

The Group has agreed deficit recovery plans in place that require cash contributions over and above the current service accrual amounting to £1.9m for the three years to April 2013, followed by payments of £2.3m for a further seven years. The date of the next triennial review is 5 April 2012.

The IAS19 deficit at 31 December 2010 for the Group's defined benefit plans was £10.9m, down from £16.7m in the prior year. The decrease principally reflects employer deficit contributions together with increased investment returns offset by more onerous mortality assumptions. No account has been taken of the change in inflation assumption moving to CPI from RPI. The expected impact of the change is to reduce liabilities, and therefore the IAS19 deficit, in the order of c. £1.0m. The change will be reflected in the 2011 Consolidated Financial Statements.

Small Acquisitions
The Group made two small bolt-on acquisitions during the year. In July, the Group acquired the trade and certain assets of Ascolit Limited (In Administration) from the Administrator for a consideration of £0.2m, including deferred consideration of up to £0.1m. The business was absorbed into Ash & Lacy Building Systems Limited. In December we acquired all the shares of MB Tech Limited (and subsidiary) for an initial cash consideration of £0.2m. Further deferred consideration up to £0.3m will fall due within two years on the achievement of certain agreed revenue and margin targets. The business of MB Tech has been absorbed into the Group's UK flooring business based in Middlesbrough.

Outlook

As reported in our Interim Management Statement in November 2010, the current trading environment and outlook for 2011 remains mixed.

Overall, volumes in Galvanizing are at similar levels to 2010. There are signs of sustained underlying improvement in the USA but to date this has been offset by the reduced volumes experienced in the UK.

In our utilities business, order intake has improved strongly since November, driven by significant contract wins in India and China. The US utilities market also shows signs of recovery and there are healthy levels of activity associated with the UK water industry's latest AMP5 (Asset Management Plan) programme. The order book for our utilities business bodes well for the future and benefits are expected to start materialising in the second half.

In November, the UK Government reaffirmed its commitment to the Managed Motorway Programme, but on a more protracted timescale. As previously stated this delay means that our UK roads infrastructure business will have a slower year in 2011. We are, however, well positioned on these programmes, which represent an excellent medium term opportunity.

Our Building and Construction businesses will benefit from any continued recovery in their markets and from the operating plant rationalisation undertaken in 2010.

As expected, trading in the first two months of the year has continued to be challenging. However, we have recently seen a strong order intake in our utilities businesses and, therefore, our views of the overall results for the full year remain unchanged.

In the medium to longer term, we remain confident that our business model and strategy for international expansion will continue to deliver attractive growth and value. We will continue to seek out profitable long term growth opportunities where we can leverage our scale and expertise. We were therefore delighted to announce the acquisition of a North American pipes supports business, The Paterson Group, Inc., which not only gives us a well established presence in the US nuclear and thermal power generation market but, when combined with our existing pipe supports businesses, creates a leading global player in this niche market.

The Group is lean, well financed, has excellent positions in its core markets of Infrastructure Products and Galvanizing Services, and a clear focus on further expansion in international markets with clear long term growth dynamics.

Derek Muir
Group Chief Executive

Mark Pegler
Group Finance Director

9 March 2011

Our Divisions

Infrastructure Products

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

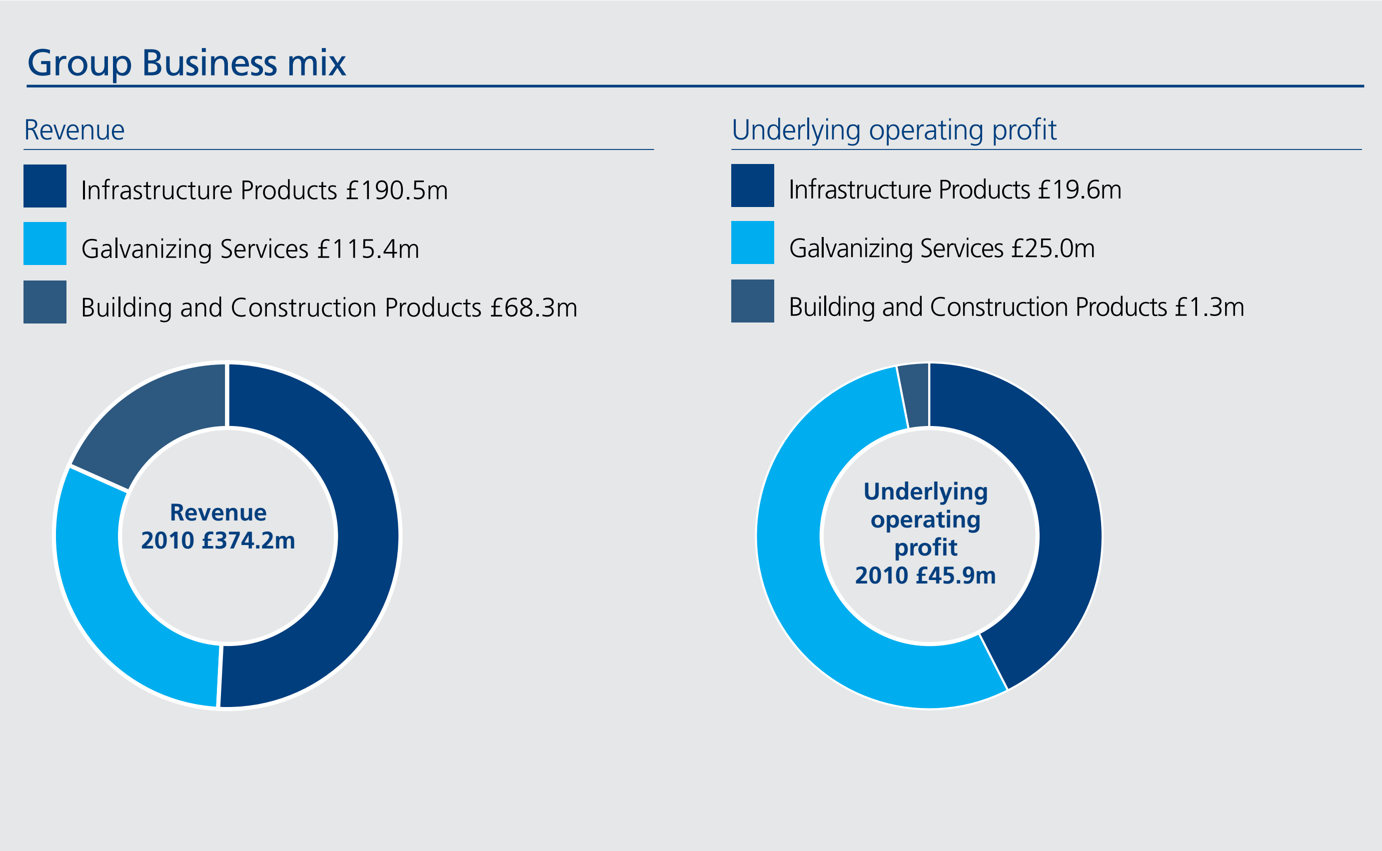
Services are delivered from a network of galvanizing operations in the UK, France and USA.

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 and industrial buildings.

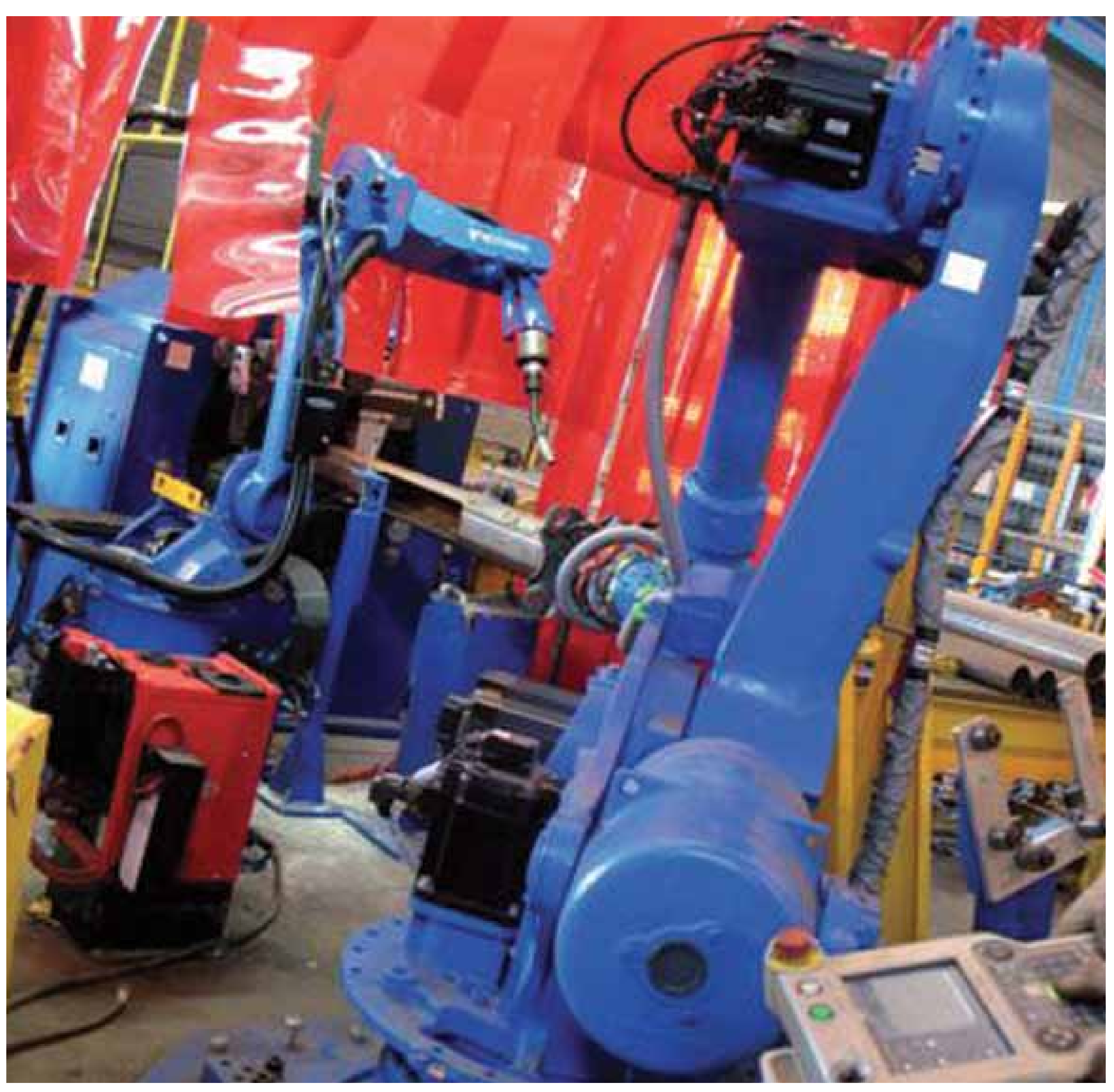
All plants are based in the UK.

Group Business mix



Protective rain screen cladding system (Ashtec™) installed by Berry Systems and supplied by its sister company, Ash & Lacy Building Systems Ltd, for the Eastside car park, Millenium Point, Birmingham.

Cutting edge robotic welding station comprising four robots, two manipulators and one welder at our lighting column manufacturer Conimast, based in Saint Florentin, France. This robotic equipment will enable one welding operation every two minutes (previously 12 minutes).



Key Performance Indicators

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

In 2010, our Group revenue fell by 4.0% to £374.2m, primarily as a result of lower volumes and the sale of a non-core business in December 2009.

Underlying operating margin
This represents the Group's underlying operating profit divided by Group revenue. In 2010 the underlying operating margin was 12.3% compared to 12.1% in the previous year.

Profitability
The Group measures profitability KPIs at all levels. The final results for 2010 matched the 2009 underlying profit before tax of £42.2m and achieved an increase in underlying earnings per share of 1.8%.

Net cash from operating activities
The Company actively monitors working capital levels in all its operations. In 2010 the Group generated free cash flow of £51.7m (2009: £71.0m).

Health and safety
The health and safety performance of each subsidiary is monitored and reviewed at each monthly Group Board meeting and at each monthly subsidiary meeting. The number of reported accidents is monitored each month and appropriate action taken. In 2010 we achieved a 19.9% year on year reduction in the number of accidents.

The new weighted scoring system introduced in 2009, for benchmarking and targeting an overall improvement in health and safety performance resulted in an overall improvement of 4.4% compared to our longer term target of 10.0%.

Sustainability
We continue to track our performance on CO_2 emission reduction. Further details of our achievement for 2010 and our plans for 2011 are contained in the Corporate Social Responsibility Report on pages 19 and 20.

Principal Risks and Uncertainties

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

Principal Risks/Uncertainties	How we mitigate that risk
Market customer related The impact of a general economic downturn that leads to a reduction in customer demand and production volumes. The Group derives part of its revenue from Government spending on infrastructure projects such as road and rail and any timing, funding or policy issues can have an adverse impact on key areas of the business.	Forward looking indicators are regularly reviewed to identify deteriorating market conditions. The cost base is reduced as required and there is a management structure in place to enable a rapid response to changing circumstances. We have a diversified portfolio of products and services to various markets and maintain a key account management programme for major customers on a global basis. In addition we continue to increase our capabilities to service customers in emerging markets.
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 significant effect on the Group's reputation, its financial position and its ability to win new business.	Where appropriate, accreditation, regulatory approval and testing are undertaken to reach required compliance levels. Comprehensive quality control procedures are backed up by an appropriate level of insurance cover through a major insurer.
Environmental 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. Although we believe that our operations are in compliance with current regulations, we cannot eliminate the risk of all accidents or non-compliance.
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.

Principal Risks/Uncertainties	How we mitigate that risk
Human resources Future success will depend, to a large degree, on the ability of the Group to attract and retain skilled and qualified personnel.	Policies and processes are reviewed and maintained to manage the risks relating to our employees. As part of these policies the Group seeks to offer competitive rates of pay and review salaries annually. Benchmarking of pay rates is undertaken along with performance appraisals and training programmes.
Acquisitions The Group is an active acquirer. Acquisitions can involve risks that might have a material impact on the Group's financial performance and reputation.	Comprehensive due diligence is carried out prior to the completion of an acquisition and, where practical, representations, warranties and indemnities are obtained from vendors. A post acquisition review of the integration and performance is undertaken.
Business conduct risks The Group operates in a number of different territories and a potential breach in the area of ethical behaviour could impact the Group's reputation or image.	Our reputation with our stakeholders is fundamental to the continued success of the Group and we mitigate reputational risks through various means, including: • Our Code of Business Ethics and Whistleblowing Policy. • Our systems of internal control and risk management. The Group's Code of Business Ethics and Anti-Corruption Policy are further described in the Corporate Social Responsibility section of this Report.
Financial risks The Group is exposed to a number of financial risks including credit risk, liquidity risk and market risks.	Financial risks are managed at a Group level and a fuller description and explanation of how they are managed is described in Note 19 and on pages 67 to 72 of the Financial Statements contained in this Report.

Key Resources and Contractual Relationships

The Group has built up significant resources and benefits from contractual and other relationships with multiple stakeholders, employees and joint venture partners. These have been established over many years to support the Group's competitive positioning in the key markets which it serves.

As described below, no one contractual or other relationship is considered essential to the business of the Group as a whole. In accordance with its vision, aim and strategic priorities, the Group continues to invest in the areas noted below to maintain its market positions.

Commercial relationships, market position and reputation

Companies within the Group are generally ranked highly in their chosen market segments. The Group's businesses have developed close working relationships with many of their customers and suppliers, including Government bodies, and work in collaboration with them to develop new products.

None of the Group's customers or suppliers are individually essential to the business of the Group as a whole. Notwithstanding this, the Group devotes significant resources to ensure these relationships continue to operate satisfactorily.

Employees

One of our strategic priorities is 'finding, keeping and developing the right people'. Many employees stay with the Company for their whole careers. We place great emphasis on recruitment, training and retention.

Succession plans are in place covering key management and technical roles and as such no individual employee is considered essential to the business of the Group as a whole.

The Hill & Smith Holdings PLC Directors' contracts are referred to on page 39 and are available for inspection prior to the Annual General Meeting and at the Company's registered office.

Research and development, patents and intellectual property

The Group's operating divisions use their extensive knowledge base, to develop new products and services to meet customer needs and to differentiate themselves in the markets they serve.

The Group benefits from technological know how and other forms of intellectual property and supports the development and manufacture of new products and services to meet customer needs. No one single patent is considered essential to the business of the Group as a whole.

Manufacturing capabilities

Over many years the Group has invested heavily in manufacturing capacity, galvanizing facilities and technology to develop its capability to serve its chosen markets. In recent years the Group has developed and extended its manufacturing presence and capabilities in China and plans to do so in India to meet customer needs in both local and global markets. This investment supports the Group strategy.

Banking and other financial relationships

Details of significant banking and other relationships are referred to on page 28 in the Directors' Report. However, no one banking relationship is considered to be essential to the performance and value of the Company.

Hot dip galvanizing of poles at Joseph Ash's unique long bath facility at its Chesterfield plant.

Corporate Social Responsibility

Corporate Social Responsibility

The Board is committed to Corporate Responsibility and the need to take proper account of the impact the Group has on the environment, its employees and the treatment of customers and shareholders. We continue to retain our FTSE4Good accreditation, an important independent recognition of our corporate responsibility standards.

Our Aim

To make the principles of Corporate Social Responsibility (CSR) part of the business and to ensure high standards of corporate behaviour are maintained throughout the Group. This will be demonstrated by measured improvements in our CSR performance and 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 have continued to operate KPIs covering carbon (CO_2) emissions, energy consumption and health and safety as the principal monitors and drivers of our CSR performance.

Priorities for 2010

In our last Annual Report we identified the following priorities:

- *Review of our main CSR initiatives and KPIs*
  Our approach to CSR is to consider and acknowledge our responsibilities to a wide range of stakeholders as an integral part of the way we conduct our business. To this end, we reviewed how our existing initiatives and drivers fitted into our everyday activities and the Group's strategic performance and direction. This has led us to a framework of four elements that will form the core of our CSR activities going forward:

  — Environment
  — Workplace
  — Marketplace
  — Community

  Future reporting will therefore be based upon:

Core Element	CSR Measure Objective	(KPIs)
Environment	Minimise our environmental impact	CO_2 emissions Waste Net energy usage Carbon footprint
Workplace	Develop an effective and competent workforce Provide a safe working environment	Employee motivation Employee retention Training days Accident rates Lost time
Marketplace	Improve our interaction with customers Improve our interaction with suppliers	Customer satisfaction Debtor days Engagement with our suppliers Creditor days
Community	Increasing involvement with and investment in our communities	Employee involvement Community investment Charitable giving

Rationale for selection, method of calculation and link to our strategy will be factored into our reporting to complement the base data of actual and target performance.

- ***New policies for Health and Safety, Whistleblowing and Code of Business Operations***
  During the year we issued new policies for Health and Safety, Whistleblowing and an Anti-Bribery and Corruption policy to supplement the existing Business Operation policy. All these policies are available on our website www.hsholdings.com (Investor Relations then CSR Policies) and on our recently upgraded intranet site. In readiness for the full implementation of the Bribery Act 2010 we have drafted new Group policies for governing our relationships with third parties and agents and how we handle gifts and entertainment.

- ***New three year plan for energy, CO_2 emissions and Carbon Reduction Commitment ("CRC")***
  Our new plan targets a 5% year on year reduction for each year in the period 2011 to 2013.

- ***Further improvements of management of our waste***
  A number of our operations have introduced initiatives such as new working practices to lower the rejection and rework rates thereby reducing scrap metal, processes for the re-use of cardboard, plastics and glass and closer liaison with our third party agency on the reduction of packaging materials and associated levies.

  We are using one UK operation to run a pilot waste management scheme before considering its application to the whole Group in 2011.

- ***Achievement of a 10% annual reduction in the number of accidents***
  We finished the year with a 19.9% decrease in the number of accidents occurring at our sites. By division, the achievement was as follows:

	% Decrease year on year
Infrastructure Products	12.7
Galvanizing Services	14.2
Building and Construction Products	32.8

  The majority of our operations saw improvements as the effects and benefits of the rolling health and safety audit programme in the UK came through. This programme is being used to structure an internal benchmarking, monitoring and targeted improvement of health and safety performance with the actions being utilised, as appropriate, throughout the Group.

- ***Improvements in the average weighted scored performance internal benchmarking***
  During the year the remaining scheduled visits under the UK health and safety independent audit programme was completed and a new cycle of auditing undertaken. This enabled us to set and compare the internal benchmarking performance. Overall a 4.4% improvement was achieved in the benchmark (the overall average weighted score from the audits). Further progress will be made as the audit recommendations on improvement are implemented. Our target is to see a 10% reduction, year on year, in the overall average weighted score calculated from each site's scored audit. As the programme gathers momentum we are confident this is a realistic and achievable target.

Environment

The Group recognises that its activities have a potential impact on the environment. The Group ensures that all its companies are charged with compliance with its Environmental Policy and any local requirements in relation to the environment. The policy requires high standards of operation at all sites and is driven by the need to continuously improve the management of potential risks to the environment associated with our activities.

Throughout 2010 we have continued to focus on the three key areas that we believe are the most pertinent to the management of our environmental responsibilities. The three key areas are:

- Reducing energy usage and CO_2 emissions
- Managing waste and the use of natural resources
- Vehicle fleet efficiency and reducing carbon emissions

CO_2 Emissions and energy management

The Group's UK operating units have continued to work with external energy consultants and to liaise with the Carbon Trust on the reduction in CO_2 emissions. Our three year programme, that began in 2008, has yielded the following reductions in CO_2 emissions:

2008: 17%
2009: 9%
2010: 2%

Our target was a 5% year on year reduction.

Corporate Social Responsibility

We have a new plan in place to build on the progress of the last three years, with the following objectives and targets:

- 2011 to 2013 – a 5% year on year reduction in CO_2 emissions
- Award of the Carbon Trust Gold Standard

The new three year plan also covers the actions necessary for the Company to deal with the UK Government's Climate Change Levy ("CCL"). We have appointed external energy experts to assist over the next three years in the management of the CCL and our planned CO_2 emission reduction in order to reduce our levy exposure and achieve our CSR objective. The scope of the work has necessitated the establishment of a Group Energy Committee which meets four times a year to review strategy, policy, indentify key drivers, training and awareness requirements and monitor performance against stated targets. Other actions include the sharing of information on energy usage and management, using the Group's intranet site.

Waste Reduction
Having assessed the need for an overall strategy we have left in place the individual local management policies and initiatives as the Group's diverse geographical and product activities generate the need for local solutions to the issues of waste generation and recycling. We are however, evaluating the recycling of materials (cardboard, paper and plastic) compared to the quantity sent to landfill sites.

At our UK lighting column manufacturer (Mallatite Ltd) based in Chesterfield, we have implemented a "Whole Life Cycle" policy with the emphasis on a product development programme to reduce waste and cost. This product development programme is aimed at reducing the economic production cost and whole life carbon cost. The initiative is a direct result of Mallatite's achievements in obtaining ISO9001, ISO14001 and OHSAS18001 accreditation.

Vehicle Fleet
We continue to manage the fleet with the same focus upon existing and the introduction of new initiatives that deliver lower energy usage and reduced CO_2 emissions. Since reporting the initiatives undertaken in 2009 we have also commenced evaluation and trialling of the use of hybrid vehicles for part of our commercial fleet.

Business in the Community

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

Health and Safety

At the start of the year we identified five key actions:

- Resources - we appointed an external health and safety consultancy to assist us with a number of Group initiatives.
- Standards - the use of a standards register by all our operations, covering an A-Z of key risks.
- Reporting - refinement of current reporting of raw data and management information.
- Communication - development of regular health and safety forums for our safety personnel, training and sharing of information, including a safety alert system for the intranet.
- Procurement - a sharing of information to facilitate economics of scale for materials and services.

Considerable progress was made during the year on the implementation of these key actions and the programme has been rolled forward into the current year. This key action programme has been signed off by the Board who receive monthly updates on progress. During the year the Board reviewed and re-issued its Group Health and Safety Policy.

Underpinning the above is the UK's rolling audit programme and related weighted scoring benchmark management system that enables us to monitor and set performance improvement. We are continuing with our challenge of a 10% year on year reduction in the number of accidents and have also set a target of a 20% improvement in the overall average weighted scored performance score arising from the UK audit programme.

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 operating businesses, 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 recently upgraded intranet site, along with the development of centralised briefings and training programmes.

The Group encourages employee share ownership through the 2005 Employee ShareSave Scheme which currently has 405 employees participating, many contributing at the maximum permitted contribution level.

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. At the Head Office of the Group we held twelve training courses ranging from personal development to major incident management.

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 review and where appropriate, improvement, in health and safety performance.

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

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 has been reviewed with the assistance of external advice and through the internal audit function actions taken to improve communication, understanding and implementation.

In tandem with the above review we issued an Anti-Corruption Policy and pending the outcome of further deliberations by the UK Government on the full implementation of the Bribery Act 2010, we have developed supporting policies on Gifts and Entertainment and Dealings with Third Parties.

Corporate Social Responsibility

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. The Whistleblowing Policy and Procedure was reviewed during the year and re-issued.

Supply chain

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

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

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

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

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

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

Priorities for 2011:

- Continuation of the development of our KPIs and CSR reporting format.
- Implementation of our new policies on Gifts and Entertainment and Dealings with Third Parties.
- Implementation of a new three year plan for energy, CO_2 emissions and CCL management.
- Progression of waste management monitoring and recycling.
- Achievement of 10% annual reduction in the number of accidents.
- Improvement of 20% in the overall average weighted scored performance arising from the UK health and safety audit programme.

Pipe Supports constant effort supports installed on a hydrogen reformer in Spain.

Board of Directors

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

Committees

Audit Committee

Messrs Lennox (Chairman), Snowdon and Whiteley

Remuneration Committee

Messrs Snowdon (Chairman), Lennox and Whiteley

Nominations Committee

Messrs Whiteley (Chairman), Lennox, Muir and Snowdon

Company Secretary

J C Humphreys FCIS

Directors' Biographies

W H Whiteley BSc, FCMA

Chairman and Non-Executive

Bill, aged 62, joined the Board on 1 January 2010. He has spent the majority of his career at international engineering group Rotork plc, where he was Chief Executive from 1996 to 2008. In July 2009, he became Chairman of Spirax Sarco Engineering plc, the FTSE 250 engineering group. He is also a Non-Executive Director of Brammer plc and Renishaw plc.

D W Muir BSc, C Eng, MICE

Group Chief Executive

Derek, aged 50, joined the Board on 21 August 2006. He has been a senior manager within the Hill & Smith Group for 23 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.

M Pegler BCom, FCA

Group Finance Director

Mark, aged 42, joined the Company as Finance Director designate on 7 January 2008 and was appointed to the Board on 11 March 2008. Mark has extensive experience on an international level having been Group Finance Director of Whittan Group Limited, a private equity backed business, between 2002 and 2007. After qualifying with Price Waterhouse, he spent several years in various corporate and operational roles in international manufacturing businesses.

J F Lennox CA

Non-Executive

Jock, aged 54, joined the Board in May 2009. He is a Non-Executive Director of A&J Mucklow Group plc, EnQuest plc and Oxford Instruments plc. He is a member of the Advisory Board of Alchemy and on the Council of the Institute of Chartered Accountants of Scotland. Jock was formerly a Partner of Ernst & Young where he began his career in 1977, becoming a Partner in 1988. Jock is Chairman of the Audit Committee.

C J Snowdon BA, FCA

Non-Executive

Clive, aged 57, 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 and Chairman of the Remuneration Committee.

Directors' Report

The Directors present their 50th Annual Report together with the Financial Statements for the year ended 31 December 2010.

Principal activities

During 2010 the principal activities of the Group comprised the manufacture and supply of:

- Infrastructure Products
- Galvanizing Services
- Building and Construction Products

Pages 4 to 10 contain further details of these three areas of the business and the subsidiaries operating within them are set out on pages 92 and 93.

Business review

A review of the development and performance of the business of the Group during the financial year ended 31 December 2010, 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 20 and 21).

Results

The Group profit before taxation for the year, from continuing operations, amounted to £35.3m (2009: £39.7m). Group revenue at £374.2m was 4.0% lower than the prior year, mainly as a result of lower volumes and the disposal of a non-core business in December 2009. Operating profit at £39.6m (2009: £44.9m) was 11.8% below 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 and 56.

Dividends

The Directors recommend the payment of a final dividend of 7.5p per Ordinary Share (2009: 6.8p per Ordinary Share) which, together with the interim dividend of 5.2p per Ordinary Share (2009: 4.7p per Ordinary Share) paid on 6 January 2011, makes a total distribution for the year of 12.7p per Ordinary Share (2009: 11.5p per Ordinary Share). Subject to shareholders approving this recommendation at the Annual General Meeting, the final dividend will be paid on 8 July 2011 to shareholders on the register at the close of business on 3 June 2011. The latest date for receipt of Dividend Re-investment Plan elections is 17 June 2011.

Post-balance sheet events

On the 8 March 2011 the Group entered into an agreement to acquire all the shares in a North American based group of companies, The Paterson Group, Inc. and its related companies (together "TPG"), which will be classified in the Infrastructure Products segment. Further details are contained in Note 25 on page 81.

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	778,325
	2005 ShareSave Scheme	3,579
	2005 Executive Share Option Scheme	30,646
	Total new ordinary shares issued	812,550
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 20 on page 73 and 74 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 2010 Annual General Meeting and will be limited by the Resolution to be put to the 2011 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 2011, 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	6,270,636	8.15
Henderson Global Investors	5,685,405	7.39
Charles Stanley Stockbrokers	4,136,126	5.38
Legal & General Assurance Group Plc and Legal & General Investment Management Limited	3,975,625	5.17
Brewin Dolphin Stockbrokers	2,705,941	3.52
BlackRock	2,400,324	3.12

Directors

The Directors who served during the year ended 31 December 2010 and to the current date are as follows:

Name	Date of Appointment	Date of Resignation/ Retirement	AGM Re-election	AGM Election
J F Lennox(*)	12 May 2009			7 May 2010
H C Marshall(*)	2 November 2000	7 May 2010		
D W Muir	21 August 2006			
M Pegler	11 March 2008			
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 25. Details of the Directors' service contracts and letters of engagement are set out in the Directors' Remuneration Report on pages 39.

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 Directors retiring by rotation at the forthcoming Annual General Meeting are D W Muir and M Pegler who being eligible, offer themselves for re-election. The Board recommends to shareholders the re-election of D W Muir and M Pegler.

Directors' interests

The table below shows the beneficial interests as at the beginning of the year and as at 31 December 2010 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 and the 2005 ShareSave Scheme, are not included in the table below but are shown in the Directors' Remuneration Report on pages 40 and 41.

Directors' Report

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

Current Directors	Beneficial interest in Ordinary Shares at 1 Jan 2010 (or appointment date)	Change to beneficial interest	Beneficial interest in Ordinary Shares at 31 Dec 2010 (or retirement date)
J F Lennox	2,500	–	2,500
D W Muir	40,834	45,151	85,985
M Pegler	4,000	5,000	9,000
C J Snowdon	25,000	8,930	33,930
W H Whiteley	3,000	8,350	11,350
Former Directors			
H C Marshall (retired 7 May 2010)	78,624	–	78,624

There were no changes in the beneficial interests of the Directors in the Company's Ordinary Shares between 31 December 2010 and the date of this report.

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

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

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

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 19 on pages 67 to 72.

Significant agreements
There are no agreements between the Group and its Directors or employees providing for compensation for loss of office or employment that occurs because of a change of control, other than revised notice periods and termination payments for D W Muir and M Pegler set out in the Directors' Remuneration Report on page 39.

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 £1.2m (2009: £0.7m) on research and development.

Political and charitable donations
Charitable donations amounting to £33,000 (2009: £35,000) 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 to 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 72 days (2009: 75 days).

The Company's average credit period was 39 days (2009: 38 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 Thursday 12 May 2011 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 90.

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 2011

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 35 to 41 provide a description of how the main supporting principles of corporate governance have been applied within the Company during 2010.

The Board has noted and is aware of the recent changes in corporate governance; in particular the UK Corporate Governance Code (which will apply to the 2011 financial year). The Board will seek to comply with the new code where it determines that to do so would be beneficial to the Company and its stakeholders. In particular, the Board is aware of the recommendation that all directors of FTSE 350 companies should be subject to annual re-election. The Company is not a constituent member of the FTSE 350 and therefore does not need to comply with this recommendation. However, the Board intends to fully consider, during the forthcoming year, whether adoption of the recommendation would be beneficial to the long term governance of the Group as a whole.

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 (Ethics)
- Whistleblowing Policy and Procedure
- Anti-Corruption Policy

Compliance with the Combined Code
In the opinion of the Directors, the Company has throughout 2010 complied with Section 1 of the 2008 FRC Combined Code on Corporate Governance (the "Code"). This Corporate Governance Report together with the Directors' Remuneration Report provides the information shareholders need to evaluate how the Company has applied the principles of corporate governance.

Composition of the Board
As from 1 January 2010 the composition of the Board comprised four Non-Executive Directors (W H Whiteley, Chairman, H C Marshall, Senior Independent Director, C J Snowdon and J F Lennox) and two Executive Directors (D W Muir and M Pegler). Following the retirement of H C Marshall on 7 May 2010, the Board comprised three Non-Executive Directors.

The Board is fully satisfied that both C J Snowdon and J F Lennox are independent in character and judgement and that there are no circumstances or relationships which are likely to affect their character and judgement. In relation to the size of the Company and the Board, the Directors are satisfied that W H Whiteley's membership of both the Audit and Remuneration Committees represents a practical solution.

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	1	Yes	Yes	Yes	Yes
D W Muir	Chief Executive	4	No	No	Yes	No
H C Marshall	Non-Executive Director (retired 7 May 2010)	9	No	Yes	Yes	Yes
M Pegler	Finance Director	3	No	No	No	No
C J Snowdon	Non-Executive Director (Senior Independent Director)	3	Yes	Yes	Yes	Yes
J F Lennox	Non-Executive Director	1	Yes	Yes	Yes	Yes

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

There is a clear division of responsibilities between the Chairman and the Chief Executive. The Chairman is responsible for the leadership and effective working of the Board and ensures that each Director, in particular the Non-Executive Directors, is able to make an effective contribution to the Board. The Chief Executive is responsible for the management of the Company, implementing policies and strategies determined by the Board.

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 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.

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 36 to 41 of the Directors' Remuneration Report, which refers to Executive Directors' service contracts and Non-Executive Directors' letters of engagement. Copies are available for inspection at the Company's registered office and will be available for inspection at the forthcoming Annual General Meeting to be held on 12 May 2011. 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.

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

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.

The role of the Board and its effectiveness

The Board is responsible to the Company's shareholders for:

- strategic direction
- financial performance and monitoring
- resource allocation
- risk management
- governance and internal controls

The schedule of matters reserved to the Board for its own and its Committees' decisions ensures exclusive decision making powers over these responsibilities as well as such matters as:

- remuneration policies
- accounting policies
- capital expenditure
- acquisitions
- disposals
- financing
- treasury

The Board adopts an annual timetable and agenda programme to ensure significant matters are given appropriate consideration and sufficient time for debate. The Board normally meets between eight and 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 Board has formally delegated specific responsibilities to Board Committees, including the Audit, Remuneration and Nomination Committees. The terms of reference for each of these Committees are available on the Company's website or on request from the Company Secretary. The Board also appoints Committees to approve specific projects or matters as deemed necessary.

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 (4 meetings)	Remuneration Committee (6 meetings)	Nominations Committee (0 meetings)
J F Lennox	10	4	6	-
H C Marshall (retired May 2010)	5	1	3	-
D W Muir	10	-	-	-
M Pegler	10	-	-	-
C J Snowdon	10	4	6	-
W H Whiteley	10	4	6	-

Corporate Governance

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

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

Board balance and independence

Having assessed the three Non-Executive Directors against the criteria set out in the Combined Code the Board considers all of them to be independent. All three Non-Executive Directors remain independent of management and free from any business or other relationship that would materially interfere with the exercise of their independent judgement. The Board membership and that of its Committees is designed to ensure that no one individual or group dominates proceedings and that the wide variety of skills allows effective leadership across the business activities of the Group. The Board remain satisfied with W H Whiteley's membership of the Audit and Remuneration Committees in terms of independence and practicality given the size of the Board and its Committees.

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 the individual Committee Chairman and agrees any actions to be taken. An evaluation exercise was undertaken in December 2010 of the Board, Audit Committee and Remuneration Committee. Areas of improvement to the effectiveness of the Board and its two main Committees have been identified and individual plans for action in 2011 are being finalised.

Committees of the Board

The Board has three Committees, as follows:

Audit Committee

The Audit Committee consists of three Non-Executive Directors and is chaired by J F Lennox. Executive Directors are invited to attend as necessary. In view of the current number of members and size of the Company, the Directors are satisfied with W H Whiteley's appointment to the Committee.

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; and
- reviewing the Group's risk management.

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. The Committee met four times in the year (three in 2009). During the year the Committee commissioned an external report on the level of risk assurance and this is currently under consideration by the Board for development of an action programme in 2011.

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. During the year, the Committee Chairman has carried out an evaluation of the Company's external auditor KPMG Audit Plc, and reviewed the effectiveness. The review concluded that the external auditors were performing their functions effectively and the Committee recommended to the Board that they be re-appointed.

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. Previously the Company and Pension Trustees had engaged KPMG Pensions to act as actuary and administrator of its defined benefits and defined contribution pension arrangements. Towards the end of the year the Company and the Trustees of the Hill & Smith Pension Scheme reviewed and competitively tendered the actuarial and administration services provided to the defined benefits section

of the Group's pension arrangements. A decision has been taken to appoint Deloitte LLP Pensions to act as actuary and administrator, with effect from April 2011, in place of KPMG Pensions. The Legal & General have been appointed as administrators of the defined contribution pension arrangements.

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 three Non-Executive Directors and is chaired by C J Snowdon and 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.

The Terms of Reference for the Committee were reviewed during the year. The Committee met six times in the year (five times in 2009).

Full details of the role, policies and activities of the Remuneration Committee are set out in the Directors' Remuneration Report on pages 35 to 41.

Nominations Committee

The Nominations Committee comprises the 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.

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 commitments, a fee structure and a programme for the induction of new Directors.

The Committee did not have cause to meet formally during the year but held informal discussions on matters relating to the Board and Committee evaluation exercise undertaken in December 2010.

Risk Management Process

In common with other international businesses, the Group is exposed to a number of potential risks which may have a material effect on its reputation and financial or operational performance including product liability, credit risk, reliance on customers' commitments and other usual commercial risks. We have a wide portfolio of products and operate in a number of market sectors. It is not possible to identify or anticipate every risk that may affect us, or the materiality of that risk. However, there are established control procedures in place to manage such risks, including production quality control, management and financial control procedures and insurance with reliable insurers, which are considered appropriate to the risk involved and the marketplace in which the exposure arises. The Board has overall responsibility for risk management and internal controls, supported by the Audit Committee.

There is an embedded process for monitoring and managing risks through the cycle of monthly financial and operational reporting procedures and meetings which are attended by the Group Chief Executive and Group Finance Director. These reporting procedures and meetings, couple to the systems of internal, control are designed to identify and assess the significant risks which the Group faces and to manage them appropriately.

Group internal controls are reviewed through a series of internal audits in line with an annual plan approved by the Audit Committee. After each site visit, a report is prepared and presented to the local entity and divisional management and to Audit Committee.

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

Corporate Governance

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. During the year the performance of the internal audit function was reviewed as part of the report commissioned by the Audit Committee on risk assurance.

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. The policy was reviewed and updated in October 2010.

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. The Treasury 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 19 on pages 67 to 72 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

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 the resolutions at the forthcoming Annual General Meeting.

In January 2011 the Remuneration Committee consulted with major shareholders on the proposed amendments to the performance criteria for Executive Director's Annual Bonus and the 2007 Long Term Incentive Plan.

Further details are contained in the Directors' Remuneration Report on page 36 to 41.

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 12 May 2011.

PART 1 – (Not subject to Audit)

Remuneration Committee (the "Committee")

Membership

The members of the Committee during the year were C J Snowdon (Chairman), J F Lennox, H C Marshall (retired 7 May 2010) and W H Whiteley. All members of the Committee are Non-Executive Directors of the Company, are regarded as independent and do not participate in any form of performance related pay or pension arrangements. In view of the size of the Company the Board is satisfied with W H Whiteley's appointment to the Remuneration Committee.

Meetings

The Committee met six 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 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 33 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). These terms of reference were reviewed during the year.

The responsibilities of the Committee include:

- reviewing and recommending the remuneration policy for Executive Directors and certain other agreed Senior Executives, for the Board to approve;
- within this policy, agreeing the individual remuneration packages;
- approving the design of, and determining targets for, any performance related pay schemes operated by the Company for the Executive Directors and certain other agreed Senior Executives and approving the total payments made under such schemes;
- reviewing and recommending the design of, and any changes to, all share incentive plans for approval by the Board and shareholders;
- reviewing the terms and conditions to be included in the service agreements for Executive Directors and certain other agreed Senior Executives;
- 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 2009 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);
- considered and approved the vesting of awards made in 2007 under the Company's 2007 Long Term Incentive Plan, for the Chief Executive and one Senior Executive;
- approved the Directors' Remuneration Report which was included in the 2009 Annual Report;
- reviewed the level of incentive and performance criteria for the 2011 bonus arrangements for the Executive Directors;
- reviewed the performance criteria for future awards under the Company's 2007 Long Term Incentive Plan.

Advisers

To the extent required the Committee used the external services of Deloitte LLP as its principal external adviser during 2010 on matters relating to performance related pay and vesting of awards made under the Company's Long Term Incentive Plan.

Separately during the year Deloitte LLP also provided ongoing taxation advice and other non-audit services to the Company.

The Chief Executive also gave advice and recommendations 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.

Directors' Remuneration Report

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. Such a review, undertaken during the year, resulted in revised performance criteria for future Executive Director bonus and LTIP awards as set out on pages 37 to 38. Consultation with major shareholders, the ABI and RREV, on these new arrangements was undertaken by the Committee.

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	Paid annually Non-pensionable	Based on a combination of Underlying Profit Before Tax performance and UEPS* growth over one financial year. Maximum bonus opportunity for both Chief Executive and Finance Director is 100% of base salary.
2007 Long Term Incentive Plan (LTIP)	Incentivise growth in earnings per share over a three year period	Discretionary annual grant of conditional share awards Maximum award is 100% of salary Non-pensionable	Performance measured over three financial years. Vesting of award is as follows: • 50% based upon achievement of absolute growth in UEPS targets. • 50% based upon TSR growth relative to the FTSE SmallCap.
Pension	Provision of competitive post-retirement benefits	Chief Executive – 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 37 for details of 'Other Benefits' provided.

Detail of Executive Directors' remuneration

The remuneration policy for Executive Directors is structured to ensure a proper balance of fixed 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 considered by the Committee to be appropriate and in line with the policy on incentivisation.

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.

A 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.

Following this comprehensive exercise the Committee did not carry out a further benchmarking exercise for the 1 January 2010 salary review. Awards were made of a 6.7% salary increase for the Chief Executive and a 6.25% increase for the Finance Director. In making these awards the Committee took into account the factors of performance in a challenging economic climate, management of the Company's net debt and the additional experience gained in developing an international Group.

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 41 gives details of the changes in the value of D W Muir's accrued pensions during 2010.

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 Committee is committed to only paying maximum bonuses in circumstances where stretching performance targets have been satisfied. For the financial year 2010 the cash bonus arrangements are based upon achievement of growth in the UEPS. For 2011 however, the Committee decided, after consultation with major shareholders, to introduce a new metric of underlying profit before tax to provide a more appropriate balance of incentive between before and after tax profit. Accordingly, effective from 1 January 2011 the basis for the payment of any bonus is determined by reference to a combination of achievement of levels of underlying profit before tax and in the growth of the underlying earnings per share over one financial year of the Company. The weighting between the two performance measures of profit achievement and UEPS growth, for the 2011 financial year, is as follows:

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

For 2012 and subsequent financial years the weighting will move to 50% for underlying profit before tax achievement and 50% for underlying earnings per share growth.

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

For the financial year ended 31 December 2010 the Bonus arrangements are determined by reference to the growth in UEPS only.

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 31 March 2010. The value of the shares subject to the award was equal to 100% of the Chief Executive's salary and 100% of the Finance Director's salary.

Directors' Remuneration Report

For awards made prior to 1 January 2011 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.

The Committee has recently reviewed the performance conditions and, after consultation with major shareholders, made certain minor changes for any awards made from 1 January 2011. These minor changes comprise more appropriate "target" and "stretch" performance figures for that half of the award dependent upon absolute growth in UEPS and a move away from the FTSE All Share EPS growth measure to one based upon TSR for the relative growth measure. Both changes are seen by the Committee as more appropriate in the current economic climate and avoid any practical difficulties in compiling the FTSE All Share EPS comparator.

For current outstanding awards, half is based on the Company's absolute UEPS performance against prescribed targets which are determined by the Committee at the time each award is granted. The Committee set a target level of UEPS growth (20% over the performance period), below which none of this proportion of the award vests, and a stretch level of UEPS growth (45% over the performance period), at which all of this proportion of the award vests. Vesting is on a straight line basis between the target and stretch points of 20% and 45% respectively. These measures continue to apply to all current outstanding awards.

For any awards made as from 1 January 2011 the absolute UEPS growth measures (i.e. target and stretch) will be amended to:

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

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

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

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

For Awards made prior to 1 Jan 2011

UEPS performance of the Company compared to EPS of FTSE All-Share index	Vesting Percentage
Below median	0%
Between median and upper quartile	50%
Between upper quartile and 100th percentile	100%
No straight line vesting between the median and upper quartile	

For Awards made after Jan 2011

TSR performance compared to the FTSE SmallCap TSR performance	Vesting Percentage
Below median	0%
At the median	30%
At the upper quartile	100%
Between the median and upper quartile on a straight line basis	

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

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

Further details of subsisting awards to Executive Directors are shown in the table on page 40.

Vesting of LTIP in 2010 for awards made in 2007

In March 2010 the Committee considered the performance conditions applicable to the initial awards under the 2007 Long Term Incentive Plan, made in 2007, and approved full vesting of the awards as a result of achievement of both the absolute (50% of the awards) and relative (remaining 50% of the awards) UEPS growth performance conditions which allow full vesting. As a result D W Muir was issued with 67,791 shares and received a payment of £15,863 (to which PAYE and NIC was applied) in respect of the dividends due on the shares as from the date of the award.

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 9%, over the same period.

No awards were made to Executive Directors under this scheme in 2010. For options outstanding under the 2005 Executive Share Option Scheme see the table on page 41.

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

Executive Directors participated in the scheme in 2010 and details are contained in the table on page 41 including those for subsisting options.

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

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

Current service agreements as at the date of this Report:

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

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

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

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

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

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

Non-Executive Directors
The Non-Executive Directors do not have service contracts. Fees for Non-Executive Directors are determined by the 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.

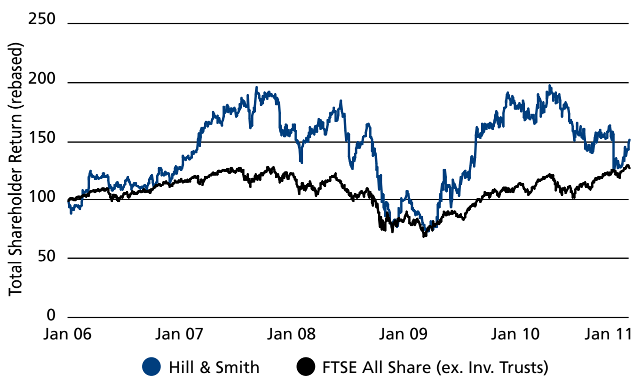
The Non-Executive Directors are not eligible for performance related bonuses or the grant of awards under the Company's long term incentive plans. No pension contributions are made on their behalf.

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.

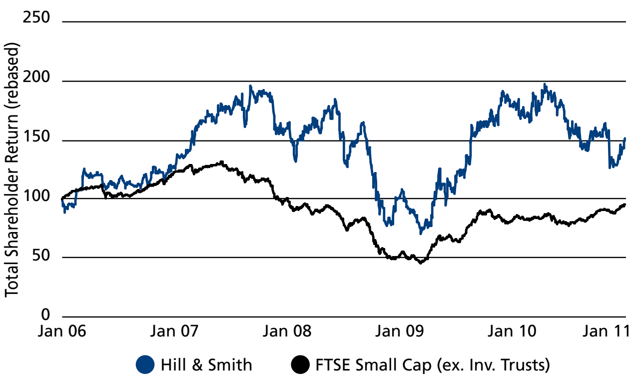
Total shareholder return graphs
The UK Directors' Remuneration Report Regulations 2002 require the inclusion in the Directors' Remuneration Report of a graph showing total shareholder return (TSR) over a five year period in respect of a holding of the Company's shares, plotted against TSR in respect 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 graphs shows the TSR performance of the Company over the five year period to 1 January 2011 compared against the FTSE All-Share Index and FTSE Small Cap Index.

Directors' Remuneration Report



Hill & Smith vs FTSE Small Cap (ex Investment Trust)



PART 2 – (Subject to Audit)

Directors' emoluments in 2010

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 2010 was £1.0m (2009: £1.5m). The remuneration of individual Directors is set out below.

Directors	Salary/fees £000	Performance Related Bonus £000	Value of benefits £000	**Total 2010 £000**	Total 2009 £000
D W Muir	400	54	55*	**509**	750
M Pegler	255	34	18	**307**	481
J F Lennox	44	–	–	**44**	23
C J Snowdon	43	–	–	**43**	41
W H Whiteley	120	–	–	**120**	
Former Directors					
H C Marshall (retired 7 May 2010)	18	–	–	**18**	42
R E Richardson (retired 12 May 2009)					18
D L Grove (retired 31 December 2009)					130
Total	880	88	73	**1,041**	1,485

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

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

Long Term Incentive Plan (LTIP)

The interests of Directors at 31 December 2010, in shares that are the subject of awards under the LTIP are shown below:

Executive Director	Award Date	At 1 Jan 2010 number of shares	Awarded in 2010 number of shares	Vested in 2010 numberof shares	At 31 Dec 2010 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
	31 Mar 2010§		117,879		117,879	1 Jan 2010	1 Jan 2013
Total D W Muir		242,640	117,879	67,791	292,728		
M Pegler	14 Mar 2008†	60,514			60,514	1 Jan 2008	1 Jan 2011
	25 Mar 2009‡	75,000			75,000	1 Jan 2009	1 Jan 2012
	31 Mar 2010§		75,148		75,148	1 Jan 2010	1 Jan 2013
Total M Pegler		135,514	75,148	–	210,662		

* The share price as calculated on 2 July 2007 in accordance with the LTIP rules was 369p.
† The share price as calculated on 14 March 2008 in accordance with the LTIP rules was 330p.
‡ The share price as calculated on 25 March 2009 in accordance with the LTIP rules was 154p.
§ The share price as calculated on 31 March 2010 in accordance with the LTIP rules was 339p.

Share options

The interests of Directors, and of former Directors who served during 2010, in options to subscribe for Ordinary Shares in the Company, which include options granted under the 2005 Executive Share Option Plan and the 2005 ShareSave Scheme, together with options granted and exercised during 2010, are included in the following table:

	At 1 Jan 2010 number of shares	Grant price	Granted in 2010 number of shares	Exercised in 2010 numberof shares	At 31 Dec 2010 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

Apart from the LTIP awards made to D W Muir and M Pegler on 31 March 2010 no further options or awards were made to Directors.

During 2010, the mid market price of Ordinary Shares in the Company ranged from 235p to 377p. The mid market price of an Ordinary Share on 31 December 2010 was 308p.

Pensions

Defined benefits earned by Directors	*D W Muir*
Age at period end	50
Accrued benefit at 31 December 2010	£117,155 pa
Increase in accrued benefits	£3,154 pa
Decrease in accrued benefits (after allowing for inflation)	£2,318 pa
Transfer value of accrued benefits at 1 January 2010	£1,425,140
Transfer value of accrued benefits at 31 December 2010	£1,597,601

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 2010 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 £63,750 to M Pegler's private pension arrangement in 2010.

Transactions with Directors

There were no material transactions between the Company and the Directors during 2010.

Clive Snowdon
Chairman, Remuneration Committee
9 March 2011

Statement of Directors' Responsibilities

in respect of the Annual Report and the Financial Statements

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

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

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

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

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

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

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

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

We confirm that to the best of our knowledge:

- the Group and Parent Company Financial Statements 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 2011

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 2010 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, and express an opinion on, the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the Financial Statements

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

Opinion on Financial Statements

In our opinion:

- the Financial Statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2010 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 33 and 34 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 29, in relation to going concern; and
- the part of the Corporate Governance Report beginning on page 30 relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.
- certain elements of the report to shareholders by the Board on Directors' Remuneration.

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 2011

Consolidated Income Statement

Year ended 31 December 2010

	Notes	2010			2009		
		Underlying £m	**Non-Underlying* £m**	**Total £m**	Underlying £m	Non-Underlying* £m	Total £m
Revenue	1,2	**374.2**	–	**374.2**	389.7	–	389.7
Trading profit		**45.9**	**(1.0)**	**44.9**	47.0	(0.5)	46.5
Amortisation of acquisition intangibles	6	**–**	**(0.9)**	**(0.9)**	–	(0.9)	(0.9)
Business reorganisation costs	3	**–**	**(4.4)**	**(4.4)**	–	(1.8)	(1.8)
Gain on disposal of available for sale financial assets	3	**–**	**–**	**–**	–	1.0	1.0
Profit on sale of properties	3	**–**	**–**	**–**	–	0.1	0.1
Operating profit	1,2	**45.9**	**(6.3)**	**39.6**	47.0	(2.1)	44.9
Financial income	5	**0.6**	**3.4**	**4.0**	0.7	3.4	4.1
Financial expense	5	**(4.3)**	**(4.0)**	**(8.3)**	(5.5)	(3.8)	(9.3)
Profit before taxation		**42.2**	**(6.9)**	**35.3**	42.2	(2.5)	39.7
Taxation	7	**(12.2)**	**1.5**	**(10.7)**	(13.2)	1.0	(12.2)
Profit for the year		**30.0**	**(5.4)**	**24.6**	29.0	(1.5)	27.5
Attributable to:							
Equity holders of the parent				**24.6**			27.5
Minority interest				**–**			–
Profit for the year				**24.6**			27.5
Basic earnings per share	8	**39.0p**		**32.0p**	38.3p		36.3p
Diluted earnings per share	8			**31.7p**			35.9p
Dividend per share – Interim	9			**5.2p**			4.7p
Dividend per share – Final proposed	9			**7.5p**			6.8p
Total	9			**12.7p**			11.5p

* Non-Underlying items represent business reorganisation costs, acquisition related expenses, 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 2010

	Notes	**2010 £m**	2009 £m
Profit for the year		**24.6**	27.5
Exchange differences on translation of overseas operations		**0.3**	(15.1)
Exchange differences on foreign currency borrowings denominated as net investment hedges		**1.1**	10.8
Effective portion of changes in fair value of cash flow hedges		**(0.3)**	(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 gain/(loss) on defined benefit pension schemes	22	**4.6**	(5.7)
Taxation on items taken directly to other comprehensive income	7	**(1.4)**	1.8
Other comprehensive income for the year		**4.3**	(8.8)
Total comprehensive income for the year		**28.9**	18.7
Attributable to:			
Equity holders of the parent		**28.9**	19.0
Minority interest		**–**	(0.3)
Total comprehensive income for the year		**28.9**	18.7

Consolidated Balance Sheet

As at 31 December 2010

	Notes	**2010 £m**	2009 £m
Non-current assets			
Intangible assets	10	**109.7**	109.8
Property, plant and equipment	11	**102.9**	105.1
Other receivables	14	**–**	1.1
		212.6	216.0
Current assets			
Inventories	13	**46.4**	43.8
Trade and other receivables	14	**74.9**	76.8
Cash and cash equivalents	15	**27.0**	41.1
		148.3	161.7
Total assets	1	**360.9**	377.7
Current liabilities			
Trade and other liabilities	16	**(72.2)**	(74.7)
Current tax liabilities		**(7.6)**	(8.3)
Provisions for liabilities and charges	18	**(0.8)**	–
Interest bearing borrowings	16	**(27.0)**	(31.2)
		(107.6)	(114.2)
Net current assets		**40.7**	47.5
Non-current liabilities			
Other liabilities	17	**(0.2)**	(0.2)
Provisions for liabilities and charges	18	**(3.6)**	(5.0)
Deferred tax liability	12	**(15.9)**	(12.7)
Retirement benefit obligation	22	**(10.9)**	(16.7)
Interest bearing borrowings	17	**(70.6)**	(97.5)
		(101.2)	(132.1)
Total liabilities	1	**(208.8)**	(246.3)
Net assets	1	**152.1**	131.4
Equity			
Share capital	20	**19.2**	19.0
Share premium		**29.1**	28.5
Other reserves		**4.5**	4.5
Translation reserve		**6.6**	5.2
Hedge reserve		**(0.9)**	(0.6)
Retained earnings		**93.6**	74.8
Total equity		**152.1**	131.4

Approved by the Board of Directors on 9 March 2011 and signed on its behalf by:

D W Muir
Director

M Pegler
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2010

	Notes	Share capital £m	Share premium £m	Other reserves† £m	Translation reserves £m	Hedge reserve £m	Retained earnings £m	Minority interest £m	Total equity £m
At 1 January 2009		18.9	27.9	4.5	9.2	–	57.7	2.1	120.3
Profit for the year		–	–	–	–	–	27.5	–	27.5
Other comprehensive income for the year		–	–	–	(4.0)	(0.6)	(3.9)	(0.3)	(8.8)
Dividends	9	–	–	–	–	–	(7.5)	–	(7.5)
Change in ownership interest in subsidiaries		–	–	–	–	–	–	(1.8)	(1.8)
Credit to equity of share-based payments	20	–	–	–	–	–	0.5	–	0.5
Tax taken directly to the Consolidated Statement of Changes in Equity	7	–	–	–	–	–	0.5	–	0.5
Shares issued	20	0.1	0.6	–	–	–	–	–	0.7
At 31 December 2009		**19.0**	**28.5**	**4.5**	**5.2**	**(0.6)**	**74.8**	**–**	**131.4**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**24.6**	**–**	**24.6**
Other comprehensive income for the year		**–**	**–**	**–**	**1.4**	**(0.3)**	**3.2**	**–**	**4.3**
Dividends	9	**–**	**–**	**–**	**–**	**–**	**(8.8)**	**–**	**(8.8)**
Credit to equity of share-based payments	20	**–**	**–**	**–**	**–**	**–**	**0.2**	**–**	**0.2**
Satisfaction of long term incentive plan	20	**–**	**–**	**–**	**–**	**–**	**(0.4)**	**–**	**(0.4)**
Shares issued	20	**0.2**	**0.6**	**–**	**–**	**–**	**–**	**–**	**0.8**
At 31 December 2010		**19.2**	**29.1**	**4.5**	**6.6**	**(0.9)**	**93.6**	**–**	**152.1**

† Other reserves represent the premium on shares issued in exchange for shares of subsidiaries acquired and £0.2m (2009: £0.2m) capital redemption reserve.

Consolidated Statement of Cash Flows

Year ended 31 December 2010

	Notes	2010 £m	2010 £m	2009 £m	2009 £m
Profit before tax			**35.3**		39.7
Add back net financing costs	5		**4.3**		5.2
Operating profit	1,2		**39.6**		44.9
Adjusted for non-cash items:					
Share-based payments	4,20	**0.2**		0.5	
Loss on disposal of subsidiaries	3	**–**		0.6	
Gain on disposal of available for sale financial assets	3	**–**		(1.0)	
Loss/(gain) on disposal of non-current assets	6	**0.1**		(0.1)	
Depreciation	6,11	**12.9**		13.0	
Amortisation of intangible assets	6,10	**2.1**		2.0	
Impairment of non-current assets	6,10,11	**0.4**		0.5	
			15.7		15.5
Operating cash flow before movement in working capital			**55.3**		60.4
(Increase)/decrease in inventories		**(3.2)**		9.4	
Decrease in receivables		**2.8**		15.1	
Decrease in payables		**(0.9)**		(12.7)	
Decrease in provisions and employee benefits		**(2.3)**		(1.2)	
Net movement in working capital			**(3.6)**		10.6
Cash generated by operations			**51.7**		71.0
Income taxes paid			**(9.4)**		(9.6)
Interest paid			**(4.1)**		(4.4)
Net cash from operating activities			**38.2**		57.0
Interest received		**0.7**		0.7	
Proceeds on disposal of non-current assets		**0.9**		0.6	
Purchase of property, plant and equipment		**(13.5)**		(9.7)	
Purchase of intangible assets		**(1.3)**		(0.7)	
Disposal of available for sale financial assets	3	**–**		4.9	
Disposal of subsidiaries	3	**–**		0.7	
Deferred consideration received in respect of disposals		**0.3**		0.8	
(Payment)/refund in respect of acquisitions of subsidiaries	10	**(0.2)**		0.7	
Net cash used in investing activities			**(13.1)**		(2.0)
Issue of new shares	20	**0.8**		0.7	
Purchase of shares for the employee benefit trust		**(0.4)**		–	
Dividends paid	9	**(8.8)**		(7.5)	
New loans raised		**14.0**		16.2	
Repayment of loans		**(41.0)**		(43.2)	
Repayment of obligations under finance leases		**(4.0)**		(4.9)	
Net cash used in financing activities			**(39.4)**		(38.7)
Net (decrease)/increase in cash			**(14.3)**		16.3
Cash at the beginning of the year			**41.1**		25.9
Effect of exchange rate fluctuations			**0.2**		(1.1)
Cash at the end of the year	15		**27.0**		41.1

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 82 to 89.

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

Judgements made by the Directors in the application of these accounting policies that have a significant effect on the Group Financial Statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 23.

Going concern and liquidity risk

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review on pages 4 to 9. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Business Review on pages 7 and 8. In addition, Note 19 to the Group Financial Statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The businesses of the Group have long established relationships with customers and suppliers which, together with the Group's current financial strength, provide a solid foundation. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current bank facilities, of which the Group's principal debt facility is a £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 2010

In 2010 the following standards had been endorsed by the EU, became effective and therefore were adopted by the Group:

- IFRS3 (Revised) – Business Combinations
- IAS27 (Revised) – Consolidated and separate Financial Statements
- Amendment to IFRS2 – Group cash settled share-based payment transactions
- IFRIC16 – Hedges of a net investment in a Foreign Operation
- Annual Improvement Projects to IFRS's

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

The adoption of IFRS3 (Revised) - Business Combinations has resulted in a total of £1.0m being expensed in the Consolidated Income Statement which would previously have been capitalised as part of the investment cost when business acquisitions are completed. The impact has been included as a Non-Underlying item in the Consolidated Income Statement. The revised standard is only applicable prospectively for acquisitions after 1 January 2010.

The adoption of the other standards, amendments and interpretations has not had a material impact on the Group's Financial Statements.

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:

- IAS24 (Revised) – Related Party Transactions (effective for annual periods beginning on or after 1 January 2011)
- Amendments to IFRIC14 – Prepayments of a minimum funding requirement (effective for annual periods beginning on or after 1 January 2011)
- IFRIC19 – Extinguishing Financial Liabilities with Equity Insurers (effective for annual periods beginning on or after 1 July 2010)

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

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

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.

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.

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

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

Trade receivables and trade payables are initially measured at fair value. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any impairment losses.

Derivative financial instruments of the Group are used to hedge its exposure to interest rate and foreign currency risks arising from operational, financing and investment activities.

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

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

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

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

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

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

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

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

Group Accounting Policies

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:

	2010		2009	
	Average	**Closing**	Average	Closing
Sterling to Euro (£1 = EUR)	**1.17**	**1.17**	1.12	1.13
Sterling to US Dollar (£1 = USD)	**1.54**	**1.57**	1.57	1.61
Sterling to Thai Bhat (£1 = THB)	**48.83**	**47.00**	53.72	53.87
Sterling to Yuan (£1 = CNY)	**10.43**	**10.32**	10.72	11.02

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.

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.

Group Accounting Policies

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. A description of the activities of each segment is included in the Business Review on pages 4 to 6 and page 10.

	2010			2009		
	Revenue £m	**Result £m**	**Underlying result* £m**	Revenue £m	Result £m	Underlying result* £m
Income Statement						
Infrastructure Products	**190.5**	**18.2**	**19.6**	202.5	23.5	24.5
Galvanizing Services	**115.4**	**23.7**	**25.0**	113.2	21.2	21.4
Building and Construction Products	**68.3**	**(2.3)**	**1.3**	74.0	0.2	1.1
Total Group	**374.2**	**39.6**	**45.9**	389.7	44.9	47.0
Net financing costs		**(4.3)**	**(3.7)**		(5.2)	(4.8)
Profit before taxation		**35.3**	**42.2**		39.7	42.2
Taxation		**(10.7)**	**(12.2)**		(12.2)	(13.2)
Profit after taxation		**24.6**	**30.0**		27.5	29.0

* 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, who is the Chief Executive. The Result columns are included as additional information.

Infrastructure Products provided £0.2m (2009: £0.7m) revenues to Building and Construction Products. Galvanizing Services provided £6.2m (2009: £4.8m) revenues to Infrastructure Products and £1.7m (2009: £1.8m) revenues to Building and Construction Products. Building and Construction Products provided £0.8m (2009: £0.5m) revenues to Infrastructure Products. These internal revenues, along with revenues generated from within their own segments, have been eliminated on consolidation.

Balance Sheet

	2010		2009	
	Total assets £m	**Total liabilities £m**	Total assets £m	Total liabilities £m
Infrastructure Products	**101.3**	**(28.1)**	109.7	(35.4)
Galvanizing Services	**195.9**	**(26.5)**	193.2	(24.6)
Building and Construction Products	**36.7**	**(19.6)**	33.7	(14.9)
Total segment assets/(liabilities)	**333.9**	**(74.2)**	336.6	(74.9)
Taxes	**–**	**(23.5)**	–	(21.0)
Provisions and retirement benefits	**–**	**(13.5)**	–	(21.7)
Net debt	**27.0**	**(97.6)**	41.1	(128.7)
Total Group	**360.9**	**(208.8)**	377.7	(246.3)
Net assets		**152.1**		131.4

Capital expenditure and amortisation/depreciation

	2010		2009	
	Capital expenditure £m	**Impairment losses, amortisation and depreciation £m**	Capital expenditure £m	Impairment losses, amortisation and depreciation £m
Infrastructure Products	**6.6**	**7.1**	8.7	6.9
Galvanizing Services	**6.2**	**6.3**	4.3	6.5
Building and Construction Products	**0.4**	**2.0**	0.7	2.1
Total Group	**13.2**	**15.4**	13.7	15.5
Property, plant and equipment (Note 11)	**11.9**	**13.3**	13.0	13.4
Intangible assets (Note 10)	**1.3**	**2.1**	0.7	2.1
Total Group	**13.2**	**15.4**	13.7	15.5

Notes to the Consolidated Financial Statements

1. Segmental information continued

Geographical analysis

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

Revenues

	2010 £m	2009 £m
UK	**207.9**	207.5
Rest of Europe	**85.9**	93.8
USA	**61.0**	59.0
The Middle East	**5.9**	12.3
Asia	**6.3**	9.5
Rest of World	**7.2**	7.6
Total	**374.2**	389.7

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

Total assets

	2010 £m	2009 £m
UK	**162.8**	189.0
Rest of Europe	**92.3**	93.3
USA	**96.4**	87.6
Asia	**9.4**	7.8
Total Group	**360.9**	377.7

Capital expenditure

	2010 £m	2009 £m
UK	**3.9**	7.3
Rest of Europe	**5.3**	2.0
USA	**3.7**	3.9
Asia	**0.3**	0.5
Total Group	**13.2**	13.7

2. Operating profit

	2010 £m	2009 £m
Revenue	**374.2**	389.7
Cost of sales	**(248.1)**	(262.0)
Gross profit	**126.1**	127.7
Distribution costs	**(20.2)**	(20.0)
Administrative expenses	**(66.9)**	(63.5)
(Loss)/profit on sale of non-current assets	**(0.1)**	0.1
Other operating income	**0.7**	0.6
Operating profit	**39.6**	44.9

3. Non-Underlying items

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

- Business reorganisation costs of £5.7m (2009: £1.2m), principally relating to the closure of three manufacturing plants, two in the UK and one in the USA, and other redundancy costs. Included is an asset impairment charge of £0.4m.
- Release of environmental provisions of £1.3m (2009: £nil). A review of environmental issues and provisions principally relating to the 2007 acquisition of Zinkinvent GmbH identified that the Group was carrying provisions for potential issues which have either been remedied or for which spend is expected to be lower than that originally provided for.
- Amortisation of acquired intangible fixed assets of £0.9m (2009: £0.9m).
- Acquisition related expenses of £1.0m (2009: £nil), which prior to revisions to IFRS3, adopted for the first time in 2010, would have been capitalised upon the successful acquisition of the target investment.

Non-Underlying items in 2009 also include asset impairments of £0.5m, a gain of £0.1m on the sale of land, a gain of £1.0m on disposal of available for sale financial assets, which realised net cash of £4.9m and a loss of £0.6m on disposal of Ash & Lacy Perforators Limited, which realised net cash of £0.7m.

Amounts included within financial income and expense represent the net financing return on pension obligations of £0.6m (2009: £0.5m).

4. Employees

	2010	2009
The average number of people employed by the Group during the year		
Infrastructure Products	**1,297**	1,316
Galvanizing Services	**1,254**	1,294
Building and Construction Products	**497**	622
	3,048	3,232

	£m	£m
The aggregate remuneration for the year		
Wages and salaries	**73.7**	76.6
Share-based payments	**0.2**	0.5
Social security costs	**13.1**	13.4
Pension costs	**2.3**	2.2
	89.3	92.7

Details of the Directors' remuneration and share interests are given in the Directors' Remuneration Report on pages 36 to 41.

5. Net financing costs

	Underlying £m	**Non-Underlying £m**	**2010 £m**	Underlying £m	Non-Underlying £m	2009 £m
Interest on bank deposits	**0.6**	**–**	**0.6**	0.7	–	0.7
Change in fair value of financial assets and liabilities	**–**	**–**	**–**	–	0.1	0.1
Expected return on pension scheme assets (Note 22)	**–**	**3.4**	**3.4**	–	3.3	3.3
Total other income	**–**	**3.4**	**3.4**	–	3.4	3.4
Financial income	**0.6**	**3.4**	**4.0**	0.7	3.4	4.1
Interest on bank loans and overdrafts	**3.8**	**–**	**3.8**	4.8	–	4.8
Interest on finance leases and hire purchase contracts	**0.4**	**–**	**0.4**	0.5	–	0.5
Interest on other loans	**0.1**	**–**	**0.1**	0.2	–	0.2
Total interest expense	**4.3**	**–**	**4.3**	5.5	–	5.5
Expected interest cost on pension scheme obligations (Note 22)	**–**	**4.0**	**4.0**	–	3.8	3.8
Financial expense	**4.3**	**4.0**	**8.3**	5.5	3.8	9.3
Net financing costs	**3.7**	**0.6**	**4.3**	4.8	0.4	5.2

Notes to the Consolidated Financial Statements

6. Expenses and Auditor's remuneration

	2010 £m	2009 £m
Income Statement charges		
Depreciation of property, plant and equipment:		
Owned	**10.8**	10.6
Leased	**2.1**	2.4
Operating lease rentals:		
Plant and machinery	**1.6**	1.5
Other	**4.9**	4.4
Research and development expenditure	**0.3**	0.2
Amortisation of acquisition intangibles	**0.9**	0.9
Amortisation of development costs	**1.2**	1.0
Amortisation of other intangible assets	**–**	0.1
Impairment loss	**0.4**	0.5
Loss on disposal of non-current assets	**0.1**	–
Income Statement credits		
Profit on disposal of non-current assets	**–**	0.1
Grants receivable	**–**	0.1
Rental income	**7.8**	5.6
Foreign exchange gain	**0.1**	0.2

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

	2010 £m	2009 £m
Hill & Smith Holdings PLC		
Audit of the Company's annual accounts	**0.1**	0.1
Audit of the Company's subsidiaries	**0.4**	0.4
Services relating to corporate finance transactions	**0.4**	–
Other services	**0.1**	0.1
Valuation and actuarial services	**–**	0.1
	1.0	0.7
Hill & Smith Holdings PLC pension schemes		
Valuation and actuarial services	**0.1**	0.2
Other services – pension administration	**0.3**	0.3
	0.4	0.5

A description of the work of the Audit Committee is set out in the Corporate Governance Report on pages 32 and 33 and includes an explanation of how auditor objectivity and independence is safeguarded when non audit services are provided by the Auditor.

7. Taxation

	2010 £m	2009 £m
Current tax		
UK corporation tax	**3.5**	5.0
Adjustments in respect of prior periods	**(0.7)**	(1.8)
Overseas tax at prevailing local rates	**6.3**	7.9
	9.1	11.1
Deferred tax (Note 12)		
Current year	**0.2**	(0.2)
Adjustments in respect of prior periods	**(0.6)**	0.7
Overseas tax at prevailing local rates	**2.2**	0.6
Effect of change in tax rate	**(0.2)**	–
Tax on profit in the Income Statement	**10.7**	12.2
Current tax		
Relating to foreign exchange	**–**	0.1
Relating to share-based payments	**–**	(0.1)
	–	–
Deferred tax (Note 12)		
Relating to defined benefit pension schemes	**1.5**	(1.6)
Relating to financial instruments	**(0.1)**	(0.2)
Tax on items taken directly to other comprehensive income	**1.4**	(1.8)
Current tax		
Relating to share-based payments	**(0.4)**	–
Deferred tax (Note 12)		
Relating to share-based payments	**0.4**	(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 (2009: higher) than the standard rate of corporation tax in the UK. The differences are explained below:

	2010 £m	2009 £m
Profit before taxation	**35.3**	39.7
Profit before taxation multiplied by the standard rate of corporation tax in the UK of 28.0%	**9.9**	11.1
Expenses not deductible for tax purposes	**0.7**	0.5
Capital profits less losses and write downs not subject to tax	**–**	(0.3)
Overseas profits taxed at higher/(lower) rates	**1.5**	1.7
Overseas losses not relieved	**–**	0.1
Withholding taxes	**0.1**	0.2
Deferred tax benefit of future reductions in UK corporation tax rates	**(0.2)**	–
Adjustments in respect of previous periods	**(1.3)**	(1.1)
Tax charge	**10.7**	12.2

Notes to the Consolidated Financial Statements

8. Earnings per share

The weighted average number of Ordinary Shares in issue during the year was 76.9m (2009: 75.8m), diluted for the effects of the outstanding dilutive share options 77.6m (2009: 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.

	2010		2009	
	Pence per share	**£m**	Pence per share	£m
Basic earnings	**32.0**	**24.6**	36.3	27.5
Non-Underlying items*	**7.0**	**5.4**	2.0	1.5
Underlying earnings	**39.0**	**30.0**	38.3	29.0
Diluted earnings	**31.7**	**24.6**	35.9	27.5
Non-Underlying items*	**7.0**	**5.4**	2.0	1.5
Underlying diluted earnings	**38.7**	**30.0**	37.9	29.0

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

9. Dividends

Dividends paid in the year were the prior year's interim dividend of £3.5m (2009: £3.2m) and the final dividend of £5.3m (2009: £4.3m). Dividends declared after the Balance Sheet date are not recognised as a liability, in accordance with IAS10. The Directors have proposed the following interim dividend and a final dividend for the current year, subject to shareholder approval, as shown below:

	2010		2009	
	Pence per share	**£m**	Pence per share	£m
Equity shares				
Interim	**5.2**	**4.0**	4.7	3.5
Final	**7.5**	**5.8**	6.8	5.3
Total	**12.7**	**9.8**	11.5	8.8

10. Intangible assets

	Goodwill £m	Brands £m	Customer lists £m	Capitalised development costs £m	Licences £m	Total £m
Cost						
At 1 January 2009	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**
Exchange adjustments	**–**	**–**	**–**	**–**	**–**	**–**
Acquisitions	**0.3**	**–**	**0.4**	**–**	**–**	**0.7**
Additions external	**–**	**–**	**–**	**0.9**	**0.4**	**1.3**
At 31 December 2010	**92.3**	**12.5**	**3.3**	**8.1**	**0.7**	**116.9**
Amortisation and impairment losses						
At 1 January 2009	1.9	0.4	0.7	1.9	0.1	5.0
Exchange adjustments	–	–	(0.1)	–	–	(0.1)
Disposal 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**
Exchange adjustments	**–**	**–**	**–**	**–**	**–**	**–**
Amortisation charge for the year	**–**	**0.3**	**0.6**	**1.2**	**–**	**2.1**
At 31 December 2010	**–**	**1.0**	**1.8**	**4.2**	**0.2**	**7.2**
Carrying values						
At 1 January 2009	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
At 31 December 2010	**92.3**	**11.5**	**1.5**	**3.9**	**0.5**	**109.7**

2010

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

2009

During the year the Group received a refund of consideration previously paid of £0.7m (Note 15) 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 12) in respect of deferred tax on the intangible fixed assets of Creative Pultrusions, Inc. was also made, but no prior year adjustment in respect of the latter was made on the grounds of materiality.

Notes to the Consolidated Financial Statements

10. Intangible assets continued

Details of acquisitions are shown below:

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

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

If the above acquisitions had been made on 1 January 2010, it is estimated that the results of the Group for the year would have been revenue of £375.7m and profit of £24.7m.

Cash generating units with significant amounts of goodwill

	2010 £m	2009 £m
Galvanizing Services – France	**29.1**	29.7
Galvanizing Services – USA	**21.7**	21.1
Joseph Ash Limited	**14.3**	14.3
Other cash generating units with no individually significant value	**27.2**	26.9
	92.3	92.0

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 £6.5m (2009: £6.3m), 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 which are in all cases no larger than operating segments. Value in use is calculated for each cash generating unit as the net present value of that unit's discounted future cash flows. These cash flows are based on budget cash flow information for a period of one year with an average growth rate of 1.0% applied subsequent to the initial budget period based on a prudent management estimate for revenue and associated cost growth.

The initial measurements of the post tax and pre tax weighted average costs of capital were respectively 8.14% and 11.31% (2009: 8.09% and 11.24%). 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: 13.89% and 1.0% (2009: 16.82% and 1.0%)
- Galvanizing Services – USA: 15.86% and 1.0% (2009: 18.26% and 1.0%)
- Joseph Ash Limited: 12.69% and 1.0% (2009: 15.37% and 1.0%)

10. Intangible assets continued

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.

11. Property, plant and equipment

	Land and buildings £m	Plant, machinery and vehicles £m	Total £m
Cost			
At 1 January 2009	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**
Exchange adjustments	**–**	**–**	**–**
Acquisitions	**–**	**0.1**	**0.1**
Additions	**1.5**	**10.4**	**11.9**
Disposals	**(0.7)**	**(3.6)**	**(4.3)**
At 31 December 2010	**56.6**	**125.0**	**181.6**
Depreciation and impairment losses			
At 1 January 2009	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 2009	**6.3**	**62.5**	**68.8**
Exchange adjustments	**(0.1)**	**–**	**(0.1)**
Disposals	**(0.3)**	**(3.0)**	**(3.3)**
Charge for the year	**2.2**	**10.7**	**12.9**
Impairment provision	**–**	**0.4**	**0.4**
At 31 December 2010	**8.1**	**70.6**	**78.7**
Carrying values			
At 1 January 2009	54.7	58.9	113.6
At 31 December 2009	49.5	55.6	105.1
At 31 December 2010	**48.5**	**54.4**	**102.9**

The gross book value of land and buildings includes freehold land of £11.5m (2009: £11.4m).

Included in the carrying value of plant, machinery and vehicles is £11.4m (2009: £13.5m) in respect of assets held under finance lease and hire purchase contracts.

Included within plant, machinery and vehicles are assets held for hire with a cost of £28.4m (2009: £26.3m) and accumulated depreciation of £11.9m (2009: £9.4m).

Notes to the Consolidated Financial Statements

12. Deferred taxation

	Intangible assets £m	Property, plant and equipment £m	Inventories £m	Retirement obligation £m	Other timing differences £m	Total £m
At 1 January 2009	(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	(0.7)	–	–	–	–	(0.7)
Credited/(charged) for the year in the Consolidated Income Statement (Note 7)	0.1	(1.2)	0.9	0.5	(1.4)	(1.1)
Credited/(charged) for the year in the Consolidated Statement of Comprehensive Income (Note 7)	–	–	–	1.6	0.2	1.8
Credited for the year in the Consolidated Statement of Changes in Equity (Note 7)	–	–	–	–	0.5	0.5
At 31 December 2009	**(5.3)**	**(10.2)**	**(2.0)**	**4.8**	**–**	**(12.7)**
Exchange adjustments	**–**	**0.1**	**0.1**	**–**	**0.1**	**0.3**
Acquisitions (Note 10)	**(0.1)**	**–**	**–**	**–**	**–**	**(0.1)**
Credited/(charged) for the year in the Consolidated Income Statement (Note 7)	**0.3**	**0.1**	**(0.2)**	**(0.3)**	**(1.5)**	**(1.6)**
(Charged)/credited for the year in the Consolidated Statement of Comprehensive Income (Note 7)	**–**	**–**	**–**	**(1.5)**	**0.1**	**(1.4)**
Charged for the year in the Consolidated Statement of Changes in Equity (Note 7)	**–**	**–**	**–**	**–**	**(0.4)**	**(0.4)**
At 31 December 2010	**(5.1)**	**(10.0)**	**(2.1)**	**3.0**	**(1.7)**	**(15.9)**

	2010 £m	2009 £m
Deferred tax assets	**0.1**	1.7
Deferred tax liabilities	**(16.0)**	(14.4)
Deferred tax liability	**(15.9)**	(12.7)

No deferred tax asset has been recognised in respect of tax losses of £17.5m (2009: £14.1m) as their future use is uncertain. There is no time limit on the carrying forward of these losses.

A deferred tax charge of £nil (2009: £0.1m) has been made resulting from a change during 2008 in the UK tax legislation preventing the recoverability of Industrial Buildings Allowances.

Finance (No 2) Act 2010 was enacted in the period and included a reduction in the main rate of corporation tax from 28% to 27% with effect from 1 April 2011. The deferred tax liability provided at the Balance Sheet date has therefore been recalculated at 27% on the basis that it will materially reverse after 1 April 2011. This recomputation has had no overall impact on the deferred tax liability, this is because a credit of £0.2m has been recognised in the Consolidated Income Statement and a corresponding charge of £0.2m directly in equity.

The Government has also indicated that it intends to enact further reductions in the main rate of corporation tax of 1% per annum, reducing the rate to 24% by 1 April 2014. These tax rate reductions had not been substantively enacted at the Balance Sheet date and therefore have not been reflected in the Financial Statements. The effect of any such changes on deferred tax balances will be accounted for in the period in which any such changes are enacted.

13. Inventories

	2010 £m	2009 £m
Raw materials and consumables	**27.4**	24.1
Work in progress	**5.2**	7.6
Finished goods and goods for resale	**13.8**	12.1
	46.4	43.8

The amount of inventories expensed to the Consolidated Income Statement in the year was £238.2m (2009: £251.0m). The value of inventories written down and expensed in the Consolidated Income Statement during the year amounted to £0.3m (2009: £0.3m). The amount of inventories held at fair value less cost to sell included in the above was £0.8m (2009: £nil).

14. Trade and other receivables

	2010 £m	2009 £m
Other non-current receivables		
Deferred consideration	–	1.1
Trade and other current receivables		
Trade receivables	**67.6**	70.5
Deferred consideration	**1.1**	–
Prepayments and accrued income	**5.3**	4.0
Other receivables	**0.9**	2.3
	74.9	76.8

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 £0.4m (2009: £0.6m).

15. Cash and borrowings

	2010 £m	2009 £m
Cash and cash equivalents in the Balance Sheet		
Cash and bank balances	**23.0**	30.1
Call deposits	**4.0**	11.0
Cash	**27.0**	41.1
Interest bearing loans and borrowings		
Amounts due within one year (Note 16)	**(27.0)**	(31.2)
Amounts due after more than one year (Note 17)	**(70.6)**	(97.5)
Net debt	**(70.6)**	(87.6)

	2010 £m	2009 £m
Change in net debt		
Operating profit	**39.6**	44.9
Non-cash items	**15.7**	15.5
Operating cash flow before movement in working capital	**55.3**	60.4
Net movement in working capital	**(1.3)**	11.8
Changes in provisions and employee benefits	**(2.3)**	(1.2)
Operating cash flow	**51.7**	71.0
Tax paid	**(9.4)**	(9.6)
Net financing costs paid	**(3.4)**	(3.7)
Capital expenditure	**(15.2)**	(11.7)
Proceeds on disposal of non-current assets	**0.9**	0.6
Free cash flow	**24.6**	46.6
Dividends paid (Note 9)	**(8.8)**	(7.5)
Purchase of shares for the employee benefit trust (Note 20)	**(0.4)**	–
Disposals (see below)	**0.3**	6.4
Acquisitions (Note 10)	**(0.2)**	0.7
Issue of new shares (Note 20)	**0.8**	0.7
Net debt decrease	**16.3**	46.9
Effect of exchange rate fluctuations	**0.7**	11.7
Net debt at the beginning of the year	**(87.6)**	(146.2)
Net debt at the end of the year	**(70.6)**	(87.6)

	2010 £m	2009 £m
Disposals		
Disposal of subsidiaries (Note 3)	–	0.7
Disposal of available for sale financial assets (Note 3)	–	4.9
Deferred consideration received in respect of disposals	**0.3**	0.8
Total	**0.3**	6.4

Notes to the Consolidated Financial Statements

16. Current liabilities

	2010 £m	2009 £m
Interest bearing loans and borrowings (Note 15)		
Current portion of long term borrowings	**21.7**	17.8
Finance lease and hire purchase obligations	**3.7**	3.9
Bills of exchange	**1.6**	9.5
	27.0	31.2
Trade and other current liabilities		
Trade payables	**44.2**	44.3
Other taxation and social security	**9.0**	10.0
Accrued expenses and deferred income	**14.0**	15.6
Fair value derivatives	**1.1**	0.7
Other payables	**3.9**	4.1
	72.2	74.7

17. Non-current liabilities

	2010 £m	2009 £m
Interest bearing loans and borrowings (Note 15)		
Long term borrowings	**65.4**	88.8
Finance lease and hire purchase obligations	**5.2**	8.7
	70.6	97.5
Other non-current liabilities		
Deferred government grants	**0.2**	0.2

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

	2010			2009		
	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	**4.33**	**4.1**	**3.7**	4.36	4.4	3.9
Amounts due after more than one year						
Between one and two years	**4.33**	**3.7**	**3.5**	4.41	4.3	4.0
Between two and five years	**4.64**	**1.7**	**1.7**	4.40	4.9	4.7
		5.4	**5.2**		9.2	8.7
		9.5	**8.9**		13.6	12.6
Principal liability		**8.9**			12.6	
Finance charges payable on outstanding commitments		**0.6**			1.0	

The unsecured bank borrowings carry a rate of interest of 1.25% above LIBOR/EURIBOR subject to a ratchet as defined in the facility agreement. In the USA bank borrowings that are not fixed (Note 19) are at LIBOR +1.5% and are secured against substantially all of the assets of V&S LLC and its subsidiaries. Obligations under finance leases and hire purchase obligations are secured on the relevant assets.

18. Provisions for liabilities and charges

	Property related £m	Other regulatory £m	Total £m
At 1 January 2009	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**
Exchange adjustments	**(0.1)**	**–**	**(0.1)**
Utilised during the year	**(1.0)**	**(0.1)**	**(1.1)**
Charged to Consolidated Income Statement	**1.8**	**0.1**	**1.9**
Released to Consolidated Income Statement	**(1.3)**	**–**	**(1.3)**
At 31 December 2010	**4.0**	**0.4**	**4.4**

	2010 £m	2009 £m
Amounts due within one year	**0.8**	–
Amounts due after more than one year	**3.6**	5.0
	4.4	5.0

Property provisions of £4.6m at 31 December 2009 related to environmental and dilapidation costs associated with certain of the Group's properties. During the year £1.0m of these provisions have been utilised. Following a review of the Group's remaining obligations in relation to the properties acquired with Zinkinvent GmbH in 2007, £1.3m has been released to the Consolidated Income Statement and included in Non-Underlying items (see Note 3). Additional property provisions of £1.8m were charged during the year following the closure of two of the Group's manufacturing plants (see Note 3).

The Group has sought expert valuations in relation to its property provisions where appropriate, although there are factors outside of the Group's control that give rise to uncertainties surrounding these matters. The Group does not expect to be reimbursed for any of the future costs.

Other regulatory provisions principally relate to warranty issues.

19. Financial instruments

(a) Management of financial risks

Overview

The Group has exposure to a number of risks associated with its use of financial instruments.

This note presents information about the Group's exposure to each of these risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these Consolidated Financial Statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. 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.

Notes to the Consolidated Financial Statements

19. Financial instruments continued

The Group's UK companies represent the majority of the trade receivable at 31 December 2010 with 61.9% (2009: 66.7%) and currently the only geographical region that does not insure their trade receivables is the USA, which represents 13.5% (2009: 9.9%) 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 2010 and 2009, no guarantees were outstanding.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

It is the Group's policy to minimise its liquidity risk in terms of limiting the amounts of borrowings maturing within the next 12 months and as at 31 December 2010 all such debt was covered by cash and cash equivalents netting to £nil (2009: £9.9m positive current liquidity). 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 2010 year end exchange rates is as follows:

	£m
2011	21.3
2012	60.6

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 £181.5m.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and commodity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The Group buys and sells derivatives in the ordinary course of business, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Board.

Counterparty risk

A group of relationship banks provides the bulk of the banking services, with pre-approved credit limits set for each institution. Financial derivatives are entered into with these core banks and the underlying credit exposure to these instruments is included when considering the credit exposure to the counterparties. At the end of 2010 credit exposure including cash deposited did not exceed £7.7m with any single institution (2009: £14.4m).

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 shown in the following table. The notional amounts represent approximately 58.1% (2009: 46.5%) of the gross year end Sterling borrowings, 70.8% (2009: 56.3%) of the Euro borrowings and 52.2% (2009: 44.9%) 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 27.8% (2009: 29.8%) of the local US Dollar year end gross borrowings.

19. Financial instruments continued

Country	Financial instrument	Maturity date	Rate excluding margin %	2010 Notional amounts £m	2010 Notional amounts €m	2010 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 February 2011	5.700			**–**
USA	Swap	1 July 2012	4.200			**1.3**
USA	Swap	1 October 2015	4.800			**1.1**
Belgium	Cap	30 March 2011	4.300		**0.1**	

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 2010 and 2009.

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

(b) Total financial assets and liabilities

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

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

Notes to the Consolidated Financial Statements

19. Financial instruments continued

Fair value hierarchy

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

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

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Derivative financial liabilities				
At 31 December 2010	**–**	**(1.1)**	**–**	**(1.1)**
At 31 December 2009	–	(0.7)	–	(0.7)

At 31 December 2010 the Group did not have any liabilities classified at Level 1 or Level 3 in the fair value hierarchy. There have been no transfers in any direction in the year.

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

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

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

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

The UK Parent Company holds Euro £37.8m (2009: £49.5m) and US Dollar £28.4m (2009: £32.2m) denominated interest bearing loans, which are predominantly used to fund its European and United States operations and include £66.2m (2009: £81.7m) designated as a hedge of the net investment in a foreign operation. The foreign currency gain of £1.1m (2009: £10.8m) 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 2010	**3.3**	**1.5**
US Dollar at 31 December 2010	**2.5**	**1.6**
Euro at 31 December 2010	**2.3**	**1.3**
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

19. Financial instruments continued

(c) Maturity profile

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

	Carrying amounts £m	Contractual cash flows £m	Due within one year £m	Due between one and two years £m	Due between two and five years £m	Due after more than five years £m
Secured bank borrowings	**5.5**	**(5.8)**	**(0.7)**	**(0.7)**	**(2.1)**	**(2.3)**
Unsecured bank borrowings	**81.6**	**(84.2)**	**(22.6)**	**(61.6)**	**–**	**–**
Finance lease obligations	**8.9**	**(9.5)**	**(4.1)**	**(3.7)**	**(1.7)**	**–**
Bills of exchange	**1.6**	**(1.6)**	**(1.6)**	**–**	**–**	**–**
Other liabilities	**71.1**	**(71.1)**	**(71.1)**	**–**	**–**	**–**
Derivative liabilities	**1.1**	**(2.5)**	**(1.6)**	**(0.9)**	**–**	**–**
Total at 31 December 2010	**169.8**	**(174.7)**	**(101.7)**	**(66.9)**	**(3.8)**	**(2.3)**
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)

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

	2010 £m	2009 £m
Undrawn committed borrowing facilities		
Expiring after more than one year	**58.6**	57.4

(d) Fair values

The loss in the year on the interest rate swaps held by the UK Group was £0.3m (2009: £0.6m) which is recognised directly in equity as these instruments are accounted for as cash flow hedges. Any ineffective portion of these hedges is taken to the Consolidated Income Statement and was insignificant. The gain in the year on the US fixed rate interest swaps taken to the Consolidated Income Statement was £nil (2009: £0.1m). 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 (2009: £nil). The fair values of the Group's other financial instruments at 31 December 2010 and 2009 were not materially different to their carrying value. Fair values were calculated using market rates where available, otherwise cash flows were discounted at prevailing rates.

The Group has impaired non-current assets by £0.4m (2009: £0.5m) of their carrying values as detailed in Notes 10 and 11.

(e) Credit risk

Exposure to credit risk

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

Carrying amount

	2010 £m	2009 £m
Loans and receivables	**69.6**	73.9
Cash at the end of the year (Note 15)	**27.0**	41.1
Total	**96.6**	115.0

Notes to the Consolidated Financial Statements

19. Financial instruments continued

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

Carrying value of trade receivables by geography

	2010 £m	2009 £m
UK	**41.9**	47.0
Rest of Europe	**14.7**	15.6
USA	**9.2**	7.0
Asia	**1.8**	0.9
Total (Note 14)	**67.6**	70.5

Carrying value of trade receivables by business segment

	2010 £m	2009 £m
Infrastructure Products	**33.3**	38.4
Galvanizing Services	**21.5**	19.6
Building and Construction Products	**12.8**	12.5
Total (Note 14)	**67.6**	70.5

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:

	2010			2009		
	Gross £m	Provisions £m	Net £m	Gross £m	Provisions £m	Net £m
Not past due	**47.0**	**(0.3)**	**46.7**	53.2	(0.3)	52.9
Past due 1–30 days	**16.3**	**(0.7)**	**15.6**	13.8	(1.0)	12.8
Past due 31–120 days	**5.1**	**(0.2)**	**4.9**	5.0	(0.4)	4.6
Past due more than 120 days	**1.4**	**(1.0)**	**0.4**	1.8	(1.6)	0.2
Total	**69.8**	**(2.2)**	**67.6**	73.8	(3.3)	70.5

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

	£m
At 1 January 2009	2.8
Exchange adjustments	(0.1)
Charged to the Consolidated Income Statement during the year	0.6
At 31 December 2009	**3.3**
Charged to the Consolidated Income Statement during the year	**0.2**
Utilised during the year	**(1.3)**
At 31 December 2010	**2.2**

(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 £0.5m (2009: £0.4m), 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 (2009: £1.8m) and the impact directly in equity would have been a gain of £1.1m (2009: £3.4m).
- 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 £1.5m (2009: £1.4m) and the impact directly in equity would have been a loss of £0.9m (2009: £2.8m).

20. Called up share capital

	2010 £m	2009 £m
Allotted, called up and fully paid		
76.9m Ordinary Shares of 25p each (2009: 76.1m)	**19.2**	19.0

In 2010 the Company issued 0.8m shares under its various share option schemes (2009: 0.5m), realising £0.8m (2009: £0.7m).

The Company purchased shares with a market value of £0.4m (2009: £nil) through an Employee Benefit Trust (EBT) in order to satisfy the 2007 LTIP Award granted in July 2007. The nominal value of the shares was £0.0m (2009: £nil). No shares are held by the EBT at the year end.

Options outstanding over the Company's shares

	2010 Number of shares	2010 Option price (p)	2009 Number of shares	2009 Option price (p)	Date first exercisable	Expiry date
2007 LTIP Award (granted March 2010)*	**247,546**	**–**	–	–		
2007 LTIP Award (granted March 2009)*	**180,000**	**–**	180,000	–	§	§
2007 LTIP Award (granted March 2008)*	**205,749**	**–**	205,749	–	§	§
2007 LTIP Award (granted July 2007)*	**–**	**–**	103,045	–	§	§
2005 Approved Executive Share Option Scheme (granted October 2005)*	**107,031**	**205**	136,323	205	4 October 2008	4 October 2015
2005 Non-Approved Executive Share Option Scheme (granted October 2005)*	**68,375**	**205**	84,375	205	4 October 2008	4 October 2015
2007 grant of 2005 Approved Executive Share Option Scheme (granted April 2007)*	**247,021**	**350**	247,021	350	13 April 2010	13 April 2017
2007 grant of 2005 Non-Approved Executive Share Option Scheme (granted April 2007)*	**388,979**	**350**	450,979	350	13 April 2010	13 April 2017
2008 grant of 2005 Savings Related Share Option Scheme (granted January 2008)*†	**72,239**	**318**	81,165	318	1 January 2011	1 July 2011
2008 grant of 2005 Savings Related Share Option Scheme (granted January 2008)*†	**169,198**	**318**	190,913	318	1 January 2013	1 July 2013
2008 grant of 2005 Savings Related Share Option Scheme (granted December 2008)*†	**103,139**	**246**	121,396	246	1 December 2011	1 June 2012
2008 grant of 2005 Savings Related Share Option Scheme (granted December 2008)*†	**185,223**	**246**	222,691	246	1 December 2013	1 June 2014
2005 grant of 1995 Savings Related Share Option Scheme (granted January 2005)*†	**–**	**–**	778,325	100	1 January 2010	1 July 2010
Outstanding at the end of the year	**1,974,500**		2,801,982			
Exercisable at the year end	**811,406**		220,698			
Not exercisable at the year end	**1,163,094**		2,581,284			
Outstanding at the end of the year	**1,974,500**		2,801,982			

* 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 2011 for the 2008 grant, 1 January 2012 for the 2009 grant and 1 January 2013 for the 2010 grant.

The remaining weighted average life of the outstanding share options is 3 years 2 months (2009: 3 years 4 months).

Notes to the Consolidated Financial Statements

20. Called up share capital continued

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

	Weighted average exercise price (p) 2010	**Millions of options 2010**	Weighted average exercise price (p) 2009	Millions of options 2009
Outstanding at the beginning of the year	**192**	**2.8**	201	3.5
Granted during the year	**0**	**0.2**	0	0.2
Exercised during the year	**(95)**	**(0.8)**	(163)	(0.5)
Lapsed during the year	**(317)**	**(0.2)**	(270)	(0.4)
Outstanding at the end of the year	**206**	**2.0**	192	2.8

The weighted average share price on the dates of exercise during the year for the above share options was 308p (2009: 248p), and the weighted average fair value of options and awards granted in the year was 344p (2009: 133p).

Share-based payments

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

The fair value of services received in return for share options granted is measured by reference to the fair value of the share options granted. The estimate of the fair value of the services received is measured based on the Black–Scholes model. 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.

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

	2010 £m	2009 £m
Expensed during the year	**0.2**	0.5

21. Guarantees and other financial commitments

(a) Guarantees

The Group had no financial guarantee contracts outstanding (2009: £nil).

(b) Capital commitments

	2010 £m	2009 £m
Contracted for but not provided in the accounts	**0.2**	0.2

21. Guarantees and other financial commitments continued

(c) Operating lease commitments

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

	2010		2009	
	Land and buildings £m	**Other £m**	Land and buildings £m	Other £m
Group				
Within one year	**4.9**	**1.6**	4.6	1.8
Between one and two years	**4.4**	**1.4**	4.6	1.2
Between two and five years	**11.5**	**1.5**	12.1	1.4
After five years	**19.6**	**–**	23.6	–
	40.4	**4.5**	44.9	4.4

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

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

	2010		2009	
	Land and buildings £m	**Other £m**	Land and buildings £m	Other £m
Group				
Within one year	**0.9**	**6.1**	0.7	6.6
Between one and five years	**2.1**	**2.0**	2.2	3.0
After five years	**1.4**	**–**	1.9	–
	4.4	**8.1**	4.8	9.6

22. Pensions

Total

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

	UK £m	**Overseas £m**	**2010 £m**	UK £m	Overseas £m	2009 £m
Total fair value of scheme assets	**56.6**	**0.1**	**56.7**	52.0	0.2	52.2
Present value of scheme funded obligations	**(66.1)**	**(1.4)**	**(67.5)**	(67.4)	(1.4)	(68.8)
Present value of scheme unfunded obligations	**–**	**(0.1)**	**(0.1)**	–	(0.1)	(0.1)
Retirement benefit obligation	**(9.5)**	**(1.4)**	**(10.9)**	(15.4)	(1.3)	(16.7)

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 £2.0m (2009: £1.9m), 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.

Notes to the Consolidated Financial Statements

22. Pensions continued

Composition of the Scheme

The Group operates defined benefit schemes in the UK. A full Actuarial valuation of the schemes was last carried out as at 5 April 2009 and was updated to 31 December 2010 by a qualified Actuary.

The principal assumptions used by the Actuary

	2010	2009	2008	2007	2006
Rate of increase in salaries	**3.50%**	3.60%	2.70%	4.80%	4.50%
Rate of increase in pensions payment	**3.30%**	3.40%	2.60%	3.30%	3.00%
Discount rate	**5.60%**	5.80%	6.50%	5.70%	5.20%
Inflation	**3.50%**	3.60%	2.70%	3.40%	3.10%
Mortality table	**116%120% S1PA mc1%**	PA92YOB*	PA92YOB*	PA92YOB*	PA92YOB*

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

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

	2010	2009	2008	2007	2006
Males currently aged 45	**21.6 years**	21.1 years	21.0 years	20.9 years	20.9 years
Females currently aged 45	**24.2 years**	24.1 years	24.0 years	23.9 years	23.9 years
Males currently aged 65	**20.0 years**	19.9 years	19.8 years	19.6 years	19.6 years
Females currently aged 65	**22.7 years**	22.9 years	22.8 years	22.7 years	22.7 years

The assumptions have been chosen by the Directors from a range of possible actuarial assumptions which, due to the timescales covered, may not be borne out in practice.

Assets and liabilities

One scheme holds assets and liabilities in respect of defined contribution benefits which are equal in value and are excluded from the following figures. The fair 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 2010 %	**Market value 2010 £m**	Rate of return expected 2009 %	Market value 2009 £m	Rate of return expected 2008 %	Market value 2008 £m
Assets						
Equities	**7.60**	**19.0**	8.00	16.0	8.40	10.7
Bonds	**5.00**	**27.2**	5.20	24.9	6.50	25.3
With profits policies	**5.30**	**2.3**	5.70	2.1	5.30	2.9
Hedge funds	**8.00**	**5.8**	8.00	5.6	8.00	5.0
Currency funds	**7.60**	**1.9**	8.00	2.3	8.40	2.1
Cash	**4.00**	**0.4**	4.40	1.1	3.70	0.4
Total fair value of scheme assets	**6.27**	**56.6**	6.49	52.0	7.08	46.4
Present value of scheme funded obligations		**(66.1)**		(67.4)		(56.8)
Retirement benefit obligation		**(9.5)**		(15.4)		(10.4)

	Rate of return expected 2007 %	Market value 2007 £m	Rate of return expected 2006 %	Market value 2006 £m
Assets				
Equities	8.00	21.2	8.00	40.0
Bonds	5.70	28.5	5.20	6.8
Gilts	–	–	4.60	3.5
With profits policies	5.90	4.8	5.80	9.1
Hedge funds	8.00	5.7	–	–
Currency funds	8.40	2.6	–	–
Cash	4.50	0.8	4.60	3.0
Total fair value of scheme assets	6.92	63.6	7.02	62.4
Present value of scheme funded obligations		(72.2)		(72.9)
Retirement benefit obligation		(8.6)		(10.5)

22. Pensions continued

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

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

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

With 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.

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

	2010			2009		
	Defined contribution schemes £m	**Defined benefit schemes £m**	**Total £m**	Defined contribution schemes £m	Defined benefit schemes £m	Total £m
Current service costs	**1.5**	**0.5**	**2.0**	1.4	0.5	1.9
Charge to operating profit	**1.5**	**0.5**	**2.0**	1.4	0.5	1.9
Expected return on pension scheme assets	**–**	**(3.4)**	**(3.4)**	–	(3.3)	(3.3)
Expected interest cost on pension scheme obligations	**–**	**3.9**	**3.9**	–	3.7	3.7
Total charged to profit before tax	**1.5**	**1.0**	**2.5**	1.4	0.9	2.3

Change in the present value of the defined benefit obligations

	2010 £m	2009 £m
Opening defined benefit obligations	**67.4**	56.8
Current service costs	**0.5**	0.5
Expected interest cost	**3.9**	3.7
Actuarial (gain)/loss	**(2.2)**	10.2
Employee contributions	**0.1**	0.1
Benefits paid	**(3.6)**	(3.9)
Closing defined benefit obligations	**66.1**	67.4

Changes in fair values of scheme assets

	2010 £m	2009 £m
Opening fair value of assets	**52.0**	46.4
Expected return on assets	**3.4**	3.3
Actuarial gain	**2.4**	4.4
Employer contributions	**2.3**	1.7
Employee contributions	**0.1**	0.1
Benefits paid	**(3.6)**	(3.9)
Closing fair value of assets	**56.6**	52.0
Actual return on scheme assets	**5.8**	7.7
Expected employer contributions in the following year		
Defined benefit schemes	**2.4**	2.7
Defined contribution schemes	**1.4**	1.4

Notes to the Consolidated Financial Statements

22. Pensions continued

Amounts recognised in the Consolidated Statement of Comprehensive Income

	% of scheme assets/ liabilities %	**2010 £m**	% of scheme assets/ liabilities %	2009 £m	% of scheme assets/ liabilities %	2008 £m
Difference between actual and expected return on scheme assets	**4**	**2.4**	9	4.4	(35)	(16.2)
Experienced gain/(loss) on scheme obligations	**–**	**–**	0	0.3	(1)	(0.7)
Changes in assumptions underlying the present value of scheme obligations	**3**	**2.2**	(16)	(10.5)	20	11.6
Annual amount recognised	**7**	**4.6**	(8)	(5.8)	(9)	(5.3)
Total amount recognised		**(16.5)**		(21.1)		(15.3)

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

Overseas

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

The Group also operates defined contributions with plans in the USA. The amount contributed to these plans during the year was £0.1m (2009: £0.2m).

The Consolidated Income Statement for the year includes a pension charge of £0.2m (2009: £0.2m), which includes the costs of the defined contribution scheme and the defined benefit scheme as detailed below.

All actuarial gains and losses are recognised immediately in the Consolidated Statement of 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 2010.

The principal assumptions used by the Actuary

	2010	2009	2008	2007
Rate of increase in salaries	**2.00%**	2.00%	2.00%	2.00-3.00%
Discount rate	**4.60%**	5.00%	5.50%	5.25%
Inflation	**2.00%**	2.00%	2.00%	2.00%
Expected long term rate of return on plan assets	**4.00%**	4.50%	4.50%	4.50%
Mortality table	**TH 00-02, TF 00-02**	TH 00-02, TF 00-02	TG H/F 05	MR/FR INSEE98 H/F

22. 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 2010 %	**Market value 2010 £m**	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	**4.00**	**0.1**	4.50	0.2	4.50	0.2	4.50	0.1
Total fair value of scheme assets	**4.00**	**0.1**	4.50	0.2	4.50	0.2	4.50	0.1
Present value of scheme funded obligations		**(1.4)**		(1.4)		(1.4)		(0.9)
Present value of scheme unfunded obligations		**(0.1)**		(0.1)		(0.2)		(0.3)
Retirement benefit obligation		**(1.4)**		(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

	2010			2009		
	Defined contribution schemes £m	**Defined benefit schemes £m**	**Total £m**	Defined contribution schemes £m	Defined benefit schemes £m	Total £m
Current service cost	**0.1**	**0.1**	**0.2**	0.2	–	0.2
Charge to operating profit	**0.1**	**0.1**	**0.2**	0.2	–	0.2
Expected interest cost on pension scheme obligations	**–**	**0.1**	**0.1**	–	0.1	0.1
Total charged to profit before tax	**0.1**	**0.2**	**0.3**	0.2	0.1	0.3

Change in the present value of the defined benefit obligation

	2010 £m	2009 £m
Opening defined benefit obligation	**1.5**	1.6
Current service costs	**0.1**	–
Expected interest cost	**0.1**	0.1
Actuarial gain	**–**	(0.1)
Benefits paid	**(0.1)**	–
Exchange adjustments	**(0.1)**	(0.1)
Closing defined benefit obligation	**1.5**	1.5

Changes in fair values of scheme assets

	2010 £m	2009 £m
Opening fair value of assets	**0.2**	0.2
Benefits paid	**(0.1)**	–
Closing fair value of assets	**0.1**	0.2
Actual return on scheme assets	**–**	–
Expected employer contributions in the following year		
Defined benefit schemes	**–**	–
Defined contribution schemes	**0.1**	0.2

Notes to the Consolidated Financial Statements

22. Pensions continued

Amounts recognised in the Consolidated Statement of Comprehensive Income

	% of scheme assets/ liabilities %	**2010 £m**	% of scheme assets/ liabilities %	2009 £m	% of scheme assets/ liabilities %	2008 £m	% of scheme assets/ liabilities %	2007 £m
Experienced loss on scheme obligations	**(2)**	**–**	3	–	(9)	(0.1)	0	–
Exchange rate adjustment on assets and liabilities	**n/a**	**–**	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)**		(0.4)		(0.5)		0.1

23. Accounting estimates, assumptions and judgements

The principal accounting estimates, assumptions and judgements employed in the preparation of these Consolidated Group Financial Statements which could affect the carrying amounts of assets and liabilities at the Balance Sheet date are as follows:

Actuarial assumptions on pension obligations

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

Impairment of goodwill

The determination of whether goodwill and other indefinite life intangible assets should be impaired requires the estimation of future cash flows and growth factors adopted by each cash generating unit. Furthermore, discount rates applied to these cash flows are determined by reference to the markets in which they operate and are risk adjusted to reflect risks and opportunities existing for each cash generating unit. These factors are all affected by prevailing market and economic factors outside the Group's control. Further information on this issue is included in Note 10.

Share-based payments

In valuing the share-based payments charged in the Group's accounts, the Company has used the Black–Scholes calculation model, 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 20.

Environmental and dilapidation provisions

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

Deferred taxation

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

Valuation of intangible assets

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

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

24. Related party transactions

The key management are considered to be the Board of Directors of Hill & Smith Holdings PLC, whose remuneration can be seen in the Directors' Remuneration Report on pages 35 to 41. The compensation in total for each category required by IAS24 is as follows:

	2010 £m	2009 £m
Salaries and short term employee benefits	**0.8**	1.2
Non-Executive Directors' fees	**0.2**	0.2
Pension costs	**0.1**	0.1
Share-based payments	**0.1**	0.3
	1.2	1.8

25. Subsequent events

On 8 March 2011 the Group entered into an agreement to acquire all the shares in a North American based group of companies, The Paterson Group, Inc. and its related companies (together "TPG"). TPG comprises four trading companies: Bergen-Power Pipe Supports, Inc.; Carpenter & Paterson, Inc.; Process Pipe Supports Systems, Inc. and PHS Industries, Inc. and will be classified in the Infrastructure Products Segment.

The cash consideration is $45.0m on a basis free of cash and debt, assuming working capital is consistent with normal levels at completion.The purchase price will be adjusted dollar for dollar to the extent that actual working capital at completion exceeds or falls short of the agreed level. Customary representations and warranties have been received from the vendors and the Group is retaining $5.0m of the purchase consideration which is to be held in an escrow account for a period of up to four years as security against any potential warranty claims under the sale and purchase agreement. The cash consideration excludes acquisition costs which require expensing as they are incurred in line with the new requirements of IFRS3 (Revised).

TPG has combined gross assets, based on the last financial statements prepared under local GAAP of $27.6m. The aggregated results from these financial statements provide revenues of $59.6m and EBITDA of $8.5m. These numbers are stated prior to any policy or fair value adjustments, which would be principally made to harmonise reporting in line with the Group's IFRS accounting policies. The Group is unable to provide all the acquisition information required under IFRS3 (Revised) because TPG has subsidiaries with non coterminus year end dates and does not prepare consolidated financial statements, which when combined with the proximity of the date of the agreement to the announcement date of these results, the Group feels that it is not in a position to provide any more meaningful data at present.

The acquisition will provide an important strategic and geographical extension to the Group's existing pipe supports activities. Bergen-Power Pipe Supports, Inc. has significant experience in the nuclear pipe supports market and possesses an ASME nuclear certification, which will enable the Group to enhance the products and services offered to its customers.

Company Balance Sheet

As at 31 December 2010

	Notes	2010 £m	2009 £m
Fixed assets			
Tangible assets	3	**0.1**	0.1
Investments	4	**291.3**	333.3
		291.4	333.4
Current assets			
Debtors	5	**103.6**	72.0
Cash at bank and in hand		**4.0**	17.4
		107.6	89.4
Creditors: amounts falling due within one year			
Bank loans and overdrafts	6,7	**(28.9)**	(16.7)
Other creditors	6	**(99.7)**	(93.6)
		(128.6)	(110.3)
Net current liabilities		**(21.0)**	(20.9)
Total assets less current liabilities		**270.4**	312.5
Creditors: amounts falling due after more than one year	7	**(113.3)**	(135.9)
Net assets		**157.1**	176.6
Share capital and reserves			
Called up share capital	9	**19.2**	19.0
Share premium	10	**29.1**	28.5
Capital redemption reserve	10	**0.2**	0.2
Profit and loss account	10	**108.6**	128.9
Equity shareholders' funds		**157.1**	176.6

Approved by the Board of Directors on 9 March 2011 and signed on its behalf by:

D W Muir
Director

M Pegler
Director

Company Number: 671474

Company Reconciliation of Movements in Shareholders' Funds

Year ended 31 December 2010

	2010 £m	2009 £m
(Loss)/profit for the year	**(11.3)**	113.9
Dividends	**(8.8)**	(7.5)
Credit to equity of share-based payments	**0.2**	0.5
Satisfaction of long term incentive payments	**(0.4)**	–
Shares issued in the year	**0.8**	0.7
Net (decrease)/increase in shareholders' funds	**(19.5)**	107.6
Opening shareholders' funds as previously reported	**176.6**	69.0
Closing shareholders' funds	**157.1**	176.6

Company Principal Accounting Policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's Financial Statements, except as noted below.

Basis of preparation

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

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

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

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

Investments in subsidiary undertakings

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

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Sterling at closing rates at the Balance Sheet date and the gains or losses on translation included in the Profit and Loss Account. Non-monetary assets and liabilities are translated into Sterling at historic rates of exchange and are not updated to closing rates at the Balance Sheet date.

This policy applies to the Company's long term bank loans denominated in foreign currencies, which are monetary items, and are therefore translated into Sterling at closing rates at the Balance Sheet date, with exchange differences arising passing through the Profit and Loss Account. This policy also applies to long term amounts denominated in foreign currencies owed to subsidiary undertakings and to investments denominated in foreign currencies in intermediary holding companies.

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

Financial instruments

The Company has adopted the requirements of FRS29 and has taken the exemption under that standard from disclosure on the grounds that the Consolidated Financial Statements contain disclosures in compliance with IFRS7 in Note 19.

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

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

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

Tangible fixed assets and depreciation

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

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

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

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

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

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

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

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

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

Ordinary dividends
Dividends payable are 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

	2010 £m	2009 £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 £3.5m (2009: £3.2m) and the final dividend of £5.3m (2009: £4.3m). Dividends declared after the Balance Sheet date are not recognised as a liability. The Directors have proposed a final dividend for the current year, subject to shareholder approval, as shown below:

	2010		2009	
	Pence per share	£m	Pence per share	£m
Equity shares				
Interim	**5.2**	**4.0**	4.7	3.5
Final	**7.5**	**5.8**	6.8	5.3
Total	**12.7**	**9.8**	11.5	8.8

3. Tangible fixed assets

	Short leasehold properties £m	Plant, machinery and vehicles £m	Total £m
Cost or valuation			
At 31 December 2009	0.1	0.2	0.3
Additions	–	0.1	0.1
At 31 December 2010	**0.1**	**0.3**	**0.4**
Depreciation			
At 31 December 2009	–	0.2	0.2
Charge for the year	–	0.1	0.1
At 31 December 2010	–	**0.3**	**0.3**
Net book value			
At 31 December 2010	**0.1**	–	**0.1**
At 31 December 2009	0.1	–	0.1

4. Fixed asset investments

	Shares in subsidiary undertakings £m	Loans to subsidiary undertakings £m	Trade investments £m	Total £m
Cost				
At 31 December 2009	312.7	23.8	0.8	337.3
Return on capital	(33.8)	–	–	(33.8)
Additions	1.0	–	–	1.0
At 31 December 2010	**279.9**	**23.8**	**0.8**	**304.5**
Provisions				
At 31 December 2009	1.9	1.3	0.8	4.0
Impairment	9.2	–	–	9.2
At 31 December 2010	**11.1**	**1.3**	**0.8**	**13.2**
Net book value				
At 31 December 2010	**268.8**	**22.5**	–	**291.3**
At 31 December 2009	310.8	22.5	–	333.3

4. Fixed asset investments continued

A list of the principal businesses owned by the Company is given on pages 92 and 93. All of the Company's subsidiaries are wholly owned.

Additions represent a further investment in an intermediary holding company, Pipe Supports Overseas Limited of £1.0m. The return on capital relates to dividends received from Zinkinvent GmbH, who's investment value has been subsequently fair valued and impaired.

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

	2010 £m	2009 £m
Amounts owed by subsidiary undertakings	**101.0**	69.4
Corporation tax	**1.0**	0.6
Deferred tax (Note 8)	**0.2**	0.2
Other debtors	**1.3**	1.4
Prepayments and accrued income	**0.1**	0.4
	103.6	72.0

6. Creditors: amounts falling due within one year

	2010 £m	2009 £m
Bank loans and overdrafts (Note 7)		
Bank overdrafts	**7.9**	–
Current portion of long term bank loans	**21.0**	16.7
	28.9	16.7
Other creditors		
Trade creditors	**2.0**	1.4
Other taxation and social security	**0.1**	0.1
Accruals and deferred income	**2.1**	3.0
Other creditors	**1.0**	0.9
Amounts owed to subsidiary undertakings	**94.5**	88.2
	99.7	93.6

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

The Company's interest bearing loans and borrowings are detailed below. Further information on the Company's exposure to interest rate and foreign currency risk is provided in Note 19 of the Group Financial Statements.

	2010 £m	2009 £m
Amounts owed to subsidiary undertakings	**53.9**	53.9
Long term bank loans	**59.4**	82.0
	113.3	135.9

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

	2010 £m	2009 £m
Bank loans and overdraft		
Amounts due within one year (Note 6)	**28.9**	16.7
Amounts due after more than one year:		
Between one and two years	**59.4**	21.2
Between two and five years	**–**	60.8
	59.4	82.0
	88.3	98.7

The bank loans are unsecured and carry a rate of interest of 1.25% above LIBOR/EURIBOR subject to a ratchet as defined in the facility agreement.

Notes to the Company Financial Statements

8. Deferred tax

	2010 £m	2009 £m
At 1 January	**(0.2)**	(0.1)
Credited for the year in the Profit and Loss Account	**–**	(0.1)
At 31 December (Note 5)	**(0.2)**	(0.2)
Other timing differences	**(0.2)**	(0.2)

9. Called up share capital

	2010 £m	2009 £m
Allotted, called up and fully paid		
76.1m Ordinary Shares of 25p each (2009: 76.1m)	**19.2**	19.0

In 2010 the Company issued 0.8m shares under its various share option schemes (2009: 0.5m), realising £0.8m (2009: £0.7m). Details of share options and related share-based payments are contained in Note 20 to the Group Financial Statements.

10. Share premium and reserves

	Share premium £m	Capital redemption reserve £m	Profit and Loss Account £m
At 1 January 2009	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**
Loss for the year	**–**	**–**	**(11.3)**
Dividends	**–**	**–**	**(8.8)**
Credit to equity of share-based payments	**–**	**–**	**0.2**
Satisfaction of long term incentive payments	**–**	**–**	**(0.4)**
Shares issued	**0.6**	**–**	**–**
At 31 December 2010	**29.1**	**0.2**	**108.6**

Details of share options and related share-based payments are contained in Note 20 to the Group Financial Statements.

Transactions of the Group sponsored Employee Benefit Trust (EBT) are included in the Company Financial Statements. In particular, the EBT's purchase of shares in the Company to satsify shares awarded under the Long Term Incentive Plan is debited directly to equity. Details of the purchase of shares are contained in Note 20 to the Group Financial Statements.

11. Guarantees and other financial commitments

(a) Guarantees

The Company had no financial guarantee contracts outstanding (2009: £nil).

The Company guarantees the bank loans and overdrafts of certain subsidiary undertakings. The amount outstanding at 31 December 2010 was £6.3m (2009: £9.1m).

(b) Operating lease commitments

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

	2010		2009	
	Land and buildings £m	**Other £m**	Land and buildings £m	Other £m
After five years	**0.1**	**–**	0.1	–

12. Pensions

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

The pension cost for the year includes contributions payable by the Company to the fund and amounted to £1.4m (2009: £0.7m), of which additional deficit contributions were £1.2m (2009: £0.6m), plus £0.4m (2009: £nil) for the reduced liability in deferred defined benefit pensioners detailed in Note 22 of the Group's Consolidated Financial Statements. There were no outstanding or prepaid contributions at either the beginning or the end of the financial year.

Full details of the Group schemes are given in Note 22 to the Group Financial Statements.

13. Related party transactions

The Company related party transactions are the same as those transactions disclosed for the Group in Note 24 to the Group Financial Statements.

Five Year Summary

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Revenue	**374.2**	389.7	419.8	329.6	234.6
Underlying operating profit	**45.9**	47.0	47.4	36.9	23.4
Underlying profit before taxation	**42.2**	42.2	38.9	31.0	19.5
Shareholders' funds	**152.1**	131.4	118.2	99.2	77.0
	Pence	Pence	Pence	Pence	Pence
Underlying earnings per share	**39.0**	38.3	32.2	26.1	21.3
Proposed dividends per share	**12.7**	11.5	10.0	8.7	7.2

Financial Calendar

Annual General Meeting 2011	12 May 2011
Interim Management Statement	May 2011
Ex-dividend date for 2010 final dividend	1 June 2011
Record date 2010 final dividend	3 June 2011
Dividend Reinvestment Plan – last date for election	17 June 2011
Final 2010 ordinary dividend payable	8 July 2011
Announcement of 2011 interim results	August 2011
Interim Management Statement	November 2011
Payment of 2011 interim dividend	January 2012

Shareholder Information

Shareholder base

Holdings of Ordinary Shares at 8 March 2011

	Shareholders		Shares	
	Number	%	Number	%
Holdings				
1-500	575	21.33	109,961	0.14
501 – 1,000	354	13.14	280,451	0.36
1,001 – 5,000	981	36.40	2,576,031	3.36
5,001 – 50,000	628	23.30	8,637,302	11.23
50,001 – 100,000	50	1.85	3,563,695	4.64
100,001 – 500,000	73	2.71	17,004,214	22.11
500,001 – 1,000,000	15	0.56	10,855,391	14.12
Above 1,000,000	19	0.71	33,868,008	44.04
Totals	**2,695**	**100**	**76,895,053**	**100**
Shareholder type				
Individuals	1,833	68.01	9,342,897	12.15
Institutions	816	30.28	66,820,732	86.90
Other corporate	46	1.71	731,424	0.95
Totals	**2,695**	**100**	**76,895,053**	**100**

Dividend History – proposed dividends per share

	2010	2009	2008	2007	2006
Interim	**5.2**	4.70	4.30	3.60	3.00
Final	**7.5**	6.80	5.70	5.10	4.20
Total	**12.7**	11.50	10.00	8.70	7.20

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 Thursday 12 May 2011 at 11.00 a.m. at The Village Hotel, The Green Business Park, Shirley, Solihull, B90 4GW. Full details are contained within the Notice of AGM. A proxy card is also enclosed with this statement for voting. Alternatively you can vote electronically as explained in the next paragraph.

Electronic proxy voting

To lodge your proxy vote via the internet, log on to www.eproxyappointment.com. You will need the Shareholder Reference number 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 17 June 2011)

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
Incorporated in China

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

CA Traffic Limited
Traffic counting and classifying equipment

Griffin House, Gatehouse Way,
Aylesbury, Buckinghamshire, HP19 8BP
Tel: +44 (0) 1908 511122
Fax: +44 (0) 1908 511505
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 the 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

Engineered Hanger Systems India Private Limited
Constant and variable pipe support systems
Incorporated in India

93 Kundrathur Road, 1st Floor, Porur,
Chennai, 600116, Tamil Nadu, India
Tel: +91 (44) 248 251 36
psgisales@gmail.com

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

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

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

Tel: +44 (0) 1902 499400
Fax: +44 (0) 1902 494080
sales@topdeckparking.co.uk
www.topdeckparking.co.uk

Hill & Smith Infrastructure Products India Private Limited
Highway and off-highway safety barriers, temporary highway and general workzone protection systems and corrugated steel structures
Incorporated in India

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

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

Notes:
The above lists the Company's subsidiary undertakings, except for some intermediate holding companies and certain other undertakings of minor importance. Except where indicated, the undertakings are subsidiaries incorporated in Great Britain and the share capital consists of ordinary shares only.
* The Company's effective interest is held indirectly for these undertakings.
** Trading name for V&S Schular Engineering, V&S Schular Tubular Products and V&S Clark Substations, all indirectly held and all wholly owned and incorporated in the USA.
(D) Operating division only, not a limited company

Infrastructure Products

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

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

Pipe Supports Group Trading (Jingjiang) Limited*
(for address see British Pipe Supports)
Incorporated in China

Varley & Gulliver Limited
Parapets, gantries and pedestrian guardrails

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

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

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

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

Notes:
The above lists the Company's subsidiary undertakings, except for some intermediate holding companies and certain other undertakings of minor importance. Except where indicated, the undertakings are subsidiaries incorporated in Great Britain and the share capital consists of ordinary shares only.
* The Company's effective interest is held indirectly for these undertakings.
** Trading name for V&S Schular Engineering, V&S Schular Tubular Products and V&S Clark Substations, all indirectly held and all wholly owned and incorporated in the USA.
(D) Operating division only, not a limited company

Directors

W H Whiteley BSc, FCMA
(Chairman and Non-Executive)

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

M Pegler BCom, FCA
(Group Finance Director)

J F Lennox CA
(Non-Executive)

C J Snowdon BA, FCA
(Non-Executive)

Contacts

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

Registration Details
Registered in England and Wales
Company Number: 671474

Company Website
www.hsholdings.com

Company Secretary
John Humphreys FCIS

Professional Advisers

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

Brokers and Financial Advisers
Investec Investment Banking
2 Gresham Street
London
EC2V 7QP

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

Lawyers
Wragge & Co
55 Colmore Row
Birmingham
B3 2QD

Silks Solicitors
Barclays Bank Chambers
Birmingham Street
Oldbury
B69 4EZ

Financial Public Relations
MHP Communications
60 Great Portland Street
London
W1W 7RT

Asset Weholite HDPE production line manufacturing the largest plastic pipe in the world (3.5m diameter) for the AMP5 market.

Notes

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Arleston Way,
Shirley, Solihull, B90 4LH
Tel: +44 (0) 121 704 7430
Fax: + 44 (0) 121 704 7439