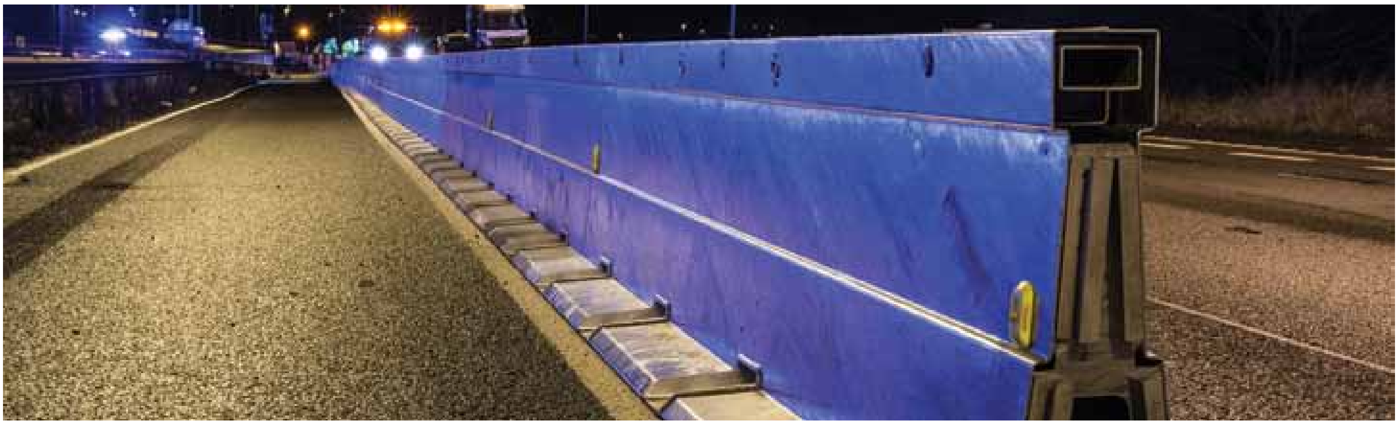
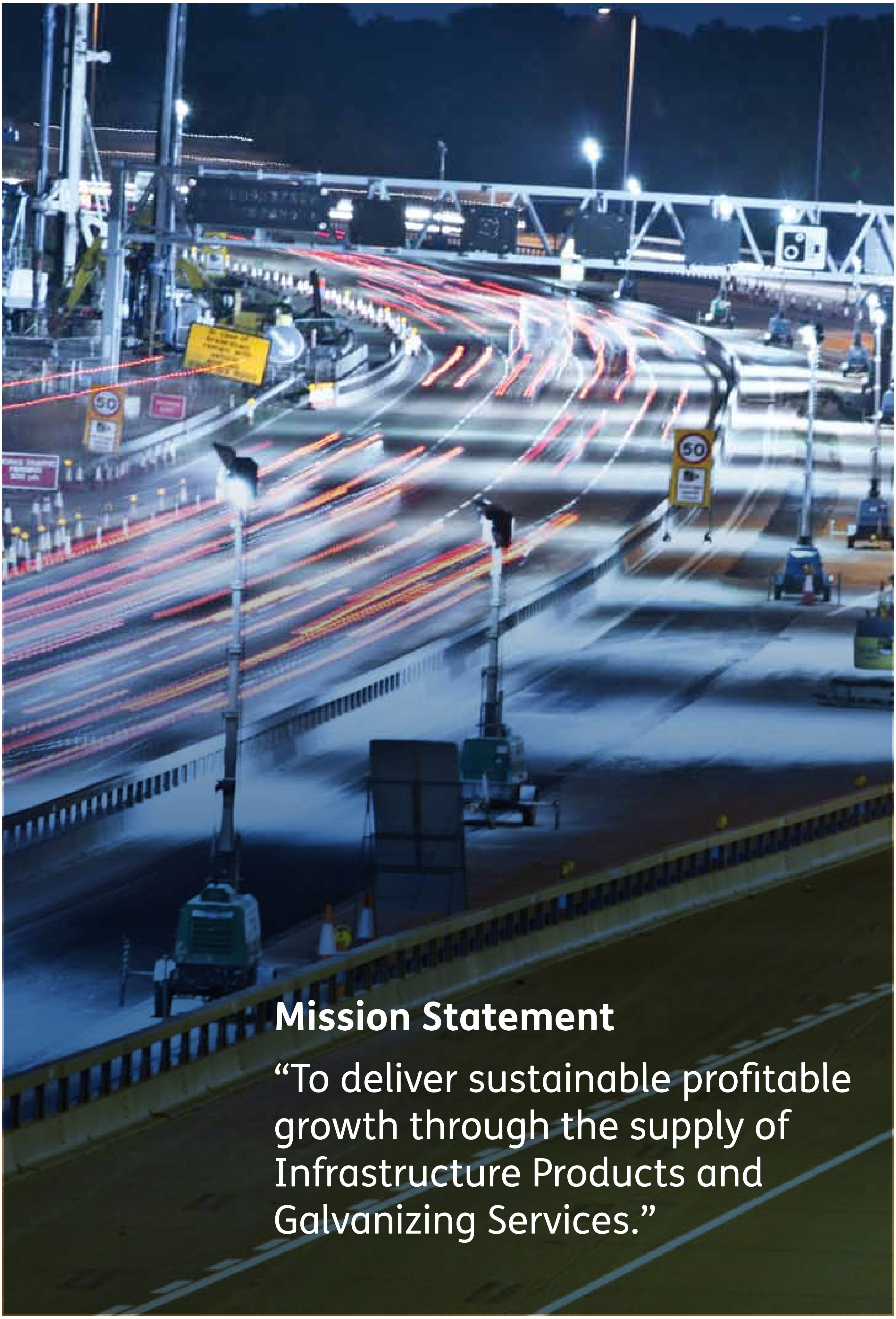
Hill & Smith Holdings PLC

2013

Infrastructure and Galvanizing

Annual Report for the year ended 31 December 2013





Mission Statement

"To deliver sustainable profitable growth through the supply of Infrastructure Products and Galvanizing Services."

Hill & Smith Holdings PLC

Bergen pipe supports used in the Freedom Tower, New York City and steel structure to the outer area of the upper floors galvanized by V&S Galvanizing.

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See further information online at hsholdings.com

Front Cover Images

Top. Creative Pultrusions' composite sheet piling supplied to restore and protect the Long Beach Boardwalk following damage suffered from Superstorm Sandy.

Middle. Energy absorbing permanent and temporary steel barrier, Zoneguard, installed on the A14, Kettering.

Bottom. 3m diameter Asset Weholite outfall at London Docklands. The first 60m long pipe string being lowered into the water ready for towing to the submersion site.

Forward Looking Statement

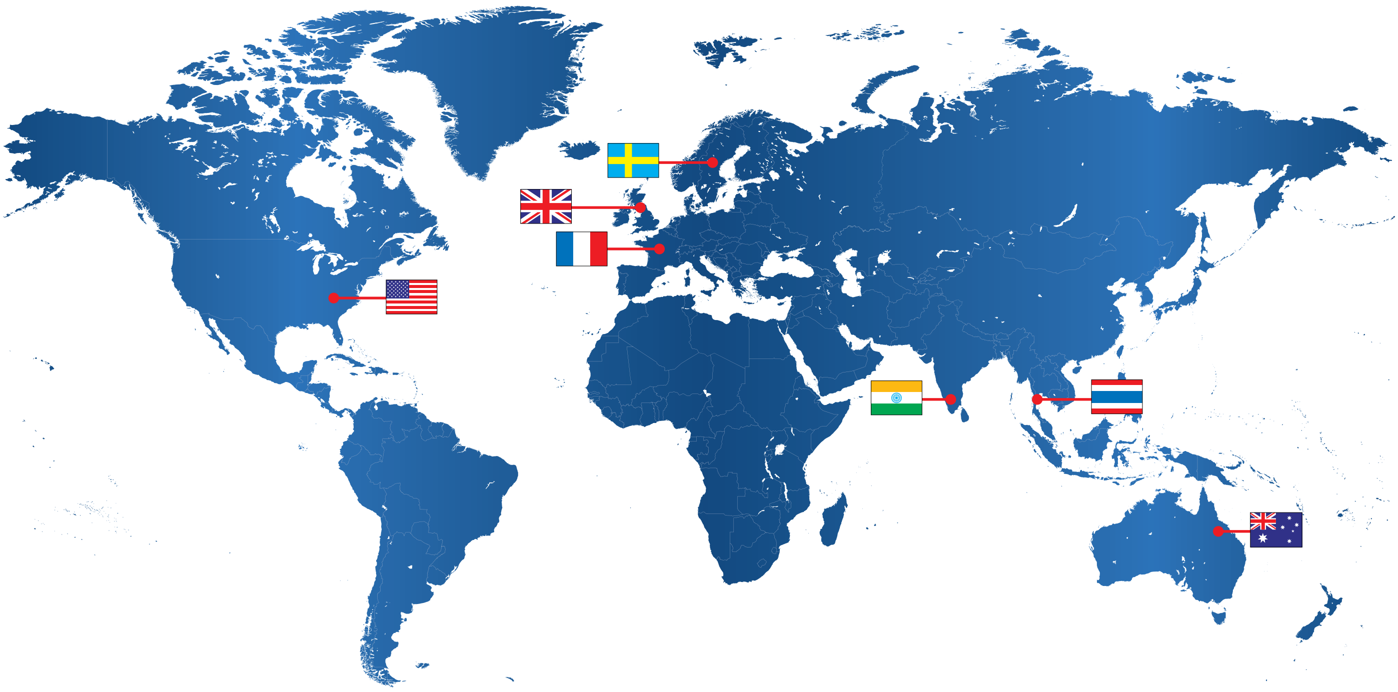
This annual report contains forward looking statements which are made in good faith based on the information available at the time of its approval.

It is believed that the expectations reflected in these statements are reasonable but they may be affected by a number of risks and uncertainties that are inherent in any forward looking statement which could cause actual results to differ from those currently anticipated.

At a Glance

We are an international group with leading positions in the supply of infrastructure products and galvanizing services to global markets. Through a focus on strong positions in niche markets we aim to consistently deliver strong returns and shareholder value.

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



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

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

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

Sweden – location of ATA, the road safety barrier and signage business.

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

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

USA – our V&S galvanizing and utilities plants are situated on the east coast along with the Bergen and Carpenter & Paterson pipe supports businesses and the glass reinforced composite profiles business, Creative Pultrusions.

Infrastructure Products

For the core markets of Roads and Utilities – supplying products and services such as permanent and temporary road safety barriers, fencing, industrial platforms and flooring, street lighting columns, bridge parapets, glass reinforced composite railway platforms and flood prevention barriers, variable road messaging solutions, traffic data collection systems, plastic drainage pipes and pipe supports for the power and liquefied natural gas markets, energy grid components and security fencing.

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

- Operating in international territories with the prospect of sustained long term investment in infrastructure.
- Focused on engineered products for the roads and utilities markets.
- Accounts for 71% (2012: 73%) of the group's revenue and 43% (2012: 43%) of the group's underlying* operating profit.

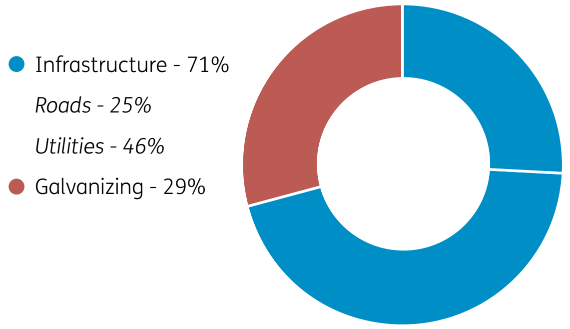
Galvanizing Services

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.

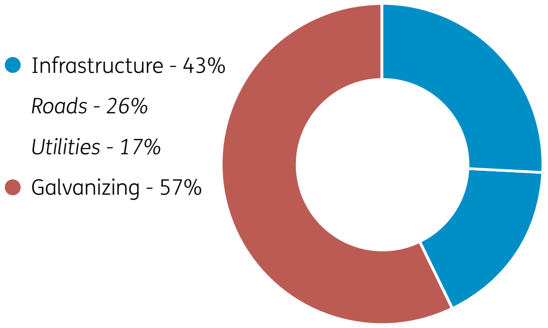
Services are delivered from a network of galvanizing operations in the UK, France and the USA.

- Geographical diversity - France 10 plants; UK 9 plants; USA 6 plants.
- Strong market positions in the chosen territories and with a reputation for service and quality.
- Accounts for 29% (2012: 27%) of the group's revenue and 57% (2012: 57%) of the group's underlying* operating profit.
- Total volume of production from all plants 426,000 tonnes in 2013, up 4.2%.

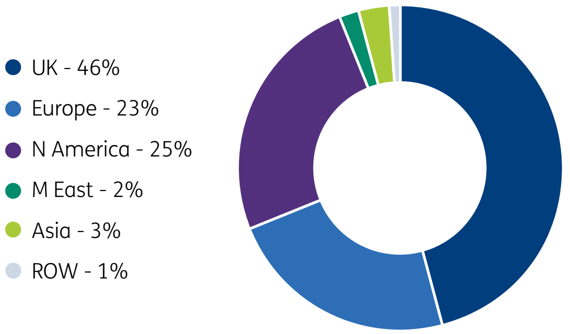
2013 Revenue of £444.5m - by segment



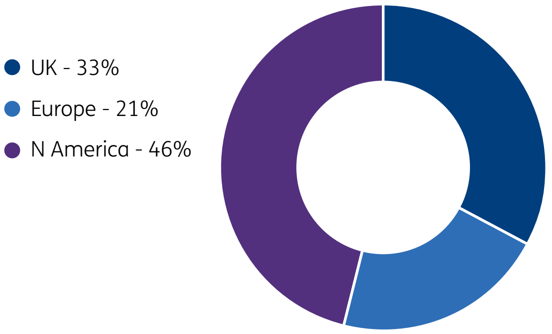
2013 Underlying* Operating Profit of £44.5m - by segment



Percentage of 2013 revenue £444.5m shown by end market geography



Percentage of 2013 underlying* operating profit £44.5m shown by location of the operating site



*** All underlying profit measures exclude certain non-operational items, which are as defined in the section of the financial statements headed "group accounting policies" on page 82. References to an underlying profit measure throughout this annual report are made on this basis.**

Strategic Report

2013 Performance

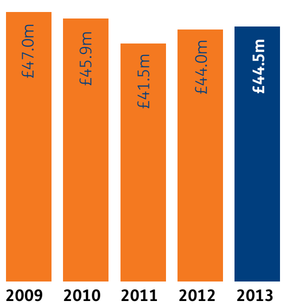
	2013	2012	Change %
Revenue	**£444.5m**	£440.7m	+ 0.9
Underlying operating profit	**£44.5m**	£44.0m	+ 1.1
Underlying operating margin	**10.0%**	10.0%	-
Underlying profit before tax	**£41.2m**	£40.4m	+ 2.0
Profit before tax	**£30.6m**	£35.2m	- 13.1
Underlying earnings per share	**40.4p**	38.8p	+ 4.1
Dividend per share	**16.0p**	15.0p	+ 6.7
Net debt	**£87.2m**	£86.8m	- 0.5

Revenue

£444.5m
up 0.9%

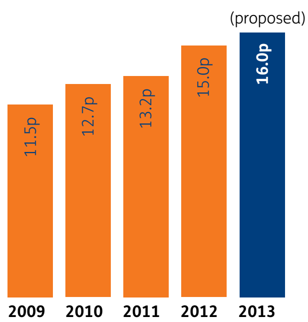
Underlying operating profit

£44.5m
up 1.1%



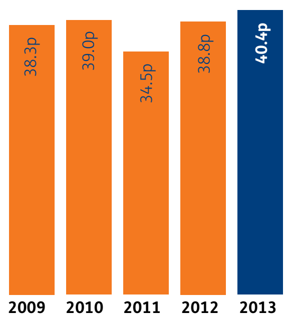
Dividend per share

16.0p
up 6.7%



Underlying earnings per share

40.4p
up 4.1%



Chairman's Statement

"During 2013 we continued to make investments and implement operational changes to drive future growth."

Bill Whiteley
Chairman

Overview

I am pleased to report that 2013 has produced a strong performance in the context of continued challenging economic conditions and competitive markets. The results for 2013 are evidence of the quality and resilience of the group's businesses and, coupled with the strategic and operational actions taken in the year, its prospects for future growth.

During 2013 we continued to make investments and implement operational changes to drive future growth, the highlights of which were:

- the acquisition of Medway Galvanising in the UK, which has already contributed in excess of our expectations;
- completion of the new V&S Galvanizing plant in Columbus, Ohio, USA, to provide more efficient galvanizing capacity for our US business;
- restructuring of the UK industrial flooring business and further investment in Lionweld Kennedy Flooring's site at Middlesbrough; and
- rationalisation of the pipe supports operations, with the closure of the facility in China, enabling us to leverage the cost benefits arising from the expansion of the production facility in India.

Performance highlights

	2013	2012	% change
Revenue	**£444.5m**	£440.7m	+ 0.9
Underlying operating profit	**£44.5m**	£44.0m	+ 1.1
Underlying profit before tax	**£41.2m**	£40.4m	+ 2.0
Underlying earnings per share	**40.4p**	38.8p	+ 4.1

Further commentary on these results and the performance of each division is contained in the operational and finance review sections on pages 20 to 27.

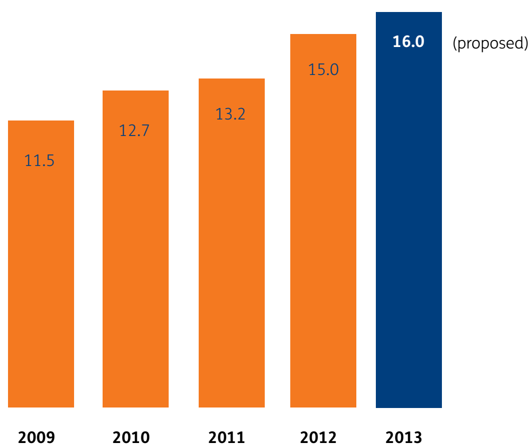
Dividends

In view of the strong performance, the board is recommending a final dividend of 10.0p per share (2012: 9.2p per share) making a total dividend for the year of 16.0p per share (2012: 15.0p per share) an increase of 6.7%.

We continue to perform at levels that enable us to maintain a progressive dividend policy that has increased dividend payments by an average of 10% in each of the last five years. Underlying dividend cover is a healthy 2.5 times (2012: 2.6 times). The final dividend, if approved, will be paid on 4 July 2014 to those shareholders on the register at the close of business on 30 May 2014.

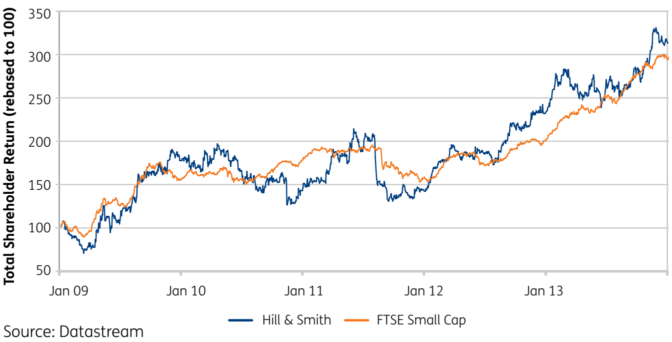
Set out below is our five year track record of dividends which is at the heart of our strategic objective.

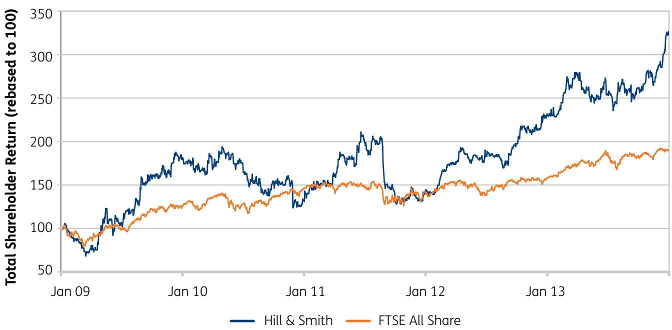
Full year dividends (pence per share)



Total shareholder return (2009 - 2013)

In addition to our progressive dividend policy, we also strive to deliver increased shareholder value, as demonstrated from the graphs below. These graphs show the total shareholder return performance of the group against that for the FTSE SmallCap and FTSE AllShare, for the period 1 January 2009 to 31 December 2013. Over the period the board is pleased with the progress made but we remain focused on further improvement through implementation of our strategy.





Source: Datastream

Governance

Honest, open and accountable management of our businesses is key to the effective governance of the group, which underpins our strategy and the sustainability of our performance.

In this year's annual report we have set out further explanations of our business model, strategy, risk management and activities of the board and its committees. We trust that you will find these helpful in understanding how we can, and do, achieve increased value for our shareholders.

Remuneration incentive schemes

The rules of the group's Executive Share Option Scheme ('ESOS') and the all-employee Save as You Earn Scheme ('SAYE') expire in May 2015 and those for the Long Term Incentive Plan ('LTIP') expire in May 2017. However, with the introduction of the binding vote on directors' remuneration policy, the remuneration committee is keen to ensure that its remuneration arrangements are up to date, reflect best practice and are appropriate for the ensuing three years for which the policy vote will apply. We have therefore decided to seek shareholder approval for new sets of rules to govern the ESOS, SAYE and LTIP, at the 2014 AGM. The rules will be broadly similar to those already in place but will be updated to ensure that they include the most current governance provisions and best practice (for example, the new rules will include clawback provisions and a more specific policy around leavers). The proposed new rules are summarised in the notice for the AGM.

AGM

We hold our AGM on 14 May 2014 and it is an excellent opportunity for shareholders to meet the board and certain senior executives of the group. If you are able to attend my colleagues and I will be delighted to see you.

John Silk - Life President

We were saddened to hear of the loss of John Silk, who died on 31 December 2013, aged 89. John served as a director on the board, became Chairman and was Life President. John was highly regarded, not only in the local legal profession but also as a shrewd, knowledgeable businessman, known for his integrity and down to earth style. John will be missed by many people involved with Hill & Smith and we wish to pay tribute to his contribution to the company and to John Silk 'the gentleman'.

Outlook

Encouragingly, despite the extreme weather in the north east of the US and in the UK, the momentum of stronger trading, seen in the second half of 2013, has continued in the first two months of 2014. Galvanizing volumes to date are ahead of 2013 in all geographies although we remain mindful of the continued challenging economic climate in France. The order book in the Utilities division remains healthy and we expect margins to improve through recovery in both Bergen Pipe Supports and Access Industrial Flooring, following the actions taken in 2013.

The UK Government announced a new vision for its strategic road network in June 2013 and as a result the Highways Agency unveiled its largest upgrade of the road network, which includes a £10.7bn investment for twenty-seven new schemes. Accordingly, we have confidence in the short and medium term growth prospects for our UK Roads businesses.

We expect good constant currency revenue and profit growth with group margins slightly ahead of 2013 levels, although our reported results are likely to be impacted by recent adverse foreign currency movements. The overall prospects for our infrastructure products and galvanizing businesses are encouraging as we see signs of increased activity and future capital spend. This, along with the board's ambition to grow and develop through investing in the markets we know, selective acquisitions and new products and technologies, gives the board confidence in achieving sustainable growth and shareholder value.

Bill Whiteley
Chairman

11 March 2014

Business Model and Strategy

Business model

To hold leading positions in the niche markets of infrastructure and galvanizing, diversified over different geographies, with a focus on service, margins and product development.

Strategic drivers

Strategy in action 2013

- In depth review of strategy in 2013.
- Acquisition of Medway Galvanising and disposal of London site.
- Integration of 2012 acquisition of Expamet, continuing to deliver improved ROS and ROCE.
- Closure of Access Design site in Telford and development of 'super site' at Lionweld Kennedy Flooring in Middlesbrough.
- New V&S Galvanizing plant at Columbus, Ohio, USA. Further investment in another new US plant commenced Q4 2013.
- Leveraging of products, with Zoneguard temporary barrier being rented in the UK and sold in Australia.
- Rationalisation of pipe supports manufacturing in China and expansion of production in India.

Strategy Implementation

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

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

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

In Roads, we will continue to strengthen our position as an international supplier of road safety products into markets with strong infrastructure spend and regulatory controls, leveraging our products developed to European and US standards. An excellent example of this is Zoneguard, our own developed temporary road barrier which is now in use in the UK and Australia (see page 11). As a result of the UK Government's recent announcement on its vision for the strategic road network, the Highways Agency has unveiled a £10.7bn investment in twenty-seven new schemes. This funding certainty has enabled us, as part of the HA supply chain, to commit to £8m of capital expenditure for additional Zoneguard temporary road barrier which will increase our rental fleet and utilisation for the foreseeable future.

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

Geographic diversification
Our target was for operating profit, from manufacturing plants located overseas, to reach 75% by 2013 and then to remain at or close to this level. This target fell short in 2013 with 67% of operating profits coming from overseas, mainly as a result of improvements in UK profitability. Our overall geographic mix will be dictated by a focus on further growth in emerging markets, whilst recognising that opportunities still exist in our major developed markets of the UK, France and USA.

UK Government spend is now at 10% of group revenue compared to 11% in 2012.

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

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

Our objective is to operate with an efficient balance sheet by maintaining debt at between 1.5 and 2.0 times EBITDA, which in turn allows us to complement balanced organic growth with value enhancing acquisitions, such as Medway Galvanising, which was acquired on 30 April 2013.

Active portfolio management
Our strategic objective is to develop more substantial businesses in each of our chosen sectors through both organic and acquisitive growth. Consequently, this leads us to continually examine the smaller and lower performing units within the portfolio, along with rationalisation of production facilities and business transfers. In 2013 we took the decision to close the manufacturing plant in China, for our pipe supports business, and to move that capacity to India, where our new factory has a more cost effective production capability. We also closed the industrial steel flooring platform and hand rail business of Access Design, located at Telford. The business has been transferred to our site in Middlesbrough, where we have invested in new production space and machinery to develop our already successful Lionweld Kennedy Flooring business, which we acquired in 2004.

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

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

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

Priorities in 2014
- Selective acquisitions to consolidate our market position or increase our geographical representation.
- Investing in increased capacity and product development to capture potential opportunities.
- Continuation of the structural and operational improvements in both Infrastructure Products and Galvanizing Services.

Case Studies

Acquisition of Medway Galvanising

On 30 April 2013 the group acquired the UK based Medway Galvanising Company Limited which operates a large plant in Kent, for an enterprise value of £6.4m, representing an EBITDA multiple of 4.4 times. Medway has a strong tradition in customer service for galvanizing, powder coating and shot blasting. This acquisition enabled us to offer our existing customers enhanced service packages throughout the South East of England and facilitated the closure of our existing galvanizing plant in Poplar, East London. The site at Poplar was subsequently sold for £2.5m.

The above is an example of our portfolio management strategy, namely growing our business through acquisition and rationalising an existing operation to leverage increased profitability and the generation of cash.

Medway Crematorium showing the ornate galvanized window structure.

Zoneguard temporary road barrier

Zoneguard on the A14 Kettering Bypass widening. Over 11,000m was installed over five nights, and after several phased changes over the coming months, it will be on hire for over a year. Demand for temporary road barriers in the UK market is forecast to increase throughout 2014, and Asset International VRS is producing Zoneguard barrier at the Hill & Smith barrier plant to meet the market requirements.

Zoneguard temporary road barrier on the A14 Kettering Bypass.

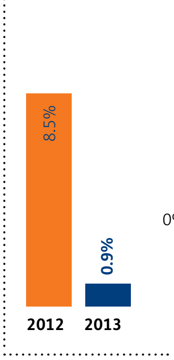
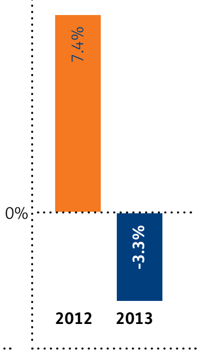
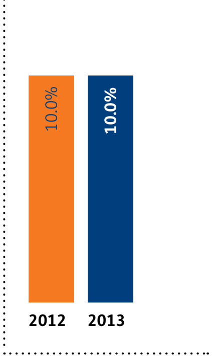
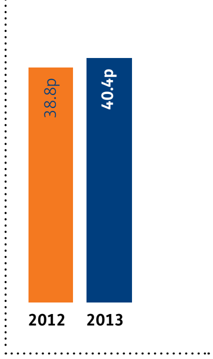
Strategic Report

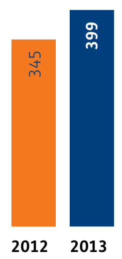
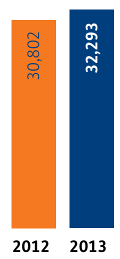
Measuring Our Performance

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

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

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

KPIs	Total revenue growth	Underlying operating profit margin	Underlying earnings per share (UEPS) growth
Link to our strategy	The group's core strategy is to deliver sustainable profitable growth. This is achieved with the target of mid-single digit organic revenue growth and selective acquisitions.	In line with its strategy of delivering balanced profitable growth, the group reviews underlying operating margins to assess returns achieved on revenues.	The group considers UEPS growth to be its key indicator of the profitable growth of the group. Achieving UEPS growth enables the group to maintain its progressive dividend policy.
KPI definition	Annual % growth in total revenue. Annual % organic growth in revenue.	Underlying operating profit as a % of total revenue.	Underlying profit after tax for the year divided by weighted average number of ordinary shares.
2013 performance	**Total Growth**  **Organic growth** 	**Margin - no change** 	**2013: 4.1% growth** 
Comment	Whilst organic revenues declined by 3.3% principally as a result of lower revenues in Utilities, total revenues grew by 0.9% reflecting the contribution of current and prior year acquisitions and favourable currency movements.	The group's underlying operating profit of £44.5m represents a 10.0% return on revenue, in line with the prior year. An improved performance in Roads offset a reduction in Utilities, while Galvanizing continued to return a strong margin.	The group's UEPS for 2013 was 40.4p, an increase of 4.1% compared with 2012 (12.5% growth). The key contributors to this growth were the increase in underlying operating profit and the reduction in the group's underlying effective tax rate to 24% (2012: 26%).

<table>
<tr><th>Free cash flow</th><th>Return on invested capital (ROIC)</th><th>Health and safety</th><th>CO_2e emissions</th></tr>
<tr><td>The group monitors free cash flow performance to ensure that its profits generate sufficient cash to support its acquisition strategy and to maintain progressive dividend payments.</td><td>The group targets ROIC to ensure it maintains an efficient balance sheet and that its operations, both existing and acquired, enhance shareholder value.</td><td>The health and safety performance of each subsidiary is key to our management of the group as a responsible employer and to our reputation in the markets we operate.</td><td>Cost reductions and greater efficiency, improve not only our operating margins but also the sustainability of our operations.</td></tr>
<tr><td>Underlying free cash flow divided by underlying operating profit.
Underlying free cash flow is defined as operating cash flow less capital expenditure.</td><td>Underlying operating profit divided by average invested capital.
Invested capital is defined as net assets excluding current and deferred tax, net debt, retirement benefit obligations and derivative financial instruments.</td><td>Number of accidents.
Audit scores and bench markings.</td><td>Carbon usage comparison year on year and over a three year programme.</td></tr>
<tr><td>Down 8%
</td><td>No change
</td><td>Up 15.7%
</td><td>CO_2e emissions (UK) up 4.8%
</td></tr>
<tr><td>The group achieved an underlying cash conversion rate of 93% in 2013 (2012: 101%). Working capital reduced by £1.9m over the course of the year and now represents 13.9% of annualised sales, down from 14.7% at December 2012. Capital expenditure of £22.1m represents a multiple of depreciation and amortisation of 1.5 times (2012: 1.3 times) as the group continues to invest in projects providing growth opportunities.</td><td>The group aims to achieve ROIC that exceeds the group's weighted average cost of capital (currently c.9% on a pre-tax basis), with a target return of 17.5%. In 2013 the group achieved ROIC of 15%, in line with 2012.</td><td>During 2013 we saw an increase in the number of reported accidents. This increase mainly resulted from improved reporting, an increase in minor accidents and the acquisition of Medway Galvanising. Our scored audit performance continued to improve and will benefit the achievement of reducing both the number and severity of accidents in 2014.
Page 33 contains further details.</td><td>We continue to improve and refine our monitoring and management of CO_2e emissions for the group and to target reductions, where possible. Further details of our performance for 2013 and our plans for 2014, including our overseas operations, are contained in the corporate social responsibility report on pages 29 to 34.</td></tr>
</table>

Risk Management

Approach to risk

During the year the board considered the nature and extent of the risks it was willing to tolerate (on a managed basis) whilst pursuing its strategic goals. In addition, the board also reviewed the existing internal statement of principal risks and uncertainties which are set out on pages 16 to 19.

Structure and control

To improve control we have adopted a short chain of command and relatively flat organisational structure. The group chief executive and group financial director hold monthly meetings/video calls with their direct reports. Their rewards are aligned with the strategy through incentives to achieve budget and personal targets.

The board also regularly reviews the financial and other KPIs mentioned on page 12 and 13.

Governance

Effective governance is key to sustaining our performance. Our well-established policies and processes support our operations worldwide and as a minimum, we construct our policies to adhere to local legal requirements and in many cases exceed them.

Those responsible for governance, audit and risk and compliance functions provide the audit committee and board with visibility and understanding of the group's key risks and risk management capabilities. This governance activity also provides assurance over the quality of the group's internal control and management of key risks, in line with a plan agreed by the audit committee.

Through this activity:

- areas for enhancement of risk management and internal controls are identified;
- action plans to deliver such enhancements are devised; and
- delivery is monitored by management and the board and/or the audit committee.

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

Assurance

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

Process

Effective and measured risk management is an essential discipline for running our business efficiently, implementing the strategy successfully and ensuring the sustainability of the group. We have appropriate processes to monitor and control the performance and risks within each business unit and which align to our strategy. Such processes, and the policies which underpin them, are designed to ensure compliance with the legal and regulatory requirements of each territory we are represented in. The graphic opposite and on page 15, illustrates our approach to risk identification and management.

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

Review by the group's risk & compliance counsel of specific areas of the group's operations, selected in consultation with the audit committee, serves to identify risks and support the implementation of control measures at the local level, whilst ensuring they are monitored as part of the group's overarching risk management programme. The results of these local reviews and the implementation of associated control measures and mitigations are discussed with the chairman of the audit committee and subsequently presented to, and approved by the audit committee.

Risk management

Risk management and internal control processes encompass activity to mitigate risks which might materialise in the following categories:

Economic
Managing the impact of those risks which we cannot eliminate or mitigate at source; e.g. global market conditions.

Commercial and Financial
Mitigating internal and external commercial and financial trading risks in our day to day business activities.

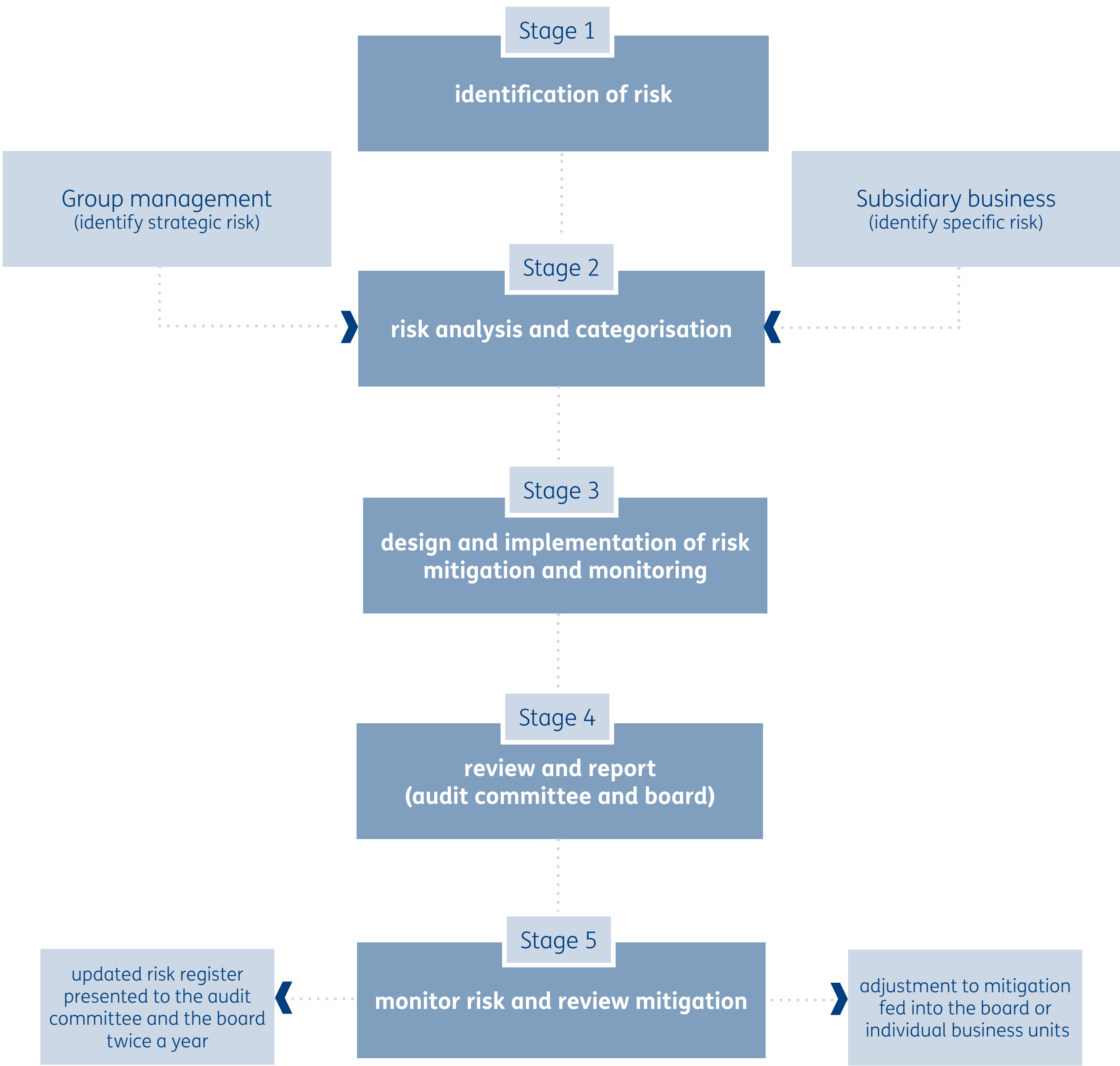
Operational
Ensuring that we take all necessary steps to manage risk in our manufacturing plants and our installation activity both in our facilities and in the field.

Legal and Regulatory
Ensuring compliance with the laws and regulations which govern the operations in the territories in which we operate.

Human Resources
Recognising the importance of recruitment, talent management, employee engagement and employee management to our group.

Risk management process

The risk management process deployed by the group includes the steps detailed in the diagram below. The risks applicable to the group are identified through a combination of group management team and subsidiary business inputs. The risks are categorised in accordance with the graphic below and explanations on page 16 to 19. Once categorised, risks are subjected to individual assessment and tailored control measures are developed. This could include the board adapting the group's strategy or the design of business specific control and mitigation measures, where risks are specific to a subsidiary business. These bespoke control and mitigation measures are implemented and monitored to ensure that, where necessary, appropriate adjustment is deployed and the risks moderated. The output of the process is periodic review and reporting to both the board and audit committee, of the possible risk to each business and to the group's strategy.



■ Organic revenue growth	▶ Target returns and leverage
● Active portfolio management	◆ Entrepreneurial culture
▲ Geographic diversification	✦ Sustainable business

Principal Risks and Uncertainties

Our risk assurance programme is a rolling programme designed to be forward-looking in the identification, management and mitigation of business risks that could impact the group's performance, reputation and value. It is not possible to completely eliminate risks and, therefore, the risk assurance programme we deploy strives to mitigate risks to tolerable levels in the context of the markets, jurisdictions and business environments in which we operate.

Principal economic risks	Potential impact	Mitigation and assurance	Relevance to strategy
Economic conditions Our measured response to overall economic conditions and market growth.	The risk of uncertainty, changes in confidence and growth trends of the economy leading to a decline in demand and reduction of Government and industry spending patterns, affecting group financial performance.	› The group is diversifying into new markets and new territories. › Ongoing monitoring and reviewing of the timing of funding is undertaken in conjunction with responding to market conditions, led by Government Policy. › Ongoing investigations into the prospects for group exporting opportunities are underway. › Intra-group interaction is under regular evaluation, including identifying opportunities to leverage the global footprint of the group.	■ ▲ ✦
Competition The effect of a greater number of competitors offering differentiated products, prices, service and quality.	The risk that competitive pressures could lead to the group not converting opportunities into sales or otherwise adversely affecting financial performance.	› The group is diversifying into new markets and new territories. › The effectiveness of the sales and marketing functions at subsidiary level are regularly reviewed. › Ongoing investigations into the prospects for group exporting opportunities are underway. › Intra-group interaction is under regular evaluation, including identifying opportunities to leverage the global footprint of the group. › Subsidiary businesses regularly review the effectiveness of their quality management systems and instigate improvements where necessary. › The group continues to invest in updating and expanding its products portfolio. › Group-wide procurement standards have been implemented to assist in cost optimisation and greater supply chain control.	■ ▲ ▶ ◆

Principal human resources risks	Potential impact	Mitigation and assurance	Relevance to strategy
Talent Recruitment and Retention The importance of recruiting and retaining the most capable employees.	Were the group unable to recruit suitably qualified and skilled personnel and to retain them, business plans and strategic goals could be compromised.	› The group offers competitive remuneration packages to all employees. › Contractual protections are implemented for employee retention and post termination circumstances. › Regular reviews of salaries, benefits and incentives are undertaken and competitively benchmarked. › Succession planning is encouraged at both the group and subsidiary business levels.	▲ ◆ ✦

Principal operational risks	Potential impact	Mitigation and assurance	Relevance to strategy
Business Interruption Moderating the impact of a natural catastrophe or failure of a key facility on our performance.	The risk of a permanent or a temporary cessation in activity caused by full or partial loss of a key manufacturing site or warehouse of the group, as a result of a natural catastrophe or for any other reason. An inability or interruption of our supply capability could cause customer dissatisfaction, adverse impacts on financial performance and reputation.	› Subsidiary businesses undertake business continuity planning which will be strengthened by group wide initiatives in the forthcoming year. › Subsidiary businesses implement local health, safety and environmental controls, which are monitored by regular group health and safety committee meetings and an external specialist. › Subsidiary businesses are encouraged to communicate on an intra-group basis in order that geographically proximate businesses may support one another in the event of business disruption. › Further initiatives will be implemented in the forthcoming year to strengthen business continuity resources and planning across the group, including working with our insurers on recovery plans and individual selective site surveyors. › Preparing and reviewing the effectiveness of individual business interruption plans through the group's IT steering committee.	● ▲ ▶ ✦
Products Minimising the effect of product issues, product approvals or product development.	In the event that the group's products fail or fail to attract customer approval the potential impact would be customer dissatisfaction and/or contractual claims resulting in re-work, which will ultimately affect financial performance and cause reputational loss and damage. The risk of a failure to undertake product developments is that growth could stagnate and the group suffer from a loss of opportunity.	› Accreditations, regulatory approvals and testing are undertaken by the group in order to reach the desired quality and performance standards. › Comprehensive quality management systems are in place across the group which are bolstered by insurances obtained from reputable insurers. › The subsidiary businesses invest in new product development and where product improvements are not essential, the subsidiary businesses investigate opportunities to diversify into new markets and jurisdictions. › Protocols are in place to ensure an effective and prompt response to product or trading issues which may affect the group's reputation or future business relationship. › Evaluation of risk of new projects pre-commitment and review of contractual terms to understand and mitigate risk.	■ ● ▶ ✦
Information Technology Systems Assessing the suitability of existing systems for anticipated operational or strategic activities.	The risk that the IT systems of subsidiary businesses may be outdated or unsuitable for envisaged activities, leading to financial performance impacts.	› IT systems capability, suitability and integrity reviews have been initiated through the group's IT steering committee. › The capital expenditure process will be used to test the integrity and suitability of proposed IT systems in relation to cost and capabilities. › Certain IT policies have been implemented, serving to control and manage IT changes and upgrades. › Further initiatives will be implemented in the forthcoming year to strengthen business continuity resources and planning across the group.	▶ ✦
Geographical Span Leveraging the benefit of the geographical diversity of our operations.	Remote management and control of international operations together with the variety of jurisdictional risks, which are specific to such locations, resulting in operational risk which could impact successful delivery of the strategy.	› Subsidiary businesses are encouraged to act in an entrepreneurial manner with central support for key legal, financial and strategic developments and initiatives. Businesses are able to seek support from the centre in respect of their local issues. › Further strengthening of the central team, regular site visits by the group management team and a group internal intranet facility help to enhance cohesion of the group's management and its effectiveness. › No undue reliance is placed on specific subsidiary businesses, customers or projects.	● ▲ ▶ ◆ ✦

■ Organic revenue growth
● Active portfolio management
▲ Geographic diversification
▶ Target returns and leverage
◆ Entrepreneurial culture
✦ Sustainable business

Principal Risks and Uncertainties continued

Principal commercial / financial risks	Potential impact	Mitigation and assurance	Relevance to strategy
Supply Chain Managing the influence of the escalation of supply chain costs, supplier contractual performance and ethics on our performance.	Increases in raw materials affect group purchasing costs and pressurise margins and competitiveness. The concern that group contractual performance with its customers is adversely affected by poor supplier performance and ethical standards.	› Group-wide procurement standards have been implemented to assist in cost optimisation and greater supply chain control including credit, financial resilience and contractual controls. › Financial resilience checks are required to be undertaken on suppliers of key materials/components and services. › A group delegation of authorities structure requires group management review and approval of strategic procurement contracts. › Subsidiary businesses are required to ensure multi-sourcing of key materials/components, wherever practicable, to reduce over reliance on any key suppliers. › Key initiatives are planned for the forthcoming year to further enhance contractual control structures to mitigate the impact of raw material cost escalation, supplier delivery and quality controls and supplier's ethical standards.	▶ ◆ ✦
Acquisitions Our management of businesses acquired to complement and enhance the group portfolio.	Acquired businesses do not perform as expected or integration is more difficult than anticipated.	› Due diligence protocols are deployed to investigate target businesses effectively. › Appropriate contractual assurances are sought from the seller to reflect shortcomings identified in the due diligence process. › The group offers competitive remuneration, benefits and incentive packages to all employees and the salaries of employees in acquired businesses are appropriately aligned. This measure helps to mitigate any material integration issues by ensuring continuity of personnel throughout the transition.	● ▲ ◆
Pension Deficit The controls we deploy in respect of pensions funding and management to safeguard group financial performance.	Capital that would otherwise be available for investment is tied up in funding liabilities and making good the deficit. Factors outside the group's control such as mortality rates, interest and inflationary pressures may lead to increases in the deficit and therefore, group contributions.	› Quarterly reporting to the board of invested asset performance and dialogue with Trustees in respect of the investment strategy. › Management and scheduling of deficit funding in line with the Trustees requirements. › Reduction in liabilities, stemming from the cessation of future accrual for the UK executive scheme from 2012 has assisted to reduce the risk profile related to pensions. › Final salary pension scheme is in maturity, thus steadily reducing risks. › Reviewing the appropriateness of the asset investment strategy in the context of a mature scheme.	● ✦
Treasury Risks The sensible management of changes in liquidity, foreign exchange and the taxation position of the group.	Future investment projects and the growth in foreign earnings for the group are adversely affected. The group is affected by the short term risk that its earnings may be impacted by certain financial risks e.g. credit risk, liquidity risk and foreign exchange volatility. The group operates in a range of different jurisdictions, political and fiscal regimes which present operating and cultural risks.	› From a transactional perspective, group companies operate a common set of financial reporting policies and procedures. An internal audit programme underpins compliance in this respect and further requirements are communicated via the group intranet and directly to financial professionals around the group. › The group benefits from centralised cash and banking controls and the group financial controller acts to govern and monitor all financial controls applicable across the group. › Periodic reviews and assessments are undertaken in relation to foreign exchange risk from a translation perspective. › Regular monitoring of tax developments in relevant jurisdictions assists to ensure that the group utilises the most appropriate tax structures. › Specialist and/or local independent tax advice is sought as appropriate from reputable accounting practices.	● ▲ ▶

Principal legal and regulatory risks	Potential impact	Mitigation and assurance	Relevance to strategy
Health, Safety and Environment Emphasising the importance of safeguarding the welfare of our employees, representatives and visitors to our facilities and minimising the environmental impact of our operations.	A failure to adequately control environmental, health or safety risks could have an adverse effect on group employees and operations. This could lead to a reduction in organic growth, market share, financial performance and the group's reputation as a whole.	› A group-wide health, safety and environmental programme controls the standards applicable to the group which includes policies and procedures. An external resource is retained to ensure subsidiary businesses are able to seek specialist assistance with health, safety and environmental issues relevant to their businesses. › Monthly reports are provided to the board of the Health and Safety Management of the group including accident statistics and ranked audit performances against the target benchmark. › A group 'safety cloud' system was implemented in 2012 which is serving to ensure centralised monitoring and assurance, not only to highlight issues but to ensure corrective actions are implemented to the extent and standard required. › Maintenance of bespoke insurance arrangements for costs associated with any employers' liability.	▶ ◆ ✦
Compliance Ensuring compliance with the laws and regulations applicable in the jurisdictions in which we operate.	A failure to comply with the various laws and regulations affecting the span of our international operations could have both financial and reputational consequences for the group. The management of group risks and our continued compliance with international laws and regulations is central to future investment and shareholder support.	› Appointment of a group risk & compliance counsel with a direct reporting responsibility to the group chief executive and audit committee chairman. › A new group Code of Business Conduct was launched during the year demonstrating the group's commitment towards its compliance responsibilities. › Policies, process manuals, business process development, online and in-person training programmes and a focus on certain compliance and legal risks have been deployed. › Internal and external legal and compliance controls and resources have been made available to the group businesses. › Further strengthening, through information and training on the policies for anti-bribery and corruption, competition law, gifts and entertainment, whistleblowing and restricted parties screening protocols. › A compliance hotline has been created to encourage the reporting of concerns from around the group. › Compliance initiatives reach employees directly through use of the global group intranet facility and risk and compliance communications including policies, guidance and reports, which are periodically issued.	▶ ◆ ✦

Strategic Report

Operational and Financial Review

Derek Muir
Group Chief Executive

Mark Pegler
Group Finance Director

2013 overview

The overall performance of the group for 2013 was in line with the outlook statement given at the time of our interim results in August 2013 and reiterated in our November 2013 interim management statement.

After a subdued first half performance, due to a lack of large projects, the group achieved a record earnings performance in the second half of the year. Underlying operating profits were split 45% H1 (2012: 52%) and 55% H2 (2012: 48%). Overall Infrastructure Products delivered a similar result to last year, with the Roads division performing above our expectations, while the Utilities division was disappointing. Galvanizing Services performance was marginally below the prior year due to a weaker market in France, partially offset by a stronger performance in the UK, which included the acquisition of Medway Galvanising.

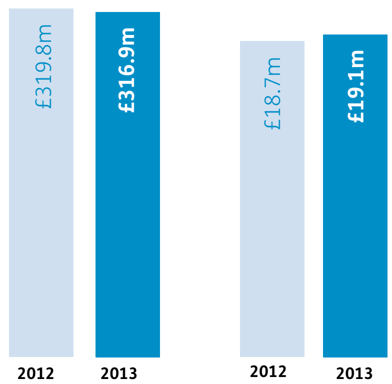
The international diversity and strength of our businesses within their respective markets allowed us to deliver a robust performance despite the challenging economic environments seen globally. Profits from USA operations represented 46% of underlying operating profits (2012: 50%) and in total 67% of profits were generated from operations outside the UK, which was lower than the previous year (2012: 76%) due to an improved performance in a number of our UK business units.

Revenue for the year increased by 1% to £444.5m (2012: £440.7m). Adjusting for beneficial currency impacts of £6.1m and revenue of £12.6m arising from acquisitions, underlying revenue fell by £14.9m. Underlying operating margin was constant at 10.0% (2012: 10.0%). Underlying operating profit increased by 1% to £44.5m (2012: £44.0m) with acquisitions and currency movements accounting for £1.1m and £1.0m respectively. Underlying profit before taxation was 2% higher at £41.2m (2012: £40.4m).

Infrastructure Products

Revenue
£316.9m
down 1%

Underlying operating profit
£19.1m
up 2%



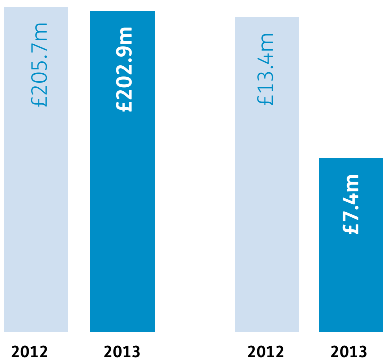
The division is focused on supplying engineered products to the Roads and Utilities markets in geographies where there is a prospect of sustained long term investment in infrastructure. In 2013 the division accounted for 71% (2012: 73%) of the group's revenue and 43% (2012: 43%) of the group's underlying operating profit.

Revenues fell by 1% to £316.9m (2012: £319.8m). Underlying margins improved by 20 basis points to 6.0% (2012: 5.8%) due to a stronger margin in Roads offset by a weaker margin in Utilities.

Utilities

Revenue
£202.9m
down 1%

Underlying operating profit
£7.4m
down 45%



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

Revenues fell to £202.9m (2012: £205.7m) which, after adjusting for acquisitions and currency impacts, reflected an organic decline of £11.8m primarily due to a combination of lower revenues in Bergen Pipe Supports, the large contracts in Creative Pultrusions in 2012 not being repeated in 2013, and the actions taken to reduce our exposure in UK contracting. Underlying operating profit fell by £6.0m to £7.4m (2012: £13.4m) with acquisitions contributing £0.4m and currency movements £0.2m.

Our USA based transmission structures and substation business performed well due to the continuing demand for upgrades and the connection to the USA power grid of renewables projects. This market remains robust and we have good visibility on demand and a strong order book as we enter 2014.

Creative Pultrusions, our US based composites company, whilst lacking the one-off ballistic panel order it enjoyed in 2012, was successful in supplying piling for coastal protection to the Statue of Liberty, New York and the Boardwalk at Long Beach, New Jersey as part of the rebuilding taking place in the aftermath of Superstorm Sandy. In the second half we delivered coverboard projects for the new metros in Hawaii and San Francisco. We entered 2014 with a good order backlog and strong pipeline of potential projects for our piling and rail products. We are also experiencing an upturn in enquiries from our OEM customers for custom pultruded products.

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

Our manufacturing plants in the USA saw levels of enquiries for gas fired power stations improve in the second half of 2013 after a slow start to the year. We were also successful in delivering the supports on two gas fired power stations in the final quarter and enter 2014 with an improving order book. The spin-off from shale, oil and gas is not only creating a market for natural gas fired power stations but also LNG terminals, petrochemical and fertilizer plants.

Our pipe supports business in the rest of the world entered 2013 with a strong order book buoyed by emerging power demand. However, capacity constraints in Thailand forced some larger projects to be manufactured in the UK facility thus increasing costs and depressing margins in the first half of the year. We entered the second half with a reduced order book for delivery in the final quarter of 2013, versus that for the prior year, which although disappointing has allowed us to begin to put systems in place to achieve operational improvements across the pipe supports group.

During the final quarter we closed our Chinese facility to consolidate our production capabilities, reduce site overheads and improve overall profitability. The group's manufacturing plant in Chennai, India, achieved the ISO 9001:2008 quality assurance standard. This ensures and promotes quality assurance to business recognised standards and stamps a mark of distinctive quality on the group's product. Power projects for the Indian market were supplied in the second half, with encouraging levels of order intake in the fourth quarter.

During the year we signed global supply agreements with METSO for the supply of supports for power plants and paper mills, and with JGC for the supply of cryogenic supports. We enter 2014 with an order book for engineered pipe supports of £15m (2013: £16m).

The UK water industry Asset Management Programme (AMP5), now in its fourth year, saw the completion of interconnecting pipework for a number of sewage treatment plants in the first half of 2013. The second half saw delivery of the £2m Lee Valley sewer outfall project, using 3.0m diameter pipes sunk to the seabed of the Thames. Enquiries for large AMP5 flood alleviation tanks were strong in the second half and we expect a surge of orders in 2014 as problems associated with the recent flooding begin to be addressed. Demand for storm attenuation tanks for use in the housing market also looks encouraging for the foreseeable future as the housing sector continues to recover and as the focus on flood risk increases.

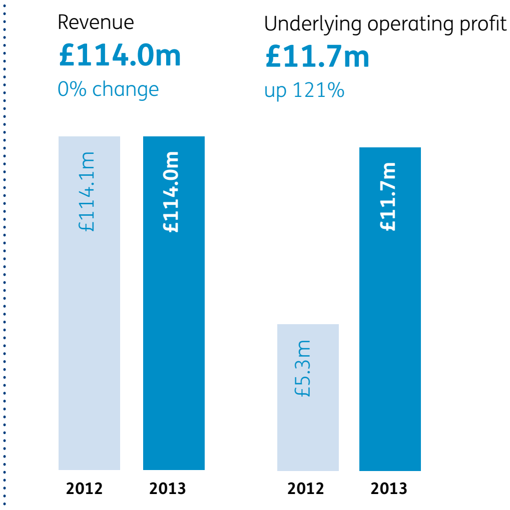
Access Design, which manufactures and installs secondary steelwork and industrial flooring and handrails for AMP5, was downsized earlier in the year to reduce exposure to the highly competitive UK contracting arena. As we progressed through the year the volume of work won with higher margins was not enough to sustain the business on a standalone site in Telford. The decision was therefore made to transfer all production and manufacturing activity to the main manufacturing site at Lionweld Kennedy in Middlesbrough. This business continues to flourish in the manufacture and supply only, of industrial flooring and handrails, with further investment at the site in a new open steel flooring machine, designed to service the growing offshore refurbishment market and to increase export opportunities. Whilst the decision to close the Telford site was not taken lightly, the actions further demonstrate our commitment to active portfolio management to improve return on sales and capital invested. The transfer was completed at the end of February 2014 and since the end of 2013 we have successfully won a number of projects for Crossrail for flooring and handrail platforms in train maintenance depots.

Acquired in May 2012, Expamet Building Systems based in Hartlepool, which supplies expanded metal products through builders' merchants and DIY retailers, has been successfully integrated into Birtley Building Products. The combination of Birtley and Expamet has seen increased demand for its products as the housing sector recovers. The enlarged business had a record year and trading continues to exceed our expectations.

Bromford Iron & Steel, our specialist steel rolling mill, had a disappointing year due to subdued demand and a less favourable exchange rate.

Operational and Financial Review continued

Roads



Our Roads division designs, manufactures and supplies temporary and permanent safety products for the roads market, with an increasing international presence.

Revenues were unchanged at £114.0m (2012: £114.1m) representing 36% of the Infrastructure Products segment. Underlying operating profit of £11.7m was £6.4m higher than prior year (2012: £5.3m) due to improving returns in our growing international businesses, better utilisation of our Varioguard product in the UK and the impact of the onerous gantry contracts on the prior year results. There was no material effect from currency movements.

In 2013 our traditional UK roads market for permanent and temporary road restraint systems returned to more normalised levels and Varioguard utilisation increased in the second half as the roads programme started to regain momentum.

In June 2013 the UK Government announced additions to the strategic roads programme with schemes scheduled to start in 2015. Schemes announced previously are now on track to start in 2014 and as a result the group made a £4m investment to increase its rental stock of Zoneguard by 25km, which has been manufactured locally at our factory in the West Midlands. The first project of 11km for the A14 upgrade was installed in January 2014 and due to the level of demand we have committed to a further 25km (£4m investment) which will be available for the second half of 2014.

In the USA we made progress in identifying and appointing distributors for the Zoneguard product in States where full approval has been granted. Sales to these distributors have enabled them to develop local rental markets and, when required, cross-hire additional Zoneguard from our rental fleet. We continue to benefit from the two-year USA Roads Bill put in place at the end of 2012 and achieved record utilisation (90%) of our rental fleet in the year.

Approval for Zoneguard in Australia was granted and an agreement has been signed with a long-term partner for supply to the Australian market. The first shipments took place in the second half of 2013. This is part of our strategy to strengthen our position as an international supplier of tested road safety products to geographies where there is an increased requirement for safety.

ATA, our Swedish roads business acquired in 2011, had a strong performance in 2013 as they established themselves as suppliers of our fully tested European Standard highway products from the UK. They also made progress in Norway where we established a branch of ATA to further penetrate the Scandinavian market.

During 2013 we were approved to supply the Brifen wire rope safety barriers to the Indian market and subsequently opened a manufacturing facility near Delhi. The demand for road safety in the region is increasing, especially on the new toll road projects and we had an excellent second half, shipping over 132km of product. Our order book is encouraging for 2014 and after a long approval process momentum is building in what looks to be an exciting market.

Our lighting column business in the UK achieved record profitability as the five previously won PFI projects entered their main construction phases. Whilst the local authority market remained challenging, the housing market is showing signs of recovery.

In France, market conditions remained challenging throughout the year but we saw an improvement in the second half from higher value specification work. We also completed the investment in a new automated press and from Q2 2014 we will be seeing the benefits of lower manufacturing costs.

Techspan, our electronic signage business, won a £7.4m four-year agreement for the supply of ancillary equipment for roadside furniture to the Highways Agency. We continued to win contracts for the supply of signs to the Highways Agency in England and Northern Ireland, which led to a reasonable performance in the year. We anticipate there will be increased requirements for signs for the next phase of managed motorway schemes in the second half of 2014. We secured a large contract from Transport for Wales to provide journey time and data collection using both our EVO8 ANPR (automatic number plate recognition) camera and our Black CAT classifier, further demonstrating the compatibility of our product range to collect and combine vital information for management of the road networks. We are continuing our investment in next generation cameras to be used in road tolling and data collection.

Galvanizing Services

Revenue
£127.6m
up 6%

Underlying operating profit
£25.4m
0% change

The Galvanizing Services division offers corrosion protection services to the steel fabrication industry with multi-plant facilities in the UK, France and USA. The division accounts for 29% (2012: 27%) of the group's revenue and 57% (2012: 57%) of the group's underlying operating profit.

At constant currency, revenues increased 3% to £127.6m (2012: £120.9m) whilst operating profit was marginally higher at £25.4m (2012: £25.3m) resulting in an overall margin of 19.8% (2012: 20.9%).

Overall galvanizing volumes were 4% ahead of 2012 due to the acquisition of Medway Galvanising and an improvement in the UK structural steel market.

USA

Located in the North East of the country, Voigt & Schweitzer are the market leader with six plants offering local services and extensive support to fabricators and product manufacturers involved in highways, construction, utilities and transportation. In 2013 they were presented with the Hot Dip Galvanizing Excellence Award along with three project Excellence awards by the American Galvanizers Association.

Volumes fell 3% year on year, primarily due to lower volumes of power transmission poles and temporary bridges through one of our plants. This changed the mix towards smaller, higher margin projects and together with operational efficiencies and a stable zinc price we were able to maintain our profitability, despite the reduction in volume.

The construction of our new plant in Columbus, Ohio was completed on time, within budget and was fully operational in the second quarter of 2013. The additional capacity and increased kettle dimensions allowed us to attract a number of new customers throughout the second half of 2013. This led to a return on our investment ahead of our expectations and the efficient layout and operation of the plant results in a 50% increase in annual capacity compared with the 40% previously estimated.

Construction of an identical plant at a new site is now underway and is on track for completion in 2014. The new location will provide local fabricators with galvanizing services on their doorstep and encourage engineers and architects to move from painting to galvanizing. This is part of the organic growth strategy for the USA and will be complemented with selective acquisitions.

France

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

The business experienced a slow start to the year and by the end of the first quarter volumes were down 14% on the same period in 2012. Since then we have been encouraged by volumes despite the completion of a large one off contract for galvanizing transmission and lighting poles which ended in June 2013. In the second half volumes were assisted by the structural steel for the new Bordeaux Stadium. The market remains challenging due to the economic and political climate.

On 17 September 2013, Yves Delot, the President of France Galva, was awarded the medal of a Knight in the National Order of Merit, for 40 years of service to the galvanizing industry in France.

UK

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

On 30 April 2013 the group acquired Medway Galvanising Company Limited, which operates a large plant in Kent, for an enterprise value of £6.4m representing an EBITDA multiple of 4.4 times. Medway has a strong tradition in service for galvanizing, powder coating and shotblasting. As part of our ongoing strategy to optimise our UK network we closed and sold our East London site located near the Olympic Park in July for a cash consideration of £2.5m. This acquisition and restructuring allows us to offer our existing customers an enhanced service throughout the South East of England and to date we have seen Medway performing above our expectations.

On 17 December 2013 we purchased certain assets from Arkinstall Galvanizers for £0.4m, resulting in the closure of their Tividale plant in the West Midlands. Production has been transferred to our nearby Walsall plant and we will continue to build on their well-established collection and delivery service similar to Medway, allowing us to service geographies outside our existing network.

UK volumes improved by 18%, compared to 2012, with Medway contributing 6% of the volume increase. The rest of the UK saw volumes increase by 12% due to stronger demand from infrastructure projects and an improvement in our own internal volumes.

In December 2013 we upgraded our largest plant in Chesterfield, replacing the existing galvanizing bath with a longer, more efficient bath for structural projects such as multi-storey car parks and power stations.

Operational and Financial Review continued

“The construction of our new plant in Columbus, Ohio was completed on time, within budget and was fully operational in the second quarter of 2013.”

New galvanized gates at our Voigt & Schweitzer plant in Columbus, Ohio following the investment to increase capacity and capability.

Financial review

Income statement phasing

	First half	Second half	Full year
2013			
Revenue £m	**221.6**	**222.9**	**444.5**
Underlying operating profit £m	**20.2**	**24.3**	**44.5**
Margin %	**9.1**	**10.9**	**10.0**
2012			
Revenue £m	223.8	216.9	440.7
Underlying operating profit £m	22.7	21.3	44.0
Margin %	10.1	9.8	10.0

Revenue of £444.5m was £3.8m or 1% ahead of the prior year with acquisitions completed during both 2012 and 2013 contributing £12.6m additional revenue and £1.1m underlying operating profit. The translation impact arising from changes in exchange rates, principally the US Dollar and Euro, increased total revenue by £6.1m and underlying operating profit by £1.0m. Organically, revenue and operating profit declined by £14.9m and £1.6m respectively. Further details of the performance of the group are provided in the operational review.

As expected, in contrast with the first half weighted results in 2012, the phasing of revenue and to a greater extent underlying operating profit was more second half biased in 2013, principally reflecting the impact of the London Olympic Games on the group's Roads activity in H2 2012 and generally improving economic conditions across the geographies in which the group operates.

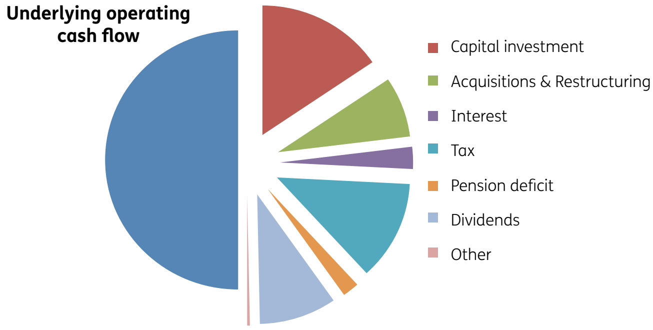
Cash generation and financing

The group again demonstrated its cash generating abilities with strong operating cash flow of £54.2m (2012: £58.4m), including a reduction in working capital of £1.9m (2012: £3.7m reduction). The impact on working capital of zinc and steel commodity prices year on year was not material. Working capital as a percentage of annualised sales improved to 13.9% from 14.7% at December 2012, reflecting a further underlying reduction of c.£3.5m (2012: £3.5m) taking into account the higher revenues. Debtor days were unchanged from the prior year at 61 days.

Capital expenditure at £22.1m (2012: £18.3m) represents a multiple of depreciation and amortisation of 1.5 times (2012: 1.3 times). During the year the group completed the construction of the new build galvanizing facility in Columbus, Ohio, with cash spend in the period of £3.5m, and expended £1.7m on construction of Zoneguard to increase its UK temporary barrier rental fleet. Other significant items of expenditure included £1.0m on the development of the Industrial Flooring manufacturing facility in Middlesbrough and £1.4m of site expansion and equipment upgrades for the French galvanizing and lighting column operations, in furtherance of the group's organic growth plans. The group continues to invest in organic growth opportunities where returns exceed internal benchmarks.

The group measures its operating cash flow performance based on its underlying cash conversion rate, defined as the ratio of underlying operating cash flow less capital expenditure to underlying operating profit. In 2013 the group achieved an underlying cash conversion rate of 93% (2012: 101%) and over the past five years has achieved an average rate of 98% despite a number of major capital projects being undertaken during that time.

The group's strong underlying operating cash flow provides the funds to invest in growth, both organic and acquisitive, to service debt, pension and tax obligations and to maintain a growing dividend stream, whilst a sound balance sheet provides a platform to take advantage of future growth opportunities.



Group net debt at 31 December 2013 was £87.2m, representing a year on year improvement of £0.2m before adverse exchange rate movements of £0.6m. The group's net debt remains principally denominated in US Dollars and Euros which act as a hedge against the net asset investments in overseas businesses.

Change in net debt

	2013 £m	2012 £m
Operating profit	**34.5**	39.2
Depreciation and amortisation*	**16.9**	16.4
Working capital movement	**1.9**	3.7
Pensions and provisions	**0.4**	(2.0)
Other items	**0.5**	1.1
Operating cash flow	**54.2**	58.4
Tax paid	**(15.3)**	(11.6)
Interest paid (net)	**(3.4)**	(4.3)
Capital expenditure	**(22.1)**	(18.3)
Sale of fixed assets	**3.0**	0.5
Free cash flow	**16.4**	24.7
Dividends	**(11.6)**	(10.2)
Acquisitions	**(6.6)**	(0.5)
Net issue of shares	**2.0**	0.5
Change in net debt	**0.2**	14.5
Opening net debt	**(86.8)**	(103.8)
Exchange	**(0.6)**	2.5
Closing net debt	**(87.2)**	(86.8)

* includes £2.2m (2012: £2.4m) in respect of acquisition intangibles.

Operational and Financial Review continued

The group's principal debt facility consists of a headline £210m five-year multicurrency revolving credit agreement. The facility, provided on competitive terms, is funded by a syndicate of five leading banks and expires in April 2016.

Maturity profile of debt facilities

	2013 £m		2012 £m
On demand	**£16.4m**	On demand	£15.7m
2014-2015	**£1.3m**	2013-2015	£3.1m
2016	**£210.9m**	2016	£211.5m

Current debt facilities afford the group significant certainty in terms of its funding requirements for the foreseeable future. At the year end the group had committed debt facilities available of £212.2m and a further £16.4m in overdrafts and other on-demand facilities.

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

The results of the covenant calculations at 31 December 2013 were:

	Actual	Covenant
Interest Cover	17.7 times	> 4.0 times
Net debt to EBITDA	1.5 times	< 3.0 times

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

Net finance costs

		2013 £m		2012 £m
Underlying net cash interest:				
Bank loans / overdrafts	**3.2**		3.4	
Finance leases / other	**0.1**	**3.3**	0.2	3.6
Non cash:				
Net pension interest		**0.6**		0.4
		3.9		4.0

Net financing costs were broadly in line with prior year at £3.9m (2012: £4.0m). The net cost from pension fund financing under IAS19 was £0.6m (2012: £0.4m), the increase of £0.2m reflecting the impact of the revisions to IAS19 adopted during the year which require a net interest cost to be calculated on the net defined benefit liability. Given its non-cash nature the pension interest charge continues to be treated as 'non-underlying' in the consolidated income statement and, given the immateriality of the impact of the changes to IAS 19 on the group's results, the group has not restated the prior year comparatives. The underlying cash element of net financing costs decreased by £0.3m to £3.3m (2012: £3.6m), as a result of lower levels of average net debt during the year and marginal reductions in bank interest rates. Underlying operating profit covered net cash interest 13.5 times (2012: 12.2 times).

The group has approximately 38% (2012: 39%) of its gross debt of £97.2m at fixed interest rates, either through interest rate swaps or finance leases. Interest rate swaps are predominantly denominated in US Dollars, with smaller tranches of Sterling and Euros, and closely reflect the group's debt profile.

Return on invested capital (ROIC)

The group aims to maintain ROIC above its pre-tax weighted average cost of capital (currently 9%), with a target return of 17.5%. In 2013, ROIC was maintained at 15% (2012: 15%). The group measures ROIC as the ratio of underlying operating profit to average invested capital. Invested capital is defined as net assets excluding current and deferred tax, net debt, retirement benefit obligations and derivative financial instruments.

Exchange rates

Given its international operations and markets, the group is exposed to movements in exchange rates when translating the results of international operations into Sterling. Retranslating 2012 revenue and underlying operating profit using 2013 average exchange rates would have increased the prior year revenue and underlying operating profit by £6.1m and £1.0m respectively. The continued strength of Sterling experienced since the end of 2013 will continue to have an impact on the translation of overseas earnings in 2014. Retranslating 2013 revenue and underlying operating profit using exchange rates at 3 March 2013 (inter alia £1 = US$1.67 and £1 = €1.21) would decrease the prior year revenue and underlying operating profit by £12.7m and £1.7m respectively. For US Dollar, a 1 cent movement results in a £135,000 adjustment to underlying operating profit and for the Euro, an £80,000 adjustment.

Non-underlying items

The total non-underlying items charged to operating profit in the consolidated income statement amounted to £10.0m (2012: £4.8m) and were made up of the following:

- Business reorganisation costs of £9.2m (2012: £0.8m) – principally relating to redundancies and other costs associated with site restructuring, of which £2.7m were cash costs in the year and a further £4.5m are expected to be spent in 2014. The charge also includes asset impairments of £1.8m;
- Non-cash amortisation of acquired intangible fixed assets of £2.2m (2012: £2.4m);
- Acquisition related expenses of £0.4m (2012: £0.8m) – costs associated with acquisitions expensed to the consolidated income statement in accordance with IFRS3 (Revised); and
- Profits on sale of properties of £1.8m (2012: £nil).

Non-underlying items in 2012 included:

- A curtailment loss of £0.4m arising from the UK defined benefit pension scheme ceasing future accruals in November 2012; and
- Losses of £0.4m in respect of the fair value of forward foreign currency contracts.

The cash impact of the above items was an outflow of £3.1m (2012: £0.9m) with a further £4.5m expected to be spent in 2014. The non-cash element therefore amounted to £2.4m. The directors continue to believe that the classification of these items as "non-underlying" aids the understanding of the underlying business performance.

Tax

The group's tax charge for the year was £7.6m (2012: £9.1m). The underlying effective tax rate for the group was 24% (2012: 26%), the decrease reflecting reductions in the UK corporation tax rate, changes in geographical profit mix and the beneficial impact of prior year credit following the satisfactory resolution with local taxation authorities of certain historical tax matters. The international nature of our operations does mean that the mix of profits in a particular year can impact the group's effective rate of tax. Cash tax paid of £15.3m (2012: £11.6m) is higher than the income statement charge due to the resolution of the historical matters and the cash settlement of certain one-off deferred tax liabilities in France during the year. Tax paid is expected to revert to more normal levels in 2014.

The group's net deferred tax liability is £9.5m (2012: £11.2m). An £8.7m (2012: £9.2m) deferred tax liability is provided in respect of brand names and customer relationships acquired. A further £1.9m (2012: £2.0m) is provided on the fair value revaluation of French properties acquired as part of the Zinkinvent acquisition in 2007. These liabilities do not represent future cash tax payments and will unwind as the brand names, customer relationships and properties are amortised.

Earnings per share

The board believes that underlying earnings per share (UEPS) gives the best reflection of performance in the year as it strips out the impact of non-underlying items, essentially one off non-trading items and acquisition intangible amortisation. UEPS for the period under review increased by 4% to 40.4p (2012: 38.8p), reflecting growth in underlying operating profit and the reduction in the effective tax rate. The diluted UEPS was 39.8p (2012: 38.5p). Basic earnings per share was 29.6p (2012: 33.9p). The weighted average number of shares in issue was 77.6m (2012: 77.0m) with the diluted number of shares at 78.6m (2012: 77.8m) adjusted for the outstanding number of dilutive share options.

Pensions

The group operates a number of defined contribution and defined benefit pension plans in the UK, the USA and France. The IAS19 deficit of the defined benefit plans as at 31 December 2013 was £20.2m compared with £16.3m at 31 December 2012. The impact of increases in future inflation assumptions outweighed a marginal increase in the discount rate resulting in an increase in scheme liabilities of £5.1m, offset by improvement of £1.2m in underlying asset values.

The Hill & Smith Executive Pension Scheme and the Hill & Smith Pension Scheme (the 'Schemes') remain the largest employee benefit obligations within the group. The IAS19 deficit of the Schemes as at 31 December 2013 was £17.6m (2012: £13.8m). 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 £2.5m for the three years to April 2016, followed by payments of £2.3m for a further seven years. The date of the next triennial review is 5 April 2015. The Schemes are closed to new members, with future accruals ceasing in the Executive Scheme in December 2011 and in the Main Scheme in November 2012. The group is actively engaged in dialogue with the Trustees with respect to management, funding and investment strategy.

Acquisitions

On 30 April 2013 the group acquired the share capital of Medway Galvanising Company Limited, a single site galvanizing and powder coating business operating in Kent, UK for consideration of £6.4m in cash. As part of the group's ongoing strategy of optimising its UK network, our galvanizing plant in East London was closed in July 2013 and the site sold for cash consideration of £2.5m.

In December 2013 the group acquired the trade and certain assets of Arkinstall Galvanizing Limited for cash consideration of £0.4m. This small bolt-on acquisition will complement the group's existing UK galvanizing activities.

Treasury management

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

Going concern

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

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

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

Derek Muir
Group Chief Executive

Mark Pegler
Group Finance Director

11 March 2014

Strategic Report

Creative Pultrusions fender piling for the New Jersey Water Authority.

Welding of industrial flooring at our Lionweld Kennedy Flooring business, Middlesbrough.

700m of Berry parking barrier at the Tele2 arena, the new multi-purpose stadium in Stockholm.

Corporate Social Responsibility

Board level responsibility and accountability
The group is committed to delivering its strategic objectives in an ethical and responsible manner.

Derek Muir, the Chief Executive, is the director primarily responsible for the corporate social responsibility performance of the group and is supported by the operating company directors in achieving compliance with the group's policies, primarily through;

- communication across the businesses;
- implementation of supporting principles; and
- monitoring performance and improvements.

Our employees play their part in contributing to the achievement of our objectives and are encouraged to make suggestions to improve performance.

Key initiatives undertaken in 2013

- Launch of energy policy and principle of energy champions;
- Successfully assessed to Carbon Trust standards;
- Code of Business Conduct (CBC) launched;
- Introduction of group procurement standards;
- Launch of guidance and operating manual on international competition law;
- Group safety audit format extended to Sweden and the USA;
- Introduction of the 'Safety Cloud' IT system to Sweden and the USA.

CSR responsibility drivers

The environment
Throughout 2013 the board has continued to monitor carbon dioxide (CO_2) emissions and energy consumption. This monitoring process was extended to include all vehicle emissions, (private or company), generated as a result of travel on company business. For 2014, the group is developing a reporting and monitoring programme to improve the management of water usage and to identify further waste recycling opportunities.

During the year the group was successfully assessed by the Carbon Trust in relation to our 2012 energy performance data, which confirmed the reductions achieved in our energy usage and fuel consumption.

To support these measures, the group launched an energy policy, which requires each company within the group to appoint an 'energy champion', responsible for identifying improvements in energy, fuel, natural resource consumption and waste management.

Employees are encouraged to report all energy saving and recycling ideas to their energy champion.

Where practical, the group uses recycled water in its manufacturing processes. Whilst not currently possible in all areas of the business, our new Columbus, Ohio galvanising plant recycles rinsed water as part of the manufacturing process.

The UK operations of the group comply with the Producer Responsibility Obligations (Packaging Waste) Regulations 2007 (as amended). This means that they are fully aware of its legal and environmental responsibilities to help reduce the amount of packaging going to landfill and encourage reduction, recycling and recovery of packaging materials. By securing evidence of recycling through its compliance scheme Wastepack, it is contributing towards meeting the recycling and recovery targets set by Defra as part of the original EU Directive.

In 2013, our Asset International operation in Newport, Wales installed solar photo voltaic roof tiles, designed to generate solar energy for use in the manufacturing process. These tiles have successfully provided a carbon friendly and energy efficient electricity generation system that now provides 12% more electricity than originally anticipated (see photograph on page 35).

The group has recently built an extension to its Lionweld Kennedy industrial flooring factory in Middlesbrough, which was designed with energy saving environmental factors such as:

- heating input controls that ensure the energy used is kept to an optimum level;
- roof lights providing a higher degree of natural daylight and triple skinned for insulation; and
- external lighting using low energy LED floodlights operated by photocells and a time clock.

Greenhouse Gas Emissions (GHG)
The group recognises the importance of monitoring its greenhouse gas emissions, with the aim of continuing its programme of cost effective, environmentally friendly energy management, to create long term value for shareholders.

The reporting structure
The group has previously reported on energy usage across its UK businesses as part of its strategic business improvement process. This reporting requirement was extended to the overseas operations in 2013, expanding the scope of reporting and improving the coverage of the data available, with the objective of identifying new energy management opportunities.

The group has reported in line with the Defra Environmental Guidelines ('DEG') updated in June 2013 and the UK Government conversion factors for company reporting which set the rules for measuring UK data. The group is required to report on the greenhouse gas emissions in compliance with the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

The group has reported the greenhouse gas emissions, for the overseas operations, against the 2012 International Energy Agency ('IEA') data, as the IEA figures for 2013 are not available for the time of reporting for the 2013 year. The 2013 overseas subsidiary data will be used as base data for reporting against future years.

Corporate Social Responsibility continued

The GHG emissions reported in the tables below are for scopes 1 and 2 of the DEG as defined below. Although scope 3* has been defined, this has not been reported on in 2013, as water usage and landfill data is being collected as from 2014 and the group currently has no data for, or control over, the emissions produced by third parties.

Scope 1: Direct emissions - these include all emissions that an organisation directly causes or controls from combustion of fossil fuels and emissions of HFC's (hydrofluorocarbons) previously used in refrigeration units.

Scope 2: Indirect emissions - these are generated by imported utilities, such as electricity. Emissions from electricity transmission losses, which consist of transportation and distribution losses, would normally be reported under scope 3. For our reporting these have been included in scope 2, as "indirect" as they relate to electricity usage beyond the groups direct control.

**Scope 3:* *Indirect emissions that an organisation causes to occur, but does not control. This includes water use, waste disposal to landfill, emissions from transport in vehicles owned by other parties and private vehicles used for commuting by staff, or emissions from outsourced activities and from the supply chain.*

Measurement of the 2013 Data
For both the UK and overseas data the group has decided to measure the GHG emissions using the group total turnover as the intensity ratio ('IR').

The IR is measured as: the total tonnage of emissions stated as carbon dioxide equivalent (CO_2e) per £1,000 of turnover.

Global emissions comparison

Group total emissions by scope for 2013	UK emissions	Overseas emissions	Total emissions
Scope 1 (tCO_2e)	20,018	52,841	72,859
Scope 2 (tCO_2e)	12,275	10,272	22,547
tCO_2e	32,293	63,113	95,406
Total turnover (£'000)	247,903	219,887	467,790
IR	0.13	0.29	0.20

Emissions comparison by UK sites

UK group emissions comparison 2011 - 2013	2011	2012	2013
Scope 1 (tCO_2e)	17,032	18,759	20,018
Scope 2 (tCO_2e)	11,028	12,043	12,275
tCO_2e	28,060	30,802	32,293
Total turnover (£'000)	235,930	244,211	247,903
IR	0.12	0.13	0.13

Comparing the increased total turnover to the IR movement for the period from 2012 to 2013, there was no increase in the overall GHG tonnage used, demonstrating improvement in energy management across the UK portfolio. We are focused on reducing the IR as much as possible and are working with the Carbon Trust and the Carbon Disclosure Project to identify further improvements.

Sustainability (GHG)
The group considers its relationships with its customers, suppliers and communities to be of particular importance to its business and this is evidenced by the reputation the group has for its business ethics, integrity and fairness in all its dealings.

Supply chain partners are selected on the basis that the business operates on similar values to the group. This benefits the business, as it promotes and maintains stable long term relationships to deliver continued improvement, increasing the business performance and viable environmental benefits.

During the year the group implemented a set of procurement standards for its purchasing activity in order to ensure that it mitigates risks stemming from its supply chain. At the same time economies of scale were reviewed relevant to the size and scope of the group. Designed by supply chain professionals from the group's subsidiary businesses, the procurement standards seek to implement best practice, as minimum standards, commercial risk mitigation, ethical standards and screening for conflict minerals.

The group has continued, throughout 2013, to reinforce its anti-bribery and corruption training programme. The training covers the UK Bribery Act, including scenarios and implications of non-compliance. This anti-bribery compliance requirement is extended to all suppliers as part of the supply chain due diligence, engagement and contractual process.

Policies

During the summer of 2013, the group launched a new Code of Business Conduct (CBC). The CBC is designed to ensure that as a group, all subsidiary companies act ethically, honestly, with integrity and in a legally compliant manner in their business activities. The CBC applies to everyone who is engaged by the group round the world, whether they are employees or third parties acting on behalf of the group. The CBC presides over areas such as health and safety, fair honest and ethical business practice, gifts and entertainment, conducting international business, protection of individuals, resources and assets. At high level, it summarises the group's legal and compliance responsibilities in areas such as anti-bribery and corruption, export laws and regulations and international fair and open competition. The CBC also extends to, inter alia, the handling and minimisation of conflicts of interest and the protection of the group's intellectual property rights.

The CBC is accessible on the Hill & Smith group intranet for those engaged or employed by the group and on the company website, for public and shareholder review and assurance.

Non-compliance with the CBC (and all other group policies) is taken very seriously and the use of a revised whistleblowing policy and compliance hotline was introduced during the year. Both the whistleblowing policy and the hotline are to be used to refer concerns about breaches of the CBC and any other group policy to the group risk & compliance counsel (in confidence) with the assurance that issues will be investigated and resolved in accordance with the principles of the CBC. Such matters may be dealt with in a manner that ensures anonymity.

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

The CBC is not designed to supersede detailed group policies which have been implemented to date, rather to supplement and summarise the group's compliance initiatives and the relevant assurances implemented in respect of the group's key corporate, legal and social responsibilities.

People

The group provides the appropriate training, resources and support to maintain the standards of performance and conduct expected. This is achieved through training and career development opportunities to help promote a forward thinking, proactive and creative working environment, that will engage and motivate employees.

Diversity and inclusion

Our policies, practices and regulations for recruitment, training and career development promote equality of opportunity, while being appropriate for the relevant market sector and country of operation. Our aim is to encourage a culture in which all employees have the opportunity to develop fully according to their individual abilities and the needs of the group.

The group are committed to equal opportunities and employing a diverse range of people. Fairness and equal opportunity are core to the group's employment policy. The group's board of directors issued a statement on equal opportunities, discrimination and diversity policy in 2013. The group has a policy of non-discrimination and it does not tolerate bullying or harassment. The policy promotes the operation of these principles in all aspects of the group's business activities, in respect of visitors, clients, customers, suppliers, former staff members and existing employees of the group. This policy governs the actions of employees in:

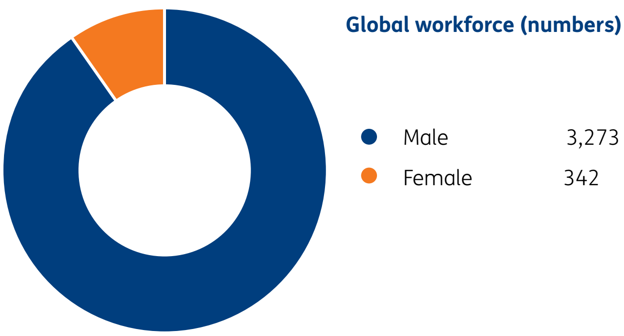
- their roles and responsibilities;
- recruitment and selection;
- staff training, promotion and disciplinary procedures;
- disability discrimination; and
- consequences for non-compliance of the policy.

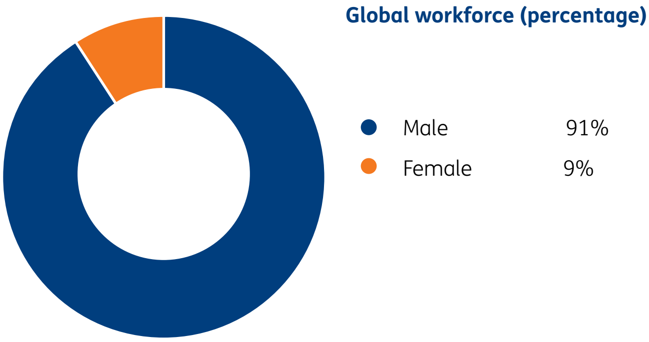
The group published its updated statement on diversity and is committed to ensure that:

- the company's workforce is as diverse as possible;
- it has access to a wide labour market; and
- members of the workforce are recruited on merit, regardless of age, disability, marital or civil partner status, pregnancy, race, colour, nationality, ethnicity or national origin, religion or belief, gender or sexual orientation.

The charts below, and over the page, show the number of men and women throughout the group, at the main PLC and subsidiary board levels and those at senior manager level. At the main PLC board level, all current board members are male.

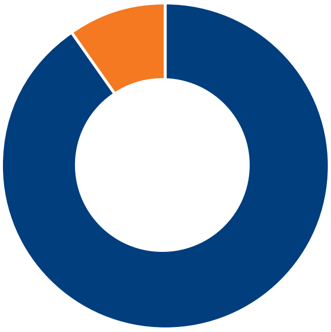
Total workforce





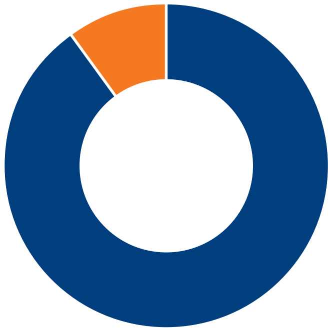
Strategic Report

Corporate Social Responsibility continued



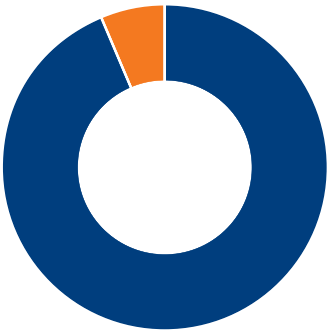
Total directors and senior managers (numbers): Male & Female split

Male	242
Female	26



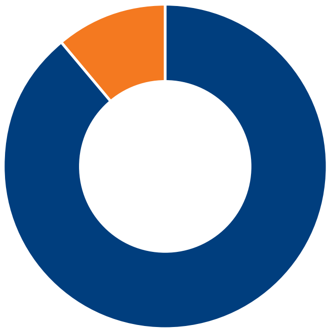
Total directors and senior managers (percentage): Male & Female split

Male	90%
Female	10%



Number of PLC and subsidiary board directors: Male & Female split

Male	61
Female	4



Number of senior managers in the group: Male & Female split

Male	181
Female	22

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

Involvement and reward

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

The group encourages employee share ownership through the 2005 Employee Sharesave Scheme which currently has circa 250 UK employees participating, 45 of whom contribute at the maximum permitted by the HMRC.

Training and development

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

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

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

Health and safety

The group is committed to ensuring a safe working environment and maintains a system of control and monitoring of health and safety issues through:

- an externally managed audit programme for its operating sites;
- quarterly safety forum meetings (for the UK based companies), attended by senior health and safety staff within the UK;
- a set of PLC guidance documents, comprising of health and safety management standards, the A-Z of key risks and hazard registers;
- continual development and improvement of the 'safety cloud' management system, which helps track a number of compliance areas;
- requirements for nominated subsidiary directors to complete a quarterly health and safety self-assessment;
- communication of health and safety issues through regular publications, such as bulletins and alerts published via the safety cloud IT systems; and
- sharing of best practice across the group.

Health and safety achievements

The group companies work actively to effectively manage health and safety, evidenced by the following initiatives:

- Hill & Smith Limited attained certification to the OHSAS 18001: 2007 (Occupational Health and Safety Management System);
- Mallatite Ltd, France Galva and Asset Varioguard (VRS) maintained their OHSAS 18001 certification;
- Techspan Systems and Asset Weholite formally started their OHSAS 18001 accreditations;
- Techspan Systems became a member of the British Safety Council; and
- the RoSPA Gold Medal was awarded to Lionweld Kennedy.

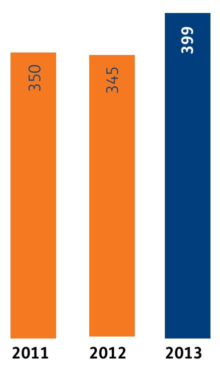
The health and safety objectives for 2013 were:

Objective	Result achieved
Extension of the 'safety cloud' IT system to overseas subsidiaries and implementation of a full audit on overseas subsidiaries.	The Swedish subsidiary and three US sites were audited, with a view to aligning all sites with the UK safety standards. The 'safety cloud' was extended to those US and Swedish companies visited as part of the audit process.
To reach a 5% improvement in the UK weighted average and audit score for health and safety performance.	The UK average weighted score achieved for 2013 improved by 10%, bringing the level of improvement since the inception of the measures in 2010, to almost 50%. In addition, the group undertook reviews of site installation and construction related work. A high level of compliance was achieved, with an average of 79% when judged against the Construction Industry Training Board (CITB) HSES audit tool.
Implementation of the group strategy for occupational health.	Following a review of the occupational health provision in the UK, the subsidiary companies are now using providers who have attained the nationally recognised SEQOH (Safe Effective Quality Occupational Health) standards. A set of standard occupational health requirements has been agreed.
Health and safety governance review.	A review was undertaken at group level, of the health and safety performance during the past four years, with a view to ensuring long term sustainability of improved management. The outcome of the review was to focus resources in the areas of environmental controls, recent acquisitions and extension of the 'safety cloud' IT system.

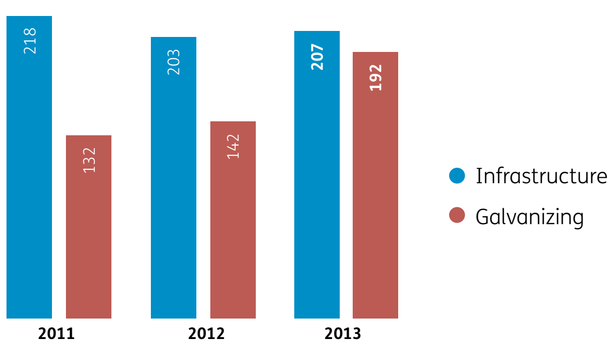
Accident rates
The objective for 2013 was to lower the accident rate and achieve a 10% year on year reduction.

There were 399 accident reports from all subsidiaries during the year, which is a 15.6% increase; reflecting the acquisitions in the UK of Expamet and Medway Galvanising and an increased regime of reporting through use of the 'safety cloud' IT system.

Total accidents 2011 - 2013



Total accidents by division



Whilst we have improved the effectiveness of our safety management over the last five years (as demonstrated by the audit score improvement), we have acquired businesses that are transitioning to the standard achieved by our established operations. Over time the existing systems and management will ensure that we not only reduce the overall number of accidents, but we also minimise their severity. Some of the earlier work carried out in 2010 and 2011 produced a significant impact in the accident reduction rates, which is harder to replicate as the improvements plateau out. Our challenge is to ensure, through the auditing work, that we continue to strive for further reductions and where possible, elimination of risk to our employees, contractors and visitors.

2014 health and safety objectives

- The continuation of the external audit programme, with current performance levels to be maintained or improved as appropriate;
- Further roll out of the 'safety cloud' to all remaining non-UK sites;
- Implementation of the occupational health strategy through a new module on the 'safety cloud';
- To carry out environmental compliance audits; and
- To review the PLC health and safety standards to ensure they are applicable on a global scale.

Corporate Social Responsibility continued

Community

Although the group does not have a programme in place for charitable works, it actively encourages its operational companies to participate in the local community.

Contributions are supported in areas of education, enterprise, health, welfare and the environment.

- In the interests of promoting education, our lighting column subsidiary in France, invited technical college students to visit their production workshops. The aim of the visits were to allow the students to explore the vocations available in the galvanising industry, in a leading European company.
- Ten employees from Asset International took part in Cardiff's annual "Men's Health, Survival of the Fittest" 10k race, to raise money for the Aneurin Bevan Local Health Board's premature baby ward. The money raised help to investigate the causes of sickness in new born babies and finance research into the prevention, treatment and cures for neonatal illnesses.
- V&S Galvanizing coated the metal sculpture for the Steel Workers Memorial at the new World Trade Centre in New York.
- Creative Pultrusions in the US contributed to schools and charities in the local area. During 2013, the company supported the local schools Youth Softball team.

CSR priorities for 2014

- Reduction in water, waste and energy consumption.
- Further commitment to packaging reduction.
- To collect and monitor landfill waste data and to identify opportunities for recycling.
- Extension of environmental audits.
- Extension of the environmental audit programme.
- Extension of the 'safety cloud' to include international audits.
- To improve the collection of water usage data and develop water management programmes.
- To further improve upon the management of site safety and continue with our historic achievement of accident reduction, in terms of number and severity.

Strategic report

The strategic report, outlined on pages 2 to 34, incorporates the chairman's statement, strategic review and performance review.

By order of the board

John Humphreys
Company Secretary

11 March 2014

Solar panel installation at our Asset Weholite factory, Newport, South Wales, referred to on page 29.

Governance Report

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See further information online at hsholdings.com

Chairman's Introduction to Governance

Bill Whiteley
Chairman

Dear shareholder,

This section of the annual report sets out how we approach governance and the implementation of our principles and compliance with formal governance codes.

Good governance is about managing the business effectively and in a way that is honest, open and accountable. It is key to the delivery of the group's strategy and sustained generation of shareholder value.

The board, has ultimate responsibility for the group's performance and for overseeing the management of risk. As chairman, it is my role to provide the leadership to enable the board to discharge its responsibilities effectively. Such effectiveness is normally assessed internally and, set out on pages 14 to 15, are the results of that assessment.

Clive Snowdon, Senior Independent Director and Chairman of the Remuneration Committee reports in his introduction on page 49, the approach taken to executive remuneration and the work carried out during the year on this high profile topic.

The board has a responsibility to lead the way and in particular, for ensuring that all employees and everyone associated with the group are aware of their responsibility to act lawfully and conduct themselves in accordance with high standards of business integrity. Following the introduction of our anti-bribery and corruption policy and its implementation across the group, we have built on that work, by launching our code of business conduct and through our newly appointed Group Risk & Compliance Counsel, Kathy Senter, an international competition manual, supported by online training.

I look forward to meeting you at our annual general meeting on Wednesday 14 May 2014.

Bill Whiteley
Chairman

11 March 2014

Governance Report

Board of Directors

(4) (2) (1) (3) (5)

Name		Position	Length of service on the board as at 11 March 2014	Independent	Committee membership
W H Whiteley	(1)	Chairman and Non-executive	4 years and 3 months	✓	**A R N (c)**
D W Muir	(2)	Group Chief Executive	7 years and 7 months	-	**N**
M Pegler	(3)	Group Finance Director	6 years	-	**-**
J F Lennox	(4)	Non-executive	4 years and 10 months	✓	**A (c) R N**
C J Snowdon*	(5)	Non-executive	6 years and 10 months	✓	**A R (c) N**

A = Audit Committee

R = Remuneration Committee

N = Nomination Committee

(c) = Chairman of Committee

* Senior Independent Director

W H Whiteley BSc, FCMA

Chairman and Non-executive

Bill, aged 65, joined the board on 1 January 2010. He has spent the majority of his career at international engineering group Rotork plc, where he was Chief Executive from 1996 to 2008. He is Chairman of Spirax Sarco Engineering plc, Brammer plc and Chairman of the Nomination Committee.

D W Muir BSc, C Eng, MICE

Group Chief Executive

Derek, aged 53, joined the company in 1988. He was appointed to the board in 2006 and served as Group Managing Director of the core Infrastructure Products segment from 2001. Derek has been a Senior Manager within the Hill & Smith group for over 25 years, having been managing director of Hill & Smith Limited, one of the group's principal subsidiaries since 1998.

M Pegler BCom, FCA

Group Finance Director

Mark, aged 45, joined the company as Finance Director designate on 7 January 2008 and was appointed to the board on 11 March 2008. Mark has extensive experience on an international level having been Group Finance Director of Whittan Group Limited, a private equity backed business, between 2002 and 2007. After qualifying with Price Waterhouse, he spent several years in various corporate and operational roles in international manufacturing businesses.

J F Lennox CA

Independent Non-executive

Jock, aged 57, joined the board in May 2009. He is a Non-executive Director of A&J Mucklow Group plc, Dixons Retail plc, EnQuest PLC and Oxford Instruments plc. He is Chairman of the Trustees of the Tall Ships Youth Trust. 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

Senior Independent Non-executive

Clive, aged 60, joined the board in May 2007. He is Executive Chairman of Shimtech Industries Group Limited and Chairman of the Midlands Aerospace Alliance. He retired from Umeco plc in June 2011 having been Chief Executive since April 1997. Clive is the Senior Independent Director and Chairman of the Remuneration Committee.

Governance Report

Governance structure - Board of Directors

W H Whiteley - *Chairman and Non-executive*

D W Muir - *Group Chief Executive*

M Pegler - *Group Finance Director*

J F Lennox - *Non-executive*

C J Snowdon - *Non-executive*

***Company Secretary* - J C Humphreys**

Audit Committee

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

Chairman
J F Lennox

Other members
C J Snowdon
W H Whiteley

Secretary
J C Humphreys

Remuneration Committee

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

Chairman
C J Snowdon

Other members
J F Lennox
W H Whiteley

Secretary
J C Humphreys

Nomination Committee

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

Chairman
W H Whiteley

Other members
J F Lennox
D W Muir
C J Snowdon

Secretary
J C Humphreys

Statement of compliance

As required by the Listing Rules of the Financial Conduct Authority, our governance report explains how the group has applied the principles and complied with the provisions of the UK Corporate Governance Code 2010 (the Code).

We have satisfied the requirements of the Code in 2013 and up to the date of approval of the annual report.

The new UK Corporate Governance Code 2012 applied to the group from 1 January 2013 and we have reported under this code in this year's annual report.

Other statutory and regulatory disclosures can be found on pages 64 to 67.

Governance framework

The Hill & Smith Holdings PLC group consists of the company and the principal subsidiary companies, listed on pages 123 to 125 and operates in seven different countries. The group's businesses are directly supervised by local operating boards and monitored at divisional level. The two executive directors of the board review divisional and individual operating company performance and regularly liaise with selected senior executives and subsidiary company directors. The group has a structure of monthly subsidiary company board meetings (which are attended by the two executive directors) and regular liaison across divisions to ensure, where appropriate, consistent application of governance, operational procedures and group policies and practices. The two executive directors are accountable to the board for the divisional and subsidiary company governance and controls.

Each of the three committees of the board comprise the non-executive directors and non-executive chairman and each committee reports to the board.

Board of directors - composition of the board

- W H Whiteley (Chairman and Non-executive) - independent on appointment
- D W Muir (Group Chief Executive) and M Pegler (Group Finance Director) - executive directors
- C J Snowdon (Senior Independent Director) and J F Lennox - both independent non-executive directors

The Code provides that the independent non-executive directors should comprise at least half of the board, excluding the chairman.

The biographies of the directors of the board are shown on page 39 along with any significant other commitments and appointments they may have.

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

Board balance

Independence

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

Chairman

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

Chief Executive

The chief executive is responsible for the management of the company, executing the group's strategy and development, meeting financial objectives, implementing policies and maintaining controls. The executive directors provide information to the board via their regular written reports and the presentation of proposals for board approval.

Support

The board is supported by the company secretary who, under the direction of the chairman, ensures good communication and information flows between board members. The company secretary is also responsible for assisting the chairman in all matters relating to corporate governance, including the board evaluation process. Directors are able to take independent professional advice, when necessary, at the company's expense.

From time to time, other members of the management team attend board meetings to present annual budgets, updates and proposals relating to their areas of responsibility and reporting on regulatory compliance, risk management and internal controls.

The PLC directors and management of the group businesses are also supported by the central function which includes; risk management, treasury, taxation, acquisitions and corporate development.

Director's terms and conditions

The service agreements and letters of appointment for the executive directors and non-executive directors respectively, are detailed on pages 55 and 56 of the directors remuneration report.

Annual re-election of directors

The board has noted that the Code recommends that all directors of FTSE 350 companies should be subject to annual re-election. Accordingly, the board has implemented annual re-election of all directors with effect from the annual general meeting of 16 May 2012 and all re-elections are now on an annual basis.

How the board operates

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

In particular the board makes decisions, reviews and approves:

- group strategy and operating plans;
- business development, including acquisitions and disinvestments, major investments and disposals;
- risk management;
- financial reporting and audit, including announcements for year end and interim results and interim management systems;
- taxation;
- financing and treasury;
- corporate governance;
- compliance with laws, regulations and the company's code of business conduct;
- corporate sustainability and responsibility, ethics, health and safety, the environment; and
- pension benefits and liabilities.

In addition to the normal business associated with the above, during 2013 the board reviewed and approved the following:

- the schedule of matters reserved for the board;
- board policies on expenses, raising concerns, taking professional advice and executive director's serving on other boards;
- Group Risk & Compliance Counsel appointment (Mrs Kathy Senter);
- group policies manual;
- code of business conduct;
- delegated authority levels;
- international competition compliance policy and manual;
- updated whistleblowing policy;
- diversity and equal opportunities policy;
- parent company guarantees; and
- closure of plants in China (pipe supports) and Telford, UK (industrial flooring business).

Governance Report continued

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

Operation of the board	› Board meetings are scheduled to ensure adequate time for discussion of each agenda item.
	› Board discussions are held allowing for questions, scrutiny and constructive challenge where appropriate.
	› Full debate allows decisions to be taken by consensus (although any dissenting views would be minuted accordingly).
	  › Other members of senior group management regularly attend and give presentations at board meetings.
	  › Local managers may also attend when matters of particular significance or country relevance are proposed or being reviewed.

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

Board meeting attendance

During the year attendance by directors at board and committee meetings was as follows:

	Board	Audit	Remuneration	Nomination	Total meetings	Overall attendance %
Bill Whiteley	8	3	4	1	16	100
Derek Muir	8	3	-	-*	11	100
Jock Lennox	8	3	4	1	16	100
Mark Pegler	8	3	-	-	11	100
Clive Snowdon	8	3	4	1	16	100

* Derek Muir was not invited to attend.

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

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

Chief Executive, Derek Muir, regularly visits the group's operations in all the territories in which it operates. The Group Finance Director, Mark Pegler, also spent time with the local management of both group businesses in India in addition to his regular visits to the US and France with Chief Executive, Derek Muir.

In June 2013 the board visited two operating sites in the UK. The Senior Independent Director, Clive Snowdon, visited the pipe supports operation in Thailand.

Evaluation of the performance of the board

Main elements of the 2013 questionnaire issued to each director:
The board recognises that a performance evaluation is important to optimise board effectiveness and that the evaluation should be appropriate to both the size of the board and the company. Through a bespoke online questionnaire an internal board evaluation was conducted covering the following factors:

- establishment and role of the board;
- membership, skills, appointment and training;
- leadership;
- meetings, contribution and internal relationships and interaction;
- strategic aims, objectives and risks;
- risk management, measurement and culture;
- procedures;
- diversity;
- data quality, use and assurance; and
- communication with stakeholders.

The evaluation was facilitated by the company secretary, under the direction of the chairman, with subsequent interviews undertaken by the chairman, on a one to one basis.

The results of the evaluation reports demonstrated improvements in areas identified in 2012, including devoting more board time to discussing strategic matters and risk management. An increased amount of board time was devoted this year to strategic matters, including a strategy session between the board and senior management and presentations from senior subsidiary management.

The 2013 evaluation process concluded that the board and its committees remain effective in fulfilling their responsibilities appropriately and that each director continues to demonstrate a valuable contribution. Areas identified as requiring more board time in 2014 were:

- How the board measures its aims and objectives.
- How the board operates.
- The monitoring and communication of strategic risks.
- The further development of the levels of assurance, from the internal audit processes.
- The increased application of risk management throughout the organisation.
- The development of the policy on diversity throughout the organisation and at board level.

Meetings and discussions

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

Training and advice

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

Conflicts

The Companies Act sets out directors' general duties concerning conflicts of interest and related matters. The board has agreed an approach and adopted guidelines for dealing with conflicts of interest and has added responsibility for authorising conflicts of interest under the schedule of matters reserved for the board. The board confirmed that it was not aware of any situations that may or did conflict with the interests of the company, other than those that may arise from directors' other appointments, as disclosed in their biographies on page 39.

In accordance with the articles, the board authorised the company secretary to receive notifications of conflicts of interest on behalf of the board and to make recommendations as to whether the relevant matters should be authorised by the board. The company has complied with these procedures.

Committees of the board

The board has three committees - audit, nominations and remuneration. The composition, responsibilities and activities of each of these committees are described below. In addition, both the audit and remuneration committee chairman have given separate reports on pages 46 and 49 respectively. A report on the nominations committee is given below. Each of the non-executive directors is a member of each of the committees. Hill & Smith Holdings PLC is not in the FTSE 350 and therefore is permitted to have two independent non-executive directors and a chairman, who was independent on appointment, as a member of both its audit and remuneration committees. This position continues to be kept under review by the board.

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

The Audit Committee

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

The role of the audit committee and details of its work during the year are contained in the audit committee chairman's report on pages 46 to 48. The members of the committee are set out on page 46. The chief executive, finance director, group risk & compliance counsel and financial controller attend by invitation.

Governance Report continued

The Nomination Committee

Composition of the committee

- W H Whiteley (Chairman)
- C J Snowdon and J F Lennox
- D W Muir (Chief Executive)

Role of the nomination committee

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

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

Meetings

The committee met on one occasion during the year. The attendance of that meeting was:

Names	Attendance 2013 Meeting
W H Whiteley	1
C J Snowdon	1
J F Lennox	1
D W Muir (was not invited to attend)	-

Appointment of new directors

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

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

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

Re-election of directors

All directors retire at every AGM. If deemed appropriate by the board, directors are proposed for re-appointment by shareholders at the forthcoming AGM. In reaching its decision to propose re-election, the board acts on the advice of the nominations committee, taking account of the results of the board evaluation commented upon on page 43.

Following the formal evaluation of the performance of the board in 2013, all directors are being proposed for re-election at the 2014 AGM. Biographies for each director can be found on page 39.

Succession planning

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

Succession planning is reviewed at each meeting of the committee.

Board and employee diversity

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

Gender is just one element of diversity, which the board continues to keep under review.

Board evaluation

A summary of the process and key matters arising from the 2013 board evaluation, led by the chairman and internally facilitated by the company secretary, is contained on page 43.

The Remuneration Committee

The role of the remuneration committee and details of the group's policy and how it implements that policy, are set out on pages 49 to 63.

The members of the committee are set out on page 40. The chief executive attends part of the meeting by invitation but does not participate in discussion about his own remuneration.

Compliance and ethics programme

The group is committed to conducting its business activities responsibly, ethically and in accordance with the laws and regulations applicable to the jurisdictions in which we operate. The board has training and education programmes for employees, relating to compliance within each market and how we expect our business to be conducted. Our recently revised code of business conduct is supported by a set of global policies issued through a group intranet and internal communications.

During the summer of 2013, the group launched a new Code of Business Conduct (the 'CBC'). The CBC is designed to ensure that as a group, all subsidiary companies act ethically, honestly, with integrity and in a legally compliant manner in their business activities.

The CBC applies to everyone who is engaged by the group anywhere in the world, whether they are employees or third parties.

The CBC presides over areas such as health and safety, fair honest and ethical business practice, gifts and entertainment, conducting international business, protection of individuals, resources and assets and at a high level summarises the group's legal and compliance responsibilities in areas such as anti-bribery and corruption, export laws and regulations and international fair and open competition. The CBC also extends to, inter alia, the handling and minimisation of conflicts of interest and the protection of the group's valuable intellectual property rights.

The CBC is accessible on the Hill & Smith group intranet for those engaged by the group and on the company website www.hsholdings.com for public and shareholder review and assurance.

A compliance hotline was launched during the year, facilitated by an internal promotional poster campaign entitled "If you think its wrong, you can put a stop to it!" (Whistleblow). Any calls to the compliance hotline are received in confidence by the group risk & compliance counsel who investigates the issue raised, as appropriate, implements corrective action or mitigation strategies and escalates the matter to the audit committee on a summarised basis.

The enhanced anti-bribery and corruption policies, the procedures for gifts and entertainment and related guidelines issued in the previous year, continue to be applied with consistency and diligence.

In order to bolster the group's policy on conducting international business as set out in the CBC, the group launched an international competition law compliance policy manual and developed a complementary training programme during the last quarter of the year. This programme of compliance activity seeks to ensure adherence to the group's commitment to conduct its business in an "open, vigorous and competitive fashion". Additional information and controls have been introduced to provide further assurance in respect of marketplace conduct, contractual relationships and acquisitive activity.

The group has also implemented a set of procurement standards in its purchasing activity during the year in order to ensure that it mitigates any risk stemming from its supply chain and leverages the economies of scale a group of its size, composition and structure can hope to generate.

As in previous years, each business is required to certify its compliance with the policies issued by the group during the year and in particular with the CBC.

Dialogue with shareholders

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

- The chief executive officer and group finance director meet with institutional shareholder representatives regularly during the year to discuss strategic and other issues as well as to give presentations on the group's results.
- The board receives reports from the company's brokers and financial public relations agency on feedback from institutional shareholders following the executive directors' presentations.
- The chairman of the remuneration committee consults with major shareholders before any significant changes in executive remuneration are implemented, the results of which are reported to the remuneration committee.
- The company's annual report and notice of annual general meeting (AGM) are published as soon as the time required for their printing allows, so as to provide the maximum time in advance of the AGM for feedback, which is shared with the board of directors.
- A presentation is given to shareholders attending the company's AGM at which shareholder participation is encouraged. All directors are usually present and questions and feedback are invited.
- Proxy votes of shareholders for the AGM are tabulated independently by the company's registrars, provided at the AGM and published on the website shortly after the conclusion of that meeting.

All directors are able and available to meet with shareholders to discuss matters and can be contacted through the company secretary. The chairman and senior independent director are available to meet with shareholders concerning corporate governance issues, if so required.

Copies of all major press releases, management statements and interim and annual reports are posted on the company's website together with details of major contracts and projects, key financial and shareholder information, governance, statements, group policies and corporate and organisational structure.

On behalf of the board

Bill Whiteley
Chairman

11 March 2014

Flexbeam N2W4 on the A45 outside Birmingham Airport.

Audit Committee Report

Jock Lennox
Chairman, Audit Committee

Composition of the committee

The members of the committee are:

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

Role

To ensure governance and control over the group's financial reporting and risk management processes with assurance provided by internal activities and external auditors.

Responsibilities

- Reviewing financial results announcements, associated financial statements and any significant financial reporting issues and judgements, which they may contain;
- Advising the board on whether the annual report and accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's performance, business model, strategy and risks;
- Ensuring compliance with applicable accounting standards and reviewing the appropriateness of accounting policies and practices in place;
- Assessing the adequacy of the internal control environment and the processes in place to monitor this, including reviewing the performance of the internal audit activity;
- Reviewing both the key risks and risk management processes, in the context of proportionality and the adequacy of the actions being taken to reduce the risk exposure of the group;
- Overseeing the relationship with the external auditors, reviewing their performance and advising the board on their appointment and remuneration; and
- Ensuring appropriate safeguards are in place for individuals to raise issues with the board where a breach of conduct or compliance, including any financial reporting irregularity, is suspected.

Meetings

The committee meets at least three times a year; in March and August to consider the annual report and financial statements and the interim results report, respectively, together with the external audit findings, and in December to review the activities of the previous year and the plan for the year ahead. At each meeting the performance and findings of the internal audit activity and the most recent key risks are reviewed.

Attendees at each of the meetings are the committee's members as well as, by invitation, the group chief executive, the group finance director, the group financial controller, the group risk & compliance counsel and the external auditor, KPMG. A record of the meeting attendance by committee members is set out on page 42.

Each meeting allows time for the committee to speak with the external auditors without the presence of the executive management.

Main activities during the year

The committee supports the board in carrying out its responsibilities in relation to financial reporting, risk management and assessing internal controls. It also reviews the effectiveness of the company's internal audit processes and manages the relationship with the external auditor.

Committee meetings usually take place just prior to a board meeting, where a report is given to the board on the activity of the committee and matters of particular relevance to the board.

Following the revision to the Code, which applies to financial years commencing on or after 1 October 2012, the board asked the committee to advise them on whether the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's performance, business model and strategy.

The committee's terms of reference have been amended to reflect this and can be found on our website at www.hsholdings.com (Investor Relations/Responsibilities/Committees).

The committee undertook the following activities during the course of the year to discharge its responsibilities:

Financial Reporting

The role of the committee in relation to financial reporting is to review the half year and annual financial statements to ensure they are appropriate. The review is carried out with both management and the external auditor, focussing on whether:

- The annual report and financial statements represent a fair, balanced and understandable view of information for shareholders;
- Material areas of significant judgement have been given due consideration by management and reviewed with external auditors;
- The application of acceptable accounting policies and practices is consistent across the group;

- Clarity of disclosures and compliance with financial reporting standards is acceptable; and
- Any correspondence from regulators has been received in relation to our financial reporting.

The review is based on reporting by the group finance director and his team, as well as reports from the external auditor, based on the outcomes of their half year review and annual audit.

Primary areas of judgement considered by the committee in relation to the 2013 accounts

Valuation of goodwill and indefinite life assets

The value of goodwill and indefinite life assets amounts to £109.6m at 31 December 2013. The review of such assets is based on a calculation of value in use, using cash flow projections based on financial budgets prepared by senior management and approved by the board of directors. The challenging economic conditions in the UK and Europe, in particular, increase the risk of impairment and the committee addresses this by receiving reports from management outlining the basis for assumptions used for cash generating units. Business plans are signed off by the board and assessment models are reviewed as part of the audit, for which the external auditor, KPMG provide reporting to the committee.

Defined benefit pension scheme valuation

Net defined benefit pension obligations under IAS19 amount to £20.2m at 31 December 2013. The committee reviews benchmarks and assumptions that are provided by the group's actuaries and used to value the pension liabilities for the group's defined benefit schemes. The underlying assumptions based on market conditions and the characteristics of the schemes are reviewed by management and the external auditors and reported on to the committee.

Taxation

Assessment of judgements made in relation to uncertain tax positions, regarding the outcome of negotiations with and enquiries from HM Revenues & Customers and other tax authorities in other jurisdictions. Judgements have been made following discussion with the group's tax advisers and internal review.

Internal controls

The committee agreed the audit plan to be undertaken by the internal audit peer reviews. Prior to the start of the year and during each of the meetings throughout the year, progress against this plan was reviewed. The plan was assessed on the basis of providing appropriate coverage over the internal control environment and to give the committee a balanced overview across the group, taking into account the level of risk and previous coverage. Additional areas of review were added to the plan as required where circumstances gave rise to an increased level of risk and any changes to the agreed audit plan were agreed by the committee. The committee received an update from the group financial controller at each meeting summarising the findings of the internal audits undertaken and the progress made against actions agreed from previous audits. Detailed updates on specific areas are provided at the request of the committee and for the period covered by this report the following were considered.

- Contracting activities in the industrial flooring business;
- Control improvements for specific areas of the supply chain;
- Costing and margin controls for the pipe supports operation in Thailand; and
- Financial management of the operations based in India.

Risk management

The risk management process is reviewed annually by the committee to ensure that it is set up to deliver appropriate risk management across the group. During the year the risk management process was further developed, and improvements to the identification and review of major risks were implemented by the newly appointed group's risk & compliance counsel. Since joining, the group risk & compliance counsel has put in place further reinforcement of the group's anti-bribery and corruption procedures and training, as well as completing the roll out of training for supply chain management and issue of a compliance manual on international competition regulations.

The committee believe that these improvements will further strengthen the way that the business understands and manages risk. In addition, the committee reviewed the key risks on the corporate risk register at the time of each meeting. A detailed report was provided to the committee from the group risk & compliance counsel, showing movements in major risks and an update on risk mitigation activity undertaken in relation to those risks. A summary of the key risks and uncertainties to which the business is exposed, can be found on pages 16 to 19.

Assessment of effectiveness of external audit

There are a number of areas that the committee considers in relation to the external auditors: their performance in discharging the audit and interim review of the financial statements, their independence and objectivity and their reappointment and remuneration.

External auditor performance

The external auditors, KPMG, provided the committee with their plan for undertaking the year end audit at the committee meeting in December 2013. This highlighted the proposed approach and scope of the audit for the coming year and identified the key areas of audit, including the audit approach for these areas in some detail. The committee reviewed and appropriately challenged the basis for these before agreeing the proposed approach and scope of the external audit.

During the year the committee considered a report from the group finance director on the effectiveness of the performance of the external auditor. This report was compiled from a detailed assessment covering, amongst other things:

- The calibre of the external auditor including size, resources, geographical representation and reputation;
- The external audit team in terms of the requisite skills, professional and industry knowledge;
- The scope of the external audit to adequately address all the financial reporting risks facing the company and all of the key operations;
- The approach taken in assessing the adequacy of management representations; and
- Communication and interface with internal audit activities and the audit committee on matters affecting critical accounting policies and treatment, governance and risk management.

The conclusion drawn from that assessment was that KPMG had continued to deliver an effective external audit of the group's financial controls, performance reporting and risk identification and management.

Audit Committee Report continued

The external auditors prepared a detailed report of their audit findings at the year end, which they were invited to take the committee through at the meeting in March. The findings were reviewed and discussed in detail by the committee, particularly in relation to the areas highlighted. A similar review of the external auditors' report of their findings at the half year review is undertaken by the committee. As part of this review the committee question and challenge the work undertaken, the findings and the key assumptions made, with particular attention to the areas of audit risk identified.

Auditor independence and rotation

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

KPMG have been the company's auditors since 1999 and during that time the external audit has not been formally tendered. The committee noted that the external auditor is required to rotate the lead audit partner every five years with the current lead audit partner starting in 2011. Whilst the group does not consider it necessary to have a policy for rotation of external audit firms, the committee will evaluate the merits of tendering the audit at the time of the lead audit partner rotation. The committee will continue to regularly consider this in accordance with the audit tendering provisions in the Code. In reaching its positive recommendation to the board for the annual re-appointment of KPMG Audit Plc, the committee reviewed, as part of its terms of reference, the external auditors' performance and effectiveness in the past year. In connection with a general reorganisation of KPMG's UK Audit business, our auditors, KPMG, have informed us that they wish to transfer the appointment as statutory auditor from KPMG Audit Plc to KPMG LLP. The committee has recommended to the board that KPMG LLP be appointed as auditor of the company commencing with the 2014 financial year and their proposed fees be authorised.

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

As part of the standard committee agenda, a review of the group's policy on the use of the external auditor to carry out non-audit services was undertaken. This policy is reviewed annually and such review forms part of the terms of reference of the committee. The current policy is consistent with the ethical standards recommended by the accounting practices board. Included within the policy are activities which the external auditor cannot undertake, such as: those for compiling accounting records, certain aspects of internal audit, IT consultancy and advice to the remuneration committee. For any non-audit services which are not excluded under the policy, the policy provides for approval by the group finance director of any expenditure below the level of £50,000 and above that figure, approval of the audit committee chairman. A report is also submitted to the audit committee of any non-audit services carried out by the external auditor, irrespective of value.

Where the committee believes it is more cost effective for the external auditor to be engaged, for non-audit services, that are not excluded, such as those relating to merger and acquisition due diligence work, it will consider the engagement of the external auditor, subject to application of the principles of the policy, including the financial limits.

During 2013, there were fees of £190,000 paid to the auditors for non-audit services. The fees paid covered aborted acquisition costs (£113k), due diligence on acquired businesses (£58k), pension advice (£19k) and review of interim report (£10k). Further details of the amounts paid are included in note 6 of the accounts.

As the audit committee chairman, I have regular contact with the external audit partner outside of committee meetings and without the management of the business present. In such meetings a wide range of matters are discussed including the change in financial reporting and governance landscape, the company's readiness to accommodate such developments, the external auditor's approach to auditing activities, especially outside the UK and the robustness of our assurance approach generally.

Whistleblowing

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

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

Summary

We aim to keep in step with the continuing development of our responsibilities for financial reporting and the related governance and assurance. Further change will impact us when the recently proposed changes by the EU, regarding the appointment of external auditors and the range of permissible services provided by them, is finalised in the UK. We will consider how best to amend our approach and policies when the way ahead becomes clearer.

Jock Lennox
Independent Non-executive Director
Chairman, Audit Committee

11 March 2014

Remuneration Committee Report

Clive Snowdon
Chairman, Remuneration Committee

Dear Shareholder,

On behalf of the board I am pleased to present our Directors' Remuneration Report for 2013, which sets out the remuneration policy for the directors and the amounts earned in respect of the year ended 31 December 2013.

We have continued to monitor our executive remuneration policy to take account of evolving market practice and we remain committed to a responsible approach to executive pay. At the same time we have worked to ensure that a fair and stable framework is maintained, so as to avoid making unnecessary and frequent changes.

Our remuneration policy is designed to have a significant proportion of executive pay linked to achievement of demanding performance targets. Accordingly, whilst the group's results in 2013 were as anticipated in the November 2013 interim management statement, the more demanding performance targets for the annual bonus and part of the Long Term Incentive Plan (LTIP) awards were not fully achieved, as can be seen from this report on remuneration on page 57.

During the year the committee, who membership and meetings are set out on pages 40 and 42 respectively, met on four occasions for the purposes of:

› Developing the remuneration policy for the executive directors of the company and senior executives within the group, including a complete review of the current arrangements. The remuneration committee were advised by Deloitte on this revised policy, which is subject to approval by shareholders at the annual general meeting in May 2014. Consultation was also undertaken with our major shareholders.

› Considering the review of the base salaries of the executive directors. An increase in base salaries of 3% was awarded, with effect from 1 January 2014, which was in line with the range of increases in base pay awarded to employees across the group.

› Confirming bonuses of 16.4% of salary to the executive directors in respect of the financial year 2013 to reflect achievement of underlying profit before tax of £41.2m and underlying earnings per share growth of 4.10%.

› Considering the vesting of the LTIPs awarded in 2010, none of which vested.

› Ensuring the incentive performance targets for 2014 remain appropriate and aligned to the group's strategy and act as an incentive, for executive directors, to deliver sustained business performance. As a result the remuneration committee resolved to make the following minor amendments to the performance targets for the 2014 annual bonus and the 2014 LTIP award:

  - To provide a closer alignment to strategy and a more rounded assessment of group performance, the annual bonus metrics are to be extended to include operating margins and return on capital (in addition to the existing budgeted underlying profit before tax and underlying earnings per share growth metrics).

  - The 2014 LTIP performance metrics will continue to be growth in underlying earnings per share and total shareholder return relative to the FTSE Small Cap, with each having an equal weighting. However, given the increasing international representation of the group businesses the committee considers that the linking of earnings per share performance targets to UK inflation (RPI) is no longer appropriate. In setting the earnings per share targets the remuneration committee, having taken into account the forecasts and market expectations for the group, believes that the proposed targets are sufficiently challenging and provide suitably stretching performance conditions, without encouraging excessive risk.

  - In keeping with best practice, the level of vesting at threshold performance, for both the earnings per share and total shareholder return elements, will be set at 25% of the maximum opportunity for each of these elements.

› Reviewing and updating the rules for the 2007 LTIP, 2005 Executive Share Option Scheme and 2005 SAYE Scheme. Further details of this review and the new proposed schemes are contained in the notice of the company's annual general meeting.

The existing policy and fundamental structure of remuneration remains largely unchanged and the overall quantum of the incentives has not changed. We believe this ensures a continued alignment to business strategy and encourages the creation of shareholder value.

Clive Snowdon
Senior Independent Non-executive Director
Chairman, Remuneration Committee

11 March 2014

Directors' Remuneration Report

This report complies with the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 and the 2010 UK Corporate Governance Code. New regulations have come into effect which impact the presentation and disclosure of directors' remuneration, and the layout of this report reflects those new regulations. This report is, therefore, presented in two sections: the directors' remuneration policy report and the annual report on remuneration. The directors' remuneration policy report sets out the forward-looking remuneration policy that will be subject to a binding vote at the annual general meeting (AGM). The annual report on remuneration provides details on the amounts earned in respect of the year ended 31 December 2013 and how the directors' remuneration policy will be operated for the year commencing 1 January 2014 and will be subject to an advisory vote at the AGM.

Directors' remuneration policy report (not audited)

This part of the report sets out, in tabular form, the directors' remuneration policy, which, subject to shareholder approval at the 2014 AGM, shall take binding effect from the date of that meeting. The policy has been determined by the company's remuneration committee. Information on how the remuneration committee intends to implement the policy for the current financial year is set out in the annual report on remuneration.

Directors' remuneration policy table

	Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Base salary	Help recruit and retain executive directors. Provides fixed remuneration for the executive directors, which reflects the individual's experience and the size and scope of the executive's responsibilities.	Normally reviewed annually and fixed for twelve months. Salaries are determined by the Remuneration Committee taking into account a range of factors, including but not limited to: › the size and scope of the role; › individual and group performance; › average change in broader workforce salary; › total organisational salary budgets; and › pay levels for comparable roles in companies of a similar size and complexity. However, increases may be above this level in certain circumstances. Any salary increases may be implemented over such time as the remuneration committee deems appropriate.	Ordinarily salary increases will not exceed the range of salary increases to other employees in the group. However, salary increases may be above this level in certain circumstances as required, for example, to reflect: › increase in scope or responsibility; › performance in role; or › an executive director being moved to market positioning over time. No maximum salary opportunity has been set out in this policy report to avoid setting expectations for executive directors. The base salaries effective as at 1 January 2014 are shown on page 54.	Not applicable.
Benefits	Help recruit and retain executive directors. Ensures the overall package is competitive. Participation in the SAYE scheme promotes staff alignment within the group and a sense of ownership.	Executive directors are entitled to a range of benefits, including but not limited to, membership of the group's healthcare scheme, personal accident insurance, ill health, life assurance and car (or equivalent cash allowance). Other benefits may be provided based on individual circumstances. Such benefits may include but are not limited to expatriate, housing or relocation allowances. The SAYE scheme is a HM Revenue & Customs approved monthly savings scheme facilitating the purchase of shares at a discount up to a maximum of 20%.	Whilst the remuneration committee has not set an absolute maximum on the level of benefits executive directors receive, the value of benefits is set at a level which the remuneration committee considers is appropriately positioned against companies of a similar size and complexity in the relevant market and at rates competitive in the area of life, accident and health insurance. SAYE scheme contribution as permitted in accordance with the relevant legislation and HMRC rules.	Not applicable.

	Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Pension	Help recruit and retain executive directors. To provide competitive post-retirement benefits and reward sustained contribution to the performance of the group.	The group may make payment either into a defined contribution plan or as a separate cash allowance. Group contributions are determined as a percentage of base salary and set at a level which the remuneration committee considers to be appropriately positioned against comparable roles in companies of a similar size and complexity.	Contribution rates (or cash allowances) are up to a maximum of 25% of base salary. The company closed, with effect from October 2011, its defined benefits pension scheme to any future accrual. D W Muir, who is a deferred member, continues to receive benefits only in accordance with the terms of the scheme.	Not applicable.
Annual bonus	Rewards the achievement of annual financial and/or strategic business objectives.	Performance measures and targets are reviewed and set annually by the remuneration committee. Bonus pay-out is determined by the remuneration committee after the relevant year end, based on audited performance against those targets. The remuneration committee has the discretion to amend the bonus pay-out should any formulaic outputs not produce a fair result for either the executive director or the company, taking account of overall business performance.	The maximum bonus opportunity is up to 100% of base salary.	The bonus will be based on the achievement of targets related to key business objectives, with the performance measures and respective annual weightings, dependent on the group's strategic priorities. The performance measures will include at least two of the following: › growth in underlying earnings per share ('UEPS'); › budgeted profit; › operating margins; › return on capital; or › other performance metrics that the remuneration committee considers appropriate. At least 50% of the bonus will be based on EPS and budgeted profit. The remuneration committee will determine an appropriate performance range for each measure used. Below the threshold level of EPS performance 0% of maximum opportunity will pay-out and a straight line entitlement will usually apply between this and the maximum performance. Up to 60% of the maximum opportunity will be earned for target performance and 100% for maximum performance. There is usually straight line vesting between these performance points. For all other measures, at a threshold level of performance up to 25% of the maximum opportunity will be earned.

Directors' Remuneration Report continued

	Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Long Term Incentive Plan ('LTIP')	Incentivises executive directors to achieve higher returns for shareholders over a longer time frame. A claw back applies to unvested awards enabling the company to mitigate risk.	The remuneration committee plans to make long term incentive awards under the new 2014 LTIP which will be put to shareholders for approval at the 2014 annual general meeting. The key features of the new 2014 LTIP are noted below: The remuneration committee may grant awards over conditional share awards, nil cost share options or forfeitable shares or such other form as has the same economic effect. Awards are typically granted annually and vesting is subject to achievement of performance measures normally over at least three years. LTIP awards may vest early on a change of control (or other relevant events) subject to the satisfaction of performance conditions and pro-rating for time, although the remuneration committee has discretion to increase the extent of vesting having due regard to performance over the period to vesting. LTIP awards may also vest early in 'good leaver' circumstances (as shown on page 55). At its discretion the remuneration committee may award dividend equivalents to reflect dividends that would have been paid over the vesting period on shares that vest. This dividend payment may be in the form of additional shares or a cash payment equal to the value of those additional shares. LTIP awards and vesting are subject to a claw back provision such that, at the discretion of the remuneration committee, unvested awards may lapse for material errors or the misstatement of results or information coming to light which, had it been known, would have affected the award or vesting decision or reputational damage to the group. The remuneration committee may at its discretion structure awards as approved LTIP awards comprising both an HMRC approved option granted under the Executive Share Option Scheme ('ESOS') and an LTIP award. Approved LTIP awards enable the participant and the company to benefit from HMRC approved option tax treatment in respect of part of the award, without increasing the pre-tax value delivered to participants. The approved LTIP awards may be structured either as an approved option for the part of the award up to the HMRC limit (currently £30,000) with an unapproved option for the balance and a 'linked award' to fund the exercise price of the approved option OR as an approved option and an LTIP award with the vesting of the LTIP award scaled back to take account of any gain made on exercise of the ESOS option. Other than to enable the grant of £30,000 in value of the HMRC approved options as an approved LTIP award, the company will not grant awards to executive directors under both the ESOS and LTIP in the same grant period.	The annual LTIP maximum opportunity is 100% of base salary in respect of each financial year. Shares subject to an approved option granted as part of an approved LTIP award are not taken into account for the purposes of this limit because, as referred to in the column under the heading "Operation", either (i) the unapproved LTIP option is scaled back at exercise to reflect the gain made on the exercise of the approved option; or (ii) the full value of the award is reflected in the unapproved option and "linked award".	Awards vest subject to the achievement of performance measures assessed over more than one financial year (normally three years). The performance measures are reviewed annually to ensure they remain relevant and aligned to the group's strategy. Performance measures will be based on financial measures and/or share price growth related measures. For 2014, the performance measures and weightings will be: › 50% based on EPS performance; and › 50% based on relative total shareholder return (TSR). For achievement of the threshold level of performance (the minimum level of performance for vesting to occur) up to 25% of the maximum opportunity will vest for each element. For achievement of maximum performance 100% of the maximum opportunity will vest; there is straight line vesting between the performance points of 25% and 100%. Where an option under the ESOS is granted as part of an approved LTIP award, the same performance condition applies to the ESOS option as applies to the LTIP award.

	Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Shareholding guidelines	Promotes alignment to shareholders interests and share ownership	Each executive director is required to hold shares acquired through the LTIP until the value of their total shareholding is equal to their annual base salary.	Not applicable.	Not applicable.
Chairman and non-executive director fees	Sole element of non-executive director remuneration are fees, set at a level that reflects market conditions and sufficient to attract individuals with appropriate knowledge and experience.	Fees are reviewed periodically and are determined by the board. The fee structure is as follows: › the chairman is paid a single consolidated fee; › the non-executive directors are paid a basic fee plus additional fees for chairmanship of a committee; › the senior independent director also receives an additional fee in respect of this role; and › fees may be paid wholly or partly in shares. The non-executive directors do not participate in any of the group's share incentive plans nor do they receive any pension contributions. Non-executive directors may be eligible to benefits such as the use of secretarial support, travel costs or other benefits that may be appropriate.	Fees are subject to an overall cap as set out in the company's Articles of Association. Fees are based on the time commitment and responsibilities of the role. Fees are appropriately positioned against comparable roles in companies of a similar size and complexity in the relevant market.	

Explanation of chosen performance measures and how targets are set
Performance measures have been selected that reflect the group's strategy. Stretching performance targets are set each year for the annual bonus and LTIP awards. In setting these stretching performance targets the remuneration committee will take into account a number of different reference points such as the group's business plans and strategy. The remuneration committee considers that underlying EPS and profit before tax are closely aligned to the group's key performance metrics and, in conjunction with the other annual bonus performance metrics, provides a balanced measurement of performance that encourages sustainable growth. The EPS and TSR performance conditions attaching to the LTIP align management's objectives to those of shareholders and rewards for the delivery of year on year growth and delivery of value to shareholders. For the relative TSR performance condition there will be no vesting for performance below median compared to the comparator group.

The remuneration committee retains the discretion to adjust the performance targets and measures where it considers it appropriate to do so. For example, to reflect changes in the structure of the business and to assess performance on a fair and consistent basis from year to year.

In accordance with the scheme rules awards may be adjusted in the event of a variation of capital.

Differences in the group's policy for the remuneration of employees generally
The group aims to provide a remuneration package that is market competitive in the employee's jurisdiction of employment and which:

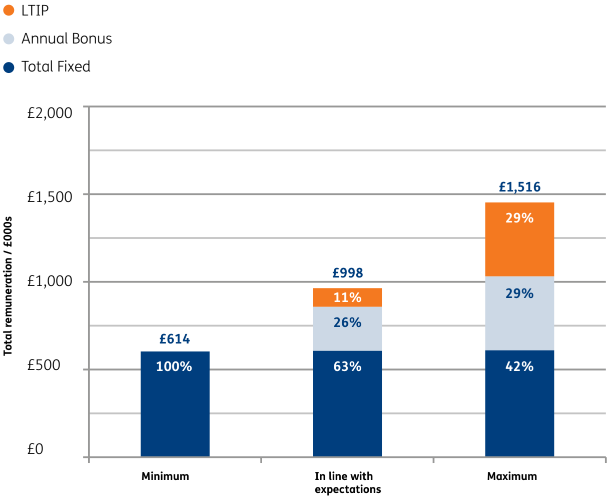
- is appropriate to attract, retain, motivate and reward, without paying more than necessary;
- is fairly and consistently applied; and
- includes an element of incentive to share in the financial success of the group through: annual bonuses, based upon the performance of individual business units; executive share options; and a UK SAYE scheme, all of which are aligned to the strategic objectives and performance of the group.

Directors' Remuneration Report continued

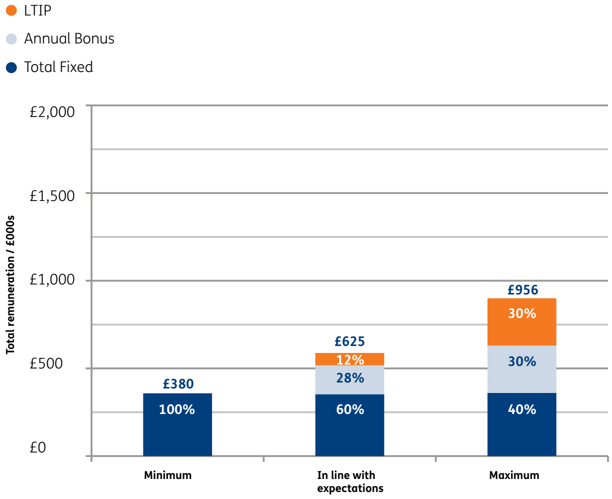
Illustrative performance scenarios for 2014 (all £000's)

	Base salary 1 January 2014	Benefits	Pension	Total fixed
Chief Executive (CEO)	451	50	113	614
Finance Director (FD)	288	20	72	380

Chief Executive - Derek Muir



Finance Director - Mark Pegler



The illustrative performance charts above are based on the proposed remuneration policy as set out on pages 50 to 53. In developing the scenarios, the following assumptions have been made:

Minimum (£000's) CEO - 614 FD - 380	Consists of total fixed pay – i.e. base salary, benefits and pension. › Base salary is the salary effective at 1 January 2014. › Taxable benefits as per single figure table. › Pension contribution is based on the policy set out in the future policy table and on the base salary effective at 1 January 2014.
In-line with expectations (£000's) CEO - 998 FD - 625	Consists of: › Total fixed pay, as set out above. › Annual bonus pays out at 60% of maximum for target performance (i.e. 60% of base salary based on a maximum potential of 100% of base salary). › LTIP pays out at 25% of maximum for threshold vesting (i.e. 25% of base salary based on a usual maximum of 100% of base salary).
Maximum (£000's) CEO - 1,516 FD - 956	Consists of: › Total fixed pay, as set out above. › Full pay-out of annual bonus – i.e. up to 100% of base salary. › Full vesting of LTIP awards – i.e. up to 100% of base salary.

Approach to recruitment remuneration

The objective of this policy is to allow the remuneration committee to offer remuneration packages which:

- facilitates the recruitment of individuals of sufficient calibre to develop and deliver our business strategy and create shareholder value;
- offers a remuneration package that reflects the key principles of the group's wider remuneration philosophy; and
- seeks to ensure that arrangements are in the best interests of the group and not to pay more than is appropriate.

Typically the individual will be transitioned onto a remuneration package that is consistent with the policy set out in the table above. However, the remuneration committee retains the discretion to make remuneration decisions or include other remuneration components or awards which are outside the policy elements set out on pages 50 to 56 where it considers it necessary. In determining appropriate remuneration arrangements the remuneration committee will consider:

- the quantum of the package on offer compared to that of similar positions in the market;
- the structure of the remuneration package;
- the experience of the candidate; and
- the interests of the company and its shareholders.

The following elements may also be considered by the remuneration committee for inclusion in a recruitment package for an executive director:

Compensation for forfeited awards on leaving a previous employer	The remuneration committee may make awards on hiring an external candidate to compensate the candidate for the forfeiture of any award entered into with a previous employer. In determining any such 'buy-out' the remuneration committee will consider all the relevant factors including the likelihood of the awards vesting should the external candidate have remained in their previous employment, the form in which they were granted (e.g. share or shares) and the time over which they would have vested. Generally, buy-out awards will be made on a comparable basis to those forfeited. The remuneration committee would seek to implement any buy-out awards in line with the company's remuneration framework, so far as practical. Where considered appropriate, buy-out awards will be subject to forfeiture or claw back on early departure.
Initial incentive awards	Subject to the overall maximum variable remuneration limit set out below and to the overall LTIP plan limits set-out under the policy elements on page 52, incentive awards may be granted within the first twelve months of appointment above the normal maximum annual award opportunity set out on page 52. The remuneration committee will ensure that any such awards are linked to the achievement of appropriate and challenging performance targets and will be forfeited if performance or continued employment conditions are not achieved.
Maximum variable remuneration (excluding buy-out awards)	The maximum level of variable remuneration which may be awarded is 200% of base salary, (consisting of 100% annual bonus and 100% LTIP).
Service contracts	The remuneration committee's policy is for service contracts for new executive directors to be capable of termination by giving twelve months' notice and up to twelve months' notice from the executive director.

In connection with the recruitment of an executive director, the remuneration committee may rely on exemption 9.4.2, of the Stock Exchange Listing Rules which permits the making of a long term incentive scheme award to facilitate, in exceptional circumstances, the recruitment of a director. Where a position is filled internally, any ongoing remuneration obligations or outstanding variable pay elements shall be allowed to continue according to the original terms. Where necessary, the group will pay appropriate relocation costs and the remuneration committee will seek to ensure that no more than necessary is paid.

Fees payable to a newly appointed chairman or non-executive director will be in line with the fee policy in place at the time of appointment.

Service contracts and loss of office payments
The policy on executive director service contract and payment for loss of office is summarised below:

Notice period for termination by the company	Twelve months.
Notice period for termination by the employee	Not less than six months.
Within ninety days of a change of control	By the company – twelve months. By the executive director – ninety days.
Payment in lieu of notice	Base salary and benefits, to which the executive director is entitled to (including any bonus accrued up until the date of termination – not withstanding that the date of termination may be prior to the date the bonus is actually paid).
Other incentives	The remuneration committee also has discretion to incorporate payments under the performance-linked elements of the package under 'good leaver' scenarios, this may include: › If the executive director leaves during the annual bonus performance year, a payment may be made at the remuneration committee's discretion. Typically for 'good leavers', bonus amounts (as determined by the remuneration committee) will be pro-rated for time in service up to the termination, be subject to performance and paid at the usual time; › The vesting of share based awards will be governed by the rules of the relevant incentive plan, as approved by shareholders. • Under the current LTIP, the provisions for 'good leavers' provide that awards will vest at the end of the normal vesting period but the remuneration committee has discretion to accelerate vesting to the date of cessation of employment. If accelerated to the date of cessation of employment vesting will take account of performance over the period to the date of cessation of employment and will be subject to pro-rating for time (although the remuneration committee has discretion to increase the extent of vesting having due regard to performance over the period to vesting). • 'Good leaver' scenarios are death, injury, ill-health, redundancy, the executive director being employed by a company or undertaking which ceases to be part of the Hill & Smith group, or any other circumstance that the remuneration committee deems appropriate. › Other than in 'good leaver' scenarios described above, no pay-outs will be made under the performance linked awards. › Where a buy-out award is to be made under Stock Exchange Listing Rule 9.4.2. then the leaver provisions would be determined at the time of the grant.

Directors' Remuneration Report continued

Appointments for 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. Discretion is retained to terminate with or without due notice or paying any payment in lieu of notice dependent on what is considered to be in the best interests of the company in the particular circumstances.

Where the remuneration committee retains discretion, as outlined above, it will be used to provide flexibility in certain situations, taking into account the particular circumstance of the directors departure and recent performance of the company.

Statement of considerations elsewhere in the company

When setting the policy for directors' remuneration, the remuneration committee has regard to the pay and employment conditions elsewhere within the group, although employees are not formally consulted on directors' remuneration policy. This includes consideration of:

- salary increases for the general employee population;
- overall spend on annual bonus;
- participation levels in the annual bonus, long term incentive and share option plans;
- company-wide benefits (including pension) offerings; and
- any other relevant factors as determined by the remuneration committee.

The remuneration committee takes into account ad-hoc information as provided to it from time to time, including advice from appropriate remuneration consultants.

Discretion and existing contractual arrangements

The remuneration committee reserves the right to make any remuneration payments and payments for loss of office, notwithstanding that they are not in line with the policy, set out above, where the terms of the payment were agreed:

(i) before the policy came into effect; or

(ii) at a time when the relevant individual was not a director of the company and, in the opinion of the remuneration committee, the payment was not in consideration for the individual becoming a director of the company.

For these purposes 'payments' includes the remuneration committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment as 'agreed' at the time the award is granted. For the avoidance of doubt, the remuneration committee's discretion includes discretion to determine, in accordance with the rules of the current LTIP, the extent to which awards under that plan may vest in the event of a change of control or in a 'good leaver' circumstance.

The remuneration committee may make minor changes to this policy, which do not have a material advantage to directors, to aid in its operation or implementation without seeking shareholder approval but taking into account the interests of shareholders.

Statement of consideration of shareholder views

The company is committed to ongoing dialogue and seeks shareholder views ahead of making significant changes to its remuneration policies. In this regard the remuneration committee has consulted with major shareholders over the proposed changes to the LTIP performance measures for 2014.

Annual report on remuneration

Remuneration philosophy

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

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

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

The remuneration policy is designed to ensure that executive directors are provided with sufficient remuneration to motivate each individual, together with appropriate incentives that are aligned to strategy and encourage enhanced performance. The group operates in increasingly competitive international markets and for it to continue to compete successfully, it is essential that the level of remuneration and benefits offered for leadership roles achieves the objectives of attraction, retention, motivation, performance and reward.

The following parts of the remuneration report are subject to audit, other than the elements explaining the application of the remuneration policy for 2014.

Single total figure of remuneration
The tables below reports the total remuneration receivable in respect of qualifying services by each director during the periods:

Executive Directors
Year ended 31 December 2013 - £000's

	Total salary	Taxable benefits	Annual incentive	Long term incentives	Pension related benefits	Total
D W Muir	438	50	72	415	109	1,084
M Pegler	280	20	46	267	70	683

Year ended 31 December 2012 - £000's

	Total salary	Taxable benefits	Annual incentive	Long term incentives	Pension related benefits	Total
D W Muir	425	49	361	0	106	941
M Pegler	271	19	230	0	68	588

Non-executive Directors
Year ended 31 December 2013 - £000's

	Total salary	Taxable benefits	Annual incentive	Long term incentives	Pension related benefits	Total
W H Whiteley	131	0	0	0	0	131
C J Snowdon	48	0	0	0	0	48
J F Lennox	48	0	0	0	0	48

Year ended 31 December 2012 - £000's

	Total salary	Taxable benefits	Annual incentive	Long term incentives	Pension related benefits	Total
W H Whiteley	127	0	0	0	0	127
C J Snowdon	47	0	0	0	0	47
J F Lennox	46	0	0	0	0	46

The figures in the single figure table above are derived from the following:

Total Salary and Fees	The amount of salary / fees received in the year.
Taxable Benefits	The taxable value of benefits received in the year. These are membership of the company's healthcare scheme, income protection scheme, personal accident insurance, car (or cash allowance), ill health and life assurance.
Pension	The pension figure represents the cash value of pension contributions received by the executive directors. This includes the company's contributions to the defined contribution pension scheme and any salary supplement in lieu of a company pension contribution.
Annual Bonus	Annual bonus is the value of the bonus earned in respect of the year. A description of performance against which the bonus pay-out was determined is provided on page 58.
Long Term Incentives (including SAYE)	Long term incentives includes the value of LTIP awards that vest in respect of the financial period. For the year ended 31 December 2012 comparative figures, the LTIP awards in respect of the performance period commencing on 1 January 2010 and ending on 31 December 2012 lapsed in full. For the year ended 31 December 2013 the growth in UEPS over the three year performance period commencing 1 January 2011 and ending 31 December 2013 was 3.6% and the company's TSR was positioned in the upper quartile relative to the FTSE SmallCap for the same period. Therefore, 50% of the total LTIP award of 18 March 2011 vested, giving D W Muir the benefit of 68,495 shares and M Pegler the benefit of 43,724 shares, both 50 per cent of the total award. The face value of the vested shares is based on the closing share price of 540.50p/share at the vesting date 10 March 2014. The value of dividends receivable in respect of vesting LTIPs was for D W Muir £30,079 and for M Pegler £19,201, which in both cases is being taken in company shares (8,052 shares for D W Muir and 5,140 shares for M Pegler). Using IFRS2 accounting standards, a value of £1k for D W Muir and £4k for M Pegler has been ascribed to the benefit of the 2005 SAYE grants made in the period and detailed on page 62.

Directors' Remuneration Report continued

Individual elements of remuneration

Base salary and fees

Basic annual salaries for executive directors are reviewed by the committee on an annual basis or when a material change of responsibility occurs. The remuneration committee does not however have a formal positioning policy for base salary as it is acutely aware of the issues around setting pay solely by reference to a benchmark reference point.

During the period under review the committee reviewed the salaries of the executive directors and other senior executives in the context of the previous benchmarking exercises, the current performance of the company and the levels of pay increases to be applied throughout what is now a large group of international businesses. This approach is consistent with that taken in prior years. Accordingly, the following salary increases have applied to the executive directors which are in line with the wider workforce:

	2013 base salary £000's	2014 base salary £000's	Increase
D W Muir	438	451	3.0%
M Pegler	280	288	3.0%

In making these awards the committee also took into account the overall performance of the group, in a challenging economic climate, the continued development of the international scale of the group and the management of the group's net debt.

The non-executive directors do not have service contracts and fees for non-executive directors are determined by the executive directors in light of market best practice and with reference to the time commitment and responsibilities associated with the role. The non-executive directors do not participate in any decision in relation to the determination of their fees.

The non-executive directors are not eligible for performance related bonuses or the grant of awards under any group incentive scheme. No pension contributions are made on their behalf.

Non-executive director fees	2013 £	2014 £
Basic fee	42,250	43,500
Additional fee for:		
- Chairmanship of the Remuneration Committee	4,300	4,500
- Chairmanship of the Audit Committee	5,300	5,500
- Senior Independent Non-executive Director	1,600	1,600

Fees to be paid to the chairman in 2014 will be £135,000 an increase of 3.05% from £131,000 in 2013. He does not receive any additional fees for committee memberships.

Annual bonus

Executive directors are eligible for an annual performance related cash bonus, designed to pay the maximum of 100% of base salary only in circumstances where stretching performance targets have been satisfied.

Whilst the remuneration committee is aware that some shareholders wish to see detailed retrospective disclosure of bonus targets, it considers this inappropriate given that such disclosure would provide information relating to the company's approach to annual budgeting. The PBT and UEPS targets are based on commercially sensitive information that the board believes could negatively impact the company's competitive position by providing our competitors with insight into our business plans and expectations, resulting in significant risk to future profitability and shareholder value. However, the committee will review this annually, and may disclose some details on a retrospective basis where it considers it appropriate to do so.

We are committed to providing as much information as we are able to, in order to assist our investors in understanding how our incentive payouts relate to performance delivered. The following table sets out the bonus pay-out to the executive directors for 2013 and how this reflects PBT and UEPS performance for the year.

Underlying PBT	UEPS growth	Bonus pay-out as a percentage of salary
£41.2m	4%	16.4%

Annual bonus in 2014

For 2014 the following performance conditions for the annual bonus will apply in equal measure:

- Growth in UEPS;
- Budgeted underlying profit before tax;
- Improvement in operating margin; and
- Achievement of budgeted return on capital.

The remuneration committee considers that these performance measures reflect the group's strategy and direction for 2014. The remuneration committee considers that the actual annual bonus targets are commercially sensitive and should therefore remain confidential to the group. They provide our competitors with insight into our business plans, expectations and our strategic actions. However, the remuneration committee will continue to disclose how the bonus pay-out delivered relates to performance against the targets on retrospective basis.

Long Term Incentive Plan (LTIP)

The Hill & Smith 2007 LTIP provides for the grant of conditional share awards. The remuneration committee is keen to ensure that its remuneration arrangements are appropriate, up to date and reflect best practice for the duration of the remuneration policy. It is therefore seeking approval for a new set of plan rules to govern the LTIP. The rules will be broadly similar to those already in place but are updated to ensure they include best practice in terms of corporate governance. A summary of these rules has been provided with notice of AGM.

Under the 2007 and proposed 2014 LTIPs, awards are generally made to executive directors on an annual basis with the level of vesting determined by reference to stretching performance conditions. Under normal circumstances the maximum market value of shares pursuant to an award to any director or senior 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.

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

Awards vesting in respect of the year ended 31 December 2013
The vesting performance criteria for LTIP awards granted in 2011 and which vest in 2013 are as follows:

1. 50% of the award based on the growth in absolute UEPS that is in excess of RPI, over the three year performance period.

	Absolute UEPS growth	Vesting amount
Below threshold	Less than RPI + 10%	0%
Threshold	RPI + 10%*	0%
Maximum	RPI + 25%*	100%

* *Straight line vesting will apply between these points.*

2. 50% based on the TSR performance over the three year performance period relative to the FTSE SmallCap.

	Company TSR relative to the FTSE SmallCap	Vesting amount
Below threshold	Below median	0%
Threshold	Median*	30%
Maximum	Upper quartile*	100%

* *Straight line vesting will apply between these points.*

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 group'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 group's performance over the three year performance period to 31 December 2013 and expected vesting is shown in the table below:

	Required performance	Actual performance	% of award vesting
Growth in absolute UEPS (50%)	From RPI + 10%* to RPI + 25%*	3.6%	nil
TSR relative to FTSE SmallCap (50%)	At the median 30%* For Upper Quartile 100%* of maximum	Upper quartile	50%
Total vesting			50%

* *Straight line vesting will apply between these points.*

Awards granted during the year ended 31 December 2013
In respect of the period ended 31 December 2013 the following LTIP awards were granted:

	Type of award	Maximum opportunity	Number of shares	Face value at grant*, £000's	% of award vesting at threshold	Performance period
D W Muir	LTIP	100% of salary	97,695	438	15%	1 Jan 13 - 31 Dec 15
M Pegler	LTIP	100% of salary	62,453	280	15%	

*Face value based on the average mid-market price for the three trading days prior to the award date of 18 March 2013 (448.33p).

The performance conditions for these LTIP awards are the same as those applying to the January 2011 LTIP awards and are described above.

Directors' Remuneration Report continued

Awards for the year ending 31 December 2014
It is intended that LTIP awards for 2014 will be made under the 2014 LTIP rules being put to shareholders for approval at the AGM. The rules are broadly similar to those already in place but have been updated to ensure that they reflect best practice and good corporate governance that has emerged since the last set of plan rules were adopted. A summary of the new rules are set out in the notice of AGM.

The 2014 LTIP performance conditions will continue to be growth in UEPS and total shareholder return relative to the FTSE Small Cap (and will continue to have an equal weighting). However, given the increasing internationality of Hill & Smith's business the committee considers that the linking of UEPS performance targets to UK inflation (RPI) is no longer appropriate. In setting the UEPS targets the committee has taken into consideration forecasts and market expectations for the group and considers that the proposed targets are sufficiently challenging and provide an appropriate balance between setting suitably stretching performance conditions to act as an appropriate incentive for the executives and to deliver sustained business performance, without encouraging excessive risk.

The committee will continue to monitor these targets to ensure they remain appropriately stretching and executives only receive substantial reward for significant out performance. As set out below, we are proposing to use targets based on growth in absolute UEPS over a three year period for 2014 awards onwards:

	Absolute UEPS growth over three years	Vesting amount
Below threshold	Less than 15%	0%
Threshold	15%	25%
Maximum	30%	100%
(straight line vesting between these points)		

For the avoidance of doubt the TSR performance condition will remain as threshold vesting for median performance against the FTSE Small Cap and maximum vesting for upper quartile performance. In line with best practice, the level of vesting at threshold performance for both the UEPS and TSR elements will be aligned at 25% of the maximum opportunity for each element. No changes are proposed to the normal maximum incentive opportunity which will remain at 100% of salary.

It is intended that the 2014 LTIP awards will be structured as approved LTIP awards comprising both an HMRC approved option granted under the Executive Share Option Scheme ('ESOS') and an LTIP award with the vesting of the LTIP award scaled back to take account of any gain made on exercise of the ESOS option. The performance conditions set out above will apply to both the approved ESOS option and the LTIP award. Approved LTIP awards enable the participant and the group to benefit from HMRC approved option tax treatment in respect of part of the award, without increasing the pre-tax value delivered to participants.

2005 Sharesave Scheme
The 2005 sharesave scheme is open to all UK 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. The executive directors were granted options under the 2005 Sharesave Scheme in 2013 at a share price of 355p/share - see table on page 62. D W Muir exercised an option over 1,328 SAYE shares with an exercise price of 318p during the year ended 31 December 2013.

The Sharesave Scheme will expire in 2015 and, similarly to the LTIP, the remuneration committee is seeking approval for a set of rules to govern the Sharesave Scheme at the 2014 AGM. A summary of the proposed rules has been provided in the notice of AGM.

Total pension entitlements
Under his pension arrangement, as an active member, D W Muir's pension benefit was based upon an accrual of 1/30th of the earnings cap (applying prior to 6 April 2006 and increased in line with the rules of the Scheme) for each year of pensionable service calculated from 1 October 1998.

Following cessation of his defined benefit scheme active membership (and future accrual) D W Muir has, with effect from 1 November 2011, been in receipt of a salary supplement of 25% of his basic salary in lieu of any form of pension contribution and as compensation for his becoming a deferred member of the defined benefit scheme. D W Muir's deferred pension is subject to statutory increases in line with inflation.

The details of D W Muir's pension accrued in the defined benefit scheme are shown below:

Accrued pension at 31 December 2013	£126,297
Transfer value of accrued pension at 31 December 2013	£2,829,000
Change in accrued pension of 2013 excluding increase for inflation	£nil
Normal retirement date	6 July 2020

The increase in the transfer value calculated for D W Muir (from £2,559k as at 31 December 2012) is a result of changes in financial conditions over the period from 31 December 2012 to 31 December 2013, with the increase in market expectations of inflation (serving to increase the transfer value) being larger than the increase in corporate bond yields over the period (serving to reduce the transfer value).

As noted last year for the 2012 year end accounts, D W Muir had ceased benefit accrual in 2011 and had then received a cash supplement amount in lieu of company pension contributions. As such, D W Muir has not had any further benefit accrual within the defined benefit scheme in 2013. Any inflationary increases that have occurred over the year are in line with statutory requirements and as such, these increases have:

- already been accrued by D W Muir;
- already been funded for in the executive defined benefit scheme; and
- already had the associated cost of accrual reported in the group's accounts in previous years under IAS19.

The pension input amounts relating to D W Muir's membership of the executive scheme over the last three years were:

Year ending	Pension input amount £000s
31/12/2009	67
31/12/2010	26
31/12/2011	99

As D W Muir ceased accrual in the executive scheme during 2011, the pension input amount in respect of the scheme for the years ending 31 December 2012 and 31 December 2013 are £nil.

D W Muir receives a cash payment in lieu of any pension contribution, equal to 25% of his base salary (£109,500 for the year ended 31 December 2013).

M Pegler receives a payment of 25% of his base salary as a defined contribution to his own private pension arrangement (£70,000 for the year ended 31 December 2013).

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

The remuneration committee intends to operate the same pension provision for 2014 that was operated in 2013.

Payments to past directors
There were no payments made to past directors during the period in respect of services provided to the company as a director.

Payments for loss of office
There were no payments made to past directors during the year ended 31 December 2013.

Transaction with directors
There were no material transactions between the group and the directors during 2013.

Statement of directors' shareholding and share interests (number of shares)

				Unvested		
Executive	Type	Owned outright	Vested but unexercised	Subject to performance conditions	Not subject to performance conditions	Total as at 31 December 2013
D W Muir	Shares	117,656	n/a	359,776	n/a	477,432
	Market value options	n/a	-	-	-	-
	SAYE options	n/a	-	n/a	5,919	5,919
M Pegler	Shares	25,500	n/a	229,665	n/a	255,165
	Market value options	n/a	-	-	-	-
	SAYE options	n/a	-	n/a	4,225	4,225
Non-executive						
W H Whiteley	Shares	22,100	n/a	n/a	n/a	22,100
C J Snowdon	Shares	38,930	n/a	n/a	n/a	38,930
J F Lennox	Shares	5,000	n/a	n/a	n/a	5,000

To provide alignment with shareholders' interests and to promote share ownership, each executive director is required to hold shares acquired through the LTIP until the value of their total shareholding is equal to their annual salary. As at 31 December 2013, D W Muir held 138% of his base salary in shares and M Pegler held 47% of his base salary (both, based on the share price as at 31 December 2013 and base salaries at 1 January 2014).

2007 long term incentive plan (LTIP)
The interests of directors at 31 December 2013, in shares that are the subject of awards under the LTIP are shown below:

Directors	Award Date	At 1 Jan 2013 number of shares	Awarded in 2013 number of shares	Lapsed in 2013	At 31 Dec 2013 number of shares	Performance period 3 years from	Vesting date
D W Muir	31 Mar 2010[§]	117,879		(117,879)	-	1 Jan 2010	1 Jan 2013
	18 Mar 2011[*]	136,990			136,990	1 Jan 2011	1 Jan 2014
	21 Mar 2012[¥]	125,091			125,091	1 Jan 2012	1 Jan 2015
	18 Mar 2013[‡]		97,695		97,695	1 Jan 2013	1 Jan 2016
Total D W Muir		379,960	97,965	(117,879)	359,776		
M Pegler	31 Mar 2010[§]	75,148		(75,148)	-	1 Jan 2010	1 Jan 2013
	18 Mar 2011[*]	87,448			87,448	1 Jan 2011	1 Jan 2014
	21 Mar 2012[¥]	79,764			79,764	1 Jan 2012	1 Jan 2015
	18 Mar 2013[‡]		62,453		62,453	1 Jan 2013	1 Jan 2016
Total M Pegler		242,360	62,453	(75,148)	229,665		

§ The share price as calculated on 31 March 2010 in accordance with the LTIP rules was 339p.
* The share price as calculated on 18 March 2011 in accordance with the LTIP rules was 300.75p.
¥The share price as calculated on 21 March 2012 in accordance with the LTIP rules was 339.75p.
‡ The share price as calculated on 18 March 2013 in accordance with the LTIP rules was 448.33p.

Directors' Remuneration Report continued

Share options

The interests of directors, who served during 2013, in options for ordinary shares in the company, granted under the 2005 sharesave scheme, together with options granted and exercised during 2013, are included in the following table:

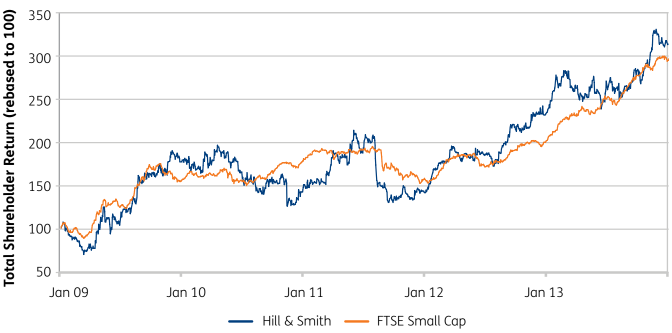
	At 1 Jan 2013 number of shares	Grant price	Granted in 2013 number of shares	Exercised in 2013 number of shares	At 31 Dec 2013 number of shares	Dates from which exercisable	Latest expiry date
D W Muir							
2005 ShareSave Scheme	1,328	318p	-	(1,328)	-	1 Jan 2013	1 Jul 2013
	4,855	238p	-		4,855	1 Jan 2016	1 Jul 2016
	-	355p	1,064	-	1,064	1 Jun 2018	1 Dec 2018
Total D W Muir	6,183		1,064	(1,328)	5,919		
M Pegler							
2005 ShareSave Scheme	-	355p	4,225	-	4,225	1 Jun 2018	1 Dec 2018
Total M Pegler	-		4,225	-	4,225		

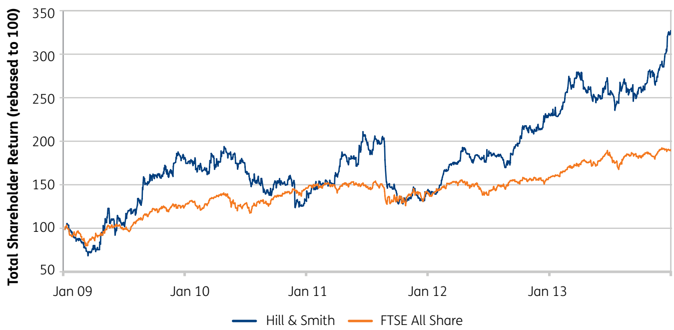
On 2 January 2013, D W Muir exercised options to subscribe for 1,328 new ordinary shares at a price of 318p per share.

The following sections of the Annual Report on Remuneration are not subject to audit.

Performance graph and table

The following graphs show the TSR performance of the company over the five year period to 1 January 2014 compared to the FTSE All-Share and FTSE Small Cap Index, respectively (both excluding Investment Trusts 'IT'). The FTSE All Share and FTSE SmallCap Indices have been chosen as comparator groups in order to illustrate the company's TSR performance against broad equity market indices of similar UK companies.





Chief Executive Officer Remuneration for previous five years

	Total single figure remuneration £000s	Annual bonus pay-out (% of maximum opportunity)	LTIP vesting (% of maximum number of shares)
2013	1,084	16%	50%
2012	941	85%	0%
2011	690	30%	0%
2010	851	14%	100%
2009	1,059	95%	100%

Percentage change in Chief Executive Officer Remuneration - 2012 to 2013

The table below sets out in relation to salary, taxable benefits and annual bonus the percentage increase in pay for D W Muir compared to the wider workforce.

Percentage increase	CEO	Wide workforce
Salary	3.0%	3.0%
Taxable benefits	2.0%	-
Annual bonus (negative)	(80%)	(55%)

For salary purposes the comparator grouping was taken as all senior executives in the group, including senior finance executives. The bonus figures were taken from those senior executives operating on similar incentivised arrangements and capable of influencing the group's performance, as well as their own individual businesses' performance.

Relative importance of spend on pay
The following table sets out the percentage change in dividends and the overall expenditure on pay (as a whole across the organisation).

	2012 £000's	2013 £000's	% change
Dividends	£11,600*	£12,400**	7%
Overall expenditure on pay	£110,400	£116,000	5%

*Dividends payable in respect of the year ending 31 December 2012
** Dividends payable in respect of the year ending 31 December 2013

Policy on external appointments
Executive directors may accept one external appointment as a non-executive director of other companies and retain any related fees paid to them provided always that such external appointment is not considered by the board to prevent or reduce the ability of the executive director to perform his role to the required standard. Such appointments are seen as a way in which executive directors can gain a broader business experience and, in turn, benefit the company. Currently the chief executive and the finance director do not hold any external non-executive directorships.

Consideration by directors of matters relating to directors' remuneration
The remuneration committee is responsible for:

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

Members: C J Snowdon (Chairman); J F Lennox; W H Whiteley

All members of the committee are non-executive directors of the holding company, are regarded as independent and do not participate in any form of performance related pay or pension arrangements. In view of the size of the classification of the group as a non-FTSE 350 constituent the board remains satisfied that W H Whiteley's appointment to the remuneration committee is necessary but continues to keep this under review. The terms of reference for the remuneration committee can be found at the group's website www.hsholdings.com.

No director or executive plays a part in any discussion about his own remuneration.

Advisers: Deloitte LLP

Deloitte LLP is retained to provide independent advice to the remuneration committee as required. Deloitte is a member of the Remuneration Consultants Group and, as such, voluntarily operates under the Code of Conduct in relation to executive remuneration consulting in the UK. Deloitte's fees for providing remuneration advice to the committee amounted to £18,050 for the year ended 31 December 2013. The committee assesses from time to time whether this appointment remains appropriate or should be put out to tender and took into account the Remuneration Consultants Group Code of Conduct when reviewing the ongoing appointment of Deloitte. Deloitte was appointed by the committee and has provided share scheme advice, pension advice and corporation tax advice to the group. The Chief Executive Officer, D W Muir, also attends remuneration committee meetings to provide advice and respond to specific questions, but is not in attendance when his own remuneration is discussed. The Company Secretary, John Humphreys, acts as secretary to the remuneration committee.

Statement of voting at last AGM
The group remains committed to on-going shareholder dialogue and takes an active interest in voting outcomes. The following table sets out actual voting in respect of the resolution to approve the directors' remuneration report at the company's annual general meeting on 15 May 2013.

Resolution	Votes for	% of vote	Votes against	% of vote	Votes withheld
Approve remuneration report	53,813,035	98%	1,021,013	2%	6,000

C J Snowdon
Senior Independent Non-executive Director
Chairman of the Remuneration Committee

11 March 2014

Directors' Report (other statutory information)

Principal activities and strategic report

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

During 2013 the principal activities of the group comprised the manufacture and supply of:

- Infrastructure Products (Roads and Utilities)
- Galvanizing Services

Pages 2 to 27 contain further details of these areas of the business and the principal subsidiaries operating within them are set out on pages 123 to 125.

The chairman's statement and the director's strategic report include:

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

Future development

An indication of likely future developments in the group is given in the strategic report on pages 2 to 34.

Statement on corporate governance

The directors' report for Hill & Smith Holdings PLC for the year ended 31 December 2013 comprises these pages and the sections of the annual report referred to under 'strategic report', and 'governance report', which are incorporated into the directors' report by reference.

Results

The group profit before taxation for the year amounted to £30.6m (2012: £35.2m). Group revenue at £444.5m was 0.9% higher than the prior year. Operating profit at £34.5m was 13.6% lower than for the previous year (2012: £39.2m).

Details of the results for the year are shown on the consolidated income statement on page 72 and the business segment information is given on pages 83 to 84.

Dividends

The directors recommend the payment of a final dividend of 10.0p per ordinary share (2012: 9.2p per ordinary share) which, together with the interim dividend of 6.0p per ordinary share (2012: 5.8p per ordinary share) paid on 7 January 2014, makes a total distribution for the year of 16.0p per ordinary share (2012: 15.0p per ordinary share). Subject to shareholders approving this recommendation at the annual general meeting, the final dividend will be paid on 4 July 2014 to shareholders on the register at the close of business on 30 May 2014. The latest date for receipt of Dividend Re-investment Plan elections is 13 June 2014.

Share capital

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

The company is not aware of any arrangements between shareholders of the company that may result in restrictions on the transfer of ordinary shares or voting rights.

In relation to the purchase by the company of its own shares the rules relating thereto are set out in the company's articles of association which state that the directors' powers to authorise such purchase by the company are subject to the provisions of the relevant statutes and also the UK Listing Authority requirements, as the company's shares are listed on the London Stock Exchange.

No shares were held in treasury.

Share capital summary

Exchange trade	The company's ordinary shares are listed on the Main Market of the London Stock Exchange	
Class	Single class of ordinary shares of 25p each	
Issued share capital 1 January 2013		77,135,343
Total new ordinary shares issued during the year	2005 sharesave scheme and 2005 executive share option scheme	632,494
Issued share capital 31 December 2013		77,767,837
Rights and Obligations	All issued shares rank equally. Rights and obligations attaching to the company's shares are set out in the company's articles of association	

Further details can be found in note 20 on pages 102 and 103 of the group financial statements.

Articles of association

The rules relating to amendment of the company's articles of association are that any change must be authorised by a special resolution of the company in a general meeting.

Accordingly the following resolutions are to be put to the members of the company at the company's annual general meeting (AGM) each year:

- The authority for making market purchases of shares greater than 5% of the company's then issued share capital is limited by the resolution of the 2013 annual general meeting and will be limited by the resolution to be put to the 2014 annual general meeting. The prices to be paid for such purchases must be a minimum price of 25 pence per ordinary share (the nominal value) and a maximum price of 5% above the average of the middle market quotations for ordinary shares derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which any such purchase takes place.
- The Companies (Shareholders' Rights) Regulations 2009 provide that a company can reduce the notice period for calling meetings to the shorter period of 14 clear days on two conditions: firstly that the company offers a facility for shareholders to vote by electronic means and secondly that there is an annual resolution of shareholders approving such reduction in the required minimum notice period. Approval to the calling of general meetings other than annual general meetings on 14 clear days notice was approved at the AGM on 15 May 2013 to assist the company in conducting its business and subject to any necessary matters being put to shareholders promptly. This approval remains effective until the earlier of the company's next following annual general meeting or 15 August 2014.

Substantial shareholdings

As at 11 March 2014, the company had been notified of the following holdings of voting rights in shares under Rule 5 of the Disclosure and Transparency Rules of the Financial Services Authority, based upon an issued share capital of 77,783,345 shares.

Shareholder	Number of ordinary shares	% of issued share capital
F&C Asset Management	5,160,579	6.63
Henderson Global Investors	4,965,001	6.38
Charles Stanley, Stockbrokers	4,735,567	6.09
JO Hambro Capital Management	4,027,585	5.18
Legal & General Investment Management	2,962,267	3.81

Directors

The names of the directors of the company who served throughout the year, including brief biographies, are set out on page 39.

Directors' interests

The interests of the directors in the share capital of Hill & Smith Holdings PLC as at 31 December 2013 are set out in page 61.

Appointment and replacement of directors

The appointment and replacement of directors of the company is governed by its articles of association, the UK Corporate Governance Code, the Companies Acts and related legislation. Directors can be appointed by ordinary resolution at a general meeting or by the board. If a director is appointed by the board, such director will hold office until the next annual general meeting and shall then be eligible for re-election at that meeting.

Conflicts

Under the Companies Act 2006 and the provisions of the company's articles of association, the board is required to consider potential conflicts of interest. The company has established formal procedures for the disclosure and review of any conflicts, or potential conflicts, of interest which the directors may have and for the authorisation of such conflict matters by the board. To this end the board considers and, if appropriate, authorises any conflicts, or potential conflicts, of interest as they arise and reviews any such authorisation annually. New directors are required to declare any conflicts, or potential conflicts, of interest to the board at the first board meeting after his or her appointment. The board believes that the procedures established to deal with conflicts or interests are operating effectively.

Directors' and officers' liability

The company maintains an appropriate level of directors' and officers' insurance whereby directors are indemnified against liabilities to third parties to the extent permitted by the Companies Act 2006.

Financial instruments

The financial risk management objectives and policies are as detailed in note 19 on pages 96 to 102.

Research and development

During the year, the group spent a total of £1.2m (2012: £1.2m) on research and development.

Political and charitable donations

Charitable donations amounting to £27,000 (2012: £37,000) 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 31 and 32.

Change of control/significant agreements

There are no agreements between the group and its directors or employees providing for compensation for loss of office or employment that occurs because of a change of control, other than revised notice periods and termination payments for D W Muir and M Pegler set out in the directors' remuneration report on page 55.

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

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

Directors' Report (other statutory information) continued

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

Independent auditor

In connection with a general reorganisation of KPMG's UK Audit business, our auditors, KPMG, have informed us that they wish to transfer the appointment as statutory auditor from KPMG Audit Plc to KPMG LLP. KPMG Audit Plc have indicated that they will not stand for reappointment at our 2014 AGM, however KPMG LLP will seek election at the AGM.

A resolution to appoint KPMG LLP as the company's auditors will be put to the forthcoming AGM.

Disclosure of information to auditors

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

Events since 31 December 2013

There were no material events since 31 December 2013 to report.

Annual General Meeting

The annual general meeting of the company will be held at 11.00 a.m. on Wednesday 14 May 2014 at The Village Hotel, The Green Business Park, Shirley, Solihull, B90 4GW. Notice is sent to shareholders separately with this report, together with an explanation of the special business to be considered at the meeting and is also available on the company's website at www.hsholdings.com.

Other important dates can be found in the financial calendar on page 121.

By order of the board

John Humphreys

Company Secretary

11 March 2014

In respect of the annual report and the financial statements

Statement of Directors' Responsibilities

The directors are responsible for preparing the annual report and the group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they are required to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

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

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

Under applicable law and regulations, the directors are also responsible for preparing a strategic report, 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 and the UK corporate governance code

We confirm that to the best of our knowledge:

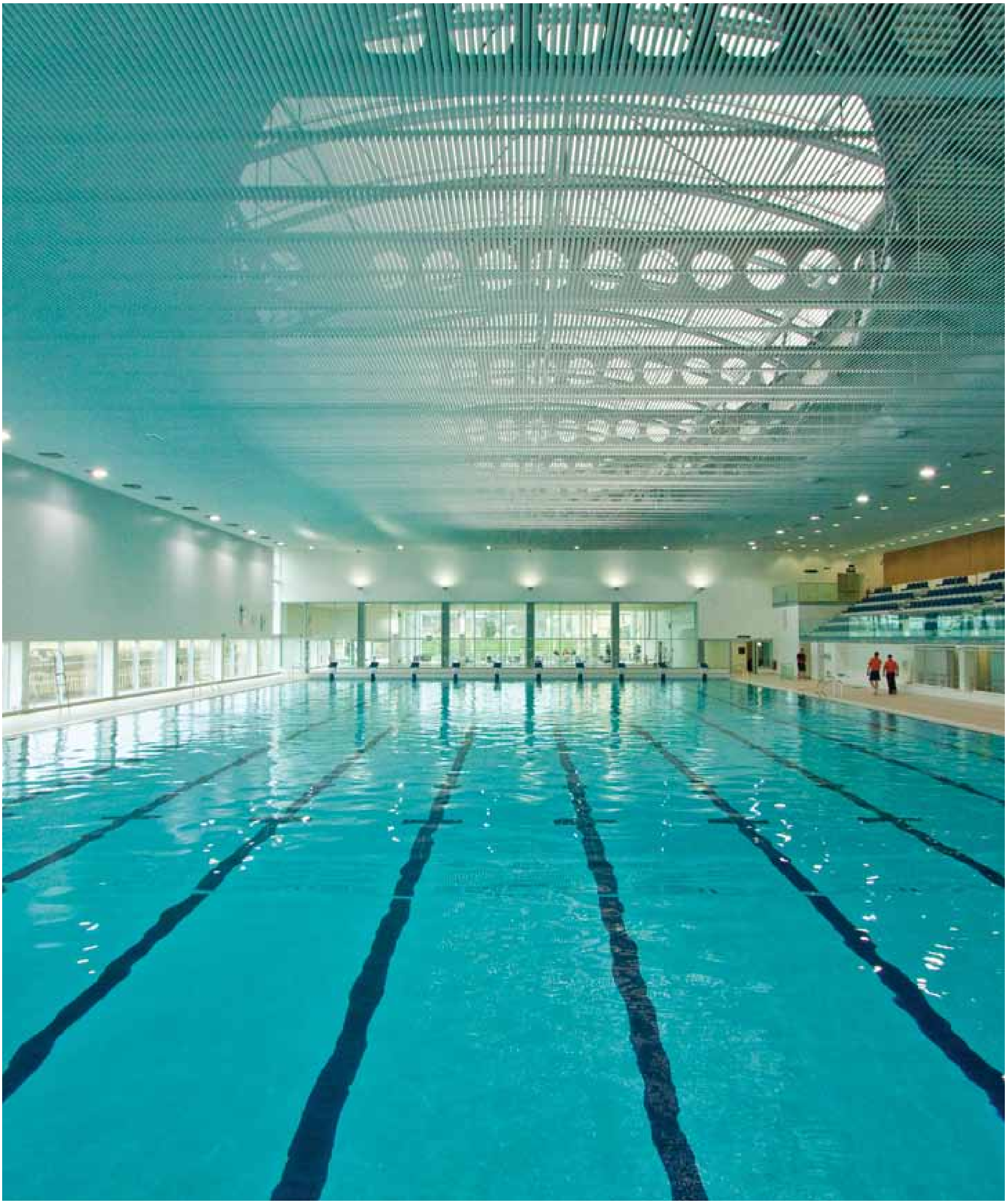
- the group and parent company financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and group as a whole; and
- the board considers that Hill & Smith Holdings PLC applies the principles and provisions of the UK Corporate Governance code maintained by the Financial Reporting Council, as described in the Corporate Governance sections on pages 40 to 66, and has complied with its provisions. The board further considers that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's performance, business model and strategy.

By order of the board

John Humphreys
Company Secretary

11 March 2014

Governance Report



Structural steelwork at Hengrove Park Leisure Centre, Bristol, galvanized by Joseph Ash.

Financial Statements

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See further information online at hsholdings.com

To the members of Hill & Smith Holdings PLC

Independent Auditor's Report

Opinions and conclusions arising from our audit

1. Our opinion on the financial statements is unmodified

We have audited the financial statements of Hill & Smith Holdings Plc for the year ended 31 December 2013 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and company balance sheets, the consolidated statement of changes in equity, the consolidated statement of cash flows, the company reconciliation of movements in shareholders' funds and the related notes. 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 2013 and of the group's profit for the year then ended;

› the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;

› the parent company financial statements have been properly prepared in accordance with UK Accounting Standards; and

› the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

2. Our assessment of risks of material misstatement

In arriving at our audit opinion above on the group financial statements the risks of material misstatement that had the greatest effect on our audit were as follows:

Valuation of goodwill and indefinite life intangible assets (£109.6 m)
Refer to page 46 (audit committee report), page 77 (accounting policy) and pages 89 to 91 (financial disclosures).

The risk
The value of goodwill and indefinite life intangible assets is dependent on the future profitability and cash flows of the various Cash Generating Units ('CGU') within the group with the key external influences being global investment in power generation, infrastructure expenditure and industrial activity in the group's various markets. An impairment assessment of goodwill and indefinite life intangible assets is carried out annually and when there is an indicator of impairment using a net present value of forecast earnings of the cash generating unit. The value in use of each CGU is calculated using entity specific assumptions around discount rates, growth rates and cash flow forecasts. Given the relative size of the goodwill and indefinite life intangible assets balance in the consolidated balance sheet and inherent uncertainty involved in forecasting and discounting future cash flows, relatively small changes in these assumptions could give rise to material changes in the assessment of the carrying value of goodwill.

Our response
Our procedures included among others, assessing through consideration of our business understanding and broader audit procedures whether any trigger events had arisen which would indicate a possible impairment of intangible assets, considering the recoverable amounts of the group's CGUs by critically assessing the key assumptions applied by the group in determining the recoverable amounts of these CGUs. In particular, we evaluated the appropriateness and year-on-year consistency of underlying assumptions in determining the cash flows including considering the appropriateness of the growth assumptions applied with reference to historical forecasting accuracy, comparison of forecast cash flows to those currently being achieved by the CGU's, and challenging the group where such future cash flows are significantly higher than current levels or do not reflect known or probable changes in business environment. We also challenged, including review by our own specialists, the key inputs used in the calculation of the discount rates used by the group, including comparisons with external data sources and comparator group data. We performed our own sensitivity analysis, including a reasonably possible reduction in assumed growth rates and cash flows to compare to the sensitivity analysis prepared by the group. We also assessed whether the group's disclosures (see note 10) about the sensitivity of the outcome of the impairment assessment to changes in key assumptions appropriately reflected the risks inherent in the valuation of goodwill.

Post retirement benefits obligation (Gross liabilities £85.9 million, net liability £20.2 million)
Refer to page 46 (audit committee report), page 77 (accounting policy) and pages 104 to 109 (financial disclosures).

The risk
Significant estimates are made in valuing the group's UK and French post-retirement defined benefit schemes and small changes in assumptions and estimates used to value the group's net pension deficit could have a significant effect on the results and financial position of the group.

Our response
In this area our audit procedures included, among others, agreement of scheme assets back to external supporting documentation. With the support of our own actuarial specialists, we then challenged the key assumptions applied to the data to determine the group's net deficit, being the discount rate, inflation rate and mortality/life expectancy. This included a comparison of these key assumptions against externally derived data. We also considered the adequacy of the group's disclosures (see note 22).

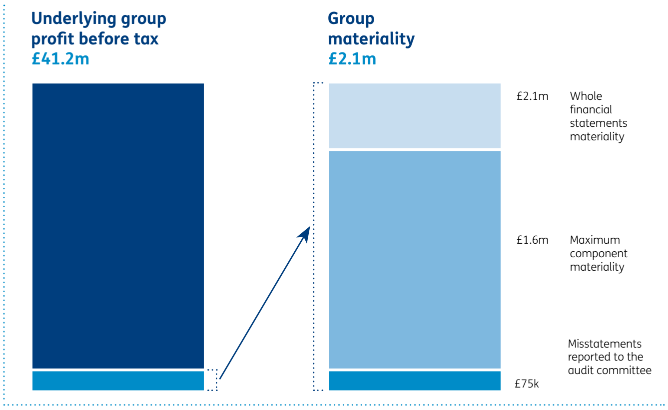
3. Our application of materiality and an overview of the scope of our audit

The materiality for the group financial statements as a whole was set at £2.1m. This has been determined with reference to a benchmark of group profit before taxation which we consider to be one of the principal considerations for members of the company in assessing the financial performance of the group. Materiality represents 6.8% of group profit before tax and 5.1% of group profit before tax adjusted for the non-underlying items identified on the Group Income Statement and explained in note 3.

We agreed with the audit committee to report to it all corrected and uncorrected misstatements we identified through our audit with a value in excess of £75,000 in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

Audits for group reporting purposes were performed by component auditors at the key reporting components in the following countries: France, United States, Thailand, Sweden, Germany and Belgium and by the group audit team in the United Kingdom. In addition, specified audit procedures were performed by the group audit team on a component in the United States. These group procedures covered 96% of total group revenue; 89% of group profit before taxation; and 83% of total group assets. The segment disclosures in note 1 set out the individual significance of a specific country.

The audits undertaken for group reporting purposes at the key reporting components of the group were all performed to materiality levels set by, or agreed with, the group audit team. These materiality levels were set individually for each component and ranged from £0.1m to £1.6m.



Detailed audit instructions were sent to all the auditors in these locations. These instructions covered the significant audit areas that should be covered by these audits (which included the relevant risks of material misstatement detailed above) and set out the information required to be reported back to the group audit team. The group audit team attended audit completion meetings in France and the United States. Telephone meetings were also held with the auditors at these locations and the majority of the other locations that were not physically visited.

4. Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

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 strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

5. We have nothing to report on in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's performance, business model and strategy; or
- the audit committee report does not appropriately address matters communicated by us to the audit committee.

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.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 67, in relation to going concern;
- the part of the corporate governance statement on pages 36 to 66 relating to the company's compliance with the nine provisions of the 2010 UK Corporate Governance Code specified for our review; and

We have nothing to report in respect of the above responsibilities.

Scope of report and responsibilities

As explained more fully in the directors' responsibilities statement, set out on page 67, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of accounts is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the company's members as a body and subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2013a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Michael Steventon (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

11 March 2014

Year ended 31 December 2013

Consolidated Income Statement

	Notes	2013 Underlying £m	2013 Non-underlying* £m	2013 Total £m	2012 Underlying £m	2012 Non-underlying* £m	2012 Total £m
Revenue	1, 2	**444.5**	**-**	**444.5**	440.7	-	440.7
Trading profit		**44.5**	**-**	**44.5**	44.0	(0.8)	43.2
Amortisation of acquisition intangibles	3	**-**	**(2.2)**	**(2.2)**	-	(2.4)	(2.4)
Business reorganisation costs	3	**-**	**(9.2)**	**(9.2)**	-	(0.8)	(0.8)
Acquisition costs	3	**-**	**(0.4)**	**(0.4)**	-	(0.8)	(0.8)
Profit on sale of properties	3	**-**	**1.8**	**1.8**	-	-	-
Operating profit	1, 2	**44.5**	**(10.0)**	**34.5**	44.0	(4.8)	39.2
Financial income	5	**0.7**	**-**	**0.7**	0.8	3.1	3.9
Financial expense	5	**(4.0)**	**(0.6)**	**(4.6)**	(4.4)	(3.5)	(7.9)
Profit before taxation		**41.2**	**(10.6)**	**30.6**	40.4	(5.2)	35.2
Taxation	7	**(9.9)**	**2.3**	**(7.6)**	(10.5)	1.4	(9.1)
Profit for the year attributable to owners of the parent		**31.3**	**(8.3)**	**23.0**	29.9	(3.8)	26.1
Basic earnings per share	8	**40.4p**		**29.6p**	38.8p		33.9p
Diluted earnings per share	8	**39.8p**		**29.2p**	38.5p		33.6p
Dividend per share – Interim	9			**6.0p**			5.8p
Dividend per share – Final proposed	9			**10.0p**			9.2p
Total	9			**16.0p**			15.0p

* The group's definition of non-underlying items is included in the principal accounting policies on page 82.

Year ended 31 December 2013

Consolidated Statement of Comprehensive Income

	Notes	2013 £m	2012 £m
Profit for the year		**23.0**	26.1
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of overseas operations		**(1.6)**	(6.4)
Exchange differences on foreign currency borrowings denominated as net investment hedges		**(0.7)**	2.8
Effective portion of changes in fair value of cash flow hedges		**-**	(0.8)
Transfers to the income statement on cash flow hedges		**0.4**	0.3
Taxation on items that may be reclassified to profit or loss		**(0.1)**	0.1
Items that will not be reclassified subsequently to profit or loss			
Actuarial loss on defined benefit pension schemes	22	**(5.8)**	(0.9)
Taxation on items that will not be reclassified to profit or loss	7	**0.4**	(0.2)
Other comprehensive income for the year		**(7.4)**	(5.1)
Total comprehensive income for the year attributable to owners of the parent		**15.6**	21.0

Year ended 31 December 2013

Consolidated Balance Sheet

	Notes	2013 £m	2012 £m
Non-current assets			
Intangible assets	10	**126.7**	124.8
Property, plant and equipment	11	**111.9**	106.8
		238.6	231.6
Current assets			
Inventories	13	**55.1**	57.8
Trade and other receivables	14	**91.2**	88.7
Cash and cash equivalents	15	**10.0**	8.9
		156.3	155.4
Total assets	1	**394.9**	387.0
Current liabilities			
Trade and other liabilities	16	**(85.0)**	(84.2)
Current tax liabilities		**(7.5)**	(13.7)
Provisions for liabilities and charges	18	**(3.5)**	(0.5)
Interest bearing borrowings	16	**(0.8)**	(2.0)
		(96.8)	(100.4)
Net current assets		**59.5**	55.0
Non-current liabilities			
Other liabilities	17	**(0.1)**	(0.2)
Provisions for liabilities and charges	18	**(2.8)**	(2.8)
Deferred tax liability	12	**(9.5)**	(11.2)
Retirement benefit obligation	22	**(20.2)**	(16.3)
Interest bearing borrowings	17	**(96.4)**	(93.7)
		(129.0)	(124.2)
Total liabilities	1	**(225.8)**	(224.6)
Net assets	1	**169.1**	162.4
Equity			
Share capital	20	**19.4**	19.3
Share premium		**31.5**	29.6
Other reserves		**4.5**	4.5
Translation reserve		**(0.2)**	2.1
Hedge reserve		**(0.6)**	(0.9)
Retained earnings		**114.5**	107.8
Total equity		**169.1**	162.4

Approved by the board of directors on 11 March 2014 and signed on its behalf by:

D W Muir
Director

M Pegler
Director

Company Number: 671474

Year ended 31 December 2013

Consolidated Statement of Changes in Equity

	Notes	Share capital £m	Share premium £m	Other reserves† £m	Translation reserves £m	Hedge reserves £m	Retained earnings £m	Total equity £m
At 1 January 2012		19.2	29.2	4.5	5.7	(0.5)	92.5	150.6
Comprehensive income								
Profit for the year		-	-	-	-	-	26.1	26.1
Other comprehensive income for the year		-	-	-	(3.6)	(0.4)	(1.1)	(5.1)
Transactions with owners recognised directly in equity								
Dividends	9	-	-	-	-	-	(10.2)	(10.2)
Credit to equity of share-based payments	20	-	-	-	-	-	0.3	0.3
Tax taken directly to the consolidated statement of changes in equity	7	-	-	-	-	-	0.2	0.2
Shares issued	20	0.1	0.4	-	-	-	-	0.5
At 31 December 2012		**19.3**	**29.6**	**4.5**	**2.1**	**(0.9)**	**107.8**	**162.4**
Comprehensive income								
Profit for the year		**-**	**-**	**-**	**-**	**-**	**23.0**	**23.0**
Other comprehensive income for the year		**-**	**-**	**-**	**(2.3)**	**0.3**	**(5.4)**	**(7.4)**
Transactions with owners recognised directly in equity								
Dividends	**9**	**-**	**-**	**-**	**-**	**-**	**(11.6)**	**(11.6)**
Credit to equity of share-based payments	**20**	**-**	**-**	**-**	**-**	**-**	**0.4**	**0.4**
Tax taken directly to the consolidated statement of changes in equity	**7**	**-**	**-**	**-**	**-**	**-**	**0.3**	**0.3**
Shares issued	**20**	**0.1**	**1.9**	**-**	**-**	**-**	**-**	**2.0**
At 31 December 2013		**19.4**	**31.5**	**4.5**	**(0.2)**	**(0.6)**	**114.5**	**169.1**

† Other reserves represent the premium on shares issued in exchange for shares of subsidiaries acquired and £0.2m (2012: £0.2m) capital redemption reserve.

Year ended 31 December 2013

Consolidated Statement of Cash Flows

	Notes	2013 £m	2013 £m	2012 £m	2012 £m
Profit before tax			**30.6**		35.2
Add back net financing costs	5		**3.9**		4.0
Operating profit	1, 2		**34.5**		39.2
Adjusted for non-cash items:					
Share-based payments	4, 20	**0.5**		0.3	
Movement in fair value of forward currency contracts	3	**-**		0.4	
(Gain)/loss on disposal of non-current assets	6	**(1.8)**		0.1	
Depreciation	6, 11	**13.6**		12.8	
Amortisation of intangible assets	6, 10	**3.3**		3.6	
Impairment of non-current assets	6, 10, 11	**1.8**		0.3	
			17.4		17.5
Operating cash flow before movement in working capital			**51.9**		56.7
Decrease/(increase) in inventories		**2.7**		(0.6)	
(Increase)/decrease in receivables		**(1.3)**		0.6	
Increase in payables		**0.5**		3.7	
Increase/(decrease) in provisions and employee benefits		**0.4**		(2.0)	
Net movement in working capital			**2.3**		1.7
Cash generated by operations			**54.2**		58.4
Income taxes paid			**(15.3)**		(11.6)
Interest paid			**(4.1)**		(5.1)
Net cash from operating activities			**34.8**		41.7
Interest received		**0.7**		0.8	
Proceeds on disposal of non-current assets		**3.0**		0.5	
Purchase of property, plant and equipment		**(21.0)**		(17.5)	
Purchase of intangible assets		**(1.1)**		(0.8)	
Acquisitions of subsidiaries	10	**(6.6)**		(0.5)	
Net cash used in investing activities			**(25.0)**		(17.5)
Issue of new shares	20	**2.0**		0.5	
Dividends paid	9	**(11.6)**		(10.2)	
New loans and borrowings		**34.2**		19.1	
Repayment of loans and borrowings		**(31.7)**		(33.4)	
Repayment of obligations under finance leases		**(1.5)**		(3.6)	
Net cash used in financing activities			**(8.6)**		(27.6)
Net increase/(decrease) in cash			**1.2**		(3.4)
Cash at the beginning of the year			**8.9**		12.7
Effect of exchange rate fluctuations			**(0.1)**		(0.4)
Cash at the end of the year	15		**10.0**		8.9

Group Accounting Policies

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

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

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

The group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards, as adopted by the EU ('Adopted IFRSs'). The company has elected to prepare its parent company financial statements in accordance with UK GAAP; these are presented on pages 111 to 118.

The accounting policies set out below have, unless otherwise stated, been applied consistently in 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 strategic report on pages 20 to 27. The financial position of the group, its cash flows, liquidity position and borrowing facilities are described in the strategic report on pages 25 to 27. In addition, note 19 to the group financial statements includes the group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The businesses of the group have long established relationships with customers and suppliers which, together with the group's current financial strength, provide a solid foundation. The group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the group should be able to operate within the level of its current bank facilities, of which the group's principal debt facility is a multi-currency agreement with a value of £208.8m at 31 December 2013, expiring in April 2016. As a consequence, the directors believe that the group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

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

New IFRS standards and interpretations adopted during 2013

In 2013 the following amendments had been endorsed by the EU, became effective and therefore were adopted by the group:

- Amendments to IAS 1 Presentation of items of Other Comprehensive Income
- Amendments to IAS 19 Employee Benefits
- Amendments to IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities
- IFRS 13 Fair Value Measurement

The amendment to IAS 19 'Employee benefits' makes changes to the recognition and measurement of the defined benefit pension expense and termination benefits and disclosures relating to all employee benefits. The interest cost and expected return on scheme liabilities and assets used in the previous version of IAS 19 have been replaced with a 'net interest' amount which is calculated by applying a discount rate to the net defined benefit obligation. This amendment has a corresponding impact on actuarial gains and losses recognised in the statement of comprehensive income, with no overall change to the net retirement benefit liability in the balance sheet. Comparative information has not been restated for the effect of the retrospective application of the amendment to IAS 19 since the impact on the group's results is not material.

The adoption of the other standards and amendments has not had a material impact on the group's financial statements.

Financial Statements

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

- IAS 27 (2011) Separate Financial Statements (effective for annual periods beginning on or after 1 January 2014)
- IAS 28 (2011) Investments in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2014)
- Amendments to IAS 32 Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2014)
- Amendments to IAS 36 Impairment of Assets - Recoverable amount disclosures for non-financial assets (effective for annual periods beginning on or after 1 January 2014)
- IFRS 10 Consolidated Financial Statements (effective for annual periods beginning on or after 1 January 2014)
- IFRS 11 Joint Arrangements (effective for annual periods beginning on or after 1 January 2014)
- IFRS 12 Disclosure of Interests in Other Entities (effective for annual periods beginning on or after 1 January 2014)

None of the standards above are expected to have a material impact on the group.

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

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

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

Brands and customer lists that are acquired by the group as part of a business combination are stated at cost less accumulated amortisation and impairment losses (see accounting policy 'Impairment of assets'). Cost reflects management's judgement of the fair value of the individual intangible asset calculated by reference to the net present value of future benefits accruing to the group from the utilisation of the asset, discounted at an appropriate discount rate.

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

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

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

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

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

No depreciation is provided on freehold land.

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

Group Accounting Policies continued

Financial instruments

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

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

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

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

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

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

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

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

Interest bearing borrowings are recognised initially at fair value. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the consolidated income statement over the period of the borrowings on an effective interest basis.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the group's cash management are included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

Foreign currencies

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

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

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

Financial Statements

The principal exchange rates used were as follows:

	2013		2012	
	Average	**Closing**	Average	Closing
Sterling to Euro (£1 = EUR)	**1.18**	**1.20**	1.23	1.23
Sterling to US Dollar (£1 = USD)	**1.56**	**1.65**	1.59	1.62
Sterling to Thai Bhat (£1 = THB)	**48.09**	**54.13**	49.25	49.46
Sterling to Swedish Krona (£1 = SEK)	**10.19**	**10.59**	10.73	10.52

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.

Group Accounting Policies continued

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

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

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

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

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

Obligations for contributions to defined contribution pension schemes are recognised as an expense in the consolidated income statement as incurred.

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

Current and past service costs are recognised in operating profit within the consolidated income statement. Also in the consolidated income statement, the interest cost on the net defined benefit obligations is included in financial expense.

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

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

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

Financial income and expense
Financial income comprises interest income on funds invested 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, interest cost on net pension scheme obligations, unwinding of discounts, losses on the fair value of financial assets and liabilities at fair value through profit or loss, the interest expense component of finance lease payments and financial expenses related to refinancing. All borrowing costs are recognised in the consolidated income statement using the effective interest method with the exception of those meeting the criteria for capitalisation set out in IAS 23.

Financial Statements

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

- Gains or losses arising on disposal, closure, restructuring or reorganisation of businesses that do not meet the definition of discontinued operations.
- Amortisation of intangible fixed assets arising on acquisitions.
- Expenses associated with acquisitions.
- Impairment charges in respect of tangible or intangible fixed assets.
- Changes in the fair value of derivative financial instruments.
- Significant past service items or curtailments and settlements relating to defined benefit pension obligations resulting from material changes in the terms of the schemes.
- Net financing costs or returns on defined benefit pension obligations.
- Costs incurred as part of significant refinancing activities.

The tax effect of the above is also included.

Details in respect of the non-underlying items recognised in the current and prior year are set out in note 3 to the financial statements.

Income tax
Income tax on the profit or loss for the year represents the sum of the tax currently payable and deferred tax. Income tax is recognised in the consolidated income statement except to the extent that it relates to items either recognised in other comprehensive income or directly in equity.

Current tax is the expected tax payable on the taxable profit for the year. Taxable profit differs from net profit as reported in the consolidated income statement because it excludes items of income or expense that are not taxable or deductible. The group's liability for current tax is calculated using tax rates enacted or substantively enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years.

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

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

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

Ordinary dividends
Dividends are recognised as a liability in the period in which they are approved by the company's shareholders.

Notes to the Consolidated Financial Statements

1. Segmental information

Business segment analysis

The group has three reportable segments which are Infrastructure Products - Roads, Infrastructure Products - Utilities and Galvanizing Services. Several operating segments that have similar economic characteristics have been aggregated into these reporting segments. A description of the activities of each of these segments is included in the group "At a Glance" on page 3.

The acquisitions detailed in note 10 fall into the Galvanizing Services segment.

Income Statement

	2013			2012		
	Revenue £m	Result £m	Underlying result* £m	Revenue £m	Result £m	Underlying result* £m
Infrastructure Products - Utilities	202.9	(2.0)	7.4	205.7	10.2	13.4
Infrastructure Products - Roads	114.0	11.2	11.7	114.1	4.3	5.3
Infrastructure Products - Total	316.9	9.2	19.1	319.8	14.5	18.7
Galvanizing Services	127.6	25.3	25.4	120.9	24.7	25.3
Total group	444.5	34.5	44.5	440.7	39.2	44.0
Net financing costs		(3.9)	(3.3)		(4.0)	(3.6)
Profit before taxation		30.6	41.2		35.2	40.4
Taxation		(7.6)	(9.9)		(9.1)	(10.5)
Profit after taxation		23.0	31.3		26.1	29.9

* Underlying result is stated before non-underlying items as defined in the accounting policies on page 82, and is the measure of segment profit used by the chief operating decision maker, who is the chief executive. The Result columns are included as additional information.

Galvanizing Services provided £5.0m (2012: £4.1m) revenues to Infrastructure Products - Roads and £1.6m (2012: £1.8m) revenues to Infrastructure Products - Utilities. Infrastructure Products - Utilities provided £2.2m (2012: £1.9m) revenues to Infrastructure Products - Roads. These internal revenues, along with revenues generated from within their own segments, have been eliminated on consolidation.

Balance Sheet

	2013		2012	
	Total assets £m	Total liabilities £m	Total assets £m	Total liabilities £m
Infrastructure Products - Utilities	127.1	(39.5)	134.7	(39.9)
Infrastructure Products - Roads	60.7	(19.7)	56.8	(18.1)
Infrastructure Products - Total	187.8	(59.2)	191.5	(58.0)
Galvanizing Services	197.1	(25.9)	186.6	(26.4)
Total segment assets/(liabilities)	384.9	(85.1)	378.1	(84.4)
Taxes	-	(17.0)	-	(24.9)
Provisions and retirement benefits	-	(26.5)	-	(19.6)
Net debt	10.0	(97.2)	8.9	(95.7)
Total group	394.9	(225.8)	387.0	(224.6)
Net assets		169.1		162.4

Financial Statements

1. Segmental information continued

Capital expenditure and amortisation/depreciation

	2013		2012	
	Capital expenditure £m	Impairment losses, amortisation and depreciation £m	Capital expenditure £m	Impairment losses, amortisation and depreciation £m
Infrastructure Products - Utilities	**6.2**	**5.6**	5.5	4.2
Infrastructure Products - Roads	**7.1**	**5.6**	3.4	6.2
Infrastructure Products - Total	**13.3**	**11.2**	8.9	10.4
Galvanizing Services	**8.3**	**7.5**	10.6	6.3
Total group	**21.6**	**18.7**	19.5	16.7
Property, plant and equipment (note 11)	**20.5**	**15.3**	18.7	12.8
Intangible assets (note 10)	**1.1**	**3.4**	0.8	3.9
Total group	**21.6**	**18.7**	19.5	16.7

Geographical analysis

Revenue (irrespective of origin)

	2013 £m	2012 £m
UK	**205.9**	197.6
Rest of Europe	**101.2**	101.5
North America	**113.2**	114.4
The Middle East	**8.2**	9.3
Asia	**12.7**	10.3
Rest of World	**3.3**	7.6
Total	**444.5**	440.7

Total assets

	2013 £m	2012 £m
UK	**146.1**	138.1
Rest of Europe	**102.5**	98.7
North America	**131.3**	134.5
Asia	**13.5**	15.0
Rest of World	**1.5**	0.7
Total group	**394.9**	387.0

Capital expenditure

	2013 £m	2012 £m
UK	**9.9**	5.6
Rest of Europe	**5.0**	4.2
North America	**6.1**	7.9
Asia	**0.6**	1.8
Total group	**21.6**	19.5

Notes to the Consolidated Financial Statements continued

2. Operating profit

	2013 £m	2012 £m
Revenue	**444.5**	440.7
Cost of sales	**(297.7)**	(297.5)
Gross profit	**146.8**	143.2
Distribution costs	**(22.3)**	(20.3)
Administrative expenses	**(91.1)**	(84.7)
Loss on disposal and impairment of non-current assets	**-**	(0.1)
Other operating income	**1.1**	1.1
Operating profit	**34.5**	39.2

3. Non-underlying items

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

- Business reorganisation costs of £9.2m (2012: £0.8m) – principally relating to redundancies and other costs associated with site closures, including the Access Design site at Telford and the Pipe Supports facility in China. The net costs include asset impairment charges of £1.8m (2012: £0.3m).
- Amortisation of acquired intangible fixed assets of £2.2m (2012: £2.4m).
- Acquisition expenses of £0.4m (2012: £0.8m) relating to acquisitions made by the group during the year.
- Profits on disposal of properties of £1.8m (2012: £nil).

The net costs in 2012 also included a loss of £0.4m in respect of the group's UK defined benefit pension obligations following changes to the terms of the scheme, and a loss of £0.4m in respect of movements in the fair value of forward foreign currency contracts.

Non-underlying items included in financial income and expense represent the net financing cost on pension obligations of £0.6m (2012: £0.4m).

4. Employees

	2013 No.	2012 No .
The average number of people employed by the group during the year		
Infrastructure Products - Utilities	**1,674**	1,831
Infrastructure Products - Roads	**564**	563
Infrastructure Products - Total	**2,238**	2,394
Galvanizing Services	**1,377**	1,258
	3,615	3,652

	£m	£m
The aggregate remuneration for the year		
Wages and salaries	**96.2**	91.5
Share-based payments	**0.5**	0.3
Social security costs	**16.9**	16.3
Pension costs	**2.4**	2.3
	116.0	110.4

Details of the directors' remuneration and share interests are given in the directors' remuneration report on pages 49 to 63.

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5. Net financing costs

	Underlying £m	Non-underlying £m	2013 £m	Underlying £m	Non-underlying £m	2012 £m
Interest on bank deposits	**0.7**	**-**	**0.7**	0.8	-	0.8
Change in fair value of financial assets and liabilities	**-**	**-**	**-**	-	-	-
Expected return on pension scheme assets (note 22)	**-**	**-**	**-**	-	3.1	3.1
Total other income	**-**	**-**	**-**	-	3.1	3.1
Financial income	**0.7**	**-**	**0.7**	0.8	3.1	3.9
Interest on bank loans and overdrafts	**3.9**	**-**	**3.9**	4.2	-	4.2
Interest on finance leases and hire purchase contracts	**0.1**	**-**	**0.1**	0.2	-	0.2
Total interest expense	**4.0**	**-**	**4.0**	4.4	-	4.4
Expected interest cost on pension scheme obligations (note 22)	**-**	**-**	**-**	-	3.5	3.5
Interest cost on net pension scheme deficit (note 22)	**-**	**0.6**	**0.6**	-	-	-
Financial expense	**4.0**	**0.6**	**4.6**	4.4	3.5	7.9
Net financing costs	**3.3**	**0.6**	**3.9**	3.6	0.4	4.0

Following the adoption of the amendments to IAS19 during the year (see note 1), the net interest cost in respect of defined benefit pension obligations is shown separately for the year ended 31 December 2013. The comparatives have not been restated.

6. Expenses and auditor's remuneration

	2013 £m	2012 £m
Income statement charges		
Depreciation of property, plant and equipment:		
Owned	**13.1**	11.7
Leased	**0.5**	1.1
Operating lease rentals:		
Plant and machinery	**2.3**	2.2
Other	**3.3**	3.7
Research and development expenditure	**0.3**	0.4
Amortisation of acquisition intangibles	**2.2**	2.4
Amortisation of development costs	**1.0**	1.1
Amortisation of other intangible assets	**0.1**	0.1
Impairment losses	**1.8**	0.3
Loss on disposal of non-current assets	**-**	0.1
Income statement credits		
Profit on disposal of non-current assets	**1.8**	-
Grants receivable	**0.1**	-
Rental income	**6.4**	7.0

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

	£m	£m
Hill & Smith Holdings PLC		
Audit of the company's annual accounts	**0.1**	0.1
Audit of the company's subsidiaries	**0.5**	0.5
Services relating to corporate finance transactions	**0.2**	-
	0.8	0.6

A description of the work of the audit committee is set out in the audit committee report on pages 46 and 48 and includes an explanation of how auditor objectivity and independence is safeguarded when non audit services are provided by the auditor.

Notes to the Consolidated Financial Statements continued

7. Taxation

	2013 £m	2012 £m
Current tax		
UK corporation tax	**2.0**	1.8
Adjustments in respect of prior periods	**(2.7)**	(0.8)
Overseas tax at prevailing local rates	**9.8**	13.4
	9.1	14.4
Deferred tax (note 12)		
Current year	**0.1**	(0.4)
Adjustments in respect of prior periods	**-**	(1.1)
Overseas tax at prevailing local rates	**(1.0)**	(3.3)
Effect of change in tax rate	**(0.6)**	(0.5)
Tax on profit in the consolidated income statement	**7.6**	9.1
Deferred tax (note 12)		
Relating to defined benefit pension schemes	**(0.4)**	0.2
Relating to financial instruments	**0.1**	(0.1)
Tax on items taken directly to other comprehensive income	**(0.3)**	0.1
Current tax		
Relating to share-based payments	**(0.2)**	-
Deferred tax (note 12)		
Relating to share-based payments	**(0.1)**	(0.2)
Tax taken directly to the consolidated statement of changes in equity	**(0.3)**	(0.2)

The tax charge in the consolidated income statement for the period is higher (2012: higher) than the standard rate of corporation tax in the UK. The differences are explained below:

	2013 £m	2012 £m
Profit before taxation	**30.6**	35.2
Profit before taxation multiplied by the effective rate of corporation tax in the UK of 23.25% (2012: 24.5%)	**7.1**	8.6
Expenses not deductible for tax purposes	**1.8**	0.1
Capital profits less losses and write downs not subject to tax	**(0.8)**	(1.3)
Utilisation of brought forward tax losses not recognised	**(0.7)**	-
Overseas profits taxed at higher/(lower) rates	**3.1**	3.6
Overseas losses not relieved	**0.2**	0.3
Withholding taxes	**0.2**	0.2
Deferred tax benefit of future reductions in UK corporation tax rates	**(0.6)**	(0.5)
Adjustments in respect of prior periods	**(2.7)**	(1.9)
Tax charge	**7.6**	9.1

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8. Earnings per share

The weighted average number of ordinary shares in issue during the year was 77.6m (2012: 77.0m), diluted for the effects of the outstanding dilutive share options 78.6m (2012: 77.8m). Underlying earnings per share have been shown because the directors consider that this provides valuable additional information about the underlying performance of the group.

	2013		2012	
	Pence per share	£m	Pence per share	£m
Basic earnings	29.6	23.0	33.9	26.1
Non-underlying items*	10.8	8.3	4.9	3.8
Underlying earnings	40.4	31.3	38.8	29.9
Diluted earnings	29.2	23.0	33.6	26.1
Non-underlying items*	10.6	8.3	4.9	3.8
Underlying diluted earnings	39.8	31.3	38.5	29.9

* Non-underlying items as detailed in note 3.

9. Dividends

Dividends paid in the year were the prior year's interim dividend of £4.5m (2012: £4.2m) and the final dividend of £7.1m (2012: £6.0m). Dividends declared after the balance sheet date are not recognised as a liability, in accordance with IAS10. The directors have proposed the following interim dividend and final dividend for the current year, subject to shareholder approval:

	2013		2012	
	Pence per share	£m	Pence per share	£m
Equity shares				
Interim	6.0	4.7	5.8	4.5
Final	10.0	7.8	9.2	7.1
Total	16.0	12.5	15.0	11.6

Notes to the Consolidated Financial Statements continued

10. Intangible assets

	Goodwill £m	Brands £m	Customer lists £m	Capitalised development costs £m	Licences £m	Total £m
Cost						
At 1 January 2012	98.9	18.7	13.4	8.8	1.7	141.5
Exchange adjustments	(2.3)	(0.7)	(0.3)	-	-	(3.3)
Acquisitions	-	-	0.1	-	-	0.1
Additions	-	-	-	0.8	-	0.8
At 31 December 2012	**96.6**	**18.0**	**13.2**	**9.6**	**1.7**	**139.1**
Exchange adjustments	**(0.2)**	**(0.1)**	**(0.2)**	**-**	**-**	**(0.5)**
Acquisitions	**3.4**	**0.8**	**0.3**	**-**	**-**	**4.5**
Additions	**-**	**-**	**-**	**0.9**	**0.2**	**1.1**
At 31 December 2013	**99.8**	**18.7**	**13.3**	**10.5**	**1.9**	**144.2**
Amortisation and impairment losses						
At 1 January 2012	-	1.4	3.6	5.4	0.2	10.6
Exchange adjustments	-	(0.1)	(0.1)	-	-	(0.2)
Amortisation charge for the year	-	0.4	2.0	1.1	0.1	3.6
Impairment	-	-	-	0.3	-	0.3
At 31 December 2012	**-**	**1.7**	**5.5**	**6.8**	**0.3**	**14.3**
Exchange adjustments	**-**	**-**	**(0.2)**	**-**	**-**	**(0.2)**
Amortisation charge for the year	**-**	**0.4**	**1.8**	**1.0**	**0.1**	**3.3**
Impairment	**-**	**-**	**-**	**0.1**	**-**	**0.1**
At 31 December 2013	**-**	**2.1**	**7.1**	**7.9**	**0.4**	**17.5**
Carrying values						
At 1 January 2012	98.9	17.3	9.8	3.4	1.5	130.9
At 31 December 2012	96.6	16.3	7.7	2.8	1.4	124.8
At 31 December 2013	**99.8**	**16.6**	**6.2**	**2.6**	**1.5**	**126.7**

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10. Intangible assets continued

2013

On 30 April 2013 the group acquired the issued share capital of Medway Galvanising Company Limited and on 10 December 2013 the group acquired the trade and certain assets of Arkinstall Galvanizing Limited. Details of these acquisitions are as follows:

Medway Galvanising Company Limited and Arkinstall Galvanizing Limited	Pre acquisition carrying amount £m	Policy alignment and fair value adjustments £m	Total £m
Intangible assets	-	1.1	1.1
Property, plant and equipment	2.7	(1.2)	1.5
Inventories	0.5	(0.1)	0.4
Current assets	1.5	-	1.5
Cash and cash equivalents	0.2	-	0.2
Total assets	**4.9**	**(0.2)**	**4.7**
Current interest bearing liabilities	(0.2)	-	(0.2)
Current liabilities	(0.9)	-	(0.9)
Deferred tax	(0.1)	(0.1)	(0.2)
Total liabilities	**(1.2)**	**(0.1)**	**(1.3)**
Net assets	**3.7**	**(0.3)**	**3.4**
Consideration			
Consideration in the year			**6.8**
Goodwill			**3.4**
Cash flow effect			
Consideration			**6.8**
Cash and cash equivalents received in the business			**(0.2)**
Net cash consideration shown in the consolidated statement of cash flows			**6.6**

Brands and customer relationships have been recognised as specific intangible assets as a result of these acquisitions. Policy alignment and fair value adjustments principally relate to harmonisation with group IFRS accounting policies, including the provisional application of fair values on acquisition. The goodwill arising on the Medway acquisition primarily represents the assembled workforce, market share and geographical advantages afforded to the group.

Post acquisition the acquired businesses have contributed £5.2m revenue and £0.7m operating profit, which are included in the group's consolidated income statement. If the acquisitions had been made on 1 January 2013 the group's results for the year would have shown revenue of £447.9m and underlying operating profit of £45.0m.

Notes to the Consolidated Financial Statements continued

10. Intangible assets continued
Cash generating units with significant amounts of goodwill

	2013 £m	2012 £m
Galvanizing Services - France	**22.9**	22.5
Galvanizing Services - USA	**20.6**	21.0
Galvanizing Services - UK	**17.7**	14.3
The Paterson Group	**7.6**	7.7
Other cash generating units with no individually significant value	**31.0**	31.1
	99.8	96.6

Goodwill impairment reviews 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 certain US brand names of £9.8m (2012: £10.0m), which are the group's only other indefinite life intangible assets, are performed by analysing the carrying value allocated to each significant cash generating unit against its value in use. All goodwill is allocated to specific cash generating units which are in all cases no larger than operating segments. Value in use is calculated for each cash generating unit as the net present value of that unit's discounted future cash flows. These cash flows are based on budget cash flow information for a period of one year, strategic plan cash flow information for the following two years and an average growth rate of 3% applied subsequently based on a prudent management estimate for revenue and associated cost growth. Budgets and strategic plans are prepared taking into account past experience and the group's overall strategic direction. In respect of cash generating units with significant amounts of goodwill, the key assumptions applied by the board in determining the budget and strategic plan revenues are, for the Galvanizing businesses, based on the directors' estimates of the current outlook for the UK, French and US manufacturing sectors respectively, and for The Paterson Group, based on the directors' estimates of the current outlook for the US Power Generation sector. Budget and strategic plan costs are based upon the directors' past experience of the costs required to support these revenue estimates.

The calculated headroom between value in use and carrying value of each of the cash generating units with significant amounts of goodwill is set out below, together with the pre-tax discount rates applied.

	2013		2012	
	Headroom £m	Discount rate	Headroom £m	Discount rate
Galvanizing Services - France	**15.0**	**23.8%**	45.0	20.4%
Galvanizing Services - USA	**95.3**	**19.9%**	101.3	13.6%
Galvanizing Services - UK	**17.6**	**15.6%**	2.2	14.0%
The Paterson Group	**8.7**	**17.7%**	22.2	11.8%

Pre-tax discount rates of between 10% and 20% are applied in determining the recoverable amounts of other cash generating units. Discount rates are estimated based on the group's cost of capital, risk adjusted for individual units' circumstances.

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

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

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11. Property, plant and equipment

	Land and buildings £m	Plant, machinery and vehicles £m	Total £m
Cost			
At 1 January 2012	62.2	126.2	188.4
Exchange adjustments	(1.8)	(1.4)	(3.2)
Acquisitions	-	0.4	0.4
Additions	6.9	11.8	18.7
Reclassification	-	(1.9)	(1.9)
Disposals	(0.3)	(2.8)	(3.1)
At 31 December 2012	**67.0**	**132.3**	**199.3**
Exchange adjustments	**(0.4)**	**(0.4)**	**(0.8)**
Acquisitions	**0.9**	**0.6**	**1.5**
Additions	**5.8**	**14.7**	**20.5**
Disposals	**(0.9)**	**(2.9)**	**(3.8)**
At 31 December 2013	**72.4**	**144.3**	**216.7**
Depreciation and impairment losses			
At 1 January 2012	10.3	73.2	83.5
Exchange adjustments	(0.3)	(0.5)	(0.8)
Reclassification	-	(0.5)	(0.5)
Disposals	(0.2)	(2.3)	(2.5)
Charge for the year	2.7	10.1	12.8
At 31 December 2012	**12.5**	**80.0**	**92.5**
Exchange adjustments	**-**	**(0.3)**	**(0.3)**
Impairment provision	**1.3**	**0.4**	**1.7**
Disposals	**(0.2)**	**(2.5)**	**(2.7)**
Charge for the year	**2.8**	**10.8**	**13.6**
At 31 December 2013	**16.4**	**88.4**	**104.8**
Carrying values			
At 1 January 2012	51.9	53.0	104.9
At 31 December 2012	54.5	52.3	106.8
At 31 December 2013	**56.0**	**55.9**	**111.9**

The gross book value of land and buildings includes freehold land of £13.1m (2012: £12.0m).

Included in the carrying value of plant, machinery and vehicles is £1.6m (2012: £4.5m) 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 £29.4m (2012: £27.2m) and accumulated depreciation of £18.9m (2012: £16.6m).

In 2012, assets with a cost of £1.9m and accumulated depreciation of £0.5m were transferred to inventories for future resale.

Notes to the Consolidated Financial Statements continued

12. Deferred taxation

	Intangible assets £m	Property, plant and equipment £m	Inventories £m	Retirement obligation £m	Other timing differences £m	Total £m
At 1 January 2012	(10.5)	(9.1)	(1.2)	4.3	(0.5)	(17.0)
Exchange adjustments	0.3	0.2	(0.1)	-	-	0.4
Credited for the year in the consolidated income statement (note 7)	1.0	1.4	1.7	-	1.2	5.3
(Charged)/credited for the year in the consolidated statement of comprehensive income (note 7)	-	-	-	(0.2)	0.1	(0.1)
Credited for the year in the consolidated statement of changes in equity (note 7)	-	-	-	-	0.2	0.2
At 31 December 2012	**(9.2)**	**(7.5)**	**0.4**	**4.1**	**1.0**	**(11.2)**
Exchange adjustments	**-**	**-**	**-**	**-**	**-**	**-**
Acquisitions of subsidiaries	**(0.2)**	**-**	**-**	**-**	**-**	**(0.2)**
Credited/(charged) for the year in the consolidated income statement (note 7)	**0.7**	**0.7**	**0.7**	**(0.2)**	**(0.4)**	**1.5**
Credited/(charged) for the year in the consolidated statement of comprehensive income (note 7)	**-**	**-**	**-**	**0.4**	**(0.1)**	**0.3**
Credited for the year in the consolidated statement of changes in equity (note 7)	**-**	**-**	**-**	**-**	**0.1**	**0.1**
At 31 December 2013	**(8.7)**	**(6.8)**	**1.1**	**4.3**	**0.6**	**(9.5)**

	2013 £m	2012 £m
Deferred tax assets	**1.7**	1.0
Deferred tax liabilities	**(11.2)**	(12.2)
Deferred tax liability	**(9.5)**	(11.2)

No deferred tax asset has been recognised in respect of tax losses of £13.5m (2012: £14.5m) as their future use is uncertain. There is no time limit on the carrying forward of these losses.

The reduction in the UK corporation tax rate from 24% to 23% (effective 1 April 2013) was substantively enacted on 3 July 2012. Further reductions to 21% (effective 1 April 2014) and to 20% (effective 1 April 2015) were substantively enacted on 2 July 2013. The deferred tax liability in respect of UK entities has therefore been recalculated at 20% on the basis that it will materially reverse after 1 April 2015.

13. Inventories

	2013 £m	2012 £m
Raw materials and consumables	**30.1**	28.6
Work in progress	**6.4**	8.9
Finished goods and goods for resale	**18.6**	20.3
	55.1	57.8

The amount of inventories expensed to the consolidated income statement in the year was £250.3m (2012: £257.1m). The value of inventories written down and expensed in the consolidated income statement during the year amounted to £nil (2012: £nil). The amount of inventories held at fair value less cost to sell included in the above was £0.3m (2012: £0.4m).

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14. Trade and other receivables

	2013 £m	2012 £m
Trade and other current receivables		
Trade receivables	**84.4**	81.9
Prepayments and accrued income	**4.9**	4.3
Other receivables	**1.7**	2.5
Fair value derivatives	**0.2**	-
	91.2	88.7

The charge to the consolidated income statement in the year in respect of impairment of trade receivables was £0.5m (2012: £0.5m).

15. Cash and borrowings

	2013 £m	2012 £m
Cash and cash equivalents in the balance sheet		
Cash and bank balances	**10.0**	8.8
Call deposits	**-**	0.1
Cash	**10.0**	8.9
Interest bearing loans and borrowings		
Amounts due within one year (note 16)	**(0.8)**	(2.0)
Amounts due after more than one year (note 17)	**(96.4)**	(93.7)
Net debt	**(87.2)**	(86.8)
Change in net debt		
Operating profit	**34.5**	39.2
Non-cash items	**17.4**	17.5
Operating cash flow before movement in working capital	**51.9**	56.7
Net movement in working capital	**1.9**	3.7
Changes in provisions and employee benefits	**0.4**	(2.0)
Operating cash flow	**54.2**	58.4
Tax paid	**(15.3)**	(11.6)
Net financing costs paid	**(3.4)**	(4.3)
Capital expenditure	**(22.1)**	(18.3)
Proceeds on disposal of non-current assets	**3.0**	0.5
Free cash flow	**16.4**	24.7
Dividends paid (note 9)	**(11.6)**	(10.2)
Acquisitions (note 10)	**(6.6)**	(0.5)
Issue of new shares (note 20)	**2.0**	0.5
Net debt decrease	**0.2**	14.5
Effect of exchange rate fluctuations	**(0.6)**	2.5
Net debt at the beginning of the year	**(86.8)**	(103.8)
Net debt at the end of the year	**(87.2)**	(86.8)

Notes to the Consolidated Financial Statements continued

16. Current liabilities

	2013 £m	2012 £m
Interest bearing loans and borrowings		
Current portion of long term borrowings	**0.5**	0.5
Finance lease and hire purchase obligations	**0.3**	1.5
	0.8	2.0
Trade and other current liabilities		
Trade payables	**50.8**	50.7
Other taxation and social security	**10.5**	10.9
Accrued expenses and deferred income	**19.9**	17.3
Fair value derivatives	**0.9**	1.0
Other payables	**2.9**	4.3
	85.0	84.2

17. Non-current liabilities

	2013 £m	2012 £m
Interest bearing loans and borrowings		
Long term borrowings	**96.3**	93.4
Finance lease and hire purchase obligations	**0.1**	0.3
	96.4	93.7
Other non-current liabilities		
Deferred government grants	**0.1**	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:

	2013			2012		
	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	**5.00**	**0.3**	**0.3**	3.75	1.6	1.5
Amounts due after more than one year:						
Between one and two years	**5.00**	**0.1**	**0.1**	4.75	0.3	0.3
		0.1	**0.1**		0.3	0.3
		0.4	**0.4**		1.9	1.8
Principal liability		**0.4**			1.8	
Finance charges payable on outstanding commitments		**-**			0.1	

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

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18. Provisions for liabilities and charges

	Property related £m	Other regulatory £m	Total £m
At 1 January 2012	4.0	-	4.0
Utilised during the year	(0.5)	-	(0.5)
Released to consolidated income statement	(0.2)	-	(0.2)
At 31 December 2012	**3.3**	**-**	**3.3**
Utilised during the year	**(0.5)**	**-**	**(0.5)**
Charged to consolidated income statement	**2.8**	**0.7**	**3.5**
At 31 December 2013	**5.6**	**0.7**	**6.3**

	2013 £m	2012 £m
Amounts due within one year	**3.5**	0.5
Amounts due after more than one year	**2.8**	2.8
	6.3	3.3

Provisions utilised during the year of £0.5m (2012: £0.5m) reflect cash spend associated with the closure of one of the group's manufacturing plants late in 2010. Provisions charged of £3.5m relate to the closure of one of the group's manufacturing operations in 2013. The group has sought expert valuations in relation to its property provisions where appropriate, although there are factors outside of the group's control that give rise to uncertainties surrounding these matters. The group does not expect to be reimbursed for any of the future costs.

19. Financial instruments

(a) Management of financial risks

Overview

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

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

The board of directors has overall responsibility for the establishment and oversight of the group's risk management framework.

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

The group audit committee oversees how management monitors compliance with the group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the group. A programme of peer and third party reviews is in place to assist the group audit committee with its assessment of the effectiveness of risk management and internal control procedures.

Credit risk

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

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

Notes to the Consolidated Financial Statements continued

19. Financial instruments continued

The group's UK companies represent the majority of the trade receivable at 31 December 2013 with 62% (2012: 61%) and currently the only geographical region that does not generally insure trade receivables is North America, which represents 16% (2012: 17%) of the group's trade receivables. Subsidiaries in North America have a policy of taking out trade references before granting credit limits and selectively insuring where it is deemed necessary by management.

The group's policy is to not provide financial guarantees. At 31 December 2013 and 2012, no guarantees were outstanding.

Liquidity risk

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

It is the group's policy to minimise its liquidity risk in terms of limiting the amounts of borrowings maturing within the next 12 months. As at 31 December 2013 all such debt was covered by cash and cash equivalents netting to £9.2m positive current liquidity (2012: £6.9m).

In 2011 the group refinanced its principal UK revolving credit facility. The facility is a multicurrency revolving credit agreement that expires in April 2016 and has a value at 31 December 2013 of £208.8m (2012: £209.4m), based on year end exchange rates. Along with various other on demand lines of credit, including bank overdrafts, finance leases and bills of exchange, the group has access to facilities of £228.6m (2012: £230.3m).

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and commodity prices will affect the group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. The group buys and sells derivatives in the ordinary course of business, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the board.

Counterparty risk

A group of relationship banks provides the bulk of the banking services, with pre-approved credit limits set for each institution. Financial derivatives are entered into with these core banks and the underlying credit exposure to these instruments is included when considering the credit exposure to the counterparties. At the end of 2013 credit exposure including cash deposited did not exceed £4.6m with any single institution (2012: £3.2m).

Currency risk

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

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

The group has hedged its investment in US and European operations by way of financing the acquisitions through like denominations of its multi currency banking facility. The group's investments in other subsidiaries are not hedged because fluctuations on translation of their assets into Sterling are not significant to the group.

Interest rate risk

The group adopts interest rate swaps when engaging in long term specific investments or contracts in order to more reliably assess financial implications of these procurements. However, the group currently feels that using fixed interest rates for short term day to day trading is not appropriate.

The UK parent company and certain of its UK subsidiaries hold Sterling, US Dollar and Euro derivative instruments, designed to reduce the group's exposure to interest rate fluctuations, as shown in the following table. The notional amounts represent approximately 19% (2012: 29%) of the gross year end Sterling borrowings, 40% (2012: 38%) of the Euro borrowings and 91% (2012: 53%) of the US Dollar borrowings under the group's principal UK revolving credit facility. The group also has US Dollar arrangements which are held locally, the notional amounts representing approximately 10% (2012: 12%) of the local US Dollar year end gross borrowings.

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19. Financial instruments continued

Country	Financial instrument	Maturity date	Rate excluding margin %	2013 Notional amounts £m	2013 Notional amounts €m	2013 Notional amounts $m
UK	Swap	1 April 2016	1.148	**-**	**-**	**10.0**
UK	Swap	1 April 2016	1.130	**-**	**-**	**10.0**
UK	Swap	1 April 2016	1.133	**-**	**-**	**10.0**
UK	Swap	1 April 2016	1.360	**10.0**	**-**	**-**
UK	Swap	1 April 2016	1.544	**-**	**10.0**	**-**
USA	Swap	1 October 2015	4.800	**-**	**-**	**0.5**

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 2013 and 2012, as set out in the business review on page 26.

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

(b) Total financial assets and liabilities

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

	Designated at fair value £m	Amortised cost £m	Total carrying value £m	Fair value £m
Cash and cash equivalents	**-**	**10.0**	**10.0**	**10.0**
Interest bearing loans due within one year	**-**	**(0.8)**	**(0.8)**	**(0.8)**
Interest bearing loans due after more than one year	**-**	**(96.4)**	**(96.4)**	**(96.4)**
Derivative assets	**0.2**	**-**	**0.2**	**0.2**
Derivative liabilities	**(0.9)**	**-**	**(0.9)**	**(0.9)**
Other assets	**-**	**86.1**	**86.1**	**86.1**
Other liabilities	**-**	**(73.6)**	**(73.6)**	**(73.6)**
Total at 31 December 2013	**(0.7)**	**(74.7)**	**(75.4)**	**(75.4)**
Cash and cash equivalents	-	8.9	8.9	8.9
Interest bearing loans due within one year	-	(2.0)	(2.0)	(2.0)
Interest bearing loans due after more than one year	-	(93.7)	(93.7)	(93.7)
Derivative assets	-	-	-	-
Derivative liabilities	(1.0)	-	(1.0)	(1.0)
Other assets	-	84.4	84.4	84.4
Other liabilities	-	(72.3)	(72.3)	(72.3)
Total at 31 December 2012	(1.0)	(74.7)	(75.7)	(75.7)

Notes to the Consolidated Financial Statements continued

19. Financial instruments continued

Fair value hierarchy

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

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

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Derivative financial assets	**-**	**0.2**	**-**	**0.2**
Derivative financial liabilities	**-**	**(0.9)**	**-**	**(0.9)**
Total at 31 December 2013	**-**	**(0.7)**	**-**	**(0.7)**
Derivative financial assets	-	-	-	-
Derivative financial liabilities	-	(1.0)	-	(1.0)
Total at 31 December 2012	-	(1.0)	-	(1.0)

At 31 December 2013 the group did not have any liabilities classified at Level 1 or Level 3 in the fair value hierarchy. There have been no transfers in any direction in the year.

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

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

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

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

The UK parent company and certain of its UK subsidiaries hold Euro £20.7m (2012: £21.2m) and US Dollar £20.1m (2012: £35.2m) denominated interest bearing loans, which are predominantly used to fund the group's European and United States operations and include £40.8m (2012: £56.4m) designated as a hedge of the net investment in a foreign operation. The foreign currency loss of £0.7m (2012: gain of £2.8m) 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 2013	**1.4**	**2.2**
US Dollar at 31 December 2013	**1.2**	**2.2**
Euro at 31 December 2013	**1.5**	**2.3**
Sterling at 31 December 2012	1.5	3.2
US Dollar at 31 December 2012	1.2	3.2
Euro at 31 December 2012	1.5	3.3

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19. Financial instruments continued

(c) Maturity profile

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

	Carrying amounts £m	Contractual cash flows £m	Due within one year £m	Due between one and two years £m	Due between two and five years £m	Due after more than five years £m
Secured bank borrowings	**3.0**	**(3.0)**	**(0.5)**	**(0.4)**	**(0.7)**	**(1.4)**
Unsecured bank borrowings	**93.8**	**(98.4)**	**(2.0)**	**(2.0)**	**(94.4)**	**-**
Finance lease obligations	**0.4**	**(0.5)**	**(0.3)**	**(0.2)**	**-**	**-**
Other liabilities	**73.6**	**(73.6)**	**(73.6)**	**-**	**-**	**-**
Derivative liabilities	**0.9**	**(1.2)**	**(0.7)**	**(0.4)**	**(0.1)**	**-**
Total at 31 December 2013	**171.7**	**(176.7)**	**(77.1)**	**(3.0)**	**(95.2)**	**(1.4)**
Secured bank borrowings	3.5	(3.6)	(0.5)	(0.5)	(0.9)	(1.7)
Unsecured bank borrowings	90.4	(95.9)	(1.7)	(1.7)	(92.5)	-
Finance lease obligations	1.8	(1.9)	(1.5)	(0.4)	-	-
Other liabilities	72.3	(72.3)	(72.3)	-	-	-
Derivative liabilities	1.0	(1.3)	(0.4)	(0.4)	(0.5)	-
Total at 31 December 2012	169.0	(175.0)	(76.4)	(3.0)	(93.9)	(1.7)

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

	2013 £m	2012 £m
Undrawn committed borrowing facilities		
Expiring after more than one year	**115.0**	119.0

(d) Fair values

The gain in the year on the interest rate swaps held by the UK group was £0.3m (2012: loss of £0.4m) which is recognised directly in equity as these instruments are accounted for as cash flow hedges. Any ineffective portion of these hedges is taken to the consolidated income statement and was insignificant. The gain in the year on the US fixed rate interest swaps taken to the consolidated income statement was £nil (2012: nil). The fair value of forward currency exchange contracts realised in the consolidated income statement as part of fair value derivatives amounted to £nil (2012: loss of £0.4m). The fair values of the group's other financial instruments at 31 December 2013 and 2012 were not materially different to their carrying value. Fair values were calculated using market rates where available, otherwise cash flows were discounted at prevailing rates.

Impairment charges of £1.8m (2012: £0.3m) were recognised in respect of the carrying values of non-current assets, 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

	2013 £m	2012 £m
Loans and receivables	**86.1**	84.4
Cash at the end of the year	**10.0**	8.9
Total	**96.1**	93.3

Notes to the Consolidated Financial Statements continued

19. Financial instruments continued

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

Carrying value of trade receivables by geography

	2013 £m	2012 £m
UK	**52.4**	50.3
Rest of Europe	**15.6**	15.2
North America	**13.5**	13.6
Rest of World	**2.9**	2.8
Total	**84.4**	81.9

Carrying value of trade receivables by business segment

	2013 £m	2012 £m
Infrastructure Products - Utilities	**40.5**	40.9
Infrastructure Products - Roads	**22.2**	20.5
Infrastructure Products - Total	**62.7**	61.4
Galvanizing Services	**21.7**	20.5
Total	**84.4**	81.9

Impairment losses

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

The ageing of trade receivables at the reporting date was:

	2013			2012		
	Gross £m	Provisions £m	Net £m	Gross £m	Provisions £m	Net £m
Not past due	**59.3**	**(0.1)**	**59.2**	58.6	(0.3)	58.3
Past due 1–30 days	**13.6**	**(0.1)**	**13.5**	16.0	(0.1)	15.9
Past due 31–120 days	**7.7**	**(0.7)**	**7.0**	4.8	(0.1)	4.7
Past due more than 120 days	**6.4**	**(1.7)**	**4.7**	4.8	(1.8)	3.0
Total	**87.0**	**(2.6)**	**84.4**	84.2	(2.3)	81.9

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

	£m
At 1 January 2012	3.0
Exchange adjustments	(0.1)
Charged to the consolidated income statement during the year	0.1
Utilised during the year	(0.7)
At 31 December 2012	**2.3**
Exchange adjustments	**-**
Charged to the consolidated income statement during the year	**0.5**
Utilised during the year	**(0.2)**
At 31 December 2013	**2.6**

(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 £0.6m (2012: £0.7m), which would directly impact on the consolidated income statement.

Financial Statements

19. Financial instruments continued

(f) Sensitivity analysis

- Based on a 10% weakening in Sterling against all currencies throughout the year, the impact on the consolidated income statement would have been a gain of £2.4m (2012: £2.7m) and the impact on equity would have been a gain of £14.9m (2012: £13.1m).
- Based on a 10% strengthening in Sterling against all currencies throughout the year, the impact on the consolidated income statement would have been a loss of £2.0m (2012: £2.2m) and the impact on equity would have been a loss of £12.5m (2012: £10.7m).

20. Called up share capital

	2013 £m	2012 £m
Allotted, called up and fully paid		
77.7m ordinary shares of 25p each (2012: 77.1m)	**19.4**	19.3

In 2013 the company issued 0.6m shares under its various share option schemes (2012: 0.1m), realising £2.0m (2012: £0.5m).

Options outstanding over the company's shares

	2013 Number of shares	**2013 Option price (p)**	2012 Number of shares	2012 Option price (p)	Date first exercisable	Expiry date
2007 LTIP Award (granted March 2013)*	**160,148**	**-**	-	-	§	§
2007 LTIP Award (granted March 2012)*	**263,721**	**-**	263,721	-	§	§
2007 LTIP Award (granted March 2011)*	**287,779**	**-**	287,779	-	§	§
2007 LTIP Award (granted March 2010)*	**-**	**-**	247,546	-	§	§
2005 approved executive share option scheme (granted October 2005)*	**26,146**	**205**	40,792	205	4 October 2008	4 October 2015
2005 unapproved executive share option scheme (granted October 2005)*	**4,907**	**205**	4,907	205	4 October 2008	4 October 2015
2007 grant of 2005 approved executive share option scheme (granted April 2007)*	**56,852**	**350**	183,551	350	13 April 2010	13 April 2017
2007 grant of 2005 unapproved executive share option scheme (granted April 2007)*	**79,429**	**350**	326,876	350	13 April 2010	13 April 2017
2012 grant of 2005 approved executive share option scheme (granted April 2012)*	**116,342**	**316**	125,828	316	19 April 2015	19 April 2022
2012 grant of 2005 unapproved executive share option scheme (granted April 2012)*	**158,658**	**316**	159,172	316	19 April 2015	19 April 2022
2008 grant of 2005 savings related share option scheme (granted January 2008)*†	**-**	**318**	122,599	318	1 January 2013	1 July 2013
2008 grant of 2005 savings related share option scheme (granted December 2008)*†	**15,331**	**246**	134,630	246	1 December 2013	1 June 2014
2010 grant of 2005 savings related share option scheme (granted January 2011)*†	**417,837**	**238**	456,697	238	1 January 2016	1 July 2016
2013 grant of 2005 savings related share option scheme (granted April 2013)*†	**447,363**	**355**	-	-	1 June 2018	1 December 2018
Outstanding at the end of the year	**2,034,513**		2,354,098			
Exercisable at the year end	**182,665**		556,126			
Not exercisable at the year end	**1,851,848**		1,797,972			
Outstanding at the end of the year	**2,034,513**		2,354,098			

* 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 2014 for the 2011 grant, 1 January 2015 for the 2012 grant and 1 January 2016 for the 2013 grant.

The remaining weighted average life of the outstanding share options is 3 years 2 months (2012: 3 years 3 months).

Notes to the Consolidated Financial Statements continued

20. Called up share capital continued

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

	Weighted average exercise price (p) 2013	Millions of options 2013	Weighted average exercise price (p) 2012	Millions of options 2012
Outstanding at the beginning of the year	**195**	**2.4**	197	2.3
Granted during the year	**247**	**0.6**	169	0.6
Exercised during the year	**(319)**	**(0.6)**	(241)	(0.1)
Lapsed during the year	**(48)**	**(0.4)**	(144)	(0.4)
Outstanding at the end of the year	**198**	**2.0**	195	2.4

The weighted average share price on the dates of exercise during the year for the above share options was 461p (2012: 356p), and the weighted average fair value of options and awards granted in the year was 163p (2012: 145p). The weighted average exercise price of outstanding options exercisable at the year end was 317p.

Share-based payments

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

The fair value of services received in return for share options granted is measured by reference to the fair value of the share options granted. The estimate of the fair value of the services received is measured based on the Black–Scholes model where vesting is based on non-market conditions, or a Monte Carlo Simulation where vesting is based on market conditions. The contractual life is the life of the option in question and the growth in dividend yield is based on the best current estimate of future yields over the contractual period.

	2013 grant of 2007 LTIP Award	2012 grant of 2007 LTIP Award	2011 grant of 2007 LTIP Award	April 2013 grant of 2005 Savings Related Share Option Scheme	January 2011 grant of 2005 Savings Related Share Option Scheme	December 2008 grant of 2005 Savings Related Share Option Scheme	January 2008 grant of 2005 Savings Related Share Option Scheme	2012 grant of 2005 Share Option Schemes	2007 grant of 2005 Share Option Schemes	2005 grant of 2005 Share Option Schemes
Fair value at measurement date (p)	443/248	337/194	303/171	83	44	3/3	51/49	41	59	34
Share price at grant date (p)	443	337	303	429	290	160	331	316	351	208
Exercise price (p)	0	0	0	355	238	246	318	316	350	205
Expected volatility (%)	29	28	28	26	21	28/24	29/25	28	22	36
Option life (years)	3	3	3	5	5	3/5	3/5	3	3	3
Dividend yield (%)	0.0	0.0	0.0	3.5	4.4	4.6	4.6	4.2	3.7	3.7
Risk free interest rate (%)	0.3	0.6	1.6	0.7	1.6	1.8/2.8	4.0	0.6	5.1	4.5

The expected volatility is wholly based on the historical volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information.

Share options have been granted to qualifying employees in line with either HM Revenue & Customs approved or non-approved schemes, as indicated above. Other than the LTIP, the strike price for the option is made based on the market values of shares at the date the option is offered.

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

	2013 £m	2012 £m
Expensed during the year	**0.5**	0.3

21. Guarantees and other financial commitments

(a) Guarantees

The group had no financial guarantee contracts outstanding (2012: £nil).

(b) Capital commitments

	2013 £m	2012 £m
Contracted for but not provided in the accounts	**2.4**	0.4

21. Guarantees and other financial commitments continued

(c) Operating lease commitments

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

	2013		2012	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Group				
Within one year	**4.3**	**2.3**	4.4	2.2
Between one and two years	**3.7**	**1.8**	4.3	1.6
Between two and five years	**9.3**	**2.5**	10.0	1.9
After five years	**10.6**	**-**	13.7	0.1
	27.9	**6.6**	32.4	5.8

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

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

	2013		2012	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Group				
Within one year	**0.6**	**6.1**	0.6	6.1
Between one and five years	**1.2**	**4.0**	1.4	4.0
After five years	**0.5**	**-**	0.7	-
	2.3	**10.1**	2.7	10.1

22. Pensions

Total

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

	UK £m	Overseas £m	2013 £m	UK £m	Overseas £m	2012 £m
Total fair value of scheme assets	**63.1**	**2.6**	**65.7**	62.0	2.5	64.5
Present value of scheme funded obligations	**(80.7)**	**(5.1)**	**(85.8)**	(75.8)	(4.9)	(80.7)
Present value of scheme unfunded obligations	**-**	**(0.1)**	**(0.1)**	-	(0.1)	(0.1)
Retirement benefit obligation	**(17.6)**	**(2.6)**	**(20.2)**	(13.8)	(2.5)	(16.3)

United Kingdom

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

The consolidated income statement for the year includes a pension charge within operating profit of £1.6m (2012: £1.7m), which includes the costs of the defined contribution scheme and the defined benefit scheme.

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

Notes to the Consolidated Financial Statements continued

22. Pensions continued

Composition of the scheme

The group operates defined benefit schemes in the UK. A full actuarial valuation of the schemes was last carried out as at 5 April 2012 and was updated to 31 December 2013 by a qualified actuary.

The principal assumptions used by the actuary

	2013	2012	2011	2010	2009
Rate of increase in salaries	**n/a**	n/a	2.00%	3.50%	3.60%
Rate of increase in pensions payment	**3.20%**	2.60%	2.90%	3.30%	3.40%
Discount rate	**4.30%**	4.20%	4.90%	5.60%	5.80%
Inflation - RPI	**3.40%**	2.70%	3.00%	3.50%	3.60%
Inflation - CPI	**2.40%**	1.95%	2.00%	-	-
Mortality table	**116%120% S1PACMI2013 1%***	116%120% S1PACMI2011 1%*	116%120% S1PAmc1%	116%120% S1PAmc1%	PA92YOB

* With the addition of the short cohort for the Hill & Smith executive pension scheme, approximately 1.4 years is added to the life expectancies shown below:

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

	2013	2012	2011	2010	2009
Males currently aged 45	**21.7 years**	21.8 years	21.6 years	21.6 years	21.1 years
Females currently aged 45	**24.1 years**	24.3 years	24.2 years	24.2 years	24.1 years
Males currently aged 65	**20.7 years**	20.8 years	20.0 years	20.0 years	19.9 years
Females currently aged 65	**22.9 years**	23.0 years	22.7 years	22.7 years	22.9 years

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

Assets and liabilities

One scheme holds assets and liabilities in respect of defined contribution benefits which are equal in value and are excluded from the following figures. The fair values of scheme assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the value of the scheme liabilities, which is derived from cash flow projections over long periods and which is therefore inherently uncertain, are as follows:

	Market value 2013 £m	Market value 2012 £m	Market value 2011 £m	Market value 2010 £m	Market value 2009 £m
Assets					
Equities	**21.7**	21.7	16.2	19.0	16.0
Bonds	**33.3**	33.0	29.5	27.2	24.9
With profits policies	**1.0**	1.4	2.5	2.3	2.1
Hedge funds	**-**	5.5	5.4	5.8	5.6
Currency funds	**-**	-	0.9	1.9	2.3
Cash	**7.1**	0.4	0.4	0.4	1.1
Total fair value of scheme assets	**63.1**	62.0	54.9	56.6	52.0
Present value of scheme funded obligations	**(80.7)**	(75.8)	(69.2)	(66.1)	(67.4)
Retirement benefit obligation	**(17.6)**	(13.8)	(14.3)	(9.5)	(15.4)

Financial Statements

22. Pensions continued

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

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

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

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

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

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

Total expense recognised in the consolidated income statement

	2013			2012		
	Defined contribution schemes £m	Defined benefit schemes £m	Total £m	Defined contribution schemes £m	Defined benefit schemes £m	Total £m
Current service costs	1.1	-	1.1	1.1	0.2	1.3
Expenses	0.4	0.1	0.5	-	-	-
Losses on curtailments and settlements	-	-	-	-	0.4	0.4
Charge to operating profit	1.5	0.1	1.6	1.1	0.6	1.7
Expected return on pension scheme assets	-	-	-	-	(2.9)	(2.9)
Expected interest cost on pension scheme obligations	-	-	-	-	3.3	3.3
Interest on net pension scheme deficit	-	0.5	0.5	-	-	-
Total charged to profit before tax	1.5	0.6	2.1	1.1	1.0	2.1

Change in the present value of the defined benefit obligations

	2013 £m	2012 £m
Opening defined benefit obligations	75.8	69.2
Current service costs	-	0.2
Interest cost	3.1	3.3
Actuarial (gain)/loss arising from:		
Financial assumptions	4.8	5.7
Demographic assumptions	(0.6)	1.0
Experience adjustment	1.0	0.5
Losses on curtailments and settlements	-	0.4
Benefits paid	(3.4)	(4.5)
Closing defined benefit obligations	80.7	75.8

Notes to the Consolidated Financial Statements continued

22. Pensions continued

Changes in fair values of scheme assets

	2013 £m	2012 £m
Opening fair value of assets	**62.0**	54.9
Interest income	**2.6**	2.9
Return on plan assets excluding interest income	**(0.6)**	6.7
Employer contributions	**2.5**	2.0
Benefits paid	**(3.4)**	(4.5)
Closing fair value of assets	**63.1**	62.0
Actual return on scheme assets	**2.0**	9.6
Expected employer contributions in the following year		
Defined benefit schemes	**2.5**	2.5
Defined contribution schemes	**1.1**	1.2

Amounts recognised in the consolidated statement of comprehensive income

	% of scheme assets/ liabilities %	2013 £m	% of scheme assets/ liabilities %	2012 £m	% of scheme assets/ liabilities %	2011 £m
Return on plan assets excluding interest income	**2**	**(0.6)**	11	6.7	8	(4.3)
Experienced loss on scheme obligations	**1**	**(1.0)**	1	(0.5)	-	-
Changes in assumptions underlying the present value of scheme obligations	**5**	**(4.2)**	9	(6.7)	6	(3.9)
Annual amount recognised	**8**	**(5.8)**	1	(0.5)	12	(8.2)
Total amount recognised		**(31.0)**		(25.2)		(24.7)

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

Overseas

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

In the USA Bergen-Power Pipe Supports, Inc. operates a defined benefit pension plan comprising current and deferred pensioners such that no future benefits accrue.

The group also operates defined contribution plans in a number of other overseas operations. The amount contributed to these plans during the year was £0.7m (2012: £0.5m).

The consolidated income statement for the year includes a pension charge within operating profit of £0.8m (2012: £0.6m), which includes the costs of the defined contribution schemes and the defined benefit schemes.

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

22. Pensions continued

Composition of the schemes

The group operates defined benefit schemes in France and the USA. Actuarial valuations of the schemes were carried out by independent actuaries as at 31 December 2013.

The principal assumptions used by the actuaries

	2013 USA	2013 France	2012 USA	2012 France	2011 France	2010 France
Rate of increase in salaries	**0.00%**	**2.00%**	0.00%	2.00%	2.00%	2.00%
Discount rate	**5.25%**	**3.10%**	4.50%	4.00%	5.00%	4.60%
Inflation	**0.00%**	**2.00%**	0.00%	2.00%	2.00%	2.00%
Mortality table	**94 GAR Proj. 2002**	**TH 00-02, TF 00-02**	94 GAR Proj. 2002	TH 00-02, TF 00-02	TH 00-02, TF 00-02	TH 00-02, TF 00-02

Assets and liabilities

The fair values of scheme assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the value of the scheme liabilities, which is derived from cash flow projections over long periods and which is therefore inherently uncertain, are as follows:

	Market value 2013 £m	Market value 2012 £m	Market value 2011 £m	Market value 2010 £m	Market value 2009 £m
Assets					
Cash and other insured fixed interest assets	**2.6**	2.5	2.6	0.1	0.2
Total fair value of scheme assets	**2.6**	2.5	2.6	0.1	0.2
Present value of scheme funded obligations	**(5.1)**	(4.9)	(4.6)	(1.4)	(1.4)
Present value of scheme unfunded obligations	**(0.1)**	(0.1)	(0.1)	(0.1)	(0.1)
Retirement benefit obligation	**(2.6)**	(2.5)	(2.1)	(1.4)	(1.3)

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

	2013			2012		
	Defined contribution schemes £m	**Defined benefit schemes £m**	**Total £m**	Defined contribution schemes £m	Defined benefit schemes £m	Total £m
Current service cost	**0.7**	**0.1**	**0.8**	0.5	0.1	0.6
Past service costs	**-**	**-**	**-**	-	-	-
Charge to operating profit	**0.7**	**0.1**	**0.8**	0.5	0.1	0.6
Expected return on pension scheme assets	**-**	**-**	**-**	-	(0.2)	(0.2)
Expected interest cost on pension scheme obligations	**-**	**-**	**-**	-	0.2	0.2
Interest on net pension scheme deficit	**-**	**0.1**	**0.1**	-	-	-
Total charged to profit before tax	**0.7**	**0.2**	**0.9**	0.5	0.1	0.6

Notes to the Consolidated Financial Statements continued

22. Pensions continued

Change in the present value of the defined benefit obligation

	2013 £m	2012 £m
Opening defined benefit obligation	5.0	4.7
Current service costs	0.1	0.1
Interest cost on scheme obligations	0.2	0.2
Actuarial losses/(gains) arising from:		
Financial assumptions	0.2	0.6
Experience adjustments	-	(0.1)
Benefits paid	(0.3)	(0.4)
Exchange adjustments	-	(0.1)
Closing defined benefit obligation	5.2	5.0

Changes in fair values of scheme assets

	2013 £m	2012 £m
Opening fair value of assets	2.5	2.6
Return on plan assets excluding interest income	0.2	0.1
Interest on plan assets	0.1	0.2
Benefits paid	(0.1)	(0.3)
Exchange adjustments	(0.1)	(0.1)
Closing fair value of assets	2.6	2.5
Actual return on scheme assets	0.3	0.3
Expected employer contributions in the following year		
Defined benefit schemes	-	-
Defined contribution schemes	0.8	0.5

Amounts recognised in the consolidated statement of comprehensive income

	% of scheme assets/ liabilities %	2013 £m	% of scheme assets/ liabilities %	2012 £m	% of scheme assets/ liabilities %	2011 £m
Experienced loss on scheme obligations	0	-	2	0.1	-	-
Return on plan assets excluding interest income	7	0.2	4	0.1	-	-
Changes in assumptions underlying the present value of scheme obligations	4	(0.2)	(12)	(0.6)	(4)	(0.2)
Exchange rate adjustment on assets and liabilities	n/a	-	n/a	-	n/a	-
Amount recognised in the period		-		(0.4)		(0.2)
Total amount recognised		(1.0)		(1.0)		(0.6)

	% of scheme assets/ liabilities %	2010 £m	% of scheme assets/ liabilities %	2009 £m
Experienced loss on scheme obligations	(2)	-	3	-
Changes in assumptions underlying the present value of scheme obligations	-	-	-	-
Exchange rate adjustment on assets and liabilities	n/a	-	n/a	0.1
Amount recognised in the period		-		0.1
Total amount recognised		(0.4)		(0.4)

Notes to the Consolidated Financial Statements continued

23. Accounting estimates, assumptions and judgements

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

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

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

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

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

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

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

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

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

24. Related party transactions

The key management are considered to be the board of directors of Hill & Smith Holdings PLC, whose remuneration can be seen in the directors' remuneration report on pages 50 to 63. The compensation in total for each category required by IAS24 is as follows:

	2013 £m	2012 £m
Salaries and short term employee benefits	**0.9**	1.4
Non-executive directors' fees	**0.2**	0.2
Pension costs	**0.2**	0.2
Share-based payments	**0.2**	0.1
	1.5	1.9

Year ended 31 December 2013

Company Balance Sheet

	Notes	2013 £m	2012 £m
Fixed assets			
Tangible assets	3	**0.2**	0.1
Investments	4	**313.1**	291.3
		313.3	291.4
Current assets			
Debtors	5	**27.1**	25.3
		27.1	25.3
Creditors: amounts falling due within one year			
Bank loans and overdrafts	6, 7	**(6.6)**	(4.5)
Other creditors	6	**(111.3)**	(103.0)
		(117.9)	(107.5)
Net current liabilities		**(90.8)**	(82.2)
Total assets less current liabilities		**222.5**	209.2
Creditors: amounts falling due after more than one year	7	**(62.7)**	(44.2)
Net assets		**159.8**	165.0
Share capital and reserves			
Called up share capital	9	**19.4**	19.3
Share premium	10	**31.5**	29.6
Capital redemption reserve	10	**0.2**	0.2
Profit and loss account	10	**108.7**	115.9
Equity shareholders' funds		**159.8**	165.0

Approved by the board of directors on 11 March 2014 and signed on its behalf by:

D W Muir
Director

M Pegler
Director

Year ended 31 December 2013

Company Reconciliation of Movements in Shareholders' Funds

	2013 £m	2012 £m
Profit for the year	**4.0**	24.6
Dividends	**(11.6)**	(10.2)
Credit to equity of share-based payments	**0.4**	0.3
Shares issued in the year	**2.0**	0.5
Net (decrease)/increase in shareholders' funds	**(5.2)**	15.2
Opening shareholders' funds	**165.0**	149.8
Closing shareholders' funds	**159.8**	165.0

Company Principal Accounting Policies

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

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

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

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

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

Company Principal Accounting Policies continued

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

Pension scheme arrangements
The company participates in the Hill & Smith executive pension scheme and the Hill & Smith pension scheme, as described in note 22. As the company is unable to identify its share of the group pension scheme assets in respect of the defined benefit sections on a consistent and reasonable basis, the schemes are accounted for as if they are defined contribution schemes, as permitted by FRS17. Contributions in respect of defined contribution schemes are charged to the profit and loss account in the period to which they relate.

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

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

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

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

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

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

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

Notes to the Company Financial Statements

1. Profit on ordinary activities before taxation

	2013 £m	2012 £m
The profit on ordinary activities is stated after charging:		
Operating lease rentals – land and buildings	**0.1**	0.1

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

2. Dividends

Dividends paid in the year were the prior year's interim dividend of £4.5m (2012: £4.2m) and the final dividend of £7.1m (2012: £6.0m). 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:

	2013		2012	
	Pence per share	£m	Pence per share	£m
Equity shares				
Interim	**6.0**	**4.7**	5.8	4.5
Final	**10.0**	**7.8**	9.2	7.1
Total	**16.0**	**12.5**	15.0	11.6

3. Tangible fixed assets

	Short leasehold properties £m	Plant, machinery and vehicles £m	Total £m
Cost or valuation			
At 31 December 2012	0.1	0.3	0.4
Additions	-	0.1	0.1
At 31 December 2013	**0.1**	**0.4**	**0.5**
Depreciation			
At 31 December 2012	-	0.3	0.3
Charge for the year	-	-	-
At 31 December 2013	**-**	**0.3**	**0.3**
Net book value			
At 31 December 2013	**0.1**	**0.1**	**0.2**
At 31 December 2012	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 2012	279.9	23.8	0.8	304.5
Exchange adjustments	(0.2)	-	-	(0.2)
Return on capital	(12.5)	-	-	(12.5)
Additions	34.5	-	-	34.5
At 31 December 2013	**301.7**	**23.8**	**0.8**	**326.3**
Provisions				
At 31 December 2012	11.1	1.3	0.8	13.2
Impairment	-	-	-	-
At 31 December 2013	**11.1**	**1.3**	**0.8**	**13.2**
Net book value				
At 31 December 2013	**290.6**	**22.5**	**-**	**313.1**
At 31 December 2012	268.8	22.5	-	291.3

Notes to the Company Financial Statements continued

4. Fixed asset investments continued

A list of the principal businesses owned by the company is given on pages 123 to 125. All of the company's subsidiaries are wholly owned.

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

5. Debtors

	2013 £m	2012 £m
Amounts owed by subsidiary undertakings	**26.3**	23.7
Deferred tax (note 8)	**0.2**	0.2
Other debtors	**0.4**	1.3
Prepayments and accrued income	**0.2**	0.1
	27.1	25.3

6. Creditors: amounts falling due within one year

	2013 £m	2012 £m
Bank loans and overdrafts (note 7)		
Bank overdrafts	**6.6**	4.5
	6.6	4.5
Other creditors		
Trade creditors	**1.9**	1.4
Other taxation and social security	**0.1**	0.1
Corporation tax	**0.7**	0.3
Accruals and deferred income	**2.2**	2.4
Other creditors	**0.3**	1.2
Amounts owed to subsidiary undertakings	**106.1**	97.6
	111.3	103.0

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.

	2013 £m	2012 £m
Long term bank loans	**62.7**	44.2
	62.7	44.2

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

	2013 £m	2012 £m
Bank loans and overdraft		
Amounts due within one year (note 6)	**6.6**	4.5
Amounts due after more than one year:		
Between one and two years	**-**	-
Between two and five years	**62.7**	44.2
	62.7	44.2
	69.3	48.7

8. Deferred tax

	2013 £m	2012 £m
At 1 January	**(0.2)**	(0.2)
Credited for the year in the profit and loss account	**-**	-
At 31 December	**(0.2)**	(0.2)
Other timing differences	**(0.2)**	(0.2)

9. Called up share capital

	2013 £m	2012 £m
Allotted, called up and fully paid		
77.7m Ordinary Shares of 25p each (2012: 77.1m)	**19.4**	19.3

In 2013 the company issued 0.6m shares under its various share option schemes (2012: 0.1m), realising £2.0m (2012: £0.5m). 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 2012	29.2	0.2	101.2
Profit for the year	-	-	24.6
Dividends	-	-	(10.2)
Credit to equity of share-based payments	-	-	0.3
Satisfaction of long term incentive payments	-	-	-
Shares issued	0.4	-	-
At 31 December 2012	**29.6**	**0.2**	**115.9**
Profit for the year	**-**	**-**	**4.0**
Dividends	**-**	**-**	**(11.6)**
Credit to equity of share-based payments	**-**	**-**	**0.4**
Satisfaction of long term incentive payments	**-**	**-**	**-**
Shares issued	**1.9**	**-**	**-**
At 31 December 2013	**31.5**	**0.2**	**108.7**

Details of share options and related share-based payments are contained in note 20 to the group financial statements.

Transactions of the group sponsored Employee Benefit Trust (EBT) are included in the company financial statements. In particular, the EBT's purchase of shares in the company to satisfy shares awarded under the long term incentive plan is debited directly to equity.

Notes to the Company Financial Statements continued

11. Guarantees and other financial commitments

(a) Guarantees

The company had no financial guarantee contracts outstanding (2012: £nil).

The company guarantees the bank loans and overdrafts of certain subsidiary undertakings. The amount outstanding at 31 December 2013 was £47.3m (2012: £68.2m).

(b) Operating lease commitments

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

	2013		2012	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Between two and five years	0.1	-	-	-
After five years	-	-	0.1	-
	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 £2.6m (2012: £1.8m), of which additional deficit contributions were £2.5m (2012: £1.8m).

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

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Revenue	**444.5**	440.7	406.2	374.2	389.7
Underlying operating profit	**44.5**	44.0	41.5	45.9	47.0
Underlying profit before taxation	**41.2**	40.4	37.4	42.2	42.2
Shareholders' funds	**169.1**	162.4	150.6	152.1	131.4

	Pence	Pence	Pence	Pence	Pence
Underlying earnings per share	**40.4**	38.8	34.5	39.0	38.3
Proposed dividends per share	**16.0**	15.0	13.2	12.7	11.5

Shareholder Information

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See further information online at hsholdings.com

Financial Calendar

Annual General Meeting 2014	14 May 2014
Interim Management Statement	14 May 2014
Ex-dividend date for 2013 final dividend	28 May 2014
Record date 2013 final dividend	30 May 2014
Dividend Reinvestment Plan – last date for election	13 June 2014
Final 2013 ordinary dividend payable	4 July 2014
Announcement of 2014 interim results	August 2014
Interim Management Statement	November 2014
Payment of 2014 interim dividend	January 2015

Shareholder Information

Shareholder base

Holdings of ordinary shares at 11 March 2014

Range of Shares	Number of holders	%	Number of Shares	%
1 - 500	583	22.48	113,149	0.15
501 - 1,000	377	14.54	294,830	0.38
1,001 – 5,000	926	35.71	2,383,436	3.06
5,001 – 50,000	581	22.41	7,838,689	10.08
50,001 – 100,000	36	1.39	2,696,018	3.47
100,001 – 500,000	58	2.23	13,659,081	17.56
500,001 – 1,000,000	9	0.35	6,380,754	8.20
Above 1,000,000	23	0.89	44,417,388	57.10
Totals	**2,593**	**100**	**77,783,345**	**100**

Shareholder type

	Number of holders	%	Number of Shares	%
Individuals	1,618	62.40	6,239,492	8.02
Institutions	971	37.45	71,526,302	91.96
Other corporate	4	0.15	17,551	0.02
Totals	**2,593**	**100**	**77,783,345**	**100**

Dividend History – proposed dividends per share

	2013	2012	2011	2010	2009
Interim	**6.0**	5.8	5.4	5.2	4.70
Final	**10.0**	9.2	7.8	7.5	6.80
Total	**16.0**	15.0	13.2	12.7	11.50

Communication with shareholders and analysts

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

Corporate information

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

Annual General Meeting (AGM)

The AGM will be held on Wednesday 14 May 2014 at 11.00 a.m. at The Village Hotel, The Green Business Park, Shirley, Solihull, B90 4GW. Full details are contained within the Notice of AGM. A proxy card is also enclosed with this statement for voting. Alternatively you can vote electronically as explained in the next paragraph.

Electronic proxy voting

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

Shareholding online

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

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

Share dealing

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

Dividend Reinvestment Plan 'DRIP' (Latest date for election is 13 June 2014)

The company offers shareholders the facility to reinvest their cash dividends to buy more shares in the company.

- The service allows you to increase your shareholding in an easy and convenient way.
- Online application process enables you to participate easily and securely; www.investorcentre.co.uk.
  - Click on "Register" to sign up to the Investor Centre. This will allow you to carry out a number of share related transactions online, including opting for the DRIP.
  - You will be required to fill in your SRN and your postcode, together with your email address. You will also be asked to select a user name (ID) and password of your choice.
  - Once registered select "Dividend Plans" from the left hand menu and amend your current cash dividend instruction, confirming acceptance of the DRIP terms and conditions.
- New shares will be purchased as soon as possible on or after the dividend pay date.

Shareholder helpline number

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

Principal Group Businesses

Infrastructure Products

Asset International Limited
Weholite HDPE structured wall, large diameter pipes, for use in the water and construction sectors

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

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

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

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

Staffans väg 7, 192 78,
Sollentuna, Sweden
Tel: +46 (0) 8 98 80 70
Fax: +46 (0) 8 29 25 15
ata@ata.se
www.ata.se

Barkers Engineering Limited*
Security solutions and fasteners

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

Bergen Pipe Supports India Private Limited*
Manufacturer and supply of pipe supports solutions, including constant and variable effort supports
Incorporated in India

No.720, Belerica Road, Sector 22,
Sri City DTZ, Varadaiahpalem Manndal
Chittor District, Andhra Pradesh, 517 541
Tel: +91 8576 305 666
swaminathan@pipesupports.com
www.pipesupports.com

Bergen-Power Pipe Supports, Inc.*
Manufacturer and supply of pipe supports solutions, including constant and variable effort supports
Incorporated in the USA

484 Galiffa Drive, Donora,
Pennsylvania, 15033, USA
Tel: +1 (724) 379 5212
Fax: +1 (724) 379 9363
bpwoburn@bergenpower.com
www.bergenpower.com

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

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

Birtley Building Products Limited*
Galvanized lintels, balconies, structural fittings for construction and doors

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

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

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

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

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

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

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

CA Traffic Limited
Traffic monitoring, vehicle activated signs and automatic number plate recognition equipment

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

Carpenter & Paterson, Inc.*
Industrial pipe hangers, metal framing channel and fasteners
Incorporated in the USA

225 Merrimac Street, Woburn,
Massachusetts, 01801, USA
Tel: +1 (781) 935 2950
Fax: +1 (781) 935 7664
www.carpenterandpaterson.com

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

214 Industrial Lane, Alum Bank,
Pennsylvania, 15521, USA
Tel: +1 (814) 839 4186
Toll-free: # 888-CPI-PULL (274-7855)
Fax: +1 (814) 839 4276
crpul@pultrude.com
www.creativepultrusions.com

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

Principal Group Businesses continued

Infrastructure Products

Conimast International SAS*
Specialist steel lighting columns, galvanizing and steel powder coating
Incorporated in France

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

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

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

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

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

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

Plot 8, Sector 8, IMT Manesar,
Gurgaon, Haryana, 122050, India
Tel: +91 124 425 9996
Fax: +91 124 425 9996
enquiries@hsipi.in
www.hsipi.in

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

Suite 12 level 12, 37 Bligh St
Sydney NSW 2000, Australia
Tel: +61 (0) 7 3807 8050
Fax: +61 (0) 7 3807 9189
hillandsmith.com.au

JA Envirotanks (D)
Large steel storage tanks

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

Lionweld Kennedy Flooring Limited
Open steel flooring, handrailing and ancillary products

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

Mallatite Limited
Manufacturer of lighting columns, bespoke support structures, traffic sign columns, posts and associated lighting products

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

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

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

Pipe Supports Asia Limited*
Manufacturer and supply of pipe supports solutions, including constant and variable effort support, and cryogenic supports
Incorporated in Thailand

26/5 Moo 9, Soi Rattanaraj,
Bangna-Trad Road. Km 18.2,
Bangchalong, Bangplee, Samut Prakarn,
10540, Thailand
Tel: +66 (2) 312 7685
Fax: +66 (2) 312 7710
psa@pipesupports.com
www.pipesupports.com

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

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

Techspan Systems (D)
Variable message signs

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

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

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

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

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

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

Galvanizing Services

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

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

Joseph Ash Limited*
Galvanizing and powder coating services

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

Medway Galvanising Company Limited*
Galvanizing and powder coating services

Castle Road, Eurolink Industrial Centre,
Sittingbourne, Kent, ME10 3RN
Tel: +44 (0)1795 479489
Fax: +44 (0)1795 477598
info@medgalv.co.uk
www.medgalv.co.uk

Voigt & Schweitzer LLC*
Galvanizing Services
Incorporated in the USA

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

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(D) Operating division only, not a limited company

Shareholder Information

Directors, Contacts & Advisors

Directors

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

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

M Pegler BCom, FCA
(Group Finance Director)

J F Lennox CA
(Non-executive)

C J Snowdon BA, FCA
(Non-executive)

Contacts

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Company Number: 671474

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John Humphreys FCIS

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1 Snowhill
Snow Hill Queensway
Birmingham
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Investec Investment Banking
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London
EC2V 7QP

Principal Bankers
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Wragge & Co
55 Colmore Row
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B3 2QD

Silks Solicitors
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