Hill & Smith Holdings PLC

# 2016

Annual Report for the year
ended 31 December 2016

Stock Code HILS

## Mission Statement

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

Hill & Smith Holdings PLC

# Contents



Front Cover Images

**Top** - GRP handrailing and galvanized steel flooring at the Doncaster rail depot.

**Middle** - Zoneguard, our temporary safety barrier being galvanized at our Bilston facility.

**Bottom** - First installation in the world of the newly patented O Post Brifen wire rope safety fence on Interstate 5 in Oregon, USA.

**Left** - Brifen wire rope fence installation on Highway 36, near the Thingvellir National Park, Iceland.

**Below** - Carpenter & Paterson's trucks at their new facility, the 'eastern region service centre' in Bordentown, New Jersey.

# Group at a Glance

Supplying to and located in global markets, the Group serves customers from facilities in Australia, France, India, Scandinavia, the UK and the USA, building an increasing presence in international markets, where countries are upgrading or improving their infrastructure as their economies grow. A key feature of the Group's chosen markets is the influence of heightened levels of regulation and health and safety considerations on development and growth. All our products are designed to strict specifications and tested according to applicable standards.

**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.

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

**Sweden** – location of ATA, the road safety barrier and signage business and FMK (acquired April 2016).

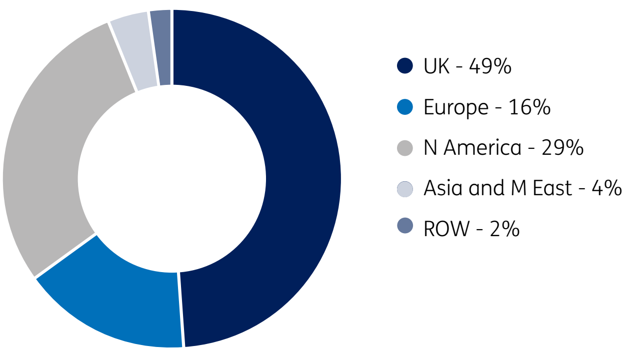
**India** – manufacturing facilities for pipe supports.

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

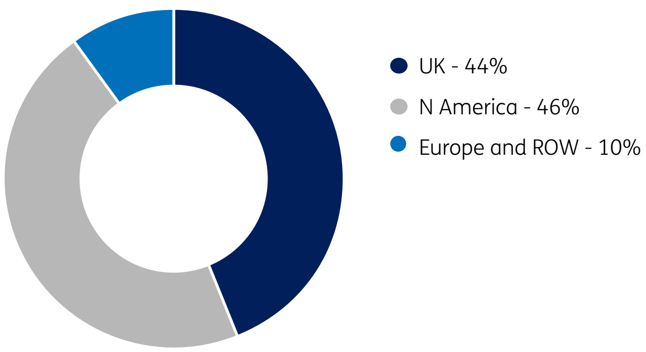
**Norway** – a division of ATA, the road safety barrier and signage business.

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

**Percentage of 2016 revenue £540.1m shown by end market geography**




**Percentage of 2016 underlying operating profit £70.6m shown by location of the operating site**



# Group Highlights

- Record revenue and underlying earnings performance.
- Improved returns driven by strong end markets and active portfolio management.
- Underlying profit before taxation up 28% to £68.0m.
- Five acquisitions completed during the year.
- Strong cash generation performance with net debt at £112.0m.
- Proposed 32% increase in final dividend of 17.9p giving a full year dividend of 26.4p, up 28%.

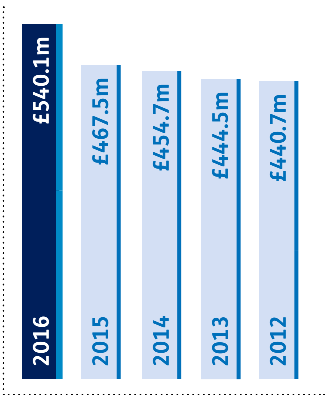
| | **31 December 2016** | 31 December 2015 | Change % |
|---|---|---|---|
| Revenue | **£540.1m** | £467.5m | +16 |
| Underlying*: | | | |
| Operating profit | **£70.6m** | £56.0m | +26 |
| Operating margin | **13.1%** | 12.0% | +110bps |
| Profit before taxation | **£68.0m** | £53.0m | +28 |
| Earnings per share | **65.9p** | 51.7p | +27 |
| Statutory: | | | |
| Operating profit | **£51.8m** | £37.3m | +39 |
| Profit before taxation | **£48.3m** | £33.2m | +45 |
| Basic earnings per share | **43.0p** | 30.9p | +39 |
| | | | |
| Dividend per share | **26.4p** | 20.7p | +28 |
| Net debt | **£112.0m** | £91.5m | |

* All underlying measures exclude certain non-underlying items, which are as defined in note 3 on page 105 to the Financial Statements and described in the Operating and Financial Review. References to an underlying profit measure throughout this report are made on this basis and, in the opinion of the Directors, aid the understanding of the underlying business performance as they exclude items that are either unlikely to recur in future periods or represent non-cash items that distort the underlying performance of the business. Underlying measures are presented on a consistent basis over time to assist in comparison of performance.

Where we make reference to constant currency amounts, these are prepared using exchange rates which prevailed in the current year rather than the actual exchange rates that applied in the prior year. Where we make reference to organic measures we exclude the impact of currency translation movements, acquisitions, disposals and closures of subsidiary businesses.

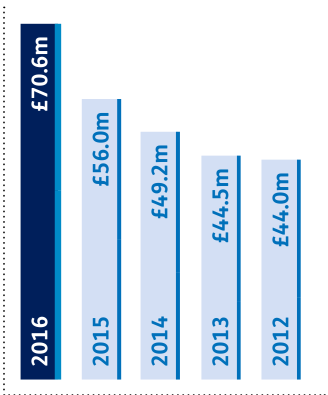
**Revenue**

**£540.1m up 16%**



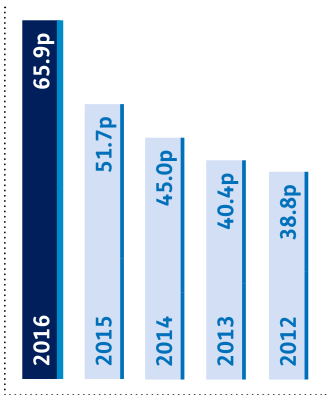

**Underlying operating profit**

**£70.6m up 26%**



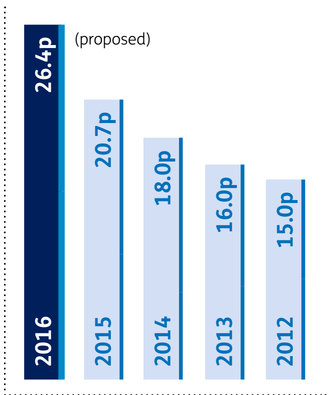

**Underlying earnings per share**

**65.9p up 27%**




**Dividend per share**

**26.4p up 28%**



# Chairman's Statement

Bill Whiteley
Chairman

> I am delighted to report a further year of record performance in 2016.

## Overview

I am delighted to report a further year of record performance in 2016. In an uncertain political and macro-economic environment, our focused strategy of developing businesses with market leading positions in international growth markets has again delivered good organic revenue and profit progression and improved returns on the capital entrusted to us.

In 2016, organic revenue growth of 5% aided an increase in our revenue of 16% to £540.1m (2015: £467.5m). Underlying operating profit increased by 26% to £70.6m (2015: £56.0m), or 17% at constant currency. Underlying operating margin improved by 110 basis points to 13.1% (2015: 12.0%). Reported operating profit increased by 39% to £51.8m, resulting in a reported operating margin of 9.6% (2015: 8.0%).

Continuation of our strategy of active portfolio management resulted in us completing five acquisitions during 2016 for an aggregate cash consideration of £36.9m (with a further £0.4m deferred):

- In January, we acquired E.T. Techtonics, Inc., a US-based designer of composite bridge products that complements our existing US composites business, Creative Pultrusions.
- In April, we acquired FMK Trafikprodukter AB ('FMK'), a Swedish producer of safety barriers, noise reduction screens and bridge parapets for the Scandinavian roads markets. FMK has been integrated with our existing ATA business, providing an expanded suite of traffic management products.
- In May, we acquired Safety and Security Barrier Holdings Limited, the parent company of Hardstaff Barriers Limited ('Hardstaff Barriers'). Hardstaff Barriers, based in Nottingham, UK, specialises in temporary and permanent concrete safety barriers for site and vehicle protection.
- In July, we acquired Technocover Limited ('Technocover'). Technocover specialises in the development, manufacture, installation and maintenance of high security access products for the utilities markets.
- In August, we acquired Signature Limited ('Signature'). Signature develops, manufactures, installs and maintains street lighting columns, road sign and traffic management systems and has been integrated into our existing Mallatite business.

We welcome the employees of the acquired companies to the Group and are excited about the opportunities the expanded businesses can deliver.

In March 2016, following a strategic review of our non-US Pipe Supports business, we announced a plan to close and exit our manufacturing sites in the UK and Thailand, and also our sales office in China. To the extent possible, work would be transferred to our Indian manufacturing facility. I am pleased to report the successful completion of the restructuring project, ahead of plan both in terms of timing and expected cost.

## Performance highlights

The Board is pleased with the Company's financial performance for 2016, the highlights of which are shown below:

| | | | Change % | |
|---|---|---|---|---|
| | **2016** | 2015 | Reported | Constant currency |
| Revenue | **£540.1m** | £467.5m | + 16 | + 9 |
| Underlying[1]: | | | | |
| Operating profit | **£70.6m** | £56.0m | + 26 | + 17 |
| Profit before tax | **£68.0m** | £53.0m | + 28 | + 18 |
| Earnings per share | **65.9p** | 51.7p | + 27 | + 18 |
| Reported: | | | | |
| Operating profit | **£51.8m** | £37.3m | + 39 | |
| Profit before tax | **£48.3m** | £33.2m | + 45 | |
| Basic earnings per share | **43.0p** | 30.9p | + 39 | |

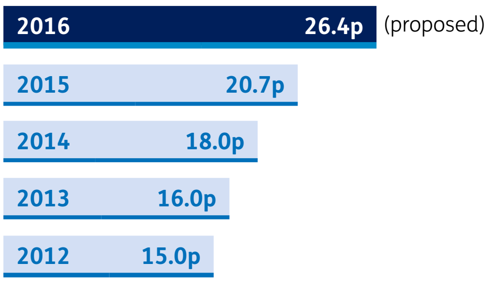
[1] Underlying measures exclude certain non-underlying items, which are as defined in the 'Group Accounting Policies' on page 97 to 102 and detailed in note 3 on page 105 to the Financial Statements.

## Dividends

In view of the strong performance the Board is recommending an increase of 32% in the final dividend to 17.9p per share (2015: 13.6p per share) making a total dividend for the year of 26.4p per share (2015: 20.7p per share), an increase of 28% on the prior year. Underlying dividend cover remains a healthy 2.5 times (2015: 2.5 times). Reported dividend cover is 1.6 times (2015: 1.5 times).

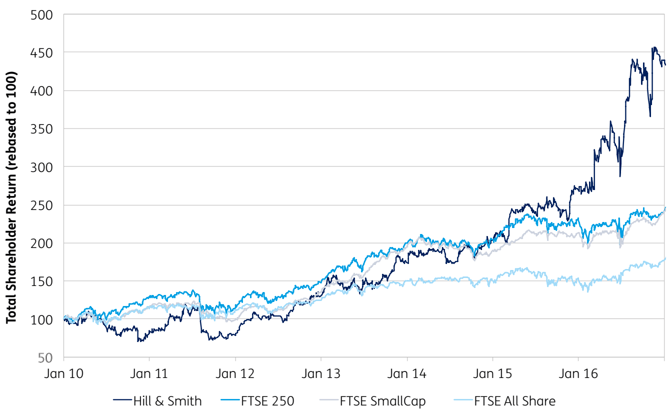
We continue to perform at a level that enables us to maintain a progressive dividend policy which has resulted in fourteen years of uninterrupted dividend growth. The final dividend, if approved, will be paid on 3 July 2017 to those shareholders on the register at the close of business on 26 May 2017.

Set out below is our five year dividend per share track record, growth of which is at the heart of our strategic objectives.




## Total shareholder return

In addition to our progressive dividend policy we also strive to deliver increased shareholder value as demonstrated from the graph below. This graph shows the total shareholder return performance of the Group against that for the FTSE SmallCap, FTSE 250 and FTSE All-Share for the period 1 January 2010 to 31 December 2016. Over the period the Board is pleased with the progress made, but we remain focused on further improvement through the implementation of our strategy.




## Governance and the Board

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 set out explanations of our business model, strategy, viability statement, risk management and activities of the Board and its Committees. We also discuss within our Corporate Responsibility report how our businesses are encouraged to contribute within the communities in which they operate.

It is the responsibility of every Board to ensure that there is an appropriate succession planning process in place across the business, including the Board of Directors. During the year, both the Board and the Nomination Committee reviewed their plans for succession planning. As previously announced, in May 2016, Clive Snowdon retired as a Non-executive Director. On 1 June 2016, Mark Reckitt joined the Board as a Non-executive Director and in November, was appointed Chairman of the Audit Committee. With extensive strategic and financial experience, he is an invaluable addition to the Board. Effective 1 July 2016, Mark Pegler was asked by the Board to assume full operational and management responsibility for the businesses within our UK Utilities division. The new role is in addition to his current role of Group Finance Director.

After more than 7 years serving as your Chairman, earlier this year I notified the Board of my intention to retire at the conclusion of the Annual General Meeting in May 2017. During my time as Chairman, we have focused upon widening our product and service offering to our chosen infrastructure markets as well as improving the quality of our portfolio of businesses. Our drive to improve shareholder value and overall returns has resulted in record revenue and earnings, with Hill & Smith entering the FTSE 250 in 2016 for the first time in its history. I have enjoyed immensely working with the Hill & Smith team, who are totally dedicated to enhancing shareholder returns. I am confident that the business is in excellent health and has strong prospects ahead of it.

The process to appoint my successor was led by Annette Kelleher with the support of Korn Ferry, a firm of international search consultants. Following the conclusion of that search, I am pleased to announce the appointment of Jock Lennox as your next Chairman. Jock has been a Non-executive Director of the Group since 2009 and has made an invaluable contribution in that time. For 7 years Jock served as Chairman of the Audit Committee and he is currently the Senior Independent Director. Jock will assume the role of Chairman at the conclusion of the forthcoming AGM and I wish him and Hill & Smith every success for the future. A search has begun to appoint an additional Non-executive Director to the Board.

## Brexit

It is too early to assess with any certainty the impact of the decision by the United Kingdom to leave the European Union. In the short time since the referendum result we have not experienced any material positive or negative impact. We are confident that our strategy of international diversification along with market leading positions in key infrastructure investment markets will help limit any potential negative impact on the Group. However, we remain vigilant and will react with our customary speed as necessary.

# Chairman’s Statement (continued)

**AGM**

We will hold our AGM on 11 May 2017 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.

**People**

Good results can only be delivered through the efforts and dedication of a loyal and strong workforce. On behalf of the Board, I would like to thank our employees for their continued hard work and for rising to the opportunities and challenges they meet.

**Outlook**

The Group benefits from the industrial and geographical spread of its markets and businesses, which not only provide a resilient base, but also opportunities for growth. Generating over 80% of revenue and 90% of underlying operating profit from its UK and US operations, the Group principally operates in niche infrastructure markets where the overall outlook remains positive.

In Utilities, our UK and US activities are well placed to continue to benefit from the significant investment going into the replacement of ageing infrastructure and new infrastructure projects in those countries. Overall, with wider market conditions remaining favourable, we expect our Galvanizing businesses to consolidate their strong market positions and to take advantage of the opportunities as they present themselves.

In the UK, the implementation of the Department of Transport’s Road Investment Strategy is entering the third year of the initial five year plan, which provides certainty of funding through to 2020/21. We therefore have confidence that the Group’s road product portfolio will continue to benefit from the increased investment in the UK road infrastructure.

In the US, the new administration has indicated that spending on US infrastructure, including building and repairing roads and bridges, is a priority and our businesses are well positioned to benefit should this increased investment materialise.

Overall, despite political and macro-economic uncertainties, 2017 is again expected to be a year of progress.

**Bill Whiteley**
Chairman

8 March 2017

Image

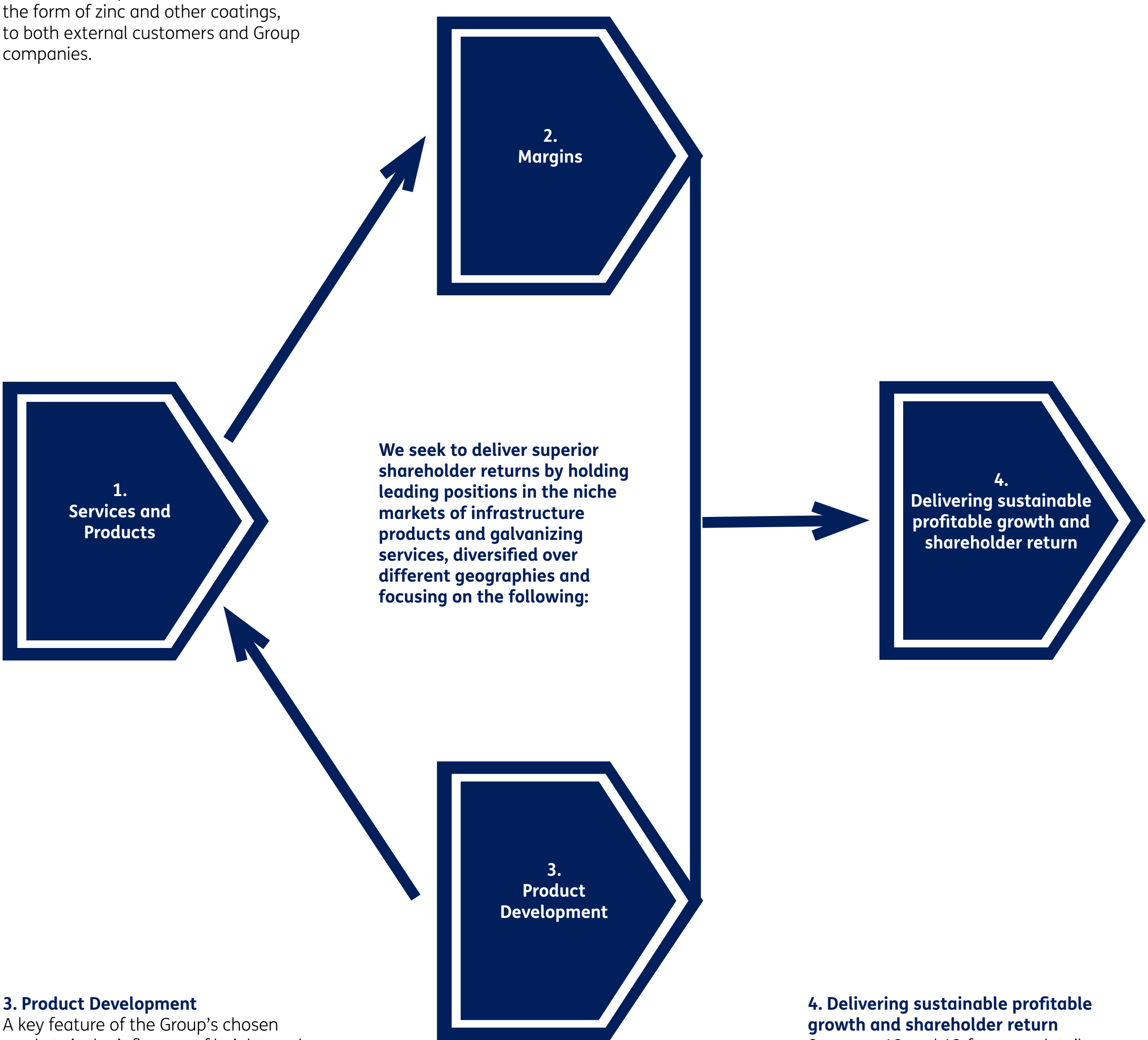
Hill & Smith Ltd’s Zoneguard and Hardstaff Barrier’s Multibloc at junction 19 northbound on the M6.


A556 Manchester, M'cr (M56)
NORTH WALES, Chester, Preston
Leeds, M'cr (N)
M6
50

# Our Business Model

**1. Services and Products**
Our two divisions of infrastructure products and galvanizing services provide services and products to the world's utilities and power generation industries and to international businesses within the infrastructure of roads and rail, together with corrosion protection services in the form of zinc and other coatings, to both external customers and Group companies.

**2. Margins**
All our subsidiaries are tasked with achieving an acceptable operating margin on sales. Businesses that fail to achieve this margin are given a period of grace to develop a plan for margin improvement to the targeted level.




**3. Product Development**
A key feature of the Group's chosen markets is the influence of heightened levels of regulation and health and safety considerations on development and growth. All our products are developed and designed to strict specifications and tested according to applicable world standards.

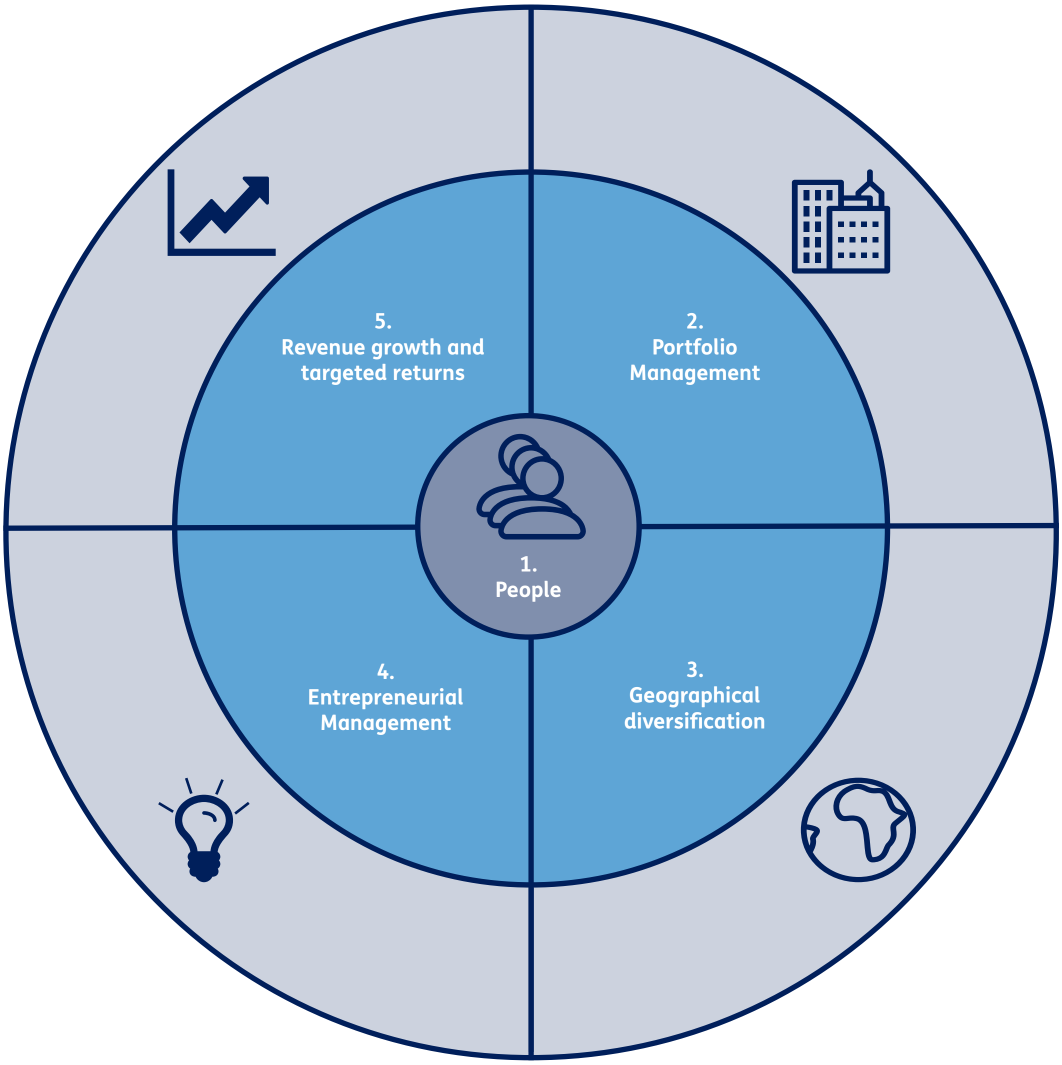
**4. Delivering sustainable profitable growth and shareholder return**
See page 12 and 13 for more details.

# Our Strategy

Five strategic priorities drive our business model.

**1. People**
Our businesses employ people local to their communities, and the success of each business is reliant on the quality of management and employees. We aim to ensure that each business is resourced with a capable, engaged and productive workforce working in such a way as to ensure the health, safety and well-being of all employees. See our strategy in action on page 36.

**2. Portfolio Management**
We continually seek organic growth from our existing operations and monitor our lower performing Group businesses to ensure overall growth targets are maintained. See our strategy in action on page 10.




**3. Geographical diversification**
Whilst continually driving our existing businesses we seek to supplement this organic growth by acquiring sustainable businesses around the world in niche markets that complement our existing activities. See our strategy in action on page 10.

**4. Entrepreneurial Management**
Group senior management encourages an entrepreneurial culture at business unit level, ensuring businesses are agile, responsive and competitive. See our strategy in action on page 11.

**5. Revenue growth and targeted returns**
By targeting returns at each individual business unit the Board ensures that revenue growth is achieved which flows through to sustainable profitable growth. See our strategy in action on page 11.

# Our Strategy in Action

### Portfolio management

Our objective is to achieve at least mid single-digit organic revenue growth by developing substantial businesses in each of our chosen sectors through both organic and acquisitive revenue 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.

*Key activities*

We continue to actively manage our corporate portfolio and dispose of or rationalise operations that are non-core to our market strategy, incapable of achieving our target returns, or insufficiently cash generative.

*Key events in 2016*

- Rationalisation of the non-US Pipe Supports business into one site of manufacturing excellence in Andhra Pradesh, India.
- Commencement of Carpenter & Paterson's site rationalisation programme.
- Organic revenue growth of 5%.

### Geographical diversification

Our acquisition strategy is to buy and develop businesses in markets we understand through our existing activities. Our objective is to identify opportunities in our major developed markets of the UK, France and USA, whilst recognising that there is further potential in emerging markets. Our overall geographic mix will be dictated by developing these opportunities together with the performance of our businesses in emerging markets.

*Key activities*

The majority of our acquisition targets are likely to be privately owned. We 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 businesses from a distance effectively.

*Key events in 2016*

- Purchase of E.T.Techtonics, Inc. (20 January 2016).
- Purchase of FMK Trafikprodukter AB, a business operating in the Swedish and Norwegian roads market (1 April 2016).
- Purchase of Hardstaff Barriers Ltd, a business specialising in the sale and rental of temporary and permanent concrete barriers (13 May 2016).
- Purchase of Technocover Ltd, a business dedicated to high quality steel security solutions for protecting and preventing unauthorised access (13 July 2016).
- Purchase of Signature Ltd, manufacturers of street furniture and LED traffic products (3 August 2016).

**Barkers StronGuard crash tested palisade fencing.**

### Entrepreneurial management

We encourage an entrepreneurial culture in our businesses 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.

*Key activities*

Each subsidiary is managed by its local board of directors who are all empowered to operate their businesses in accordance with Group-approved policies and delegated authorities. This management 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 businesses, opportunities are identified and taken through Group collaboration.

*Key events in 2016*

- Successful integration of Bowater Doors into the Birtley Group.
- Premier Galvanizing Limited (acquired 25 November 2015) contibuted £2.8m underlying operating profit to the UK Galvanizing division.
- Integration of E.T. Techtonics, Inc. into Creative Pultrusions contributing 23% of the combined businesses 2016 operating profit.
- Integration/rationalisation of Signature Ltd and Hardstaff Barriers Limited.
- Expansion of Hardstaff Barriers Limited's product range.

### Revenue, growth and targeted returns

Capturing sustainable profitable growth through the supply of infrastructure products and galvanizing services from business units that are focused on profitable growth. Operating margins are an integral measure of the Group's success and one which we continue to drive for improvement through product mix and value-added customer-focused solutions, as well as high levels of operational efficiency. 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.

*Key activities*

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 at an individual business unit level. At a Group level capital returns are assessed by measuring Return on Invested Capital ('ROIC'), where invested capital includes acquired goodwill and intangible assets in order to take into account the amounts invested in acquired businesses. The Group's target ROIC is 20%.

*Key events in 2016*

| Underlying operating margins | 2016 | Target range % |
|---|---|---|
| Infrastructure Products | 8.7% | 8 – 11 |
| Utilities | 6.3% | 7 – 11 |
| Roads | 11.7% | 9 – 13 |
| Galvanizing | 23.1% | 18 – 21 |
| Group | 13.1% | 11 – 14 |

| ROIC | 2016 |
|---|---|
| Infrastructure Products | 18.6% |
| Utilities | 15.3% |
| Roads | 21.7% |
| Galvanizing | 20.2% |
| Group | 19.4% |

**Hardstaff Barrier's Multibloc at Edinburgh Airport.**

# Our Strategy in Action
# Sustainable Profitable Growth - Value Creation

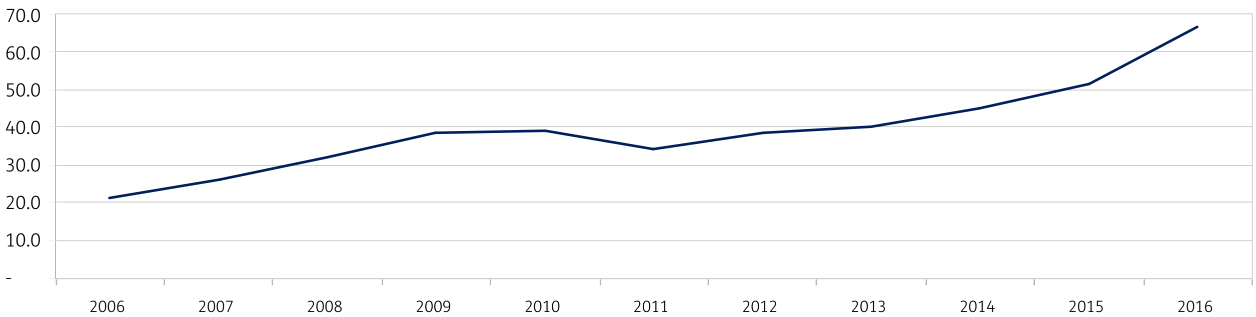
**Strategic focus**
To create long-term sustainable profitable growth and through this growth create value for all stakeholders.

We aim to combine organic revenue growth with selective acquisitions, thereby delivering growth in earnings per share. A strong focus on cash generation supports this growth strategy and enables a progressive dividend policy.

*Key activities*
We address long-term markets by focusing on markets driven by Government spend on infrastructure, particularly with strong regulatory and health and safety dynamics, and by growing demand for power generation in emerging markets and the replacement of ageing power infrastructure in developed economies. By encouraging a decentralised management structure we incentivise and enable the operators of our businesses to respond to opportunities and challenges in their markets supported by the resources of a larger group. In order to be truly sustainable we must grow revenues and profits, whilst focusing on customer service, margins, product development, and enhancing our relationships with other stakeholders, including our employees, our suppliers and the communities in which we operate. At the same time we must be cognisant of the effect our operations have on the environment. More details can be found in our Corporate Responsibility Report on pages 36 to 43.

*Key events in 2016*
- Underlying Group operating profit up 26% at £70.6m.
- Underlying earnings per share up 27% at 65.9p.
- Dividend per share 26.4p, up 28% year-on-year.

Underlying earnings per share (pence)




*Opportunities for growth*
- US galvanizing market, opportunities through organic growth, plant investment and acquisition.
- The introduction of Smart Motorways, driven by the UK Government's promised £15.2bn investment in the UK road network.
- Continued expansion of the Group's US composites business.

*Priorities for 2017*
- 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.

# Our Strategy in Action
# Our Investment Proposition

We believe in providing superior shareholder returns by doing business in the right way in markets where we have global expertise.

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

*Investment Proposition KPIs*

**A Globally Organised Group**

We have leading positions in the niche markets of infrastructure products and galvanizing services, diversified over different geographies with a focus on service, margins and innovative product development.

29 subsidiaries
60 sites
7 countries*

**Organic & Acquisitive Growth**

We aim to deliver consistent organic growth complemented by regular, value enhancing acquisitions in markets that supplement or complement our existing operations.

5% organic revenue growth
3 UK acquisitions
1 US acquisition
1 Swedish acquisition

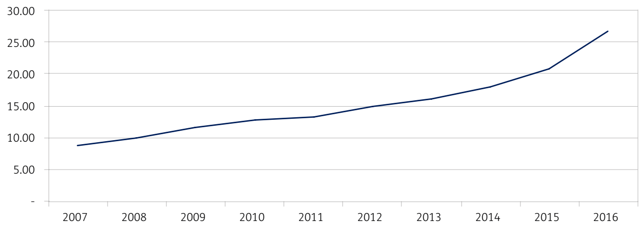
**Strong Operating Cash Flow**

We focus on underlying cash conversion and a disciplined approach to each business unit's return on capital employed. Over the past seven years the Group has achieved an average rate of over 90% (the ratio of underlying operating cash less capital expenditure to underlying operating profit).

2016: 93%
2015: 100%

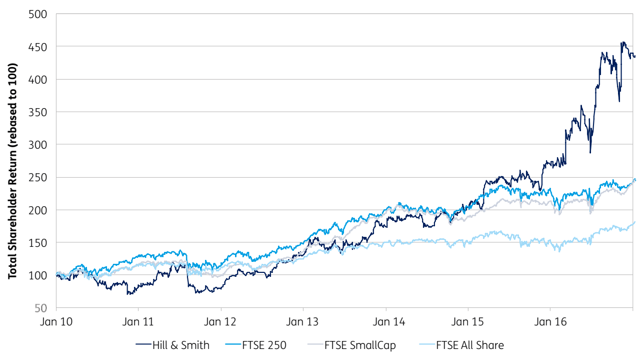
**Progressive Dividend**

We have increased dividend payments by a compound annual growth rate of 13.1% since 2007.




**Increased Shareholder Value**

In the last seven years our total shareholder return has consistently outperformed the FTSE All Share.




* as at the date of this report.

# Case Study

## Barkers Engineering - Vehicle Incursion

Barkers Engineering, established in 1865, is now one of the UK's largest manufacturers and designers of high security perimeter systems and has developed an extensive service related to security infrastructure projects.

Manufacturing high performance fencing for every application, including boundary demarcation and safety, multi-use games areas, sports enclosures, high security fencing, maximum security gates and fully implemented anti-terrorist installations.

Understanding the importance of security in today's world, Barkers now provide ultimate perimeter security systems and can ensure confidentiality on all projects entrusted to them.

### "Looks like a standard fence with the additional benefit of an impact system".

During 2016 Barkers were approached to develop their StronGuard™ RCS PAS68 crash tested palisade fencing to protect sensitive infrastructure on the railway. A major issue facing highway and rail infrastructure is the threat of unauthorised vehicle incursion, whether criminal or accidental.

Barkers StronGuard is a crash tested palisade fence, designed and accredited to stop up to 7.5 ton vehicles travelling at 30mph.

The basic design was modified to meet the clients' operational requirements and the company worked closely with the contractor to ensure vegetation clearing, the removal of existing fencing, traffic management and site supervision were all maintained.

The project encountered several challenges for the Barkers design team as there were restrictions on what could be connected to the existing infrastructure and the difficulty encountered with the lack of footprint available. By working closely with their client these issues were overcome by way of innovative design solutions.

The outcome was a redesigned palisade, StronGuard RCS75. An aesthetically pleasing palisade, which looks like standard fencing whilst affording the added benefit of an impact system.


Find out more about the company at www.barkersengineering.com

Images

**Top** - StronGuard crash testing at the Transport Research Laboratory.

**Bottom** - 38m of Stronguard RCS75 palisade system at Wythall Station road junction.

# Operational and Financial Review

Derek Muir
Group Chief Executive

**Mark Pegler**
**Group Finance Director**

## 2016 overview

Hill & Smith delivered its best ever trading performance in the twelve months to 31 December 2016. Against a backdrop of uncertain political and macro-economic environments, infrastructure investment in our key UK and US markets remained strong which, combined with our focused active portfolio management strategy, resulted in record revenue, profitability and operating margin.

Our performance continues to be underpinned by our tried and tested strategy of international diversity together with the leading positions our businesses hold in their respective markets. Our US and UK operations benefitted from rising spending on infrastructure in our chosen end markets, and together the US and UK operations represented over 80% of revenue and 90% of underlying operating profit. Organic profit growth has been supported by targeted bolt-on acquisitions and the restructuring of underperforming assets to improve overall returns and shareholder value. The prospects for both the US and UK economies as well as the markets in which we operate continue to be positive for 2017 and beyond.

Revenue for the year increased by 16% to £540.1m (2015: £467.5m), of which translational currency benefits contributed £27.9m or 6%. After adjusting for additional revenue of £25.4m from acquisitions and reduced revenue from restructuring of the non-US Pipe Supports businesses of £3.4m, organic revenue growth was £22.7m or 5%. Underlying operating profit improved by 26% to £70.6m (2015: £56.0m), including a positive currency translation of £4.4m. Acquisitions contributed £3.4m and the benefit of the non-US Pipe Supports restructuring actions a further £1.9m. The organic improvement in underlying operating profit was 8%. Underlying operating margin improved by 110bps to 13.1% (2015: 12.0%). Underlying profit before taxation was 28% higher at £68.0m (2015: £53.0m). Reported operating profit was £51.8m (2015: £37.3m), an increase of 39% on the prior year. Reported profit before tax was £48.3m (2015: £33.2m).

### Infrastructure Products

| | £m | | +/- | Constant Currency |
|---|---|---|---|---|
| | **2016** | 2015 | % | % |
| Revenue | **375.7** | 325.5 | +15 | +11 |
| Underlying operating profit | **32.6** | 26.5 | +23 | +18 |
| Underlying operating margin % | **8.7** | 8.1 | | |
| Reported operating profit | **14.9** | 8.5 | | |

The division supplies engineered products to the roads and utilities markets in geographies where there is sustained long term investment in infrastructure. In 2016 the division accounted for 70% (2015: 70%) of the Group's revenue and 46% (2015: 47%) of the Group's underlying operating profit. Revenues increased 15% to £375.7m (2015: £325.5m) including a £14.5m positive impact from exchange rate movements. Acquisitions contributed £16.8m and there was £3.4m of lower revenue from the restructured non-US Pipe Supports operations. Organic revenue growth was £22.3m, or 7%. Underlying operating profit was £32.6m (2015: £26.5m), an increase of £6.1m, with a positive currency translation benefit of £1.1m. Acquisitions contributed £0.8m and the non-US Pipe Supports restructuring an additional £1.9m. Underlying operating margin improved to 8.7% (2015: 8.1%). Reported operating profit was £14.9m (2015: £8.5m) and included charges of £10.5m relating to restructuring actions taken during the year and goodwill impairment charges of £4.1m relating to CA Traffic Limited, our traffic data collection business.


ATA's new median barrier was successfully tested at MIRA in October 2016. With its ground breaking elliptical design, all parts are rounded with no sharp edges offering increased safety for all road users. The unique connection between post and rail enables rapid installation and easy maintenance.

*Roads*

| | £m 2016 | 2015 | +/- % | Constant Currency % |
|---|---|---|---|---|
| Revenue | **168.1** | 131.6 | +28 | +24 |
| Underlying operating profit | **19.6** | 16.0 | +23 | +21 |
| Underlying operating margin % | **11.7** | 12.2 | | |
| Reported operating profit | **10.9** | 15.6 | | |

Our Roads segment designs, manufactures and installs temporary and permanent safety products for the roads market together with intelligent transport systems which collect data and provide information to road users. We principally serve the UK market, with an international presence in selected geographies with a growing demand for innovative tested safety products. Roads represented 28% (2015: 29%) of the Group's underlying operating profit, and 31% (2015: 28%) of revenue in 2016. Revenues increased by 28% to £168.1m (2015: £131.6m), an organic increase of 17% after a currency benefit of £4.0m and contribution from acquisitions of £10.1m. Underlying operating profit of £19.6m was £3.6m higher than the prior year (2015: £16.0m) including £0.2m from positive currency translations.

| | £m 2016 | 2015 |
|---|---|---|
| Reported operating profit | **10.9** | 15.6 |
| Restructuring actions | **2.7** | - |
| Impairment charges | **4.1** | - |
| Acquisition costs and amortisation | **1.9** | 0.4 |
| Underlying operating profit | **19.6** | 16.0 |

*UK*

The Government's Road Investment Strategy ('RIS') is entering its third year of an initial five-year plan. The RIS aims to provide certainty of investment funding for the period 2015/16 to 2020/21, improve the connectivity and condition of the existing road network and, importantly, increase capacity, with projects that will deliver 1,300 additional lane miles. Core to the drive to add capacity will be additional 'Smart', or managed motorways, which are at the heart of the Group's product offering in the UK. Overall, the implementation of the Government's RIS continues to develop in line with our expectations. Three Smart Motorway programmes are progressing well, supported by early stage engineering for the next phase of investment. Additional Smart Motorways are due to commence later in 2017. As expected, demand for our temporary safety barrier has been strong and utilisation of this rental product has been high. In September 2016 we committed to expanding our temporary safety barrier rental fleet by a further 10,000m to 280,000m to support expected demand levels later in 2017/2018.

To expand our product and market offering, on 13 May 2016 we completed the acquisition of Safety and Security Barrier Holdings Limited ('Hardstaff Barriers'). Hardstaff Barriers specialises in the sale and rental of fully tested temporary and permanent pre-cast concrete barriers for site and vehicle protection, and complements our existing range of vehicle restraint systems. It has also developed a quick-deploy, high security perimeter system for the protection of critical infrastructure in vulnerable locations. The business, which supplies products across the UK and Europe, complements and further enhances our existing range of hostile vehicle mitigation products. Trading since acquisition has been in line with expectations with clear benefits from integration with our existing temporary safety barrier business.

Demand for our permanent safety barrier application was lower than in the previous year. This was unsurprising, as it is naturally required towards the end of projects, and demand is expected to increase as the current Smart Motorway and other programmes approach finalisation later in 2017 and beyond. Higher demand in the UK for our BEBO concrete structures and our bridge parapet products resulted in improved profitability. Order books remain encouraging and further progress is expected. Exports of our Brifen wire rope safety fence and Bristorm, our newly certified high containment anti-terrorist perimeter barrier, to the Middle East were strong with projects completed for power, desalination and chemical plants.

Our Variable Message Sign business produced an excellent improved result for the year and was the leading provider of signs to Highways England, Transport Scotland and Transport Wales, supplying all major UK motorway schemes. The business was particularly successful in winning orders for the new Remote Operated Temporary Traffic Management ('ROTTM') variable message signs which are being deployed by Highways England to improve road worker safety where no hard shoulders exist on the Smart Motorways. Investment in product development has widened our product offering which will deliver future benefits.

Our traffic data collection business, CA Traffic Limited, experienced difficult conditions throughout the year as a result of reduced local governmental spending in its core markets. Following a deterioration in performance in the second half of the year, the Board revised its expectations for the future performance of the business resulting in a goodwill impairment charge of £4.1m.

Continued diversification of our lighting column business away from the diminishing PFI market and into the local authority and contractor markets has been highly successful and improved volumes and margins contributed to an excellent year. On 3 August 2016 we completed the acquisition of Signature Limited ('Signature'), a UK based business which specialises in the development, manufacture, installation and maintenance of street lighting columns, road sign and traffic management systems. The business complements and expands our product offering into the UK roads market. Post-acquisition, and as planned, we rationalised the cost base of the combined operation with the closure of the Signature lighting column facility and one sales office at a cost of £0.8m. With an enhanced product offering and reduced cost base we are excited about the opportunities for growth in this market.

# Operational and Financial Review (continued)

*Non-UK*

Our Scandinavian business delivered a solid first half, but performed below expectations in the second half of the year and the overall result was disappointing. Poor weather conditions in the final quarter were a contributing factor. On 1 April 2016 we acquired FMK Trafikprodukter AB ('FMK'), a business based in Sweden, that designs and manufactures safety barriers, noise reduction screens and bridge parapets for the Scandinavian roads market. The acquisition of FMK and its suite of products will accelerate the growth plans of our existing Scandinavian roads business. Although the slow integration of FMK into our existing business impacted overall profitability, the integration is now complete and we look forward to an improved performance in 2017. Sterling's weakness will assist the export of Group products into this market.

In France, our lighting column business operated in a difficult market, but increased volumes and profitability. Recent investment in automation continues to reduce costs and enhance service capability and enabled us to secure a number of export opportunities in the second half of the year.

In India, despite repeated assurances from the national government that funding would be released for new road schemes, we continued to be frustrated by the level of delays and bureaucracy. Conditions therefore remained difficult and we incurred a small operating loss. Having reassessed the outlook, and the returns available, we took the decision to withdraw from the market and the process to close the business commenced in December 2016. Closure of the business is expected to be completed by the end of the first quarter at a cost of £1.9m, of which cash costs are expected to be £0.5m.

In the USA and Australia we continue to work hard to introduce our tried and tested products into new markets by promoting their benefits through lower cost and efficient installation. Excellent progress was made in both countries in the distribution of Zoneguard, our steel temporary safety barrier, as an alternative to incumbent concrete/plastic products and revenue and profitability were ahead year on year. In the USA, we expanded our coverage across various states and delivered a record number of barriers. In Australia, we have continued to develop our presence in the direct sale and rental market and, in the first half, we invested £1.1m in 5.5km of Zoneguard rental pool which will be utilised fully through 2017. We also secured a supply contract for 19.8km of Zoneguard for the New South Wales government for an upgrade to the M1 motorway in the Hunter Valley region. For the first time, our Australian business returned a positive result and we are optimistic for the future.

*Utilities*

| | £m | | | Constant |
|---|---|---|---|---|
| | **2016** | 2015 | +/- % | Currency % |
| Revenue | **207.6** | 193.9 | +7 | +2 |
| Underlying operating profit | **13.0** | 10.5 | +24 | +14 |
| Underlying operating margin % | **6.3** | 5.4 | | |
| Reported operating profit | **4.0** | (7.1) | | |

Our Utilities segment provides industrial flooring, plastic drainage pipes, security fencing, steel and composite products for a wide range of infrastructure markets including energy creation and distribution, rail, water and house building. 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 increased by 7% to £207.6m (2015: £193.9m). Benefits from currency translation of £10.5m and a £6.7m contribution from recent acquisitions were partly offset by the restructuring and closure programme of our non-US Pipe Supports business (£3.4m lower revenue year on year). Organically, revenue was similar to the prior year. Underlying operating profit was £13.0m (2015: £10.5m) including a positive currency impact of £0.9m, first time contribution from acquisitions of £0.8m and a £1.9m benefit from the non-US Pipe Supports restructuring.

| | £m | |
|---|---|---|
| | **2016** | 2015 |
| Reported operating profit | **4.0** | (7.1) |
| Restructuring actions | **7.8** | 0.7 |
| Impairment charges | **-** | 15.7 |
| Acquisition costs and amortisation | **1.2** | 1.2 |
| Underlying operating profit | **13.0** | 10.5 |

In the US, our power transmission substation operation performed strongly, delivering record revenue and operating profit. The strategy of supplying complete packaging work, structural steel and electrical components, under framework agreements with key US utilities continues to work well. Investment in the US electricity distribution network looks set for continued growth and that, together with our relationships with key market players, is encouraging.

Our composite material business experienced a disappointing year with the absence of large one-off contracts impacting performance. On 20 January 2016 we completed the acquisition of the trade and assets of E.T. Techtonics, Inc. ('ETT'), a leading designer of composite bridges for pedestrian, equestrian and light vehicle applications. Trading ahead of expectations, ETT has been integrated into our existing composites business and enhances our product offering to end users within infrastructure markets.

Encouragingly, overall results in our US Pipe Supports business were ahead of last year. We experienced higher demand for our engineered pipe supports in both the petrochemical and power markets and we completed three projects under a master supply agreement with Bechtel Power. Demand for our industrial hangers also increased as construction activity in our key north east markets improved. To provide new impetus, a new leadership team was installed mid-year. Following a strategic review, a cost reduction programme was implemented in the fourth quarter resulting in the closure of three of the seven existing branches and the consolidation of their operations into one strategically located service centre between New York and Philadelphia to serve the eastern region. The rationalisation was completed in February 2017 and we expect to see the benefits of a lower cost base and more efficient operation in an improved performance in 2017.

In March 2016, following a strategic review of our non-US Pipe Supports business, we announced a plan to close and exit our manufacturing sites in the UK and Thailand, and also our sales office in China. To the extent possible, work was to be transferred to our Indian manufacturing facility. A non-underlying charge of approximately £10m was expected to be booked in the 2016 results of which net cash costs were expected to be £4m. The restructuring project was completed in late 2016, ahead of plan in terms of both timing and costs. A one-off non-underlying charge of £7.8m has been incurred with a net cash cost in the year of £0.9m. The total cash cost of the restructuring, including future spend, is expected to be £2.5m. We have invested further in our Indian facility, both in terms of transferring existing equipment from the UK and Thailand and also the construction of new facilities to increase capacity and expand the product offering. The Indian business coped well with the disruption caused by the additional investment and the transfer of existing customers into India has been better than expected. We entered into a strategic partnership covering the Middle East with a local Saudi Arabian manufacturer, which will allow us to have local manufactured content when supplying pipe supports in the region. The market outlook in India and the Far East remains strong with a large programme to build both coal and gas fired power plants together with LNG receiving terminals.

*UK*

In the UK the performance of our utilities businesses was mixed and, as expected, results were lower than the strong performance in the prior year. Our plastic pipe business fell below expectations as anticipated orders from Asset Management Period 6 ('AMP6') for the water industry failed to materialise despite numerous projects in design phase. As the programme enters year three of the five-year investment cycle we do expect a significant upturn in the number of projects being released. Demand for storm attenuation tanks for flood alleviation in the UK housing market was strong and is expected to continue in 2017.

The industrial flooring business completed two major new rail maintenance depots for Crossrail and Eurostar supplying galvanized open grid flooring, stairs and handrails along with GRP driver access platforms. Oil and gas refurbishment projects remain low despite the recent increase in oil prices. We developed new GRP composite products for London Underground and began supplying them at the end of the year. The business should experience higher demand from AMP6 as years three to five are traditionally strong periods for flooring and walkway bridges.

On 13 July 2016 we completed the acquisition of Technocover Limited ('Technocover'), which specialises in the development, manufacture, installation and maintenance of high security access products for the utilities markets. Technocover's suite of products is complementary to our existing market offering, particularly plastic pipes, industrial flooring and security fencing, and will therefore benefit from being part of the UK Utilities division. The slow release of projects from AMP6 meant that the results since acquisition have been marginally lower than expected. However, strong order intake experienced in the final quarter resulted in a solid order book for the new year. The number of new orders released from AMP6 is also encouraging for our other UK Utilities businesses.

Ongoing investment in the UK rail network and the protection of critical infrastructure sites continues to provide good volumes for our security fencing operation. The innovative product development of high security fencing over the past few years is now leading to our systems being specified by a number of utilities, who are reviewing their perimeter security in light of the increased threat of terrorism both in the UK and overseas.

Unexpectedly, despite the abandonment of the UK Renewable Obligation scheme for solar projects over 5MW in March 2015, our solar frame business had a record year. Investment in UK solar parks continues and, whilst we do not anticipate a repeat of the record performance, prospects are already encouraging for the current year.

A strong UK housing market aided our building products business and demand for composite residential doors, steel lintels and builders' metalwork reached record levels. Supplying national and independent housebuilders, in addition to national merchants, minimises geographical risks in demand patterns whilst maximising our exposure to both retail and social housing sectors.

### Galvanizing Services

| | £m | | +/- | Constant Currency |
|---|---|---|---|---|
| | **2016** | 2015 | % | % |
| Revenue | **164.4** | 142.0 | +16 | +6 |
| Underlying operating profit | **38.0** | 29.5 | +29 | +16 |
| Underlying operating margin % | **23.1** | 20.8 | | |
| Reported operating profit | **36.9** | 28.8 | | |

The Galvanizing Services division offers corrosion protection services to the steel fabrication industry with multi-plant facilities in the UK, France and the USA. The division accounts for 30% (2015: 30%) of the Group's revenue and 54% (2015: 53%) of the Group's underlying operating profit. Revenue increased by 16% to £164.4m (2015: £142.0m) including positive currency translation of £13.4m and £8.6m from acquisitions. Organic revenue growth was marginally positive. Underlying operating profit of £38.0m (2015: £29.5m) included a £3.3m currency benefit and a £2.6m contribution from acquisitions. The organic improvement in profitability was £2.6m. Underlying operating margin was a record 23.1% (2015: 20.8%).

| | £m | |
|---|---|---|
| | **2016** | 2015 |
| Reported operating profit | **36.9** | 28.8 |
| Acquisition amortisation | **1.3** | 1.0 |
| Other items | **(0.2)** | (0.3) |
| Underlying operating profit | **38.0** | 29.5 |

*USA*

Located in the north east of the country, Voigt & Schweitzer is the market leader with seven plants offering local services and extensive support to fabricators and product manufacturers involved in highways, construction, utilities and transportation.

Following a strong first half where volumes were 15% ahead of the prior year, the second half faced stronger comparatives and, as expected, volumes were down 11% year on year. Overall, volumes for the year were 1% higher year on year. A focus on smaller, higher margin infrastructure jobs, operational excellence and customer service resulted in record revenue and profitability. Strong volumes were seen from the alternative energy market, particularly solar where recent medium term legislation to extend tax credits has supported demand. A large LNG project, running throughout the last two years, was completed in the third quarter. Despite the approval of a $305bn five-year highway bill in December 2015, bridge and highway work remained lower than expected and volumes were down year on year. As various states are awarded their allocation of funds we expect projects to be released and volumes to increase in 2017. Recent US administration pronouncements on the strategic importance of additional investment in US infrastructure, including building and repairing roads and bridges, are supportive to the galvanizing industry and we are well positioned to benefit should this increased spend materialise.

Image

V&S Galvanizing plants in Memphis, Delaware, Columbus and Lebanon, USA worked on the Dominion Cove Liquid Natural Gas facility at Chesapeake Bay in Maryland. The project is made up of over 15,000 tonnes of steel and to date is the largest project that the galvanizing group has been part of.

*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.

In a challenging economic climate the business performed well, improving volumes year on year by 1% and increasing market share. Competition remains strong, but actions to reduce the cost base and focus on operational effectiveness resulted in profitability ahead of prior year. The resizing of one of our structural steel plants to a jobbing plant with a smaller bath was completed in July 2016.

*UK*

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

Overall volumes were 12% higher year on year. Excluding Premier Galvanizing, acquired in November 2015, underlying volumes were similar to the prior year. Internal or 'own work' volumes from our UK utilities business and permanent road safety barrier were lower year on year but external volumes improved, increasing market share. Our strategy of focusing on lower volume, higher margin work continues to pay off, resulting in record profitability and operating margins.

Premier Galvanizing has been integrated into our UK galvanizing business and performed ahead of expectations. Significant investment in our Chesterfield, Walsall and Medway plants has increased capacity and improved their operational efficiencies.

# Operational and Financial Review (continued)

## Financial review

### Income statement phasing

| | First half | Second half | Full year |
|---|---|---|---|
| **2016** | | | |
| **Revenue £m** | **259.3** | **280.8** | **540.1** |
| **Underlying operating profit £m** | **32.0** | **38.6** | **70.6** |
| **Underlying operating margin %** | **12.3** | **13.7** | **13.1** |
| **Reported operating profit £m** | **21.2** | **30.6** | **51.8** |
| 2015 | | | |
| Revenue £m | 233.0 | 234.5 | 467.5 |
| Underlying operating profit £m | 26.3 | 29.7 | 56.0 |
| Underlying operating margin % | 11.3 | 12.7 | 12.0 |
| Reported operating profit £m | 9.1 | 28.2 | 37.3 |

The phasing of revenue and to a greater extent underlying operating profit was again second half weighted in 2016, principally reflecting the impact of acquisitions and currency translation benefits together with a normal degree of seasonality across the Group's portfolio of businesses.

Reported revenue of £540.1m was 16% ahead of the prior year. The acquisitions completed during both the current and prior year resulted in a net revenue increase of £25.4m and a £3.4m benefit to underlying operating profit, while the restructuring of the Group's non-US Pipe Supports businesses reduced revenues by £3.4m but delivered an improvement in underlying operating profit of £1.9m. The translation impact arising from changes in exchange rates, principally the US Dollar and Euro, increased revenue by £27.9m and underlying operating profit by £4.4m. Organic revenue growth was £22.7m and underlying operating profit growth was £4.9m, or 5% and 8% respectively. Further details of the performance of the Group are provided in the Operational Review.

| £m | Revenue | Underlying operating profit |
|---|---|---|
| 2015 | 467.5 | 56.0 |
| Acquisitions | 25.4 | 3.4 |
| Restructuring actions | (3.4) | 1.9 |
| Currency | 27.9 | 4.4 |
| Organic growth | 22.7 | 4.9 |
| 2016 | 540.1 | 70.6 |

### Cash generation and financing

The Group again demonstrated its cash generating abilities with strong operating cash flow of £78.2m (2015: £66.1m).

Working capital was similar to the prior year (2015: increase of £2.5m), with the effect of rising zinc and steel prices on inventory values being offset by a realisation and write off of working capital balances due to the restructuring actions taken during the year. Working capital as a percentage of annualised sales fell to 14.2% at 31 December 2016 (2015: 14.3%), while debtor days improved to 61 days (2015: 62 days).

Capital expenditure at £21.7m (2015: £16.0m) represents a multiple of depreciation and amortisation of 1.2 times (2015: 1.0 times). Significant items of expenditure in the current year included £2.0m of Zoneguard temporary safety barrier investment to meet demand in our US, Australian and Scandinavian operations, and £1.8m of product development spend reflecting the continued innovation within the Group's suite of products, particularly for the UK roads markets. The Group continues to invest in organic growth opportunities where returns exceed internal benchmarks and its cost of capital.

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 2016 the Group achieved an underlying cash conversion rate of 93% (2015: 100%). Over the past eight years the Group has achieved an average rate of over 90%.

| | Reported £m | Non-underlying items £m | Underlying £m |
|---|---|---|---|
| Operating profit | 51.8 | 18.8 | 70.6 |
| Non-cash items | 26.5 | (6.7) | 19.8 |
| Net movement in working capital | (0.1) | (3.9) | (4.0) |
| Cash generated by operations | 78.2 | 8.2 | 86.4 |
| Capital expenditure (net) | (18.1) | (2.8) | (20.9) |
| Operating cash flow | 60.1 | 5.4 | 65.5 |
| Operating profit | 51.8 | | 70.6 |
| Cash conversion % | 116% | | 93% |

The Group's strong operating cash flow provides the funds to invest in growth, both organic and acquisitive, to restructure underperforming businesses where appropriate, to service debt, pension and tax obligations and to maintain a growing dividend stream, while a sound balance sheet provides a platform to take advantage of future growth opportunities.

Group net debt at 31 December 2016 was £112.0m, representing a year on year increase of £20.5m driven by acquisition spend of £37.4m and adverse exchange rate movements of £6.9m reflecting the weakening in Sterling against the US Dollar and Euro. The Group's net debt includes 36% denominated in US Dollars and 7% denominated in Euros which act as a hedge against the net asset investments in overseas businesses.

### Change in net debt

| | 2016 £m | 2015 £m |
|---|---|---|
| Operating profit | **51.8** | 37.3 |
| Depreciation and amortisation* | **21.0** | 18.0 |
| Working capital movement | **(0.1)** | (2.5) |
| Pensions and provisions | **-** | (3.3) |
| Other items | **5.5** | 16.6 |
| Operating cash flow | **78.2** | 66.1 |
| Tax paid | **(15.7)** | (12.6) |
| Interest paid (net) | **(2.8)** | (3.0) |
| Capital expenditure | **(21.7)** | (16.0) |
| Sale of fixed assets | **3.6** | 1.2 |
| Free cash flow | **41.6** | 35.7 |
| Dividends | **(16.2)** | (14.1) |
| Acquisitions | **(37.4)** | (16.6) |
| Amortisation of refinancing costs | **(0.4)** | (0.4) |
| Net issue of shares | **(1.2)** | 0.3 |
| Change in net debt | **(13.6)** | 4.9 |
| Opening net debt | **(91.5)** | (96.0) |
| Exchange | **(6.9)** | (0.4) |
| Closing net debt | **(112.0)** | (91.5) |

* includes £2.6m (2015: £1.6m) in respect of acquisition intangibles.

The Group's principal debt facility consists of a headline £210m multicurrency revolving credit agreement. In May 2016 the Group extended the term of the existing facility from April 2019 to April 2021, providing the Group with significant headroom against its expected future funding requirements for a further two years whilst also taking advantage of favourable market conditions to reduce costs and amend key terms. Costs associated with the amendment of £1.0m were deducted from the carrying value of the loans and will be amortised over the life of the facility, as required by accounting standards.

### Maturity profile of debt facilities

| | 2016 | | 2015 |
|---|---|---|---|
| On demand | **£12.2m** | On demand | £10.2m |
| 2017-2020 | **£0.6m** | 2015-2016 | £0.6m |
| 2021 | **£234.3m** | 2017-2019 | £214.8m |

At the year end the Group had committed debt facilities available of £234.9m and a further £12.2m in overdrafts and other on-demand facilities.

The principal debt facility is subject to covenants which are tested biannually 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 2016 were:

| | Actual | Covenant |
|---|---|---|
| Interest Cover | 33.2 times | > 4.0 times |
| Net debt to EBITDA | 1.2 times | < 3.0 times |

Appropriate monitoring procedures are in place to ensure continuing compliance with banking covenants and, based on our current estimates, we expect to comply with the covenants for the foreseeable future.

### Net finance costs

| | 2016 £m | | 2015 £m | |
|---|---|---|---|---|
| Underlying net cash interest: | | | | |
| Bank loans/overdrafts | **2.6** | | 3.0 | |
| Finance leases/other | **-** | **2.6** | - | 3.0 |
| Non underlying: | | | | |
| Net pension interest | **0.5** | | 0.7 | |
| Costs of refinancing | **0.4** | **0.9** | 0.4 | 1.1 |
| | | **3.5** | | 4.1 |

Net financing costs were lower than prior year at £3.5m (2015: £4.1m). The net cost from pension fund financing under IAS19 was £0.5m (2015: £0.7m) which, given its non-cash nature, continues to be treated as 'non-underlying' in the Consolidated Income Statement. Non-underlying financing costs also include £0.4m relating to the Group's amendments of the terms of its principal banking facilities in 2014 and 2016, reflecting the amortisation of the costs capitalised against the loans in accordance with IAS39. The underlying cash element of net financing costs decreased by £0.4m to £2.6m (2015: £3.0m), as a result of the improved terms achieved on the refinancing of debt facilities in May and the maturity of certain higher cost fixed rate interest swap agreements earlier in the year. Underlying operating profit covered net cash interest 27.2 times (2015: 18.7 times). Reported operating profit covered total reported interest 14.8 times (2015: 9.1 times).

### Return on invested capital ('ROIC')

The Group aims to maintain ROIC above its pre-tax weighted average cost of capital (currently c.10%), with a target return of 20%. In 2016, ROIC increased to 19.4% (2015: 17.8%) largely as a result of improvements in underlying operating margins, tight control over working capital and capital investment outflows, and active management of the portfolio. 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, provisions, retirement benefit obligations and derivative financial instruments, and therefore includes goodwill and other acquired intangible assets. On a reported basis, ROIC was 14.3% (2015: 11.8%).

# Case Study

## Permanent bridge installed in the Himalaya

In June 2013, devastating floods and landslides in the Himalaya caused the destruction of the bridge at Sonprayag in Uttarakhand. A quick, temporary bridge was erected but was washed away on two occasions by floods, most recently in June 2015.

The remote site is extremely important as it is part of the route taken each year by hundreds of thousands of pilgrims from all over the world on the trek to the Kedarnath Temple, which is some 3,600 metres above sea level.

Acrow Bridge, a leading bridge engineering and supply company enlisted the help of V&S Galvanizing to galvanize a permanent bridge to be installed at the foot of the Himalaya.

Constructing a long, conventional bridge in-situ would not have been feasible due to the location's challenging topography and length of time to build. However, an Acrow steel span bridge of any length can be operational in days with minimal construction machinery and using unskilled labour.

The 60m, clear-span bridge was customised with modular components, which included two lanes of traffic and construction was completed in six weeks. The bridge opened to traffic in May 2016 and through to the end of June, more than 250,000 pilgrims visited the temple at Kedarnath.

Find out more about the company at: www.hotdipgalvanizing.com

**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 2015 revenue and underlying operating profit using 2016 average exchange rates would have increased the prior year revenue by £27.9m and increased underlying operating profit by £4.4m, the movements reflecting the impact of Sterling's depreciation against both the Euro and US Dollar during the year. Exchange rates continue to move in line with worldwide events and currency flows and hence are inherently difficult to predict, but will continue to have an impact on the translation of overseas earnings in 2017. Retranslating 2016 revenue and underlying operating profit using exchange rates at 3 March 2017 (inter alia £1 = $1.22 and £1 = €1.16) would increase the revenue and underlying operating profit by £21.7m (4%) and £4.1m (6%) respectively. For the US Dollar, a 1 cent movement results in a £1.4m and £0.3m adjustment to revenue and underlying operating profit respectively, while for the Euro, a 1 cent movement results in a £0.5m and £0.1m adjustment to revenue and underlying operating profit respectively.

**Non-underlying items**

The total non-underlying items charged to operating profit in the Consolidated Income Statement amounted to £18.8m (2015: £18.7m) and were made up of the following:

| | Income statement charge £m | Cash in the year £m | Future cash £m | Non-cash £m |
|---|---|---|---|---|
| Business reorganisation costs | (10.5) | (1.5) | (2.1) | (6.9) |
| Impairment of goodwill | (4.1) | - | - | (4.1) |
| Amortisation of acquisition intangibles | (2.6) | - | - | (2.6) |
| Acquisition expenses | (1.8) | (1.8) | - | - |
| Pension settlement gains | 0.2 | - | - | 0.2 |
| | (18.8) | (3.3) | (2.1) | (13.4) |

› Business reorganisation costs relate to three restructuring actions taken by the Group during the year.

In March, the Group announced the proposed restructuring of its non-US Pipe Supports operations, resulting in the cessation of manufacturing in the UK and Thailand, the closure of a sales office in China and the transfer of work to our Indian plant. The programme, which has been delivered ahead of target timeframe and cost, resulted in a net charge to the income statement of £7.8m. The net cash cost in the year was £0.9m, which includes property and other fixed asset disposal proceeds of £2.8m arising from the disposal of the manufacturing facilities in the UK and Thailand. Further cash costs of £1.6m are expected in 2017. In the period between the announcement of the restructuring actions on 9 March 2016 and 31 December 2016, the trading results of the non-US Pipe Supports operations included revenue of £10.6m and an operating loss of £0.6m and are included in the Group's underlying trading results for the year. In the Group's half year results to 30 June 2016 the post-announcement trading results of the non-US Pipe Supports operations (revenue of £5.3m and an operating loss of £1.0m) were disclosed separately as non-underlying items given their quantum relative to the overall result for that period.

In September, following the acquisition of Signature Limited, the Group initiated a rationalisation of the Signature business as part of its integration with our existing lighting column operation. The charge to the income statement was £0.8m of which £0.6m were cash costs in the year.

In December, the Group committed to the closure of its Indian roads business following a period of disappointing performance and a lack of clear opportunities in that market. The total closure cost is expected to be £1.9m, of which £0.5m are cash costs that will be incurred in 2017.

› The impairment charge of £4.1m represents a full impairment of the goodwill relating to the Group's acquisition of CA Traffic Limited, our transport data collection business, in 2006. In recent years the business has generated levels of profitability that are below those anticipated at acquisition, largely driven by a contraction of available markets in the UK partly resulting from reduced government and local authority spending. Performance in the second half of 2016 was substantially below that anticipated at the end of the prior year and, as a result, an impairment review was performed during the year resulting in a full impairment of the acquisition goodwill.

› Non-cash amortisation of acquired intangible fixed assets was £2.6m (2015: £1.6m), the increase reflecting the acquisitions made by the Group during the year.

› Acquisition related expenses of £1.8m (2015: £1.0m) reflect costs associated with acquisitions expensed to the Consolidated Income Statement in accordance with IFRS3 (Revised).

› Pension settlement gains of £0.2m (2015: nil) arose on the settlement of outstanding defined benefit liabilities with certain pension scheme members as part of the merger of the Group's two UK defined benefit pension schemes during the year.

The net cash impact of the above items was an outflow of £3.3m in the year, a further £2.1m outflow expected in 2017 and a non-cash element therefore amounting to £13.4m. 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 £14.5m (2015: £9.1m). The underlying effective tax rate for the Group was 24.0% (2015: 23.8%), which is lower than the weighted average mix of tax rates in the jurisdictions in which the Group operates as a result of the benefit of tax efficient financing arrangements, the successful conclusion of tax uncertainties related to prior years and the impact on the Group's deferred tax liabilities of forthcoming reductions in tax rates in France. Cash tax paid was £15.7m (2015: £12.6m), with the increased spend reflecting the growth in the Group's profits. Tax paid was broadly in line with the current tax charge for the year of £16.7m.

The Group's net deferred tax liability is £7.8m (2015: £7.9m). An £8.9m (2015: £7.0m) deferred tax liability is provided in respect of brand names, customer relationships and other contractual arrangements acquired, while a further £1.1m (2015: £1.2m) 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, contractual arrangements and properties are amortised.

# Operational and Financial Review (continued)

**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 (as described in note 3). UEPS for the period under review increased by 27% to 65.9p (2015: 51.7p), driven by organic revenue growth in the Group's core markets, continuing improvements in underlying operating margins, currency translation benefits and the impact of active management of the Group's portfolio. The diluted UEPS was 65.1p (2015: 51.3p). Basic earnings per share was 43.0p (2015: 30.9p). The weighted average number of shares in issue was 78.5m (2015: 78.1m) with the diluted number of shares at 79.3m (2015: 78.8m) 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 2016 was £27.3m, significantly higher than the £14.6m reported at 31 December 2015. The deterioration in the deficit relates principally to the UK scheme and was largely driven by a reduction in the discount rate, in line with substantial falls in UK corporate bond yields particularly towards the end of the year, and was exacerbated by an increase in future inflation assumptions reflecting current expectations of higher UK inflation in the medium term.

At 31 December 2015 the Group operated two UK defined benefit pension schemes, The Hill & Smith Executive Pension Scheme and the Hill & Smith Pension Scheme. In March 2016 the Group completed a merger of these two schemes into one new scheme, The Hill & Smith 2016 Pension Scheme (the 'Scheme'), which remains the largest employee benefit obligation within the Group. As part of this merger, certain members of the Scheme accepted the Group's offer to crystallise their pension entitlement by payment of a winding up lump sum, which resulted in a settlement gain of £0.2m.

In common with many other UK companies, the Scheme is mature having significantly more pensioners and deferred pensioners than active participating members and is closed to new members. The IAS19 deficit of the Scheme as at 31 December 2016 was £22.4m (2015: £11.1m). The Group is actively engaged in dialogue with the Scheme's Trustees with regard to management, funding and investment strategy, and has an agreed deficit recovery plan that requires cash contributions amounting to £2.3m per annum until 5 April 2020. A formal valuation of the newly merged scheme, dated 5 April 2016, is currently underway.

**Acquisitions**
In May 2016 the Group completed the acquisition of Safety and Security Barrier Holdings Limited, the parent company of Hardstaff Barriers Limited, for a net cash consideration of £10.4m. Intangible assets arising on the acquisition comprise goodwill of £6.8m, customer relationships of £3.0m and contractual arrangements of £1.4m. The acquired business, based in Nottingham, UK, will complement the Group's existing UK temporary road safety barrier business.

In July 2016 we completed the acquisition of Technocover Limited for a net cash consideration of £9.2m. Intangible assets arising on the acquisition comprise goodwill of £1.8m, the brand name of £0.3m, customer relationships of £3.9m and contractual arrangements of £1.8m. The acquired business, based in Welshpool, will complement and enhance the Group's existing product offering into its UK utilities markets.

In August 2016 we acquired Signature Limited, a UK business specialising in the development and manufacture of street lighting columns, road signage and traffic management systems, for a net cash consideration of £12.6m. Intangible assets arising on the acquisition comprise goodwill of £3.0m, brand names of £0.5m, customer relationships of £4.4m and contractual arrangements of £1.7m. The acquired business will complement and has been integrated with the Group's existing UK lighting column business.

The Group also completed two smaller acquisitions during the year:

- In January we acquired E.T. Techtonics, Inc., a US-based designer of composite bridge products that complements our existing US composites business, Creative Pultrusions. Consideration for the acquisition was £1.5m.
- In April we acquired FMK Trafikprodukter AB, a Swedish producer of equipment for the Scandinavian roads markets. FMK has been integrated with our existing ATA business, providing an expanded suite of traffic management products. Consideration for the acquisition was £4.0m, of which £0.8m is deferred and contingent on future performance and product development targets.

The level of headroom that the Group maintains in its principal banking facilities enables us to continue to seek opportunities for acquisitive growth where potential returns exceed the Group's benchmark performance targets.

**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 Group Finance Director.

**Derek Muir**
Group Chief Executive

**Mark Pegler**
Group Finance Director

8 March 2017

# Case Study

## Weholite Manholes - making the jump to light speed

In November 2016 Asset Weholite started work on a new housing project with one of the biggest developers in East Anglia. A complex stormwater drainage network made up of 900mm and 1,050mm internal diameter pipes with twelve oversize, and totally bespoke, manholes in 1,800mm and 2,100mm diameters.

Originally, the specification was concrete, but the open minded contractor wanted to explore the new and latest technology that the twenty first century has to offer and supported Asset's innovative way of thinking.

The contractors did the maths themselves. No concrete surround, no rocker pipes and manholes ready to use immediately would mean a massive saving in programme time. On this project alone, the developer and the contractor achieved a 40% saving on programme time - a fifty day programme became thirty days.

The results spoke for themselves:

- Structural bases designed for high ground water pressure;
- Components manufactured using the latest industry technology;
- Bespoke manholes produced with robotic precision;
- Fully benched with bright yellow anti-slip HDPE flooring; and
- Fully integrated design, engineering and automated manufacturing ensures bespoke manholes ready for delivery in quick time.

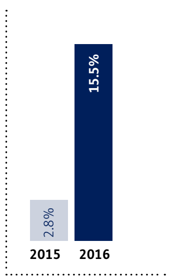
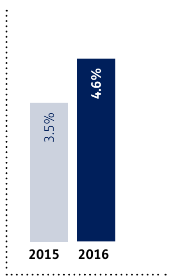
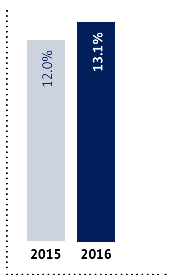
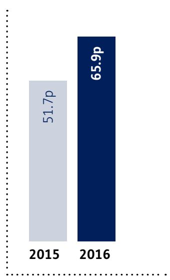
Find out more about the company at: www.weholite.co.uk

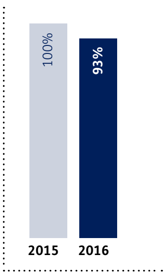
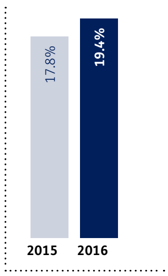
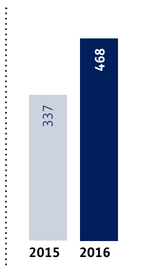
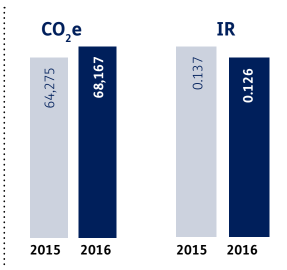
# Measuring Our Performance

The Board has adopted certain financial and non-financial key performance indicators ('KPIs'). 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 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.<br>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. |
| **2016 performance** | **Total growth**  <br>**Organic growth**   | **Up 110bps**   | **27% growth**   |
| **Comment** | Organic revenue growth in 2016 was 4.6%, largely driven by the Group's UK Roads businesses where we experienced increased demand through the UK Government's Road Investment Strategy. Total growth was higher at 16% as a result of acquisitions made during the current/prior year and currency translation benefits. | The Group's underlying operating profit of £70.6m represents a 13.1% return on sales, a 110bps improvement on prior year. The improvement reflects a combination of strength in our core markets and the benefits of active management of the Group's portfolio. | The Group's UEPS for 2016 is 65.9p, an increase of 27% compared with 2015. Key factors were the contribution from organic revenue growth, the increase in underlying operating margins, acquisitions completed during the year and currency translation benefits. There were no significant interest or tax impacts year on year. |

| Free cash flow | Return on invested capital ('ROIC') | Health and safety | $CO_2e$ emissions |
|---|---|---|---|
| The Group monitors free cash flow performance to ensure that its profits generate sufficient cash to support its acquisition strategy and to maintain progressive dividend payments. | The Group targets ROIC to ensure it maintains an efficient balance sheet and that its operations, both existing and acquired, enhance shareholder value. | The health and safety performance of each subsidiary is key to our management of the Group as a responsible employer and to our reputation in the markets in which we operate. | Cost reductions and greater efficiency, improve not only our operating margins but also the sustainability of our operations. |
| Underlying free cash flow divided by underlying operating profit.<br>Underlying free cash flow is defined as underlying operating cash flow less capital expenditure. | Underlying operating profit divided by average invested capital.<br>Invested capital is defined as net assets excluding current and deferred tax, net debt, provisions, retirement benefit obligations and derivative financial instruments. | Number of accidents, including minor injuries.<br>Number of lost time accidents.<br>Audit scores and benchmarkings. | Carbon usage comparison year on year and over a three year programme. |
| **Down 7ppts**<br> | **Up 160bps**<br> | **Up 39%**<br> | **IR down 8%**<br> |
| The Group achieved an underlying cash conversion rate of 93% in 2016 (2015: 100%). Working capital increased by only £0.1m despite the growth in revenue and profitability, while capital expenditure at £21.7m represented a multiple of depreciation and amortisation of 1.2 times (2015: 1.0 times). | The Group aims to achieve ROIC that exceeds its weighted average cost of capital (currently c.10% on a pre-tax basis), with a target return of 20%. In 2016 the Group achieved ROIC of 19.4% (2015: 17.8%), the improvement largely reflecting further increases in underlying operating margins during the year and the benefits of strategic actions taken. | The focus during the year was to raise the awareness of minor injury and near-miss reporting and improve the culture within our businesses and help our employees begin to better understand the inherent benefits from having a safe place to work. This has led to an increase in the reporting of injuries, including minor injuries, and in 2016, on a like-for-like basis reported injuries were 468 (2015: 337), with lost-time injuries amounting to 178. | Following a fall in actual $CO_2e$ emissions in 2015, the Group has continued to focus on energy saving opportunities identified from the ESOS audits conducted by CMR, and an Energy Forum met for the first time in 2016. Due to the Group's expansion in 2015 and 2016 actual $CO_2e$ in 2016 rose by 6%. However the intensity ratio fell by 8%. |

# Risk Management and Assurance

Effective risk management is critical to the achievement of our strategic objectives of portfolio management, geographical diversification, entrepreneurial culture and targeted growth returns. All our subsidiaries hold leading positions in the provision of galvanizing services and the design, manufacture and supply of infrastructure products and the Group benefits from a risk management system that is integrated into the daily business activities of these subsidiaries.

Whilst the Board has delegated the risk discussion to the Audit Committee, the Board is responsible for the overall stewardship of our system of risk management and internal control. It has established the level of risk that is appropriate for our business and acceptable in the pursuit of our strategic objectives. It has also set delegated authority levels to provide the framework for assessing risks and ensuring that they are escalated to the appropriate levels of management, including up to the Board where appropriate, for consideration and approval.

As part of this process, the Risk Committee receives reports from the subsidiaries on their individual risks. The Committee, met formally once during the year and comprises the Group Risk & Compliance Counsel, the Group Financial Controller, the Group Company Secretary and the Group's Director of Corporate Development. Subsidiary Managing Directors are invited to attend on a rotational basis.

The Committee reviews and validates the subsidiary reports, before presenting a Group-wide report to the Audit Committee for discussion on both subsidiary risk and Group risk. Challenging feedback is provided by the Audit Committee to further question the validity and mitigations of the risks presented and to identify others not already considered.

This process ensures that risks are not just the product of a bottom-up approach but are also examined from a top-down perspective via an integrated senior management approach, which is closely aligned with the Group's strategy. In order to enhance the Group's approach to risk generally, more work was done with the subsidiaries in terms of providing an online risk assessment reporting process during 2016, and the senior management team were instrumental in adding a top-down perspective to the Group's principal risks.

The approach, enhanced throughout 2016, has allowed the Board to carry out a robust assessment of the principal risks and uncertainties that might threaten the Group's business model, future performance, solvency and liquidity and this has led to a more strategic focus on our principal risks and uncertainties as explained on page 32 to 34.

Key focus for 2017

- Continued assessment of the principal risks facing the Group and its subsidiaries including those that might threaten the Group's business model, future performance, solvency and liquidity;
- Further work with the subsidiaries to develop business unit risk registers and to share best practice;
- Improved bottom-up reporting on principal risks and uncertainties and enhancing the Board conversation; and
- Further development of the Risk Committee and top-down risk assessment processes.

The roles and responsibilities of the Group's risk management process, key committees and all levels of management from a risk management perspective are summarised below.

**Subsidiary key risks and uncertainties**

Subsidiary management assess risk on a business unit by business unit basis using a dedicated risk assessment and reporting tool. The likelihood and impact of these risks and uncertainties are considered and scored against a recognised framework dependent upon their effect on the achievement of the subsidiaries strategic plan.

**Mitigation**

Responsibility for taking the necessary actions to manage these risks is deferred to individual managers within the subsidiaries. Each subsidiary risk register and the associated mitigations are monitored by the Group's Risk Committee.

**Review**

The Risk Committee reviews, challenges and validates the individual subsidiary risk registers whilst at the same time engaging with other senior managers within the Group to identify those risks and uncertainties that are Group specific.

**Report**

The Risk Committee reports to the Audit Committee on the principal risks and uncertainties that have been identified by the subsidiaries and senior management and validated by the Risk Committee. The Audit Committee gives challenging feedback on the output from the Risk Committee ensuring that the type, quantum and mitigations of the principal risks and uncertainties identified mirrors the levels of risk that the Board is willing to accept in achieving the Group's strategic objectives.

# Principal Risks and Uncertainties

## Economic

### Risk: Changes in government spending plans

| Trend | Description and potential impact | Mitigation |
|---|---|---|
| Higher<br><br>Link to strategy | The Group generates the majority of its revenues from its operations located in the UK and the USA.<br><br>A reduction in UK or US government infrastructure spending, particularly in relation to national roads infrastructure in the UK, could have an adverse impact on the Group's financial performance. The financial burden on the governments of both jurisdictions from economic downturn may lead to reduced spending in the principal markets in which the Group operates. | Strategy of diversification into new markets and territories.<br><br>Identification of export opportunities to encourage growth in alternative markets.<br><br>Product development initiatives.<br><br>Co-operation between Group businesses, leveraging the Group's size/international footprint and exploiting synergies. |

### Risk: Changes in global outlook and geopolitical environment

| Trend | Description and potential impact | Mitigation |
|---|---|---|
| Higher<br><br>Link to strategy | The Group operates in a range of end-user markets around the world and may be affected by political, economic or regulatory developments in any of these countries.<br><br>Material adverse changes in the political and economic environments in the countries in which we operate have the potential to put at risk our ability to execute our strategy. | The Group has a diverse portfolio of businesses with exposure to a range of markets and geographies, limiting exposure to any one country or market sector.<br><br>Current and future financial performance is continuously monitored, facilitating rapid response to changes in market conditions.<br><br>Entrepreneurial culture established through a decentralised management structure, ensuring that Group businesses are agile and responsive to changes in their competitive environments. |

## Commercial & Financial

### Risk: Product failure

| Trend | Description and potential impact | Mitigation |
|---|---|---|
| No change<br><br>Link to strategy | The Group operates in infrastructure markets where it is critical that its products meet legislative requirements and where the consequences of product failure are potentially serious.<br><br>Significant product failure arising from component defects or warranty issues may require remediation including the replacement of defective components or complete products, resulting in direct financial costs to the Group and/or wider reputational risk. | Products tested, approved and accredited by regulatory bodies.<br><br>Quality control protocols fully implemented and continuously monitored.<br><br>Contractual controls in place to minimise economic impacts.<br><br>Insurance cover maintained globally with insurance partners.<br><br>Litigation supported/managed by external legal specialists. |

### Risk: Contractual arrangements

| Trend | Description and potential impact | Mitigation |
|---|---|---|
| No change<br><br>Link to strategy | The Group delivers its commitments to its customers through a variety of contractual arrangements of both a short and medium term nature.<br><br>Weaknesses in the contract tendering process, inappropriate pricing, misalignment of contract terms, ineffective contract management or failure to comply with contractual conditions could result in loss of revenues, pressure on operating margins and wider reputational damage to the Group. | Group material contract review process implemented ensuring specialist central oversight of key contractual arrangements.<br><br>Contracts training provided to all relevant employees during the current and prior year.<br><br>Dedicated quantity surveyors and contracts managers embedded in subsidiary management structures to control projects.<br><br>Litigation supported/managed by external legal specialists. |

## Operational

### Risk: Supply chain deficiency

| Trend | Description and potential impact | Mitigation |
|---|---|---|
| Slightly higher<br><br>Link to strategy | The Group's businesses depend on the availability and timely delivery of raw materials and purchased components, which could be affected by disruption in its supply chain.<br>Supply chain failures as a result of performance, cost, quality and/or insolvency may have an adverse impact on the Group's production capacity and lead to an inability to meet customer requirements, resulting in reduction in revenues, potential loss of market share and possible reputational damage. | Implementation of Group procurement standards, including robust due diligence of supply chain partners and requiring dual sourcing where available.<br>Maintenance of relationships with key suppliers through regular interaction and assessment of performance/ financial status.<br>Central oversight of material procurement contracts ensuring robust contractual protections. |

### Risk: Weaknesses in IT systems

| Trend | Description and potential impact | Mitigation |
|---|---|---|
| No change<br><br>Link to strategy | The Group relies on the information technology systems used in the daily operations of its subsidiaries.<br>A failure or impairment of those systems or any inability to effectively implement new systems could cause a loss of business and/or damage to the reputation of the Group, together with significant remedial costs. | Group IT Steering Committee established to review IT systems capability, suitability and integrity.<br>Steering Committee assesses, approves and monitors significant IT change programmes.<br>Disaster recovery plans documented, tested and monitored by Group businesses.<br>The Group's Policy Manual incorporates IT policies in respect of system back-up procedures and hardware/software protection. |

### Risk: Ineffective management of acquisitions

| Trend | Description and potential impact | Mitigation |
|---|---|---|
| Slightly higher<br><br>Link to strategy | The Group's growth strategies include the acquisition of businesses around the world that complement or supplement its existing activities.<br>Failure to execute an effective acquisition and integration programme would have a significant impact on the Group's ability to generate long term value growth for shareholders. | Board approval required for Group acquisitions, in line with the Group's delegation of authority structure.<br>Due diligence protocols deployed in relation to assessment of target businesses, including financial, commercial, legal and others where appropriate.<br>Contractual protections and assurances sought from sellers to mitigate subsequent identification of risks.<br>'100 Day' post-acquisition integration plan established for all material acquisitions with regular performance monitoring and reporting to the Board. |

### Risk: Insufficient investment in product development and innovation

| Trend | Description and potential impact | Mitigation |
|---|---|---|
| No change<br><br>Link to strategy | The Group operates in global infrastructure markets where continuous innovation is integral to the Group's product offering and where a failure to innovate could result in product obsolescence, the entry of new competitors and/or loss of market share.<br>The development of new products and technologies carries risk including failure to develop a commercially viable offering within an acceptable timeframe. | Subsidiary discretion to engage in research and development activities.<br>Robust quality controls.<br>Dedicated quality compliance resources in place across Group businesses, ensuring responsiveness to regulator and/or customer approval requirements.<br>Executive Board approval of product development proposals within the Group's capital spend approval policies.<br>Board monitoring of emerging risks alongside external specialist support, where both the risks identified and the potential opportunities arising are considered. |

Portfolio management
Geographic diversification
Target returns and leverage
Entrepreneurial culture

# Principal Risks and Uncertainties (continued)

## Human Resources

**Risk: Loss of key employees**

| Trend | Description and potential impact | Mitigation |
|---|---|---|
| No change<br><br>Link to strategy | The Group encourages an entrepreneurial culture through a decentralised management structure.<br><br>An inability to attract, develop and retain high-quality individuals in key management positions could severely affect the long term success of the Group. | Development and implementation of a succession planning model driven by the Group Chief Executive.<br><br>Implementation of contractual protections and retentions in employment contracts of senior management and other key employees.<br><br>Competitive remuneration, benefits and incentive plans offered to employees and regularly benchmarked.<br><br>Recruitment process developed to include competency requirements and skills gap analysis.<br><br>Group policies supporting the training and development of employees.<br><br>Regular interaction between Group and local executive management, including attendance at subsidiary Board meetings. |

## Legal & Regulatory

**Risk: Failure to comply with applicable health and safety legislation**

| Trend | Description and potential impact | Mitigation |
|---|---|---|
| No change<br><br>Link to strategy | The Group operates a number of manufacturing facilities around the world.<br><br>A failure in the Group's health and safety procedures could lead to environmental damage or to injury to or death of employees or third parties, with a consequential impact on operations and the increased risk of regulatory or legal action being taken against the Group. Any such action could result in both financial damages and damage to reputation. | Implementation of health and safety monitoring and 'safety cloud' online reporting framework.<br><br>Retention of an external independent health, safety and environmental consultant.<br><br>Group Health and Safety Forum established to monitor performance.<br><br>Culture of zero tolerance in respect of health and safety violations promoted by the Board and disseminated throughout Group businesses.<br><br>Open relationships maintained with regulatory bodies. |

**Risk: Violation of applicable laws and regulations**

| Trend | Description and potential impact | Mitigation |
|---|---|---|
| Slightly higher<br><br>Link to strategy | The Group's global operations must comply with a range of national and international laws and regulations including those related to anti-bribery and corruption, human rights and employment, trade/export compliance and competition/anti-trust.<br><br>A failure to comply with any applicable laws and regulations could result in civil or criminal liabilities and/or individual or corporate fines and could also result in debarment from government-related contracts, restrictions on ability to trade or rejection by financial counterparties as well as reputational damage. | Group Code of Conduct issued to all employees setting out the Group's requirements in relation to legal and regulatory matters.<br><br>Training/testing modules in respect of Anti-Bribery and Corruption and Competition Compliance required to be taken by all Group employees.<br><br>Competition compliance manual implemented by each Group business.<br><br>Programme of audits undertaken on a cyclical basis to review subsidiary compliance with regulatory requirements, for example simulated 'dawn raids'.<br><br>Software solutions implemented globally to ensure compliance with trade and export legislation.<br><br>Whistleblowing hotline available to all employees to allow them to raise concerns in confidence or anonymously, if preferred.<br><br>Modern Slavery compliance programme implemented in 2016. |

**M.A.S.S. Visirail guard supplied by Asset VRS at Hinkley Point C nuclear power station, Somerset.**

**ATA's Zoneguard rental fleet delivered and deployed in Stockholm, Sweden.**

# Corporate Responsibility

We recognise that to be successful in achieving our strategy of sustainable profitable growth it is essential that we act responsibly in all our businesses and towards all people who are stakeholders in them: our employees, our customers and suppliers and the communities in which we operate.

The Group is committed to implementing the correct policies and procedures relating to the sustainability of the environment and to the successful delivery of an effective health and safety system, as well as ensuring that the people connected with the Group behave in the right way, complying with all local legal and regulatory requirements.

**Board level responsibility**
Derek Muir, the Chief Executive, is the Director responsible for the Corporate Responsibility ('CR') performance of the Group and is supported by the operating 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 operating Directors are supported in this by the Group's employees, who are encouraged to contribute positively to the communities and environment in which we do business.

**Our people**
The Group recognises the need for successful businesses to deliver a good service and product and this can only be done by developing, supporting and maintaining the right staff to provide this. Appropriate resources and support to maintain the required standards of performance and conduct expected of employees are provided. This is only achieved through the provision of training and career development opportunities, promoting a forward thinking, proactive and creative working environment to engage and motivate employees. Investing in our people development framework helps ensure we create a skilled and motivated workforce that will positively impact on our future success.

*Succession planning and talent management*
In 2015 we commenced and during 2016 we have continued our Succession Planning and Talent Management programme for managers across all subsidiaries, to nurture the talent within the Group and ensure we are retaining and developing our leaders of the future. This involves drawing up Personal Development Plans for individuals with potential for senior roles. We have a number of management and leadership programmes in place to aid this initiative – an executive level development programme, a senior management leadership programme and a general management development programme. All these programmes additionally enable our managers to undertake internationally recognised management qualifications as part of their studies. These management programmes are underpinned by Group-wide programmes at supervisory and team leader level. Our aim is to continually develop our Group leadership and management capabilities across all levels of the organisation, enabling all our managers to effectively motivate and co-ordinate their teams in their business.

*Group learning and development – strengthening our talent pipeline*
Alongside these management development programmes, individuals are encouraged to undertake appropriate specialist/technical and personal development appropriate to their roles and aspirations and in line with organisational strategy.

To help facilitate this, Group-wide learning and development events are held throughout the year, covering a range of topics and are open to employees from all subsidiaries. This enables individuals to develop specific skills whilst simultaneously providing an opportunity for inter-subsidiary networking. Recent programmes have included IT software training, lean manufacturing, time management and personal organisation, presentation skills, assertive communication and sales development. Our intention is to ensure we are developing all our people appropriately and in line with the future skill requirements of our business.

At a local level, individuals also undertake specialist/technical skills development, pertinent to their roles – including qualifications in health and safety, project management, finance and accountancy, construction and engineering.

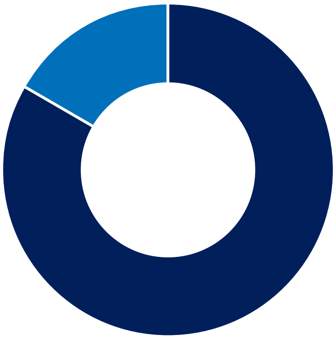
Engagement and opportunity is also provided through:

- Offering share ownership within the Group through the employee Sharesave Schemes, which currently have circa 700 employees participating;
- Support with education, leading to recognised professional and academic qualifications;
- Health and safety training;
- Anti-bribery, international competition, Modern Slavery and the Group's Code of Business Conduct ('CBC') training;
- Opportunities to enhance individual knowledge and skill required for the employee's position, which includes new procedures and policies; and
- Communication through the Group's website and intranet site.

*Diversity and inclusion*
The Group is committed to equal opportunities and fairness and to policies, practices and regulations for promotion of equal opportunities in recruitment, training and career development. As the Group has a global presence, these are appropriate for the local areas of operation. This includes a no tolerance approach to discrimination, bullying and harassment. All our policies promote the principles of fairness and equal opportunities and if these are not followed, employees can use the whistleblowing hotline to report adverse behaviours.

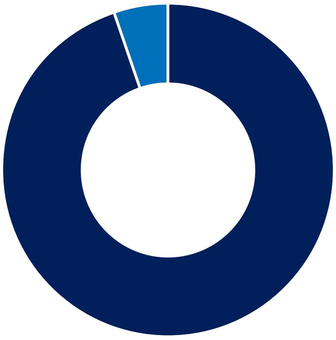
The current policy on diversity can be found on the CR section of the website.

As at 31 December 2016, the Group-wide split of male and female employees is shown in the charts opposite.



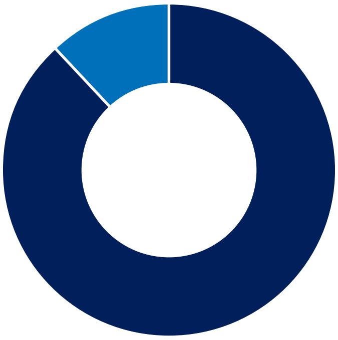
**Number of PLC Board Directors: Male & Female split**

| | |
|---|---|
| Male | 5 |
| Female | 1 |



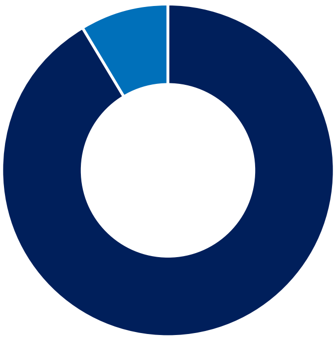
**Number of other Directors: Male & Female split**

| | |
|---|---|
| Male | 74 |
| Female | 4 |



**Number of senior managers in the Group: Male & Female split**

| | |
|---|---|
| Male | 164 |
| Female | 22 |



**Total number of employees in the Group: Male & Female split**

| | |
|---|---|
| Male | 3,774 |
| Female | 354 |

*Behaving correctly*

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 introduced training and education programmes for employees, relating to compliance including export controls and economic sanctions and competition/antitrust legislation. Our CBC sets down the guidelines by which we expect our business to be conducted and this is supported by a set of global policies issued through the Group intranet and internal communications.

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 the handling and minimisation of conflicts of interest and the protection of the Group's valuable intellectual property rights.

The Group's written policy states that if any employee has reasonable grounds to believe that the Group's CBC policy or internal Group policy is not being adhered to by any person or group of people, he or she is able to contact Senior Management, the Group Risk & Compliance Counsel or, if necessary, the Group Company Secretary or the Chairman of the Audit Committee. Should individuals wish to raise concerns anonymously they are able to do so via a compliance hotline and email facility (the 'Reporting System'). The Reporting System is operated in conjunction with a whistleblowing policy annually approved by the Audit Committee. The policy gives assurance that issues will be investigated and resolved in accordance with the principles of 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 and applies to everyone who is engaged by the Group anywhere in the world, whether they are employees or third parties. Consequently, as part of the CBC the Group has implemented a set of procurement standards, which seeks to ensure that the Group and its subsidiaries mitigate any risk stemming from its supply chain and is able to leverage the economies of scale a group of its size, composition and structure can hope to expect.

The CBC is not designed to supersede detailed Group policies but rather to supplement and summarise the Group's compliance initiatives, its behavioural and ethical standards, as well as to give the relevant assurances in respect of the Group's key corporate, legal and social responsibilities.

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.

# Case Study

## Asset break new ground in creation of new ecological market town

Asset International Limited ('Asset'), the world's leading manufacturer of Weholite large diameter plastic pipes, provided vital sewerage system components to the developers of Sherford, an ambitious environmentally-friendly and modern market town development in South Hams in Devon.

Sherford will have 5,500 homes, four schools and over 80,000m$^2$ of employment and retail space when completed and is located 28 miles to the east of Plymouth, equidistant from Dartmoor and the south Devon coast.

It is the aspiration of the developers that Sherford will be viewed in years to come as one of the West Country's most admired market towns; one that has the feeling of being centuries in the making, but developed with responsible 21st century practices in mind, including affordable housing and the implementation of renewable energy.

Green practices are very much in the focus for the developers, who claimed that Sherford will be the most green and sustainable new town in the country, conceived with a minimised carbon footprint in mind. All the houses are designed to be energy-efficient, and much of the energy will be provided by two wind turbines on site.

Ecologically friendly good practice has been extended to the procurement processes on site, with many of the suppliers chosen committed to the green agenda, something that Asset place a heavy emphasis on. The company's green ethos is exemplified by the fact that the production and installation of their signature large diameter plastic pipes has been proven to have a significantly reduced carbon footprint compared with other alternatives on the market, including concrete.

One of the fundamental considerations of any new development is the management of the site's foul water. Using the standard Sewers for Adoption discharge figure of 4,000 litres per dwelling day for 5,500 dwellings gives a typical discharge rate of 254 litres per second. In order to efficiently manage the vast quantities of foul water flowing through the site once the development is populated, Asset were commissioned to provide a back-up storage tank for Sherford's foul water pumping station. The vast 3.5 metre diameter 30 metre long, multi-leg Weholite attenuation tank utilises 170 metres of pipes, and holds approximately 1,500m$^3$ of foul water.

The Weholite tank is much larger than its more standard sized counterparts, which usually hold around 200m$^3$, and connects directly to the town's foul water pumping station. The tank was designed and made to the specific requirements of Fred Champion Groundworks, who were responsible for developing the infrastructure for the site's sewerage needs.

The tank was designed and supplied with an integral dry weather flow channel to meet the specific requirements set by South West Water. The dry weather flow channel is uniquely designed to improve the hydraulic efficiency of the tank in low flow conditions, helping to avoid silting.

The offline attenuation tank was prefabricated at Asset's state of the art factory in Newport, and transported to the site in Devon in one piece prior to installation, vastly cutting down on the amount of time spent positioning the tank in situ; a huge bonus to the contractors who are observing stringent timescales.

Find out more about the company at www.weholite.co.uk

*Human rights*
The Group is committed to treating all people, whether employed directly by the Group or its subsidiaries or employed in its supply chain fairly and equitably and we are committed to upholding their human rights. The Group recognises all individuals' basic human rights and is committed to respecting the Universal Declaration for Human Rights in the design of diversity practice and its ethical approach to employees, suppliers and customers. The Group and all its worldwide subsidiaries respect the human rights of all those working for or with us, and of the people in the communities where we operate. We will not knowingly do business with companies, organisations or individuals that we believe are not working to at least basic human rights standards. Our Group companies will also comply with all applicable wage and working-time laws and other laws or regulations affecting the employer/employee relationship and the workplace.

We oppose the exploitation of all workers, particularly children and young people and we will not tolerate forced labour, or labour which involves physical, verbal or psychological harassment or intimidation of any kind and we will not employ child labour in any of our operations. Nor will we permit the exploitation of, or discrimination against, any vulnerable group. We support fair and reasonable rewards for workers, with wages reflecting local norms and they must meet or exceed any legal minimum wage levels.

The Board is committed to the Modern Slavery Act 2015 and has supported the implementation of a number of policies and initiatives during 2016 to supplement the Group's existing compliance controls in respect of anti-slavery and human trafficking. The Group has adopted a zero-tolerance approach to modern slavery and human trafficking and, in conjunction with strengthening our supplier due diligence activities and human resources procedures, has undertaken an initial risk assessment of its exposure to modern slavery and also delivered training to the Board and Group's senior management teams in this area.

The Group is also committed to maintaining a safe and productive environment, free from harassment in which all individuals are treated with respect and dignity and we expect all our employees and individuals that work on our sites to follow our health and safety policies and procedures and be free from substance abuse at all times.

*Regulatory compliance*
The Group deploys an Anti-Bribery & Corruption Programme which includes policies, training and due diligence of all third parties with whom the Group engages. The provision and receipt of gifts and entertainment is tolerated within considered parameters which align with the Group's legal obligations. Procedures and controls are deployed to monitor such activity across the Group.

The Group benefits from a Competition Law compliance programme which includes a manual, on-line training and auditing via simulated dawn raids, to which the whole Group is subject. The programme is based on requirements of UK law with local variations applied to non-UK businesses.

The Group continues to operate a Sanctioned Countries Policy in line with its legal and financial obligations using restricted party screening software. Additional protocols have also been provided to certain subsidiaries to ensure they meet all international obligations when trading in sensitive geographical areas.

*Procurement controls*
The Group is further developing its procurement systems to enhance and embed best practices in purchasing activity and during the year looked at how the Modern Slavery Act impacted upon its supply chain.

**Health and safety**
The Group remains firmly committed to ensuring a safe working environment and continues to maintain a system of control and monitoring for health and safety risks. Sites continue to work alongside our external health and safety consultant to assist the Group in achieving its objectives around health and safety.

Our systems for controlling occupational health and safety risks continue to be focussed on third-party support including a programme of external audits, a compliance based software solution and in the UK, quarterly Safety Forum meetings.

Our third-party consultant has continued to audit our sites and tracks overall performance. This is also supported by an internal self-assessment completed by a nominated subsidiary director in each business.

The UK Safety Forums are attended by dedicated health and safety representatives for each site, which ensures that best practice is shared, that there is discussion on practical solutions to common issues and that generally there is a high level of communication across the sites.

The 'Safety Cloud' compliance tool continues to assist in the reporting of incidents, tracking of actions from third party audits, close out of safety related inspections/audits and sharing of information through the dissemination of safety alerts and bulletins.

# Corporate Responsibility (continued)

*Summary of health and safety objectives for 2016*

| | |
|---|---|
| Introduction of a safety culture assessment tool to enable a more positive measure of health and safety performance across our operations. Collation of the data to enable local initiatives and improvements plans to be set up. | Safety culture was formally assessed across our UK sites in 2016. Over two-thirds of staff returned a survey which has helped each business to prioritise its objectives for the next year. This culture tool will now be rolled out to overseas sites. |
| The continuation of the external audit programme, with current scores to be maintained or improved, as appropriate. | For UK sites, 2016 has seen the best performance to date with an improvement on previous years. Overseas sites continue to address the actions arising from the audits and are also making steady and encouraging improvements. |
| A drive to encourage better reporting of near misses and non-injury related events and initiatives which recognise employees who go 'above and beyond' normal safe practices. | Through the Safety Forum and online reporting via Safety Cloud, sites have been encouraged to be more open about incident reporting. This has led to a better understanding and more accurate reporting of injuries. Near miss reporting is also improving across the workforce. |
| A review of the way accident data is collated to provide a more meaningful measure based on employment rate. | Injury data in still based on numbers of reports across the organisation and work is ongoing to try to streamline comparative data, which varies in its baseline measure across our global operations. |

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

- Ongoing attainment of OHSAS 18001 certification by Hill & Smith Ltd, Variable Message Signs, Mallatite Ltd, France Galva, Asset Varioguard (VRS) and Joseph Ash Galvanizing Limited.
- Newly certified sites to OHSAS 18001 including other Joseph Ash Galvanizing Limited sites and Asset International Limited, with several others following up with their initial OHSAS assessments which will be completed in 2017.
- Joseph Ash Galvanizing Limited once again received a RoSPA Gold Medal in recognition of their safety performance and involvement of the workforce.
- A number of subsidiaries continued to maintain their Achillies supplier HSE accreditation, which is a national registration scheme allowing companies to be assessed to work in the infrastructure sector.
- Creative Pultrusions fully reviewed their induction training and rolled out a new programme to all existing and new employees. This has helped to raise the profile of both quality and safety across the site.
- Recognising that the social use of drugs and alcohol could potentially have an impact of how workers behave and react in the workplace, several subsidiaries have rolled out initiatives to raise awareness of such issues and have also introduced random monitoring.
- Asset International Limited have continued to invest in automated machinery for pipe fabrication which has further reduced exposure levels for hand arm vibration. Workers have been actively involved in the trials of personal monitoring devices which helps them to ensure they are fully aware of personal trigger times and are therefore able to react accordingly.

**Lionweld Kennedy Flooring Ltd t/a Access Design & Engineering provided the design, fabrication, supply and installation of 1,225m$^2$ of GRP flooring and all steel handrails and stairs around the perimeter of the Siemens Berth 1 project on the north side of the Humber near Hull.**

*Other progress in 2016*

› Safety Culture
The safety culture assessment completed across our UK sites showed that, as a Group, we are performing above the industry standard (from benchmark data collated by the Health and Safety Laboratory). The survey has been useful to identify workers' perceptions of health and safety and how we deal with it across eight key themes. With two-thirds of the surveys being returned, we were pleased with such a high uptake which was supported by an effective publicity and promotional campaign before the surveys were commenced. The findings of the survey will help sites to identify key initiatives to improve safety culture across the forthcoming months and years. Recognising that cultural change can be slow, this initial survey is vital in our goal of demonstrating a defined improvement in attitudes, values and behaviours at all levels.

› Incidents
Encouraging the open reporting of accidents and incidents continues to be a prime objective. A number of subsidiaries have embraced more effective near miss reporting which is creating a better understanding of root causes, behaviours and the general management of risk. More work will be done in this area in 2017 with others being strongly encouraged to adopt an open approach to near miss reporting.

At the same time, there has been a drive to encourage reporting of minor injuries, that in previous years might not necessarily have been reported and this has led to an increase in injuries reported as our employees begin to better understand the inherent benefits from having a safe place to work. Reported injuries, including minor injuries, in 2016, on a like-for-like basis, was 468 (2015: 339), with lost-time injuries amounting to 178. Within this number, are some of the newer acquisitions from previous years who are becoming familiar with the Group's expectations for health and safety and injury reporting. That said, we are confident that our sites are and remain safe places to work and that our employees better understand their health and safety obligations both to themselves and their colleagues.

Our reporting is now more accurate than it has ever been. In particular, all subsidiaries adopt a thorough investigation process to identify underlying causes and to ensure action plans to address any improvements are put in place. The reporting of incidents to the Group via the Safety Cloud has helped the UK sites to implement a more consistent approach and to start to gather better and more accurate data.

The culture survey also asked various questions around accident and near miss reporting, with results showing our arrangements are on par with industry standards.

› Audits
The externally managed health and safety audit programme continues to show that sites are demonstrating a high level of health and safety management and adherence to safe working practices. For 2016, we saw a further improvement in the overall weighted score, which is now at its lowest since the external audit programme commenced in 2009.

*2017 health and safety objectives*

In the forthcoming year our efforts in promoting a safe and secure workplace will continue with specific focus on:

› Further roll out of the safety culture assessment tool to newly acquired businesses and our overseas operations.

› Utilising the findings of the 2016 culture assessment to drive improvements in how we deal with health and safety on a day to day basis and how we can encourage a better understanding of the behaviours and attitudes of our workforce. Specific initiatives will be driven from within each site to reflect the findings from their individual surveys.

› The continuation of the external audit programme, with current scores to be maintained or improved, as appropriate.

› An ongoing drive to encourage better reporting of near misses and non-injury related events and a further review of the way accident data is collated to provide a more meaningful measure based on employment rate.

› Further development of key performance indicators to link incident rates, health and safety audit performance and the results of the culture survey.

**Hot dip galvanizing by France Galva on Station F, a former 34,000m² railway freight hangar in Paris, France. Now the largest start up campus in the world with more than 3,000 workstations, an auditorium with seating for 370 people, a fablab, a pop up store and services, as well as a 4,000m² catering and relaxation area open to the public.**

# Corporate Responsibility (continued)

**Sustainability and the environment**

The Group places a high priority on meeting its environmental sustainability responsibilities within the geographies in which it operates. Each business has an appointed 'Energy Champion' who is responsible for ensuring that the Group's policies on energy and the environment are promoted throughout its operations. All employees are encouraged to report energy savings and recycling ideas to their local energy champion, and the Group contributes information and data to the Carbon Development Project, a programme designed to tackle climate change.

In 2016, the Group continued to measure its water and energy usage and monitor the disposal of its waste products, paying particular attention to the recycling of materials. Different geographies have different attitudes to waste disposal and recycling and the Group is committed to seeking ways to motivate its businesses to adopt an environmentally-friendly approach to these activities. In the UK we utilise the services of CMR Consultants ('CMR'), an independent energy management consultancy who help to collect, collate and verify the data.

A programme of environmental audits is carried out on a regular cycle, by an independent third-party, to monitor individual company performance and to assist the Group in reducing its environmental impact on an ongoing basis. In addition, during the year our UK-based Group companies conducted energy audits at their premises, in accordance with the Energy Saving Opportunities Scheme.

Recommendations were made following these audits and these were discussed at the Company's inaugural Energy Forum meeting in November 2016, where the subsidiary Energy Champions shared experiences and best practice and discussed actions to identify energy savings opportunities, how to drive forward their implementation, and whether such plans should be developed on a local basis or sponsored by the Group.

Our UK operations are also committed to working towards compliance with the ISO 14002:2004 standard, which is awarded to companies that operate to an accepted environmental government standard. A programme of audits has been agreed for our UK businesses, with companies monitoring their environmental impact on a day-to-day basis.

**Greenhouse gas ('GHG') emissions**

The Group's GHG emissions continue to be constantly monitored, so that we can improve upon our use of energy, water, recyclable and non-recyclable resources, ensuring long-term environmental and business sustainability and creating long-term value for shareholders and other stakeholders.

We recognise that our business can have a direct and indirect effect upon the environment. The data provided below illustrates how our carbon footprint is created by our businesses, allowing us to monitor the impact of our operations on the environment and make improvements where feasible.

| Group total emissions by scope | Group emissions 2016 | Group emissions 2015 | Group emissions 2014 |
|---|---|---|---|
| Gas and oil usage | 37,061.92 | 33,557.46 | 33,418.90 |
| Commercial and business miles driven | 8,284.80 | 7,104.59 | 7,358.00 |
| Purchased electricity | 21,950.87 | 23,146.75 | 25,851.20 |
| Water and waste | 869.10 | 466.07 | 454.70 |
| Total $tCO_2e$ | 68,166.69 | 64,274.87 | 67,082.80 |
| Total turnover | £540.1m | £467.5m | £454.7m |
| Intensity Ratio | 0.126 | 0.137 | 0.148 |

For 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 turnover.

*Water consumption*

After a few years of reported reduction in water consumption, the Group's consumption in 2016 rose by 13.6%. This is due to the corporate acquisition strategy followed by the Group in late 2015 and throughout 2016. When measured against Group revenues in much the same way as $CO_2e$ emissions the water consumption ratio remains changed.

*Group water usage*

| | 2016 volume | 2015 volume |
|---|---|---|
| UK water usage | 39,737 $m^3$ | 27,681 $m^3$ |
| Overseas water usage | 59,034 $m^3$ | 59,239 $m^3$ |
| Total usage | 98,771 $m^3$ | 86,920 $m^3$ |
| Ratio per £1000 of Group turnover | 0.183 | 0.186 |

*Waste management*
During the year the Group significantly improved its management and reporting of waste disposal at its UK sites and introduced the same practices into certain non-UK sites where such activities were commercially viable. The information received will be reviewed to determine how waste output can be reduced or recycled and to identify new opportunities to improve our manufacturing processes.

This collation of data has not only enabled us to improve the recycling opportunities presented to the Group, but also to lower waste output.

*Waste quantities*

| Commodity | UK volume (ltrs) 2016 | Overseas volume (ltrs) 2016 |
|---|---|---|
| Liquid waste | 119,423 | 35,508 |
| Acidic waste (like-for-like) | 4,929,021 | 1,727,106 |
| Waste to landfill | 1,550 | 2,647 |
| Recycled waste | 7,628 | 11,084 |
| Total waste (inc. landfill) | 9,178 | 13,731 |

The Group discourages waste to landfill, using expert waste disposal companies to dispose of such waste and to recycle it wherever possible. For example, some of our plastic waste is recycled into new products and alternative bio-energy sources and a large proportion of our waste acid is reprocessed and recycled into other waste treatment processes.

Within the UK, the Group complies with the Producer Obligations (Packaging Waste) Regulations 2007 (as amended) in compliance with the European Union Directive. The Group provides evidence to Wastepack, an organisation that provides confirmation to the UK government that the Group is continuing to meet UK recycling and recovery standards set by Defra.

**Community**
Although the Group does not have a Group-wide programme in place to support specific charities or communities, it remains committed to encouraging its subsidiary companies to fully engage with their local communities. The Group values its relationship with the local stakeholders and the support it receives from them.

During the year, support has been given to the Breast Cancer 'Wear it Pink' campaign, the Lily Mae Foundation, NSPCC, Cancer Research, Macmillan and Sport Relief.

In the UK, Mallatite, Signature, Dee-Organ and Post and Column took part in the UK's biggest road safety event, Road Safety Week, co-ordinated by Brake, the road safety charity. Thousands of organisations, schools and community groups backed the Make the Brake Pledge campaign.


The Road Safety Week 2016 theme for Make the Brake Pledge, was about raising awareness in six key areas for individuals to protect themselves and the people around them, as well as reducing emissions and pollution from vehicles. The six Brake Pledge points are: Slow, Sober, Secure, Silent, Sharp and Sustainable.

Jonathan Brown, the event co-ordinator for Mallatite Limited was extremely pleased to be able to support the event stating: "Brake Road Safety Week is an extremely worthwhile charity event that is particularly relevant to our industry. We're a manufacturer and distributor of a wide range of products that are vital to the safety of all types of road user, so it's important that we all play our part to raise awareness and funds for this great cause. We're encouraging all team members across our five sites around the country to get involved by making the pledge, holding a bright day and baking for Brake."

In the US our colleagues, many of them V&S employees, participated in and helped sponsor a local "5K Run/Walk Race" in memory of Kyle Miller, who lost his life in a kayaking accident. Kyle enjoyed studying Zoo and Conservation Science at Otterbein University and volunteered at the Ohio Wildlife Center, and the "Kyle Miller Memorial Scholarship Fund", endowed a scholarship at Otterbein University created in his memory.

# Case Study

## Let sleeping dragons lie

The bread and butter of Joseph Ash Galvanizing's work is centred around galvanizing steel used in transport, farming, construction and infrastructure. They do this for fabricators, fencing and agricultural manufacturers, and large structural steelwork companies. Every so often however they also receive a project from a steel sculptor. The works are unusual, intricate and detailed and it is an absolute pleasure to become a part of the sculptor's artistic process.

## Joseph Ash Galvanizing is a complete one-stop-shop steel finishing service.

The most recent pieces of art that came in to Joseph Ash Bridgend were two huge steel dragons: a dragon curled around a lamp post and a sleeping dragon, fabricated by Phoenix Forge Ltd, a bespoke metalwork and blacksmith's business based in Carmarthen, South Wales.

Will Holland from Phoenix Forge said:

"The dragon lamp post sculpture was vast with a wing span of approximately 6-7 feet and a nose to tail length of about 9 feet, however the sleeping dragon was a lot larger, but curled up on a rock with a diameter of 6 feet."

After spending over 300 man hours, over a period of six weeks, to make each dragon, Phoenix Forge asked Joseph Ash Bridgend to galvanize both sculptures. Galvanizing is an important finish for outside sculptures such as these as the treatment protects the steel from atmospheric conditions and rust.

The dragon climbing the lamp post sculpture was commissioned by a private collector in Shropshire who has bought several similar sculptures from Phoenix Forge over the last few years. The artwork has now been installed outside the client's private residence.

In contrast the sleeping dragon - which is made up of over 5,000 individual steel scales - was fabricated as a show piece for Phoenix Forge's display at the 2016 Royal Welsh Show at the National Botanic Gardens in Wales.

Find out more about the company at:
www.josephash.co.uk

**Top** - Lamp post dragon.

**Bottom** - Sleeping dragon.

# Governance Report

## Governance Report



Image

Hardstaff’s Rebloc RB60 temporary safety barrier on the A10 motorway in Zederhaus, Salzburg in Austria.

See further information 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.

The Board is collectively responsible for upholding high standards of corporate governance and this means managing the business effectively and in a way that is honest, transparent and accountable. This transparency is key to the delivery of the Group's strategy and value creation for our shareholders.

The Board has ultimate responsibility for the Group's performance and for overseeing the management of risk, and in 2016 the Group continued to strengthen its risk assessment and risk management processes leading to a revised principal risks and uncertainties register that is specific to the Group's operations and strategy. This is set out on pages 30 to 34.

As Chairman, it is my role to provide leadership to enable the Board to discharge its responsibilities effectively. Such effectiveness is normally evaluated internally and, set out on page 54, is the Board's response to such evaluations.

Annette Kelleher, Chair of the Remuneration Committee reports in her introduction on page 66, on the approach taken to executive remuneration and the work done on revising the Company's Remuneration Policy as well as other 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. Our Code of Business Conduct sets out our standards and is required reading for everyone working for, or on behalf of the Group. It includes instructions not only on how we expect business to be conducted with the local, national and international supply chain but also on how we interact with the people that we employee and that work within our supply chain, including their human rights (see page 39) and their safety (see page 39).

I look forward to meeting you at our Annual General Meeting on Thursday 11 May 2017.

**Bill Whiteley**
Chairman

8 March 2017

Image

Removable GRP handrail system and galvanized steel flooring at the Doncaster rail depot, designed, supplied and installed by Access Design & Engineering and fabricated by Lionweld Kennedy Flooring Ltd.

# Board of Directors

## W H Whiteley BSc, FCMA

### Chairman and Non-executive (68)

Bill spent the majority of his career at international engineering group Rotork plc, where he was Chief Executive from 1996 to 2008. He is Chairman of Spirax Sarco Engineering plc and Chairman of the Nomination Committee.

**Appointed to the Board**

1 January 2010

**Committee Membership**

Nomination (c)

## D W Muir BSc, CEng, MICE

### Group Chief Executive (56)

Derek joined the Company in 1988 and was appointed to the Board in 2006. He served as Group Managing Director of the core Infrastructure Products segment from 2001 and has been a Senior Manager within the Hill & Smith group for 29 years, having first been Managing Director of Hill & Smith Limited, one of the Group's principal subsidiaries.

**Appointed to the Board**

21 August 2006

**Committee Membership**

Nomination

## M Pegler BCom, FCA

### Group Finance Director (48)
### Managing Director - UK Utilities Group

Mark joined the Company as Finance Director designate on 7 January 2008 and was appointed to the Board on 11 March 2008. He 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. From 1 July 2016, he assumed full operational and managerial responsibility for businesses within the UK Utilities division.

**Appointed to the Board**

11 March 2008

**Committee Membership**

n/a

## **J F Lennox** LLB, CA

### Senior Independent Non-executive (60)

Jock is the non-executive Chairman of Enquest plc and a non-executive director and Audit Committee Chairman of both Barratt Developments plc and Dixons Carphone plc. He is also 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.

**Appointed to the Board**

12 May 2009

**Committee Membership**

Audit, Remuneration, Nomination

## **A M Kelleher** MSc, BA

### Independent Non-executive (50)

Annette has broad senior management experience in the international industrials sector and is currently Group Human Resources Director of Johnson Matthey PLC, as well as a Trustee of the Johnson Matthey Pension Scheme. Prior to joining Johnson Matthey PLC, she held a number of senior human resource roles in Pilkington and NSG Group. From 2006 to 2009, Annette was an independent director of Tribunal Services, part of the UK's Ministry of Justice.

**Appointed to the Board**

1 December 2014

**Committee Membership**

Audit, Remuneration (c), Nomination

## **M J Reckitt** BCom, CA

### Independent Non-executive (58)

Mark was appointed as Non-executive Director on 1 June 2016. Mark is a chartered accountant and was Group Strategy Director of Smiths Group plc from February 2011 to April 2014, and Divisional President, Smiths Interconnect from October 2012 to April 2014. Prior to joining Smiths, Mark was interim Managing Director of Green & Black's Chocolate and before that he held a number of finance and strategy roles at Cadbury plc before being appointed its Chief Strategy Officer from 2004 to 2010. He is also a Non-executive Director and Chairman of the Audit Committee, as well as a member of the Nomination and Remuneration Committees, for Mitie Group PLC and Cranswick plc.

**Appointed to the Board**

1 June 2016

**Committee Membership**

Audit (c), Remuneration, Nomination

# Governance Report

**Statement of compliance with UK Corporate Governance Code**
The UK Corporate Governance Code published by the Financial Reporting Council in September 2014 applies to the Group and the Board confirms that for the period ended 31 December 2016 it complied fully with the requirements of the UK Corporate Governance Code 2014 (the 'Code'). This report outlines how we have complied with the five main principles of the Code: leadership, effectiveness, accountability, remuneration and relations with shareholders. A new UK Corporate Governance Code was published in June 2016 for accounting periods beginning on or after 17 June 2016 and the Company will report against this code in its 2017 Annual Report.

## A. Leadership

Details of the Group's business model and strategy can be found on pages 8 to 13.

*Leadership framework*
The Hill & Smith Holdings PLC Group consists of the Company and the principal subsidiary companies, listed on pages 154 to 156, and during 2016 operated in eight different countries. The Group's businesses are directly supervised by local operating boards and monitored at divisional level.

The two Executive Directors of the Board review divisional and individual operating company performance and regularly liaise with selected senior executives and subsidiary company directors.

The Group's subsidiary companies hold monthly board meetings and these are often attended by the Executive Directors and there is regular liaison across divisions to ensure, where appropriate, the consistent application of governance, operational procedures and Group policies and practices. The two Executive Directors are accountable to the Board for the operational application of these controls.

The Board is collectively responsible for ensuring that the business acts in the best interests of its shareholders and ensures that the Group delivers sustainable profitable growth through the supply of infrastructure products and galvanizing services; generating sustainable value for shareholders, whilst preserving the interests of its customers, employees and other stakeholders. The main facets of this responsibility comprise: consideration of the long-term direction and strategy of the Company, the values and standards within the business, subsidiary company management performance, resources, health and safety, risk management and internal controls.

*Board structure*
During 2016 the Board constituted the individuals listed below and these Directors made up three Board committees as described below. Each Committee reports to the Board.

**W H Whiteley - *Chairman***

**D W Muir - *Group Chief Executive***

**M Pegler - *Group Finance Director***

**J F Lennox - *Non-executive Director (appt Senior Independent Director 17 May 2016)***

**C J Snowdon - *Non-executive and Senior Independent Director (resigned 17 May 2016)***

**A M Kelleher - *Non-executive Director***

**M J Reckitt - *Non-executive Director (appt 1 June 2016)***

**C A Henderson - *Company Secretary***

**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**
M J Reckitt
(appt Chairman 17 November 2016)

**Other members**
C J Snowdon (resigned 17 May 2016)
A M Kelleher
J F Lennox (resigned as Committee Chairman 17 November 2016)

**Secretary**
C A Henderson

**Remuneration Committee**

The Remuneration Committee is responsible for creation, approval and implementation of the Company's Remuneration Policy in respect of Executive Directors, Company Secretary and senior executives.

**Chairman**
A M Kelleher (appt 17 May 2016)

**Other members**
J F Lennox
M J Reckitt (appt 1 June 2016)
C J Snowdon (resigned 17 May 2016)

**Secretary**
C A Henderson

**Nomination Committee**

The Nomination Committee has responsibility for assisting the Board with succession planning and with the selection of a new Executive, Non-executive Director or Chairman.

**Chairman**
W H Whiteley

**Other members**
J F Lennox
D W Muir
C J Snowdon (resigned 17 May 2016)
A M Kelleher
M J Reckitt (appt 1 June 2016)

**Secretary**
C A Henderson

The Code provides that for those companies in the FTSE 350 at least half the Board, excluding the Chairman, should comprise independent Non-executive Directors. The Company entered the FTSE 350 in June 2016 and confirms its adherence to the Code for FTSE 350 businesses in that half of the Board consists of independent Non-executive Directors.

*Directors' terms and conditions*
The service agreements and letters of appointment for the Executive Directors and Non-executive Directors respectively, are detailed on pages 73 and 75 of the Directors' Remuneration Report.

*Board meeting attendance*
During the year attendance by Directors at Board and Committee meetings was as follows:

| | Board | Audit | Nomination | Remuneration |
|---|---|---|---|---|
| Bill Whiteley | 9 | 4* | 2 | 5* |
| Derek Muir | 9 | 4* | 2 | 3*(1) |
| Mark Pegler | 9 | 4* | - | 1*(1) |
| Jock Lennox | 9 | 4 | 2 | 5 |
| Clive Snowdon (2) | 4 | 1 | 1 | 1 |
| Annette Kelleher | 9 | 4 | 2 | 5 |
| Mark Reckitt (2) | 5 | 3 | 1 | 4 |
| Total meetings | 9 | 4 | 2 | 5 |

* indicates attendance of whole or part of the meeting by invitation.

(1) The Executive Directors are not present when elements of their remuneration are being discussed.
(2) Both C J Snowdon and M J Reckitt attended all meetings that they were eligible to attend.

All Directors of the Board except M J Reckitt attended the AGM on 17 May 2016; M J Reckitt was not appointed to the Board until 1 June 2016. All Directors of the Board except C J Snowdon attended the strategy meetings held in June and November as he had resigned on 17 May 2016.

The Non-executive Directors meet independently without the Chairman present and also meet with the Chairman, independent of management.

The Chief Executive maintains a programme of visits to the Group's subsidiary businesses, throughout the world. The Group Finance Director, regularly visits the US and France and in 2016 also visited Thailand, India and Australia.

*Chairman and Chief Executive*
There is a clear division of responsibilities between the Chairman and the Chief Executive which is set out in writing and available at www.hsholdings.com. 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. The Chairman drives the Board agenda and determines how the Board should use the time available to it during Board meetings. 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.

*Board support*
The Board is supported by the Company Secretary who, under the direction of the Chairman, ensures that 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 Directors and management of the Group businesses are also supported by the central function which includes compliance, risk management, treasury, taxation, acquisitions and corporate development.

*Conflicts*
The Companies Act 2006 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 conflicted with the interests of the Company, other than those that may arise from Directors' other appointments, as disclosed in their biographies on pages 48 and 49.

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.

# Governance Report (continued)

### B. Effectiveness

*How the Board operates*

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

In particular, the Board makes decisions on, reviews and approves:

- Group strategy and operating plans;
- Business development, including acquisitions and divestments, major investments and disposals;
- Risk management;
- Financial reporting and audit, including announcements for year end and interim results and trading updates;
- Financing, treasury and taxation;
- Corporate governance;
- Compliance with laws, regulations and the Company's Code of Business Conduct ('CBC');
- Corporate sustainability and responsibility, ethics, health and safety, the environment; and
- Pension benefits and liabilities.

In addition to its normal business, which is included in the table above, the Board received, reviewed and approved various matters, during 2016 and up to the date of this report:

- Regular updates on the rationalisation of the non-US Pipe Supports business;
- Presentations on specific strategic plans from the management of ATA Sweden, Hill & Smith India, The Birtley Group and Hill & Smith Australia;
- The schedule of matters reserved for the Board;
- Acquisition integration plans;
- Anti-bribery & Corruption compliance;
- Modern Slavery;
- Consideration of the EU Market Abuse Regulations;
- Diversity and equal opportunities policy;
- Dividend policy;
- Goodwill and Intangible Asset carrying values;
- Pension schemes merger;
- Pension scheme master trust arrangements;
- Amended and extended the Group's banking facilities for a further two years;
- Viability Statement; and
- Corporate activity including the acquisitions of FMK Trafikprodukter AB, Hardstaff Barriers Limited, Technocover Limited, Signature Limited, and E.T. Techtonics, Inc.

The Board also received budget presentations from the management of Bergen Pipe Supports USA, Carpenter & Paterson, the V&S Group, Hill & Smith Ltd and Joseph Ash Ltd, as well as visiting the France Galva site at Saint-Floretin, France for a two-day budget and strategy discussion.

These budget presentations are initially challenged by the Executive Directors before being presented to the Board which approves the businesses' individual budgets, having reviewed and discussed the plans submitted. Where appropriate the Board offers additional challenge in order that the final budgets are a realistic representation of the expected financial performance of the businesses taking onto account historical performance and future economic conditions.

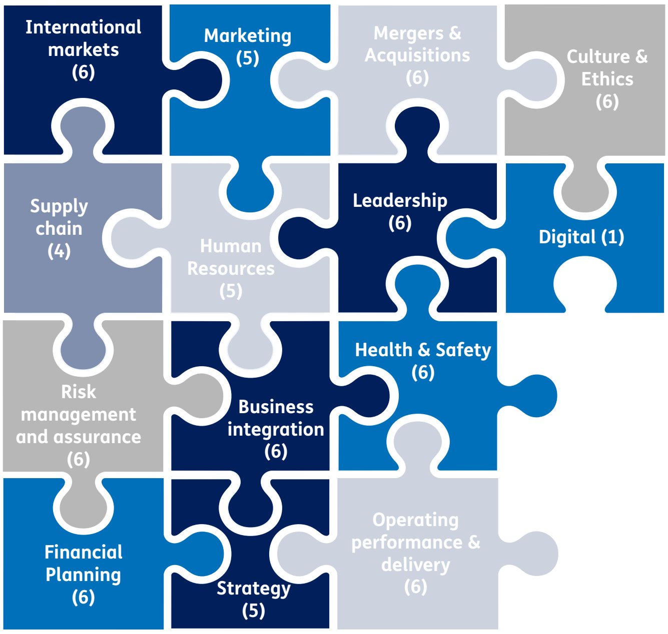
**E.T. Techtonic's fabricated bridge at the 243-acre Pescadero Marsh Natural Preserve in California, USA. The area is a habitat for a wide range of birds and endangered wildlife and offers many hiking trails.**

*The Board has established processes designed to help maximise its performance. These processes operate from the following framework:*

| | |
|---|---|
| **Operation of the Board** | › Board meetings are scheduled to ensure adequate time for discussion of each agenda item.<br>› Board discussions are held allowing for questions, scrutiny and constructive challenge where appropriate.<br>› Full debate allows decisions to be taken by consensus (although any dissenting views would be minuted accordingly).<br>  › Other members of senior group management regularly attend and give presentations at Board meetings.<br>  › Local managers may also attend when matters of particular significance or country relevance are proposed or are 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.<br>› 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.<br>› 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.<br>› Reporting packs are normally distributed electronically five 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.<br>› Clarification or amplification of reports or proposals are sought in advance of, or at, meetings as appropriate.<br>› 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.<br>› The Chief Executive Officer and Group Finance Director have a programme of visits to the Group's business locations to review the operational performance and to engage and support local management.<br>› In the financial year, at least one Hill & Smith Holdings PLC Board meeting is held at the operational site of a subsidiary.<br>› All Directors have open access to the Group's key advisors, senior management and the Company Secretary. |

# Governance Report (continued)

*Skills and competencies*
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, as shown below, are key elements to the effective functioning of the Board and its Committees, ensuring matters are fully and effectively debated and challenged and no individual or group dominates the Board's decision-making processes.




Taking into account the provisions of the Code, the Board has determined that during the year under review none of the Non-executive Directors had 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.

The biographies of the Directors of the Board are shown on pages 48 and 49, along with any significant other commitments and appointments they may have.

*Training and advice*
All Directors are provided with the opportunity and are 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.

*Evaluation of the performance of the Board*
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. The 2015 and 2016 evaluation process was done internally and facilitated using a bespoke online questionnaire. The Board will consider an externally facilitated evaluation for 2017 or 2018.

The 2015 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 2016 were:

- Monitoring the development of managerial capability at subsidiary business level;
- A review of the Board's approach to the Group's geographical diversification guidelines;
- The Group's 2017–2019 strategic plan; and
- A continual review of the balance of skills and expertise present on the Board.

The Board have responded to these matters by:

- Receiving presentations from subsidiary management teams. Most notably ATA Sweden, The Birtley Group, Carpenter & Paterson, V&S and France Galva;
- Giving consideration to the economic and political landscape that had changed throughout 2016 and the general opportunities that there might be for further acquisitions in appropriate markets;
- Meeting with many subsidiary businesses to discuss their three-year strategic plans, including a site visit at France Galva, Saint-Florentin;
- Being cognisant of upcoming Board changes and ensuring that recent appointees have the right balance of skills and expertise to ensure a strong Board.

*The 2016 evaluation, conducted via an internal questionnaire, focused on the following factors:*

- Leadership – strategy, performance and talent;
- Board composition;
- Board dynamics and behaviour;
- Board processes, including shareholder communications; and
- Board skills and experience.

The evaluation was facilitated by the Company Secretary, under the direction of the Chairman.

The results of the evaluation will be discussed at a future Board meeting, bearing in mind the recommended Board changes taking place in 2017. We will report on the results of this evaluation, in next year's Annual Report.

Following this internal evaluation, the Chairman met with the Non-executive Directors, in the absence of the Executive Directors, to discuss the performance of the Executive Directors and the Non-executive Directors met in the absence of the Chairman to discuss his performance.

*Appointments to the Board*
Mark Reckitt was appointed as Non-executive Director on 1 June 2016. Korn Ferry were engaged by the Company to conduct a search for a suitable candidate and shortlisted several individuals. Feedback from these meetings was then given to the Chairman. The Nomination Committee subsequently met to discuss the potential appointment. The Board had requested that an individual with international strategic management experience be recruited, and the Committee, in considering this requirement and the existing balance of skills, knowledge and experience on the Board, the merit and capabilities of the candidates and the time they were able to devote to the role in order to promote the success of the Company, recommended the appointment of Mark to the Board. Following his appointment Mark met with the Executive Directors, the Group Company Secretary and the Group Financial Controller and visited major companies within the Group's UK-based Roads, Utilities and Galvanizing businesses as part of his induction.

*Annual re-election of Directors*
In compliance with the Code and the Company's Articles of Association, Directors retire at every AGM and, 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 Nomination Committee, taking account of the results of the Board evaluation referred to on page 54.

Bill Whiteley will step down from the Board at the conclusion of the Company's AGM in May 2017 and will not be seeking re-election. The Board approved the appointment of Jock Lennox as Chairman, from the conclusion of the AGM, see the Nomination Committee Report on page 59 for more details.

Following the formal evaluation of the performance of the Board in 2016, Mark Reckitt is being proposed for election and the remaining Directors for re-election at the 2017 AGM. The biographies of the Directors of the Board are shown on pages 48 and 49.

**C. Accountability**

*Committees of the Board*
The Board has three Committees - Audit, Nomination and Remuneration. The composition, responsibilities and activities of each of these Committees are described in separate reports.

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.

*Financial and business reporting*
The respective responsibilities of the Directors and auditor in connection with the Financial Statements are explained in the Statement of Directors' Responsibilities on page 88 and the Independent Auditor's Report on pages 90 to 91.

*Fair, balanced and understandable*
The Directors consider 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. More information can be found on page 64 of the Audit Committee Report.

*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 and steel prices 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.

*Viability statement*
In preparing this statement of viability, the Directors have considered the prospects of the Group over the three year period immediately following the 2016 financial year. This longer-term assessment process supports the Board's statements on both viability, as set out below, and going concern, above. A three year period was determined as the most appropriate as it is the period covered by the Group's annual strategic planning process, which sets the long-term direction of the Group and is reviewed at least annually by the Directors. The Board concluded that a period of longer than three years would not be meaningful for the purpose of concluding on longer-term viability.

The strategic planning process considered metrics which enable assessment of the Group's key performance indicators (see pages 28 and 29) in addition to net debt, liquidity and financing requirements.

# Governance Report (continued)

In conducting the review of the Group's prospects the Directors assessed the three-year plan alongside the Group's current financial position, the Group's strategy and the principal risks facing the Group (all of which are detailed in the Strategic Report on pages 32 to 34). This assessment considered the impact of the principal risks on the business model and on future performance, liquidity and solvency. Stress tests were applied to the Group's three-year plan, whereby risks associated with the economic risks faced by the Group were applied to the plan in a number of diverging scenarios. The developed scenarios were designed to be plausible, yet severe:

- A decrease in the UK Government's road infrastructure spend;
- A fall in galvanizing volumes across all geographies; and
- A reduction in revenues in the Group's Utilities businesses in the UK and USA.

In making this viability statement the Directors considered the mitigating actions that would be taken by the Group in the event that the principal risks of the Company become realised. The Directors also took into consideration the Group's financial position at 31 December 2016 with net cash of £15.6m, available committed facility headroom of £105.8m and a history of strong cash generation, and noted that the Company's principal financing facilities are committed until April 2021 thus covering the period of review.

The Directors have assessed the viability of the Group and, based on the procedures outlined above in addition to activities undertaken by the Board in its normal course of business, confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to 31 December 2019.

*Internal control and risk management*

Overall responsibility for the system of internal control, reviewing its effectiveness and ensuring that there is a process to identify, evaluate and manage any significant risks that may affect the achievement of the Group's strategic objectives, lies with the Board.

The Board and the Audit Committee have reviewed the effectiveness of the Group's risk management and internal control systems in accordance with the Code for the period ended 31 December 2016, and up to the date of approving the Annual Report and Financial Statements. The risk management and internal control system is designed to manage, rather than eliminate, the risk of failing to achieve business objectives and can provide only reasonable, and not absolute, assurance against material misstatement or loss. The assessment and control of risk are considered by the Board to be fundamental to achieving corporate objectives.

An ongoing process for identifying, evaluating and managing the significant risks faced by the Group and assessing the effectiveness of related controls has been established by the Board to ensure an acceptable risk/reward profile across the Group.

The process has been in place throughout 2016, and up to the date of approving the Annual Report and Financial Statements, the key elements of this process are:

- A comprehensive system of monthly reporting from key executives, identifying performance against budgets and forecasts;
- Analysis of variances, major business issues, key performance indicators and regular forecasting;
- Well-defined policies governing appraisal and approval of capital expenditure and treasury operations;
- Regular meetings to identify and discuss key risks and mitigations with a broad sample of the senior management team and the Executive Directors;
- Review of the corporate risk register in terms of completeness and accuracy with the senior management team and the Executive Directors;
- Audit Committee discussion of the corporate risk register and the risk management system with subsequent reports to the Board;
- The use of a Risk Committee to monitor, validate and report on the Group-wide risk assessment process; and
- The introduction of a senior management top-down approach to complement the work of the Risk Committee.

Our process for identifying, evaluating and managing the significant risks faced by the Group and assessing the effectiveness of related controls routinely identifies areas for improvement, but the Board has neither identified nor been advised of any failings or weaknesses which it has determined to be material or significant.

More information on the Group's key risks and uncertainties is shown on pages 30 to 34.

**D. Remuneration**
The Directors' Remuneration Report on pages 68 to 76 explains how the Company applies the Code principles relating to remuneration.

**E. Relations with shareholders**
The Board is managing the Group ultimately on behalf of its shareholders and it undertakes this responsibility in such a way as to maximise shareholder value over the long-term and to advance the interests of all of the Group's stakeholders. In this respect:

- During the year the Chief Executive Officer and Group Finance Director regularly meet with institutional shareholder representatives, including days at Hill & Smith Limited, V&S Galvanizing and Creative Pultrusions, to discuss strategic and other issues as well as to give presentations on the Group's results.
- The Board regularly receives reports from the Company's brokers and financial public relations agency on feedback from institutional shareholders following the Executive Directors' presentations.
- During the year the Chair of the Remuneration Committee consulted with major shareholders over changes in Executive remuneration, based on a change in roles and responsibilities and liaised with major shareholders on changes to the Company's Remuneration Policy, the results of which are reported to the Remuneration Committee.
- The Company's Annual Report and Notice of AGM are published as soon as the time required for their printing allows, to provide the maximum time in advance of the AGM for feedback, 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 present and questions and feedback are invited.
- The Secretary engages with shareholders and the investor community as and when required.
- 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 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, trading updates 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, Nomination Committee

8 March 2017

**Varley & Gulliver installed their VGAN 300 aluminium parapet on the world's first all aluminium bridge structure on the Arvida Bridge in Québec, Canada.**

Joseph Ash's galvanizing on the Bond Street, Crossrail.

# Nomination Committee Report

**Bill Whiteley**
**Chairman, Nomination Committee**

*Nomination Committee composition*
During the year the Committee comprised myself as the Group's Chairman, the Non-executive Directors Clive Snowdon (resigned 17 May 2016), Jock Lennox, Annette Kelleher, and Mark Reckitt (appointed 1 June 2016), and the Group Chief Executive, Derek Muir. The Committee met twice in the financial period under review with all eligible members of the Committee being present on each occasion.

*Chairman succession*
During the year I indicated my intention to stand down as Chairman of the Company at the next AGM in May 2017. The Company immediately engaged Korn Ferry to compile a shortlist of potential candidates along with an internal candidate that had expressed an interest in the position. Annette Kelleher was delegated by the Board to commence a process of selection. On completion of this process, Annette Kelleher recommended to the Nomination Committee, that Jock Lennox, the Company's current Senior Independent Director be appointed Chairman of the Company on my retirement. Following a meeting of the Nomination Committee, this recommendation was forwarded to the Board, who approved the appointment of Jock Lennox to Chairman, as from the conclusion of the Company's AGM on Thursday 11 May 2017. The Company has commenced a search, via Korn Ferry for a new Non-executive Senior Independent Director.

*Other principal activities*
During the year, and the period up to the date of this report, the Committee also considered:

- Board succession and diversity - recognising the desire to maintain the right balance of expertise both at Executive Director and Non-executive Director level, the Committee discussed and planned for any other forthcoming changes over the next two years.
- Non-Executive appointments and changes in roles and responsibilities on the Board.
- Board evaluation - a summary of the process and key matters arising from the 2015 and 2016 Board evaluation, led by the Chairman and internally facilitated by the Company Secretary, is contained on page 54.
- The appointment of Mark Reckitt as a Non-executive Director (see page 55) and subsequently as Chairman of the Audit Committee.

The role of the Nomination Committee is to assist 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 is sustained over the long-term.

The Committee will consider candidates on merit and against objective criteria and with due regard for the benefits of diversity on the Board, including gender, taking care that appointees have enough time available to devote to the position.

All Non-executive Directors, as well as the Chairman and the Group Finance Director, were selected through externally facilitated recruitments. All Non-executive Directors are independent, as is 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 (see page 54) to ensure development of the Group, implementation of its strategy and sound governance. The Committee will continue to monitor any need to make any further changes to the composition of the Board, in the context of the Company's strategy.

Following an initial three-year term, the terms of Non-executive Directors are reviewed annually, in line with their annual retirement at the AGM. The letters of appointment for the Non-executive Directors are available for inspection at the Company's registered office and the AGM.

| | Date of appointment | Length of service at 31 December 2016 |
|---|---|---|
| Bill Whiteley | 1 January 2010 | 7 years |
| Jock Lennox | 12 May 2009 | 7 years 7 months |
| Annette Kelleher | 1 December 2014 | 2 years 1 month |
| Mark Reckitt | 1 June 2016 | 7 months |

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.

More information on the Nomination Committee's terms of reference can be found on the Company's website.

On behalf of the Board

**Bill Whiteley**
Chairman, Nomination Committee

8 March 2017

# Audit Committee Report

**Mark Reckitt**
**Chairman, Audit Committee**

Dear Shareholder

It is a pleasure to make my first report as the Audit Committee Chairman of Hill & Smith Holdings PLC. I currently hold similar positions at Mitie Group PLC and Cranswick plc, having previously held the position of Group Strategy Director at Smiths Group plc from February 2011 to April 2014 and Chief Strategy Officer at Cadbury plc from 2004 to 2010. I look forward to working with the Company's senior management team as we continue to develop and enhance our risk management processes and internal audit programmes.

During this financial period, with the support of the Audit Committee, the executive team has continued to build upon the risk management processes that were first implemented in 2014. The new risk assessment methodology which was implemented across the Group in 2015 was further enhanced in 2016, with all subsidiaries having access to an online reporting tool that helps with the production of business unit specific risk registers in a consistent format for debate by the Group Risk Committee. The Committee comprises the Group Risk & Compliance Counsel, the Group Financial Controller, the Group Company Secretary and the Group's Director of Corporate Development. As part of the continual improvement process, senior management also provided the Risk Committee information on risks that were apparent across all subsidiaries and that might affect the Group's ability to deliver its strategic plan.

The Committee also engaged advisors to provide a third party assessment of the extent to which subsidiary businesses are mitigating the risks identified in their risk registers. The results of this review were used to introduce an internal audit programme to assess conformance against the compliance and policy initiatives that the Group has issued, together with a more in-depth review of the approach of each company within the Group to the internal controls relevant to its risks.

This Audit Committee report explains how the Committee has discharged its responsibilities, and takes into account the specific areas of:

- Primary areas of judgement considered by the Committee in relation to the 2016 accounts;
- Internal controls;
- Risk assessment, management and mitigation;
- Assessment of effectiveness of external audit; and
- Whistleblowing.

I trust you find this report helpful as an insight into the activities undertaken on your behalf. I should be delighted to answer any questions you might have and I look forward to seeing you at our AGM in May 2017.

**Mark Reckitt**
Chairman, Audit Committee

8 March 2017

**Roles and composition of the Committee**
The Audit Committee reviews the Group's accounting policies and procedures, its Annual and Interim Financial Statements before submission to the Board and its compliance with statutory requirements.

The Committee monitors the integrity of the Group's Financial Statements and announcements relating to financial performance and reviews the significant reporting judgements contained therein. It also reviews the scope, remit and effectiveness of the internal control systems and internal audit function.

At different times during the year the Audit Committee consisted of Jock Lennox, Clive Snowdon, Annette Kelleher and Mark Reckitt:

*1 January 2016 - 17 November 2016*:
Jock Lennox (Chairman)
Clive Snowdon – resigned 17 May 2016
Annette Kelleher
Mark Reckitt – appointed 1 June 2016

*17 November 2016 - 31 December 2016:*
Mark Reckitt (Chairman)
Jock Lennox
Annette Kelleher

Mark Reckitt, having held the position of Group Strategy Director at Smiths Group plc from February 2011 to April 2014 and Chief Strategy Officer at Cadbury plc from 2004 to 2010 as well as being the current Audit Committee Chairman at Mitie Group PLC and Cranswick plc, has been specifically identified as the Committee member having recent and relevant financial experience.

The Committee's terms of reference can be found on the Company's website.

**Meetings**
The Committee meets according to the requirements of the Company's financial calendar and during 2016 met on four occasions; in March to consider the Annual Report and Financial Statements together with the external audit findings, in August to review the interim results report, in September to approve the external auditors plan and approve their fees and in December to review the internal audit activities and reports and approve the internal audit plan for the year ahead. Reports on the Group's principal risks and uncertainties, including updates on the risk management process, were reviewed at each of the meetings.

Attendees at each of the meetings are the Committee's members as well as, by invitation, the Chairman, 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 51.

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

When Audit Committee Chairman, Jock Lennox maintained regular contact with the external audit partner outside of Committee meetings and without the management of the business present and since his appointment, Mark Reckitt has continued this process. In these meetings a wide range of matters are discussed, including the change in financial reporting and governance landscape, the Company's readiness to accommodate these developments, the external auditor's approach to auditing activities, especially outside the UK, and the robustness of our assurance approach generally.

**Responsibilities**
To ensure governance and control over the Group's financial reporting and risk management processes with assurance provided by internal activities and external auditors. During the year and to the date of this report the Committee considered the following items:

| Financial Statements and Reports | Risk Management | Internal Audit | External Audit and non-Audit Work |
|---|---|---|---|
| › Reviewed the 2016 Annual Report, the 2016 Interim Report and other trading updates issued during the year.<br>› Reviewed the effectiveness of the Group's risk management and internal controls and disclosures made in the 2016 Annual Report.<br>› Advised the Board on whether it is appropriate to adopt the going concern basis of accounting in preparing the Group's Financial Statements (see page 55).<br>› Advised the Board on whether the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable (see page 64).<br>› Reviewed areas of the accounts requiring judgement including the carrying value of goodwill and indefinite life assets; the defined benefit pension scheme valuation; and taxation (see page 62). | › Reviewed the outputs from the Group's risk management process to ensure that subsidiaries were identifying, evaluation and mitigating risks and considered changes to encourage both bottom-up and top-down risk assessments.<br>› Reviewed proposals to enhance the Group's whistleblowing policy and process which will include an external reporting facility for employees.<br>› Reviewed the Group's proposed approach to compliance with the requirements of the Modern Slavery Act.<br>› Advised the Board on whether, given an assessment of the Company's current position and principal risks, the Board can approve its viability statement, (see pages 55 and 56). | › Assessed the adequacy of the internal control environment and the processes in place to monitor this, including reviewing the performance of the internal audit activity.<br>› Evaluated the plan of work that had been identified through the risk management reporting process. | › Considered, along with the external auditor, the significant risks to the audit and their approach to these risks – risk of fraud in revenue recognition; fraud risk from management override of controls; valuation of goodwill; and post-retirement benefits obligations.<br>› Reviewed, considered and agreed the methodology of the 2016 audit work to be undertaken by the external auditor.<br>› Oversaw the relationship with the external auditors, reviewing their performance and advising the Board on their appointment and remuneration;.<br>› Evaluated the independence and objectivity of the external auditor.<br>› Reviewed the level and nature of non-audit services provided by the external auditor.<br>› Reviewed and approved updates to the non-audit services policy. |

# Audit Committee Report (continued)

**Primary areas of judgement considered by the Committee in relation to the 2016 accounts**

In order to discharge its responsibility to consider accounting and financial reporting integrity, the Committee carefully considers key judgements applied in the preparation of the Consolidated Financial Statements which are set out on pages 92 to 136. The Committee's review included consideration of the following key accounting judgements:

*Valuation of goodwill and indefinite life assets*

The value of goodwill and indefinite life assets amounts to £131.8m at 31 December 2016. The review of such assets is based on a calculation of value in use, using cash flow projections based on financial budgets and strategic plans prepared by senior management and approved by the Board of Directors. The uncertain economic conditions around the world increase the risk of impairment and the Committee addresses this by receiving reports from management outlining the basis for the assumptions used for cash generating units. The Committee also considers and challenges management's assessment of the sensitivities to these assumptions and the impact that those sensitivities may have, and also considers the disclosures made in respect of sensitivities, in particular in respect of France Galva SA, in note 10 to the Financial Statements on page 109 to 117. Business plans are signed off by the Board and assessment models are reviewed as part of the audit, for which the external auditor, KPMG, provides reporting to the Committee.

The calculation of value in use for the goodwill and indefinite life intangible assets relating to the Group's acquisition of CA Traffic Limited in 2006 indicated that the value in use was not sufficient to support the carrying values of those assets. Performance in 2016 and in particular during the second half of the year was below expectations and, overall, the business continues to generate levels of profitability that are below those anticipated at acquisition. Following a reassessment of the future profitability and cash flows for the business, a goodwill impairment charge of £4.1m has been recognised in the year.

*Defined benefit pension scheme valuation*

Net defined benefit pension obligations under IAS19 amount to £27.3m at 31 December 2016. 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 Revenue & Customs and other tax authorities in other jurisdictions. Judgements have been made by management following discussion with the Group's tax advisors and internal review. The Committee has reviewed the analysis behind these judgements and confirms its agreement that the Group's tax provisions are adequate.

**Internal audit**

The internal audit activity is the responsibility of the Group Finance function, who are responsible for preparing the annual audit plan for approval by the Audit Committee. Once approved, the Group Finance function progresses the plan and reports back to the Audit Committee on the outcomes of the individual audits carried out. The Audit Committee, considers on an annual basis whether this arrangement is appropriate for the Company, and in December 2016 concluded that they had confidence in the effectiveness of the way Internal Audit activity is currently organised, but would keep the matter under review.

**Internal controls**

The Committee continued to review a more risk-based approach to the internal control environment and expanded its coverage of the Group's subsidiaries. As part of the plan to focus on the most appropriate areas, the Group Financial Controller and Group Risk & Compliance Counsel met with external risk specialists, to determine how to enhance this risk-based approach to internal audit. This review looked at all areas of the business from Board governance to subsidiaries' day-to-day business activities. This included Board policies, contract and project management, procurement and supply chain management, sales and credit management, compliance and financial reporting. Subsidiary businesses are annually required to self-assess their compliance with Group-wide policies and these assessments were validated by a combination of external auditor and internal auditor activity, thus giving the Committee a balanced overview across the Group, taking into account the level of risk and previous coverage.

At meetings throughout the year, progress against the annual internal audit plan was reviewed and additional areas of concern as determined by the external review were added to the plan as required. Any changes to the approved audit plan were agreed by the Committee. The Committee received an update from the Group Financial Controller and the Group Risk & Compliance Counsel each meeting summarising the findings of the internal audits undertaken and the progress made against actions agreed from previous audits as well as progress made in the assessment and management of risk both at Group and subsidiary level.

Detailed updates on specific areas were provided at the request of the Committee and for the period covered by this report the following were considered:

- Treasury control and processes;
- IT infrastructure and resources update;
- Brexit;
- Modern slavery;
- Appropriateness of the carrying value of goodwill and intangible assets of CA Traffic Limited and France Galva, SA;

- The announcement of the proposed restructuring of the non-US Pipe Supports business and its subsequent treatment in the Group's financial reporting; and
- Third-party whistleblowing hotlines.

For 2017 the Committee is considering an enhanced and expanded internal audit plan that aligns with the Group's identification of risks and mitigating controls, and also assesses conformance against the compliance and policy initiatives that the Group has issued.

**Risk management**
The risk management process is reviewed throughout the year by the Committee to ensure that it is set up to deliver appropriate risk management across the Group. During the year, and following the publication, in September 2014, by the Financial Reporting Council ('FRC') of their Guidance on Risk Management, Internal Control and related Financial Business Reporting the Committee and the Board focused their attention on the Group's 'principal' risks and the risk management process and approved a model for consideration of principal risks that includes the implementation of a Group-wide risk assessment process across all subsidiaries.

This online risk assessment and management process will be further rolled out during 2017, with the Committee particularly focused on risk assessment and mitigation within the subsidiaries. The Risk Committee will provide an effective 'filter' ensuring that appropriate subsidiary risk matters are escalated to the Board and Audit Committee, and that key Group risks are mandated for assessment and mitigation at subsidiary level. The Committee believes that these improvements will further strengthen the way that the business understands and manages risk.

During 2016, the Committee has monitored the key risks on the corporate risk register and during the year received its first reports from the newly formed Risk Committee, together with high-level reports from the subsidiaries. The Risk Committee has monitored, validated and provided a detailed report to the Audit Committee on the Group-wide risk assessment process and the movements in major risks and provided updates on risk mitigation activity undertaken in relation to those risks. A summary of the principal risks and uncertainties to which the business is exposed, can be found on pages 32 to 34.

**Assessment of effectiveness of external audit**
There are a number of areas that the Committee considers in relation to the external auditor: performance in discharging the audit and interim review of the financial statements; independence and objectivity; and reappointment and remuneration.

*External auditor performance*
The external auditor, KPMG, provided the Committee with their plan for undertaking the 2016 year-end audit during the Committee meeting in September 2016. This highlighted the proposed approach and scope of the audit and identified the key issues in detail, being the risk of fraud in revenue recognition; fraud risk from management override of controls; valuation of goodwill and indefinite life assets; and post-retirement benefits obligations. The Committee debated, and appropriately challenged, the basis for these areas 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 included a detailed assessment compiled from the individual businesses and head office finance team feedback and covered, 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 the financial reporting risks facing the Company and its 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 Committee debated this feedback and concluded that KPMG had continued to deliver an effective external audit of the Group's financial controls, performance reporting and risk identification and management.

The external auditor prepared a detailed report of their findings in respect of the 2016 audit. The Committee discussed the issues raised in the report, particularly in relation to the areas highlighted, at their meeting in March 2017. A similar discussion of the external auditor's report, following their informal review, is undertaken by the Committee at the half year. As part of this review the Committee questions and challenges 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 external auditor confirmed its policies on ensuring auditor 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.

To maintain auditor independence the Group has a policy whereby, before any former employee of the external auditor may be employed by the Group, careful consideration is given to whether the independence of the auditor will be adversely affected and approval of the Audit Committee is required.

KPMG have been the Group's auditors since 1999, having been appointed following a competitive tender process. The external auditors are required to rotate the lead partner every five years. Such changes are carefully planned to ensure business continuity without undue risk or inefficiency. The partner responsible for the Group audit completed his fifth year in the year ending 31 December 2015 and a new partner, Darren Turner, recommended by KPMG and approved by the Audit Committee in September 2015, took over for the 31 December 2016 year-end audit.

Following the EU Audit Directive taking effect from June 2016, the Group has therefore adopted a policy that no external auditor appointed after June 2016 can remain in post for longer than twenty years and there will be a tendering process every ten years, and that KPMG, as the currently appointed external auditor, may remain so until the completion of the 2023 annual audit. However the Committee will continue to consider annually the need to tender the audit for audit quality or independence reasons and may seek to tender the audit at anytime prior to the next partner rotation in 2021. There are no contractual obligations in place that restrict our choice of statutory auditor. The Committee also has a 'Non-Audit Services' policy that it approves annually, which restricts the use of the external auditor for activities including compiling accounting records, certain aspects of internal audit, IT consultancy, tax services except in exceptional circumstances, and advice to the Remuneration Committee.

# Audit Committee Report (continued)

For any non-audit services (which are not excluded under the policy), the policy provides for approval, by the Group Finance Director, of expenditure below £50,000, and above that figure, approval by 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 to ensure that the aggregated spend with the external auditor will not exceed 70% of the audit fee.

Where the Committee believes it is cost effective for non-audit services to be provided by the external auditor, 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 2016, there were fees of £343,100 (2015: £298,000) paid to the auditor for non-audit services. The fees paid covered due diligence on acquired businesses and aborted acquisition costs £241,500 (2015: £112,000), pension advice £45,200 (2015: £161,000), assurance reviews £40,100 (2015: £16,000) and restructuring work £16,300 (2015: £nil). Audit fees for 2016 were c.£711,000, representing a 1:2 ratio between non-audit and audit fees (2015: 1:2). Further details of these amounts are included in note 6 of the accounts.

**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, they are able to contact the Group Risk & Compliance Counsel with full details, or if necessary, the Company Secretary or the Chairman of the Audit Committee.

During the year the Committee received reports from the Group Risk & Compliance Counsel on matters reported under the Group's whistleblowing policy. The incidents were reported through the whistleblowing helpline and related to individual employment terms or working relationships with other employees and were resolved by local management. The Committee also, at its meeting in December 2016 approved the engagement of a third-party to provide whistleblowing services to the Group and this new process will be implemented during 2017.

**Fair, balanced and understandable**

The Committee examined the 2016 Annual Report and was specifically tasked by the Board to advise it on whether the 2016 Annual Report is fair, balanced and understandable. Prior to recommending to the Board that they were able to sign the Annual Report and Accounts the Committee reviewed a report received from the management responsible for the preparation of the Annual Report detailing how the report had been compiled.

The Committee considered the information laid out in the Annual Report and concluded:

- That the process by which the allocation of responsibility for the preparation of certain sections of the Annual Report to individuals in the head office team and their review by external advisors was fit for purpose;
- That the information given represented the whole story of the business' performance in 2016 and did not mislead the reader by excluding appropriate bad news. That the disclosures of the Group's business segments and key messages are consistently delivered throughout the document, KPIs are clear and appropriate and linked to both the Group's strategy and remuneration incentives;
- That it was a suitable document to inform both existing and prospective shareholders about the financial and non-financial performance of the business, with the messages delivered in the Directors' Report, including the Operating and Financial Review and the Financial Statements being balanced and consistent and that the report set out a detailed and fair representation of the Group's activities and performance and that certain matters have been identified and discussed between management, the Audit Committee and KPMG in order to correctly disclose the performance, controls and prospects of the Group; and
- That the document allowed shareholders to follow the whole story of the Group's financial and non-financial performance in 2016 giving them a clear and understandable picture of the Group's business model, key drivers and commercial operations.

Following the review, the Committee confirmed that the Annual Report was fair, balanced and understandable and reported to the Board accordingly.

**Summary**

We aim to continue to develop responsibilities for financial reporting and the related governance and assurance and we will continue to make improvements to our risk management processes and approach to our internal control environment.

**Mark Reckitt**
Chairman, Audit Committee

8 March 2017

Images

A strategic partnership between Asset International, Technocover and Lionweld Kennedy Flooring provided prefabricated solutions for Yorkshire Water for their £2m water treatment plant beside the A1 at Catterick, which supplies clean drinking water to 30,000 residents in the area.

# Remuneration Committee Report

**Annette Kelleher**
**Chair, Remuneration Committee**

Dear Shareholder,

I am pleased to present our Directors' Remuneration Report for 2016, including our updated Directors' Remuneration Policy. This is our first Directors' Remuneration Report since I took over the Chair of the Remuneration Committee following the 2016 AGM.

Our previous Policy was adopted at the AGM in 2014 and was strongly supported by shareholders, with more than 97% of the votes in favour of it. In accordance with the applicable legislation, we are required to put the Policy to shareholders at the 2017 AGM, and in preparing to do so the Committee reviewed the Policy and thought through its appropriateness for the Company going forward.

*Our revised Directors' Remuneration Policy*

Having considered the Company's strategy, and carried out a review of the remuneration arrangements currently in place, we believe the existing remuneration framework continues to effectively support the delivery of the business strategy and the continued creation of shareholder value. Therefore, we are not proposing any structural changes to our Policy, however we propose to modify some elements of the Policy to support the business needs and succession planning over the next three years.

I am delighted to report that since our current Policy was approved three years ago the Company has grown in terms of scale and complexity, both in the UK and internationally. This has impacted our results and value very positively, moving from a market capitalisation of circa £430 million in May 2014 to circa £942 million in December 2016, and we are very pleased to now be part of the FTSE 250.

Recognising this growth, we realise there are certain shareholder expectations of us and we have accounted for these in our proposals. We plan to include deferral in our annual bonus arrangements, as well as a post vesting holding period in our long term incentive plans. In addition, we are also increasing shareholding requirements significantly for our Executive Directors, from 100% to 200% of base salary. We believe this will contribute further to robust shareholder alignment.

We have formally introduced malus and clawback into both the annual bonus and long term incentive plans.

In addition, for new Executive Directors, we will be re-setting our pension arrangements to take into account the alignment with the wider workforce.

On page 68, we have summarised how our Policy supports the Group's strategic drivers. The proposed Policy changes are summarised on page 77, and the full Policy is on pages 77 to 84.

*2016 performance and remuneration*

Against a backdrop of uncertain political and macro-economic conditions the Company has once again recorded record results. More details about the Company's operational and financial performance can be found on pages 15 to 26.

That performance is reflected in the incentive remuneration outturns for 2016. More information in relation to the 2016 annual bonus is included on page 70. However, in summary based on the Company's performance in 2016, the Executive Directors earned bonuses of 100% of salary - more information is given on page 70.

The performance period for the first awards granted under our new LTIP approved at the 2014 AGM ended on 31 December 2016. Two criteria were applied to these awards, 50% being a performance condition based on TSR growth compared to the FTSE SmallCap and 50% being growth in UEPS. Following an assessment of the performance conditions, the awards vested at 100% - more information is given on page 70.

Our usual practice is to review Executive Directors' salaries on an annual basis, with increases typically in line with the increases awarded to the wider workforce. For 2017, we are following this principle and Executive Director salary increases are summarised on page 67.

During 2016 the scope of Mark Pegler's role was significantly increased as well as his role of Group Finance Director, he took on full managerial and operational responsibility for the UK Utilities division (comprising Asset International Limited, Birtley Group Limited, Barkers Engineering Limited, Lionweld Kennedy Flooring Limited and the recently acquired Technocover Limited) which represent in aggregate approximately 20% of the Group's total revenue and EBIT. We consulted with a number of our shareholders prior to increasing Mark's salary to £335,000 in July 2016 in recognition of this increase in responsibilities.

The Non-executive Chairman's fee has been increased by approximately 3% with effect from 1 January 2017. Details on other Non-executive fees are set out on pages 73 and 76.

*Looking ahead to 2017*
In 2017 we will apply the new Policy. Subject to the approval of shareholders at the 2017 AGM, our approach to remuneration for Executive Directors will be as follows:

| | |
|---|---|
| **Salary** | Executive Directors' salaries will be increased by 3%, in line with the range of increases awarded to the wider workforce:<br><br>**2016 Salary** / **2017 Salary**<br>Derek Muir: £478,500 / £493,000<br>Mark Pegler: £335,000* / £345,100<br><br>* Following the increase to reflect additional responsibilities. |
| **Bonus** | The maximum award for 2017 will remain at 100% of salary, subject to the achievement of stretching performance conditions based on growth in UEPS, profit, operating margin and ROIC (with equal weightings). Any bonus earned will be paid in cash, but in line with the new Policy clawback provisions will apply. |
| **LTIP** | 2017 awards will be limited to 125% of salary. A two year holding period will apply in respect of any shares that vest.<br><br>Performance measures will continue to be based on UEPS growth and relative TSR (with equal weightings). However, as the Company is now part of the FTSE 250, the comparator group for the purpose of the TSR element will be the FTSE 250 index (excluding investment trusts and financial services companies). |
| **Shareholding guidelines** | In accordance with the new Policy, the shareholding guideline will be increased to 200% of salary for Executive Directors. |
| **Recovery provisions** | The LTIP and annual bonus will be subject to pre-vesting malus and post-vesting clawback provisions, which have been formally included in the new Policy. |

I hope you find this Directors' Remuneration Report helpful in explaining our approach to Executive remuneration and how that approach supports and reflects our performance. I would be delighted to answer any questions that you might have, and hope you will be supportive of our new Policy at the 2017 AGM.

**Annette Kelleher**
Chair, Remuneration Committee

8 March 2017

# Directors' Remuneration Report

**Policy and strategy**

The Company's strategy is explained in detail on pages 8 to 13. The Company's Remuneration Policy for the year ended 31 December 2016, which can be found in complete form on the Company's website, was approved at the Annual General Meeting ('AGM') on 14 May 2014, and permits the payment of base salary, benefits and pension in order to recruit and retain Executive Directors. Additional variable amounts of pay in respect of annual bonuses and Long-Term Incentive Plans ('LTIP') are made to reward achievement of the annual financial and/or strategic business objectives and the achievement of higher returns for shareholders in the longer term, as indicated below.

The Company's Remuneration Policy setting out the forward-looking remuneration policy for the next three years will be subject to a binding vote at the Annual General Meeting and is set out on pages 77 to 84.

<table>
<tr><th>Strategic drivers</th><th colspan="2">Measured by annual bonus targets of:</th><th>Leads to:</th><th>Measured by Long-Term Incentive Plan targets of:</th></tr>
<tr><td>Organic revenue growth</td><td>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.<br><br>Operating margins are an integral measure of the Group's success. Our target operating margin for a business unit is 10%, although a lower margin profile may be acceptable if the business' return on capital employed is above 20%.</td><td>UEPS<br>ROIC<br>Operating margins</td><td rowspan="5">Shareholder value</td><td rowspan="5">50% of any award is based on growth in the absolute UEPS, over the three-year performance period;<br>and<br>50% of the award is based on TSR performance over the three-year performance period relative to an appropriate comparator group.</td></tr>
<tr><td>Geographical diversification</td><td>The international diversity of the markets in which we operate continues to underpin our performance.</td><td>Budgeted profit</td></tr>
<tr><td>Entrepreneurial culture</td><td>We encourage an entrepreneurial culture in our businesses ensuring that they are agile and responsive to changes in their competitive environment.</td><td>Budgeted profit<br>ROIC<br>Operating margins</td></tr>
<tr><td>Active portfolio management</td><td>Our strategic objective is to develop more sustainable businesses in each of our chosen sectors through organic and acquisitive growth.</td><td>Budgeted profit</td></tr>
<tr><td>Sustainable profitable growth</td><td>Our objective is to deliver balanced profitable growth through both organic growth and acquisition opportunities.</td><td>UEPS</td></tr>
</table>

The extent to which payments and awards have been made under the Annual Bonus and LTIP arrangements can be found on page 70.

**Committee activity**

*The Committee*

During the year, and the period to the date of this report, the Remuneration Committee (the 'Committee') consisted of Clive Snowdon, Chairman, and following his retirement Annette Kelleher, together with Jock Lennox and Mark Reckitt. For more details see below. All members of the Committee are Non-executive Directors of the Company and are regarded as independent. They do not participate in any form of performance related pay or pension arrangements.

| | |
|---|---|
| Clive Snowdon | Resigned - 17 May 2016 |
| Annette Kelleher | Appointed Chairman - 17 May 2016 |
| Jock Lennox | |
| Mark Reckitt | Appointed - 1 June 2016 |

During this time the Committee:

- Approved the annual bonus calculation and payment for the financial years 2015 and 2016 – further information is given on page 70;
- Measured the performance conditions of the Company's LTIP in respect of awards granted in 2013, confirming that 95.8% of the TSR portion and 100.0% of the UEPS portion of the original award vested;
- Approved grants under the Company's LTIP;
- Approved an increase in salary of 9% to £335,000 for M Pegler as he took full managerial and operational responsibility for the UK Utilities division of the Group effective 1 July 2016;
- Reviewed the Company's Remuneration Policy approved by shareholders at the AGM in May 2014, and considered changes to this Policy. A new Remuneration Policy will be put before members at the Company's AGM in May 2017;

- Measured the performance conditions of the Company's LTIP in respect of awards granted in 2014, confirming that 100% of the Total Shareholder Return ('TSR') portion of the original award would vest and 100% of the UEPS portion of the original award would vest – further information is given on page 70;
- Approved the award of a new SAYE scheme, to run from December 2016 for a three or five year period. Options to be awarded with the maximum discount of 20% allowable under HMRC rules;
- Reviewed the base salaries of the Executive Directors and approved a 3% increase, with effect from 1 January 2017, in line with the increases awarded to the wider workforce;
- Approved the annual bonus performance measures and targets for 2017;
- Reviewed and approved the Company's Annual Remuneration Report for inclusion in the Company's 2016 Annual Report and Accounts; and
- Considered and approved the Committee's terms of reference.

The terms of reference for the Remuneration Committee can be found at the Group's website www.hsholdings.com.

*Advisors*

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 were appointed by the Committee and provided remuneration advice, share scheme advice, pension advice and corporation tax advice to the Group. Their fees for providing remuneration advice to the Committee amounted to £30,000 for the year ended 31 December 2016. The Committee assesses from time to time whether this appointment remains appropriate or should be put out to tender and takes into account the Remuneration Consultants Group Code of Conduct when reviewing Deloitte's ongoing appointment. The Chief Executive Officer also attends Remuneration Committee meetings to provide advice and respond to specific questions, but he is not in attendance when his own remuneration is discussed, nor is the Group Finance Director. The Company Secretary acts as Secretary to the Remuneration Committee.

*Statement of voting at the last AGM*

The Group remains committed to on-going shareholder dialogue and takes an active interest in voting outcomes. The Company's Remuneration Policy was put before members at our AGM in May 2014 and was approved by 97.73% of shareholders.

| % of votes | For | Against | Withheld votes |
|---|---|---|---|
| Remuneration Policy Report | 97.73% | 2.00% | 329,276 votes were withheld in relation to this resolution (<0.5%) |

At the Company's AGM in May 2016 the Annual Remuneration Report was approved by 92.39% of shareholders

| % of votes | For | Against | Withheld votes |
|---|---|---|---|
| Annual Remuneration Report | 92.39% | 7.61% | 865,744 votes were withheld in relation to this resolution (<0.5%) |

**The following parts of the Remuneration Report are subject to audit other than elements explaining the application of the 2017 policy**
**How the Remuneration Policy was implemented in 2016 – Executive Directors**

*Single remuneration figure for 2016*

| | Base Salary(1) | Taxable Benefits(2) | Annual Bonus(3) | LTIP (vested in respect of performance period ended 2016)(4) | Pension | Total 'Single Figure' 2016 |
|---|---|---|---|---|---|---|
| D W Muir | 478,500 | 49,457 | 478,500 | 1,008,377 | 119,625 | 2,134,459 |
| M Pegler | 320,500 | 21,630 | 320,500 | 645,051 | 80,125 | 1,387,806 |
| Total | 799,000 | 71,087 | 799,000 | 1,653,428 | 199,750 | 3,522,265 |

*Single remuneration figure for 2015*

| | Base Salary(1) | Taxable Benefits(2) | Annual Bonus(3) | LTIP (vested in respect of performance period ended 2015) | Pension | Total 'Single Figure' 2015 |
|---|---|---|---|---|---|---|
| D W Muir | 464,500 | 52,114 | 464,500 | 796,305 | 116,125 | 1,893,544 |
| M Pegler | 297,200 | 21,000 | 297,200 | 509,062 | 74,300 | 1,198,762 |
| Total | 761,700 | 73,114 | 761,700 | 1,305,367 | 190,425 | 3,092,306 |

(1) The amount of base salary received in the year.

(2) The taxable value of benefits that can be received in the year: membership of the Company's healthcare scheme, income protection scheme, personal accident insurance, car (or cash allowance), ill health and life assurance. A total of £20,898 (2015: £24,400) was paid to D W Muir in the form of subsistence which is subject to PAYE and NIC deduction.

(3) Annual Bonus is the value of the bonus earned in respect of the financial period under review. A description of how the bonus pay out was determined can be found on page 70.

(4) LTIP is the value of LTIPs vested in respect of a performance period ended in 2016. A description of the basis on which awards vested and the value can be found on page 70.

# Directors’ Remuneration Report (continued)

*Salary*
Basic salaries for Executive Directors are reviewed by the Committee on an annual basis or when a material change of responsibility occurs. In July 2016 the Committee approved an increase in salary of 9% to £335,000 for Mark Pegler as, in addition to his responsibilities as Group Finance Director, he took full managerial and operational responsibility for the UK Utilities division of the Group. This represented a material change in Mark’s responsibilities as this division currently includes five businesses: Asset International Limited, Birtley Group Limited, Barkers Engineering Limited, Lionweld Kennedy Flooring Limited and the recently acquired Technocover Limited.

*Benefits*
The taxable value of benefits that can be received during the year are: membership of the Company’s healthcare scheme, income protection scheme, personal accident insurance, car (or cash allowance), ill health and life assurance. D W Muir receives an amount for subsistence which is subject to PAYE and NIC deductions.

*2016 annual bonus*
Each Executive Director was eligible to earn a bonus for 2016 of up to 100% of his base salary. The extent to which the bonus was earned is summarised below. As in previous years, the Committee is disclosing the bonus outturns, and will disclose further details as to the range of performance targets (i.e. as shown below in relation to the 2015 bonus) in next year’s report, provided those performance targets are no longer considered commercially sensitive.

| | Maximum pay out per performance measure | Actual performance [1] | Actual pay out per performance measure |
|---|---|---|---|
| Growth in UEPS | 25% | 22% | 25% |
| Underlying profit before tax (at budgeted exchange rates) | 25% | £64.8m | 25% |
| Underlying operating margins | 25% | 13.6% | 25% |
| The delivery of specific strategic objectives[1] | 25% | completed[2] | 25% |
| Total | 100% | | 100% |

[1] The strategic objectives related to the restructuring of the non-US Pipe Supports business and the actual financial performance metrics detailed above exclude the restructured non-US Pipe Supports business.

[2] The restructuring of the non-US Pipe Supports businesses was completed ahead of target timeframes and cost (see page 19 for more details).

*2015 annual bonus*
The performance conditions for the year ended 31 December 2015 applied in equal measure and the targets, performance levels achieved and bonuses earned by reference to that performance are shown below:

| | | Target performance | | Stretch performance | | | |
|---|---|---|---|---|---|---|---|
| | Maximum pay out per performance measure (% of base salary) | 2015 on target performance | Bonus payable for on target performance (% of base salary) | 2015 stretch performance | Bonus payable for stretch performance (% of base salary | Actual performance | Actual pay out per performance measure (% of base salary |
| Growth in UEPS | 25% | 11% | 15% | 15% | 25% | 15% | 25% |
| Underlying profit before tax | 25% | £49.3m | 15% | £51.8m | 25% | £51.8m | 25% |
| Underlying operating margins | 25% | 11.1% | 15% | 11.6% | 25% | 12.0% | 25% |
| Achievement of budgeted internal ROIC | 25% | 14.8% | 15% | 15.3% | 25% | 15.3% | 25% |
| Totals | 100% | | 60% | | 100% | | 100% |

*LTIP awards vesting in respect of 2016*
Each Executive Director was granted an LTIP award on 20 May 2014 which vested subject to the achievement of performance conditions based on absolute UEPS growth over the three year performance period ended 31 December 2016 (as regards 50% of the award) and TSR relative to the FTSE SmallCap excluding investment trusts (as regards 50% of the award). The extent to which the awards vested and the value included in the single figure of remuneration table as a result is set out below.

| Performance targets | | Vesting | Actual performance | Actual vesting | | Shares subject to award * | Vesting shares | Vested value ** |
|---|---|---|---|---|---|---|---|---|
| Threshold | 15% UEPS growth<br>Median TSR | 25% | UEPS growth 63% | UEPS: 100% of maximum | D W Muir | 80,752 | 80,752 | £931,878 |
| Maximum | 30% UEPS growth<br>Upper quartile TSR | 100% | TSR - ranked 2 | TSR: 100% of maximum | M Pegler | 51,656 | 51,656 | £596,110 |

* Each of Messrs Muir and Pegler was also granted a tax qualifying option over 5,371 shares at an exercise price of 558.5p per share. On exercise of the option, the number of shares in respect of which the LTIP can be exercised will be reduced to reflect any gain made on the exercise of the option. Accordingly, the value of the option is disregarded for the purposes of this calculation.

** The value of the shares is calculated by reference to the price of a share on 2 March 2017, being £11.54p. In accordance with the rules of the LTIP, each of Messrs Muir and Pegler is entitled to a further benefit by reference to dividends paid over the period from grant to vest, amounting to £76,499 in the case of D W Muir and £48,941 in the case of M Pegler.

*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 2016 | £126,297 |
| Transfer value of accrued pension at 31 December 2016 | £4,452,000 |
| Change in accrued pension of 2015 excluding increase for inflation | £nil |
| Normal retirement date | 6 July 2020 |

The increase in the transfer value calculated for D W Muir (from £3,617,000 as at 31 December 2015) is mainly due to a change in market conditions between 31 December 2015 and 31 December 2016 i.e. a reduction in corporate bond yields which has reduced the discount rate assumption and an increase in inflation expectations which has increased the inflation assumptions used. The increase is also partly due to D W Muir now being one year closer to retirement, leading to an increase in the transfer value due to the unwinding of the discount rate.

As noted last year for the 2015 year end accounts, benefit accrual ceased in 2011 and D W Muir 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 DB scheme in 2016. 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 DB Scheme; and
- already had the associated cost of accrual reported in the Group's accounts in previous years under IAS19.

In addition, these Regulations also require information on the aggregate pension input amount across all pension schemes in which the Director accrues benefits, calculated using a specific method, broadly in line with Section 229 of the Finance Act 2004 (a) for the last 5 financial years (ultimately increasing to the last 10 years). The figures are:

| Year Ending | Pension input amount £000s |
|---|---|
| 31/12/2016 | nil |
| 31/12/2015 | nil |
| 31/12/2014 | nil |
| 31/12/2013 | nil |
| 31/12/2012 | nil |
| 31/12/2011 | 99 |
| 31/12/2010 | 26 |
| 31/12/2009 | 67 |

As D W Muir ceased accrual in the Executive scheme during 2011, the pension input amounts in respect of the scheme for the years ending 31 December 2012, 31 December 2013, 31 December 2014 and 31 December 2015 are £nil.

*Pension contributions*
D W Muir receives a cash payment in lieu of any pension contribution, equal to 25% of his base salary amounting to £119,625 for the year ended 31 December 2016 (2015: £116,125).

M Pegler receives a cash payment in lieu of any pension contribution , equal to 25% of his base salary amounting to £80,125 for the year ended 31 December 2016 (2015: £74,300).

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 2017 that was operated in 2016.

# Directors' Remuneration Report (continued)

*Share awards granted during the year*

During the year to 31 December 2016 the Committee approved awards to the Executive Directors under the LTIP 2014 rules as follows:

| | Date of award | Type of award | Number of shares | Maximum face value of award[1] | Threshold vesting | Performance period |
|---|---|---|---|---|---|---|
| D W Muir | 17 March 2016 | nil cost option | 55,371 | £478,500 | 25% | 1 Jan 2016 – 31 Dec 2018 |
| M Pegler | 17March 2016 | nil cost option | 35,410 | £306,000 | 25% | 1 Jan 2016 – 31 Dec 2018 |

[1] Calculated by reference to a share price of £8.6417, being the average of the mid-market prices for the three trading days prior to the grant date and reflecting an award of 100% of base salary.

The performance conditions for these awards are:

| Vesting amount | Absolute UEPS growth over three years (50% of each award) | TSR* (50% of each award) |
|---|---|---|
| 0% Vesting | Less than 15% | Below median |
| 25% Vesting | 15%* | Median** |
| Maximum vesting | 30%* | Upper quartile** |

* Straight line vesting will apply between these two points.

** Relative to the FTSE SmallCap (excluding investment trusts).

*Share options*

The interests of Directors, who served during 2016, in options for ordinary shares in the Company, granted under the Company's sharesave schemes, together with options granted and exercised during 2016, are included in the following table:

| Executive | Grant Price | Awards held 31 December 2015 | Granted during the year | Exercised during the year | Awards held 31 December 2016 | Period that option is exercisable From | To |
|---|---|---|---|---|---|---|---|
| D W Muir | 2.38 | 4,855 | - | 4,855 | - | 1 January 2016 | 1 July 2016 |
| | 3.55 | 1,064 | - | - | 1,064 | 1 June 2018 | 1 December 2018 |
| | 4.29 | 3,496 | - | - | 3,496 | 1 August 2019 | 1 February 2020 |
| | 5.60 | 2,003 | - | - | 2,003 | 1 January 2021 | 1 July 2021 |
| M Pegler | 3.55 | 4,225 | - | - | 4,225 | 1 June 2018 | 1 December 2018 |
| | 4.29 | 2,097 | - | - | 2,097 | 1 August 2017 | 1 February 2018 |

*Statement of Executive Directors' shareholding and interest in shares*

| Executive | Type | Owned outright | Vested but unexercised | Unvested: Subject to performance conditions | Unvested: Not subject to performance conditions | Total as at 31 December 2016 |
|---|---|---|---|---|---|---|
| D W Muir | Shares[1] | 246,221 | n/a | 208,928[4] | n/a | 455,149 |
| | Market value options[2] | n/a | - | 5,371 | - | 5,371 |
| | SAYE options[3] | n/a | - | n/a | 6,563 | 6,563 |
| M Pegler | Shares[1] | 60,407 | n/a | 133,649[4] | n/a | 194,056 |
| | Market value options[2] | n/a | - | 5,371 | - | 5,371 |
| | SAYE options[3] | n/a | - | n/a | 6,322 | 6,322 |

[1] Under the current remuneration policy 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 - see table opposite.

[2] The Market Value options were granted under the tax-advantaged part of the ESOS and subject to the same performance conditions as the LTIP award. The ESOS options have an exercise price of 558.5p per share (being the market value on the date of grant). If the ESOS option is exercised at a gain then LTIP awards will be forfeited to the same value to ensure that the total pre-tax value delivered to participants remains unchanged. Once vested the options are exercisable until the tenth anniversary of the date of grant.

[3] A breakdown of SAYE awards is provided above.

[4] On 2 March 2017 the Remuneration Committee approved the vesting of 100% of the 2014 LTIP award, being 80,752 and 51,656 shares for D W Muir and M Pegler respectively.

*Shareholding guidelines*

| | D W Muir | M Pegler |
|---|---|---|
| Shareholding requirement | 100%* | 100%* |
| Current shareholding as at 31 December 2016 | 246,221 | 60,407 |
| Current value (based on share price on 31 December 2016) | £2,949,728 | £723,676 |
| Current % of salary | 616% | 226% |

* With effect from the 2017 AGM and subject to the approval of the new Directors' Remuneration Policy, this will increase to 200% of salary.

These figures include those of their spouse or civil partner and infant children, or stepchildren. At the date of this report, D W Muir and M Pegler are interested in an additional 46,312 and 29,625 shares respectively, being the net amount of those shares vested on 2 March 2017 in respect of the 2014 LTIP award and D W Muir held an extra 360 shares received on 6 January 2017 through the Company's Dividend Re-Investment Plan ('DRIP').

*Non-executive Director shareholding*

| Director | 2016 | 2015 |
|---|---|---|
| W H Whiteley | 22,100 | 22,100 |
| J F Lennox | 5,000 | 5,000 |
| A M Kelleher | 2,164 | 2,164 |
| M J Reckitt | 4,000 | - |

These figures include those of their spouses, civil partners and infant children, or stepchildren. There was no change in these beneficial interests between 31 December 2016 and 8 March 2017. The Non-executive Directors do not hold any share awards or share options.

Non-executive Directors do not have a shareholding guideline but they are encouraged to buy shares in the Company.

*Loss of office payments and payments to former directors*
There were no loss of office payments or payments made to past Directors during the year ended 31 December 2016.

*Transactions with Directors*
There were no material transactions between the Group and the Directors during 2016.

**How the Remuneration Policy was implemented in 2016 – Non-executive Directors**
*Non-executive Director single figure comparison*

| Director | Role | Board Fees | Taxable Benefits | Other Fees | Annual Bonus | LTIP | Pension | Total 'Single Figure' 2016 | Total 'Single Figure' 2015 |
|---|---|---|---|---|---|---|---|---|---|
| W H Whiteley | Chairman | 143,170 | - | - | - | - | - | 143,170 | 139,000 |
| C J Snowdon[(1)] | Senior Independent Director and Remuneration Committee Chairman | 21,875 | - | - | - | - | - | 21,875 | 51,100 |
| J F Lennox[(2)] | Senior Independent Director, and Audit Committee Chairman | 52,899 | - | - | - | - | - | 52,899 | 50,450 |
| A M Kelleher[(3)] | Remuneration Committee Chairman | 49,161 | - | - | - | - | - | 49,161 | 44,800 |
| M J Reckitt[(4)] | Audit Committee Chairman | 26,917 | - | - | - | - | - | 26,917 | - |
| Total | | 294,022 | - | | - | - | - | 294,022 | 285,350 |

(1) Clive Snowdon, who resigned as a Director of the Company on 17 May 2016, received a base fee of £19,227 plus an additional £663 as the Senior Independent Director and £1,985 as Chairman of the Remuneration Committee.

(2) Jock Lennox, who was appointed Senior Independent Director on 17 May 2016 and resigned as Chairman of the Audit Committee on 17 November 2016, received a base fee of £46,144 plus an additional £1,062 as the Senior Independent Director and £5,693 as Chairman of the Audit Committee.

(3) Annette Kelleher received a base fee of £46,144 and was appointed Chair of the Remuneration Committee on 17 May 2016. As Chair she received an additional £3,017.

(4) Mark Reckitt, who was appointed to the Board on 1 June 2016, received a base fee of £26,917. He was appointed Chairman of the Audit Committee on 17 November 2016, for which he is due to receive £728.

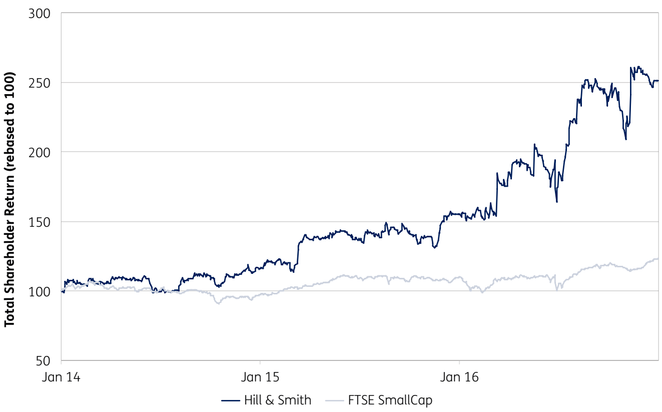
The Non-executive Directors do not have service contracts, only letters of appointment, and fees for Non-executive Directors are determined by the Executive Directors in light of market best practice and with reference to the time commitment and responsibilities associated with the role. The Non-executive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

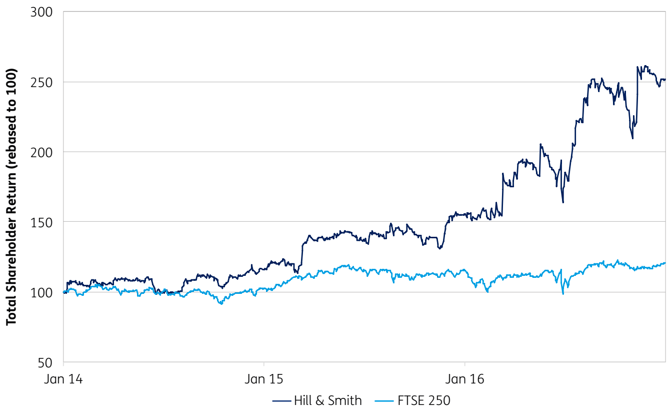
# Directors' Remuneration Report (continued)

**The following parts of the Remuneration Report are not subject to audit**

*TSR performance graph*

The following graphs show the TSR performance of the Company since January 2014 against the FTSE SmallCap index and the FTSE 250. TSR was calculated by reference to the growth in share price, as adjusted for reinvested dividends.




*Changes in remuneration of the Chief Executive Officer compared to the wider workforce*

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 between 2015 and 2016.

| Percentage increase | Chief Executive Officer | Wider workforce |
|---|---|---|
| Salary | 3.0% | 4.8% |
| Taxable benefits | -5.1% | - |
| Annual bonus | 3.0% | 13.0% |

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.

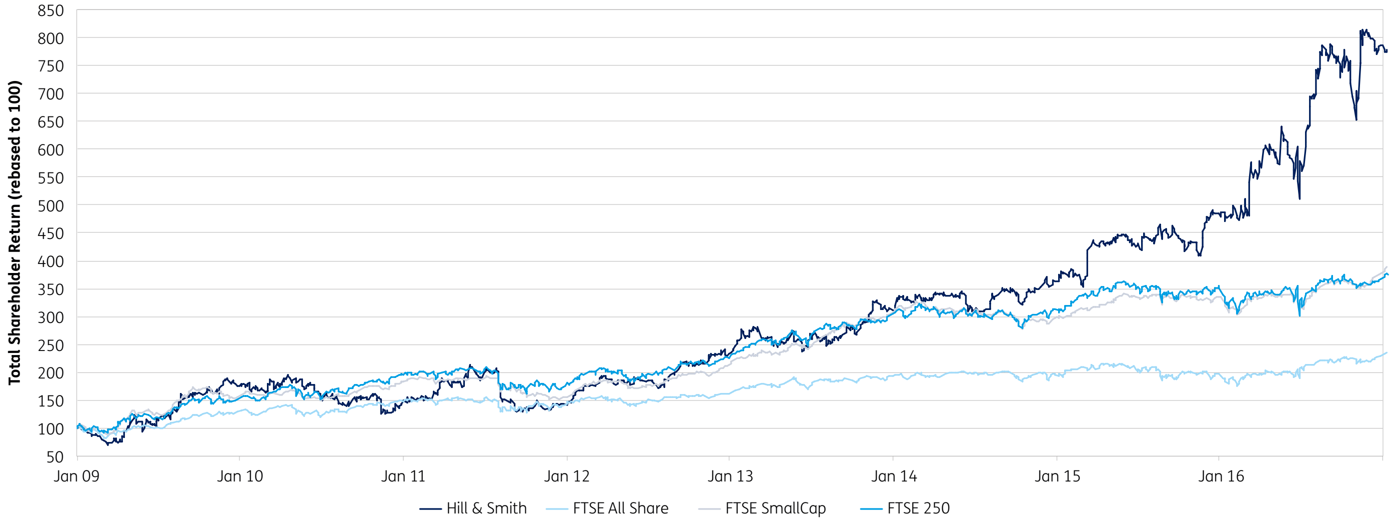
*Relative importance of spend on pay*

| | 2016 | 2015 | % change |
|---|---|---|---|
| Dividends paid in respect of the financial year | £20.8m | £16.1m | 29.2% |
| Overall spend on pay | £140.6m | £121.8m | 15.4%[1] |

[1] This includes a 3% increase in the average number of people employed by the Group. See note 4 to the accounts on page 105.

*Chief Executive remuneration pay compared to performance*

The graph opposite shows the TSR performance of the Company over the eight year period to 1 January 2017 compared to the appropriate FTSE indices.




The table below summarises the Chief Executive's single figure for the past eight years and outlines the proportion of annual bonus paid as a percentage of the maximum opportunity and the proportion of LTIP awards vesting as a percentage of the maximum opportunity. The annual bonus is shown based on the year to which performance related and the LTIP is shown for the last year of the performance period.

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|
| Chief Executive's single figure (£'000) | 1,059 | 851 | 690 | 941 | 1,084 | 1,835 | 1,894 | 2,034 |
| Annual bonus (% of maximum) | 95 | 14 | 30 | 85 | 16 | 100 | 100 | 100 |
| LTIP vesting (% of maximum number of shares) | 100 | 100 | - | - | 50 | 92.7 | 97.9 | 100 |

*Outside appointments*
Executive Directors may accept one external appointment as a Non-executive Director of another company and retain any related fees paid to them, provided that such external appointment is not considered by the Board to prevent or reduce the ability of the Executive Director to perform their 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.

*Service contracts and loss of office payments*
The Company's policy in relation to contractual terms on termination, and any payments made, is that they should be fair to the individual, the Company and shareholders. In the case of termination by the Company the Director will be given twelve months' notice, including where there is a change of control. The Director will give not less than six months' notice, except where there is a change of control when it will be ninety days. Where a Director receives a payment in lieu of notice this will include base salary and benefits, to which the Executive Director is entitled (including any bonus accrued up until the date of termination – notwithstanding that the date of termination may be prior to the date the bonus is actually paid). The Remuneration Committee also has discretion to incorporate payments under the performance-linked elements of the package under 'good leaver' scenarios. More details can be found in the Company's Remuneration Policy on the Company's website.

**How the Remuneration Policy will be implemented for 2017 – Executive Directors**
*Salary*
Base salaries were reviewed in December 2016 and as from 1 January 2017 are:

| | |
|---|---|
| Chief Executive | £493,000 |
| Finance Director | £345,100 |

This represents an increase of 3% which is in line with the increase to other employees within the Group. Salaries will next be reviewed in December 2017 for the financial year 2018.

# Directors' Remuneration Report (continued)

*Annual bonus*
The annual bonus opportunity for 2017 will remain unchanged as follows:

| | |
|---|---|
| Chief Executive | › Maximum opportunity of 100% of base salary<br>› Paid in cash |
| Finance Director | › Maximum opportunity of 100% of base salary<br>› Paid in cash |

The Committee can disclose that for the 2017 financial year the annual bonus targets will be equally weighted towards:

- Growth in UEPS;
- Budgeted profit;
- Operating margins; and
- Achievement of budgeted internal ROIC (at budgeted exchange rates).

The Remuneration Committee will determine an appropriate performance range for each measure used.

The Committee considers that the performance targets are commercially sensitive and so will not be disclosed prospectively. However the Committee will disclose performance against these measures and their targets retrospectively in future reports on a similar basis to the disclosures on page 70 of the 2015 and 2016 bonuses.

*Share plans*
The Remuneration Policy being put before members at the Company's AGM, will, if approved, permit the Committee to grant awards under the LTIP up to a maximum of 150% of base salary. If approved the Committee intends to make an award in 2017 in respect of the performance period
1 January 2017 – 31 December 2019, of 125% of base salary, subject to the following performance conditions:

| Vesting amount | Absolute UEPS growth over three years (50% of the award) | TSR* (50% of the award) |
|---|---:|---:|
| 0% Vesting | Less than 15% | Below median |
| 25% Vesting | 15%** | Median* |
| Maximum vesting | 30%** | Upper quartile* |

* Relative to the FTSE 250 (excluding investment trusts and financial services companies).

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

*Benefits*
The Company will continue to provide benefits of membership of the Company's healthcare scheme, income protection scheme, personal accident insurance, car (or cash allowance), ill health and life assurance.

*Pensions*
The Company will continue to make a cash payment to D W Muir and M Pegler in lieu of pension contributions, equal to 25% of their base salary.

**How the Remuneration Policy will be implemented for 2017 – Non-executive Directors**
*Fees*
The fees of Non-executive Directors shall be reviewed regularly to ensure they are in line with the market and so the Company can attract and retain individuals of the highest calibre. Any change to these fees will be approved by the Board as a whole, following a recommendation from the Chief Executive. In December 2016, the Board approved a 3% increase in the base fees as from 1 January 2017 and, having benchmarked other fees, increased these to £7,500.

| | 2016 | 2017 |
|---|---:|---:|
| Chairman | £143,170 | £147,500 |
| Non-executive Director | £46,144 | £47,500 |
| Senior Independent Director | £1,725 | £7,500 |
| Audit Committee Chairman | £5,820 | £7,500 |
| Remuneration Committee Chairman | £4,764 | £7,500 |

# Remuneration Policy Report

**Directors' remuneration policy report (not audited)**
This part of the Report sets out the Directors' remuneration policy, which, subject to shareholder approval at the 2017 AGM, shall take binding effect from the close 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.

The Company's Directors' Remuneration Policy was first approved at the 2014 AGM (with over 97% votes in favour of the policy) and took effect from the close of that meeting. The new policy set out below will, subject to shareholder approval, apply from the close of the 2017 AGM. There is no substantial change to the policy or overall remuneration structure. The changes proposed finesse the current policy and are intended to ensure that the Company has sufficient flexibility to support the business needs, retention and recruitment over the next three years. In summary, the changes made in the proposed policy as compared to the Policy approved at the 2014 AGM are set out below.

- Flexibility has been added to increase the annual bonus opportunity from 100% of salary to 125% of salary and the annual LTIP opportunity from 100% of salary to 150% of salary – notwithstanding this flexibility, the annual bonus opportunity for 2017 will remain at 100% of salary and LTIP awards for 2017 will be granted at the level of 125% of salary;
- Where a bonus opportunity in excess of 100% of salary is offered, a two year deferral will apply to a proportion of the bonus (of up to 20% of the bonus earned);
- Where an LTIP opportunity in excess of 100% of salary is offered (including as regards the 2017 awards), a two year holding period will apply to any vested shares;
- Once the annual LTIP opportunity awarded increases above 100% of salary, the shareholding guideline applied to the Executive Directors will increase to 200% of salary;
- We have formally included pre-vesting malus and post-vesting clawback in the policy for both annual bonus and LTIP awards; and
- We have reduced the maximum pension contribution (or cash allowance) for any newly appointed Executive Director to 20% of salary.

Other minor amendments have been made to the policy as a consequence of the changes referred to above or to aid its operation.

*Policy table for Directors*

| | Purpose and link to strategy | Operation | Maximum opportunity | Performance metrics |
|---|---|---|---|---|
| **Base salary** | To recruit and retain Executive Directors.<br>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.<br>Salaries are determined by the Remuneration Committee taking into account a range of factors, which may include but are not limited to:<br>› the size and scope of the role;<br>› individual and Group performance;<br>› the range of salary increases (in percentage terms) applied to the wider workforce;<br>› total organisational salary budgets; and<br>› pay levels for comparable roles in companies of a similar size and complexity.<br>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 awarded to other employees in the Group (in percentage of salary terms). However, salary increases may be above this level in certain circumstances as required, for example to reflect:<br>› increase in scope or responsibility;<br>› performance in role; or<br>› an Executive Director being moved to market positioning over time.<br>No maximum salary opportunity has been set out in this policy report to avoid setting expectations for Executive Directors. | Not applicable. |
| **Benefits** | To recruit and retain Executive Directors.<br>Ensures the overall package is competitive.<br>Participation in the SAYE promotes staff alignment with the Group and a sense of ownership. | Executive Directors are entitled to various 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).<br>Other benefits may be provided based on individual circumstances. Such benefits may include but are not limited to expatriate, housing, relocation allowances or overseas tax support.<br>The SAYE is a HM Revenue & Customs approved monthly savings scheme facilitating the purchase of shares at a discount as permitted by the applicable legislation (currently up to a maximum discount of 20%). SAYE options may be exercised in the event of a change of control to the extent permitted by the rules of the scheme, which do not provide discretion for the Remuneration Committee in respect of the treatment on change of control. | 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.<br>SAYE scheme contribution as permitted in accordance with the relevant tax legislation. | Not applicable. |

# Remuneration Policy Report (continued)

| | Purpose and link to strategy | Operation | Maximum opportunity | Performance metrics |
|---|---|---|---|---|
| **Pension** | To recruit and retain Executive Directors.<br>To provide post-retirement benefits and reward sustained, long-term contribution to the performance of the Group. | The Group may make payment either into a defined contribution plan or as a separate cash allowance.<br>Group contributions or cash allowances 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 allowance) are up to a maximum of 25% of base salary for current Executive Directors.<br>For any newly appointed executive director, the maximum contribution rate (or cash allowance) would be up to a maximum 20% of base salary.<br>The Company closed, with effect from October 2011, its defined benefits pension scheme to future accrual. D W Muir who is a deferred member will continue to receive benefits only in accordance with the terms of this scheme. | Not applicable. |
| **Annual bonus** | Rewards the achievement of annual financial targets and/or the delivery of strategic/individual objectives. | Performance measures and targets are reviewed and set annually by the Remuneration Committee.<br>Bonus pay out is determined by the Remuneration Committee after the year end, based on audited performance, where appropriate, against those targets.<br>The Remuneration Committee has the discretion to amend the bonus pay out should any formulaic outputs not produce an appropriate result for either the Executive Directors or the Company, taking account of overall business performance.<br>Where an annual bonus opportunity of more than 100% of base salary applies, up to 20% of the bonus earned will be delivered in the form of shares in the Company, deferred for a period of two years. Deferral of any bonus is subject to a de minimis limit of £5,000.<br>At its discretion, the Remuneration Committee may award dividend equivalents to reflect dividends that would have been paid over the deferral period on shares subject to deferred bonuses. These dividend equivalents may be paid in cash or shares and may assume the reinvestment of dividends.<br>Deferred bonus awards will vest in the event of a change of control.<br>Malus and clawback provisions apply to the annual bonus as described below this table. | The maximum bonus opportunity is up to 125% of base salary.<br>However, for 2017, the maximum opportunity will be 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 weightings each year dependent on the Group's strategic priorities.<br>Financial performance measures may include, for example:<br>› measures based on underlying earnings per share;<br>› budgeted profit;<br>› operating margins; or<br>› return on capital.<br>At least 50% of bonus will be based on financial measures. No more than 25% of the bonus opportunity will be based on individual objectives.<br>The Remuneration Committee will determine an appropriate vesting schedule for each measure used.<br>For financial measures, 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.<br>For strategic and individual performance measures, bonus will be earned between 0% and 100% of the opportunity based on the Remuneration Committee's assessment of the extent to which the relevant measure has been achieved. |

| | 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.<br>A clawback applies to unvested awards enabling the Company to mitigate risk. | LTIP awards are granted under the 2014 Long Term Incentive Plan approved by shareholders at the 2014 AGM.<br>The Remuneration Committee may grant awards as conditional share awards, nil cost share options or forfeitable shares or such other form as has the same economic effect.<br>Awards are typically granted annually and vesting is subject to achievement of performance measures normally over at least three years.<br>Where an award is granted in excess of 100% of salary, vested shares are ordinarily subject to an additional two year holding period before they are released to the Executive Directors (so that they can exercise the award and acquire them).<br>Unvested LTIP awards will vest and be released early on a change of control (or other relevant events), taking into account the extent to which the performance conditions have been satisfied and pro-rating to reflect the proportion of the performance period that has elapsed, although the Remuneration Committee has discretion not to apply time pro-rating. Vested LTIP awards which are subject to a holding period are released, to the extent vested, in the event of a change of control. LTIP awards may also vest and be released early in 'good leaver' circumstances (as shown on page 83).<br>At its discretion the Remuneration Committee may award dividend equivalents to reflect dividends that would have been paid over the vesting period (and, if relevant, holding period) on shares that vest. These dividend equivalents may be paid in cash or shares and may assume the reinvestment of dividends.<br>Malus and clawback provisions apply to the LTIP as described below this table.<br>The Remuneration Committee may, at its discretion, structure awards as approved LTIP awards comprising both approved tax qualifying options granted under the Executive Share Option Scheme ('ESOS') and an LTIP award. Approved LTIP awards enable the participant and the Company to benefit from tax qualifying option treatment in respect of part of the award, without increasing the pre-tax value delivered to the participant. The approved LTIP awards consist of a tax qualifying 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 tax qualifying option. Other than to enable the grant of £30,000 in value of HMRC approved options as part of an approved LTIP award, the Company will not grant awards to Executive Directors under the ESOS. | The annual LTIP maximum opportunity is 150% of base salary in respect of any financial year.<br>However, for 2017, the maximum opportunity will be 125% of base salary.<br>Shares subject to a tax qualifying 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', the unapproved LTIP option is scaled back to reflect the gain made on the exercise of the option. | Awards vest subject to the achievement of performance measures assessed over the performance period (normally three financial years). The performance measures are reviewed annually to ensure they remain relevant and aligned to the Group's strategy.<br>Performance measures will be based on financial metrics, and/or share price growth related metrics, and/or strategic metrics.<br>For 2017, the performance measures and weightings will be:<br>› 50% based on UEPS performance; and<br>› 50% based on relative total shareholder return ('TSR').<br>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 (which is the highest level of performance that results in any vesting) 100% of the maximum opportunity will vest; there is usually straight line vesting between these performance points.<br>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. |

# Remuneration Policy Report (continued)

| | 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 (after sales to cover tax) until the value of their total shareholding is equal to 200% of their annual base salary.<br>Vested shares subject to awards under the LTIP which are subject to a holding period count towards the shareholding requirement on a net of assumed tax basis.<br>Shares subject to LTIP awards and deferred bonus awards which are capable of exercise count towards the limit on a net of assumed tax basis. | Not applicable. | Not applicable. |
| **Chairman and Non-executive Director fees** | Fees are set at a level that reflects market conditions and are sufficient to attract individuals with appropriate knowledge and experience. | Fees are reviewed periodically and are determined by the Board.<br>The fee structure is as follows:<br>› the Chairman is paid a single consolidated fee;<br>› the Non-executive Directors are paid a basic fee plus additional fees for Chairmanship of a Committee;<br>› the Senior Independent Director also receives an additional fee in respect of this role; and<br>› fees may be paid wholly or partly in shares.<br>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 from time to time.<br>Fees are based on the time commitment and responsibilities of the role.<br>Fees are appropriately positioned against comparable roles in companies of a similar size and complexity in the relevant market. | Not applicable. |

*Recovery provisions*
Annual bonus and LTIP awards are subject to malus and clawback provisions as set out below.

For up to two years following the determination of an annual bonus, the Remuneration Committee may require a participant to repay any cash bonus paid and/or may reduce or cancel any deferred bonus award granted in the event of: (i) a material misstatement in the Group's financial results; or (ii) the Remuneration Committee reasonably determining that the participant has been guilty of gross misconduct.

Before the vesting of an LTIP award, the Remuneration Committee may decide to reduce or cancel the award in the event of: (i) a material error in or misstatement of the Group's results; (ii) information coming to light which, had it been known, would have affected the award or vesting decision; or (iii) reputational damage to the Group. For up to two years following the vesting of an LTIP award the Remuneration Committee may reduce or cancel the award (for example if it remains unexercised and subject to a holding period) or require a repayment in respect of shares acquired in the event of: (i) a material misstatement in the Group's financial results for any year in the performance period for the relevant award; or (ii) the Remuneration Committee reasonably determining that the participant has been guilty of gross misconduct.

*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, provide a balanced measurement of performance that encourages sustainable growth.

The UEPS and TSR performance conditions attaching to the LTIP align management's objectives to those of shareholders and reward 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.

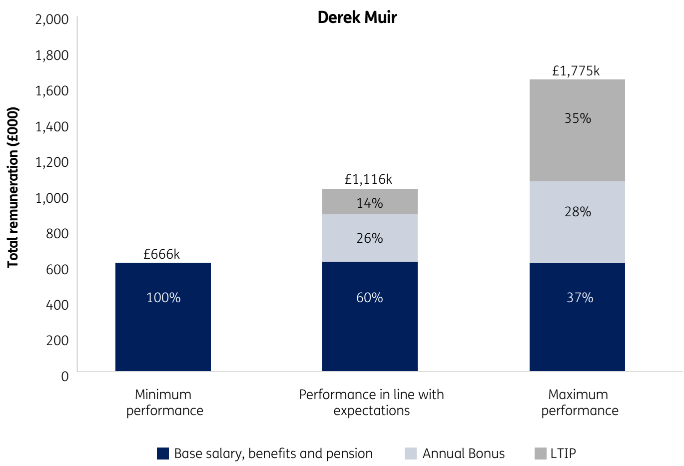
The Remuneration Committee retains the discretion to adjust the performance targets and measures where it considers it appropriate to do so. For example, to reflect changes in the strategy or structure of the business or in prevailing market conditions and to assess performance on a fair and consistent basis from year to year.

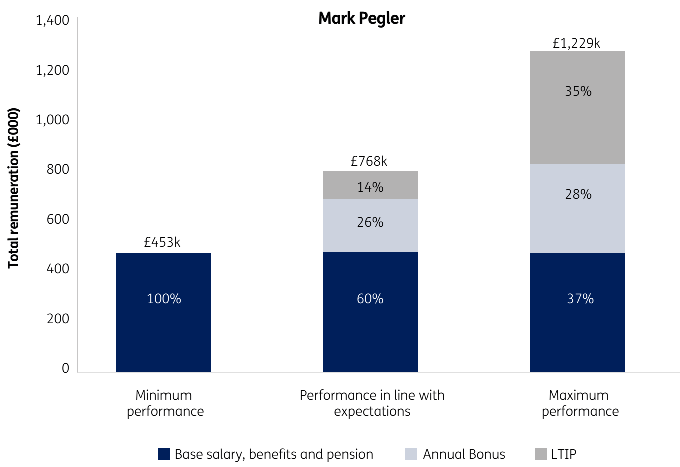
*Operation of share plans*
The Remuneration Committee retains discretion to operate the Company's share plans in accordance with their rules, including the ability to adjust awards in the event of a variation of capital or other relevant corporate event, and settle awards in cash.

*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.

*Illustrative performance scenarios for 2017 (all £000's)*




The illustrative performance charts above are based on the proposed remuneration policy as set out on pages 77 to 84. In developing the scenarios, the following assumptions have been made:

| | |
|---|---|
| **Minimum (£000's)**<br>**CEO - 666**<br>**FD - 453** | Consists of total fixed pay – i.e. base salary, benefits and pension.<br>› Base salary is the latest salary effective at 1 January 2017.<br>› Taxable benefits as per single figure table for the year ended 31 December 2016.<br>› Pension is based on the policy set out in the future policy table and base salary effective at 1 January 2017. |
| **In line with expectations (£000's)**<br>**CEO - 1,116**<br>**FD - 768** | Consists of:<br>› Total fixed pay, as set out above.<br>› Annual bonus pays out at 60% of maximum for target performance (i.e. 60% of base salary based on a maximum potential for 2017 of 100% of base salary).<br>› LTIP pays out at 25% of maximum for threshold vesting (i.e. 31.25% of base salary based on a maximum for 2017 of 125% of base salary). |
| **Maximum (£000's)**<br>**CEO - 1,775**<br>**FD - 1,229** | Consists of:<br>› Total fixed pay, as set out above.<br>› Full pay out of annual bonus – i.e. 100% of base salary.<br>› Full vesting of LTIP awards – i.e. 125% of base salary. |

# Remuneration Policy Report (continued)

*Approach to recruitment remuneration*

The objective of this Policy is to allow the Remuneration Committee to offer remuneration packages which:

- facilitate the recruitment of individuals of sufficient calibre to develop and deliver the business strategy and shareholder value;
- reflect the key principles of the Group's wider remuneration philosophy; and
- seek to ensure that arrangements are in the best interests of the Company 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 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 77 to 80, where it considers it necessary. However, this discretion is not uncapped, in determining appropriate remuneration arrangements:

- the Remuneration Committee will not offer non-performance related incentive payments;
- the quantum of variable remuneration will be limited as set out below;
- the quantum and structure of the package on offer will be determined taking into account that for similar positions in the market; and
- the package will be determined having due regard to 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 regarding the forfeited arrangements which may include 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. cash or shares) and the time over which they would have vested. Generally, buy-out awards will be made on a comparable basis to those remuneration arrangements forfeited.<br><br>Where considered appropriate, buy-out awards will be subject to forfeiture or clawback on early departure. |
| **Initial incentive awards** | Subject to the overall maximum variable remuneration limit set out below and to the overall plan LTIP limits set-out under the policy elements on page 79, incentive awards may be granted within the first twelve months of appointment above the normal maximum annual award opportunity set out on page 79. 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.<br><br>The Remuneration Committee may also alter the performance measures, performance period and any deferral arrangements or holding period applying to the annual bonus and LTIP if the circumstances of the recruitment merit such an alteration; the rationale will be clearly explained in a subsequent Directors' Remuneration Report. |
| **Maximum variable remuneration (excluding buy-out awards)** | The maximum level of variable remuneration which may be awarded is 275% of base salary (consisting of 125% annual bonus and 150% LTIP). |
| **Service contracts** | The Remuneration Committee's policy is for service contracts for new Executive Directors to be capable of termination by giving up to twelve months' notice and up to twelve months' notice from the Executive Director. |

The Remuneration Committee would seek to implement any share awards referred to in this section under the Company's existing share plans. However, in connection with the recruitment of an Executive Director, the Remuneration Committee may implement a new arrangement in accordance with paragraph 9.4.2 of the Listing Rules which permits the making of a long-term incentive award to facilitate, in unusual 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 contracts 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<br>By the Executive Director – ninety days |
| **Payment in lieu of notice** | Base salary, pension contributions and benefits for the duration of the notice period. |
| **Other incentives** | The Remuneration Committee also has discretion to incorporate payments under the performance-linked elements of the package under 'good leaver' scenarios.<br>› If the Executive Director leaves during the annual bonus performance year, a bonus 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 during the bonus year and will be, subject to performance, paid at the usual time, although the Remuneration Committee retains discretion not to apply time pro-rating and to accelerate the payment of bonuses in appropriate circumstances. Where bonus deferral would otherwise apply, the Remuneration Committee retains discretion to pay the whole of the bonus for the year of cessation and prior year in cash;<br>› Under the Company's LTIP:<br>- If a participant leaves as a 'good leaver' before an award has vested, that award will ordinarily continue until the ordinary vesting date, when the extent of vesting will be determined by reference to the extent to which the performance conditions have been satisfied, although the Remuneration Committee retains discretion to vest the award sooner. The extent to which the award vests will ordinarily be reduced to reflect the proportion of the performance period for which the Executive Director was employed, but the Remuneration Committee has discretion not to apply this proportionate reduction. Where the award is subject to a holding period, it will ordinarily be released to the participant on the earlier of the ordinary release date and the second anniversary of the date of termination, although the Remuneration Committee retains discretion to release the award sooner.<br>- If a participant leaves for any reason (other than summary dismissal, in which case the award will lapse) after an award has vested but before it has been released (i.e. if an award is subject to a holding period and the participant leaves during that holding period), the award will ordinarily be released to him on the ordinary release date, although the Remuneration Committee retains discretion to release the award sooner.<br>› Where a deferred bonus award is granted, if the participant leaves as a 'good leaver' during the deferral period, the award will ordinarily continue and be released at the ordinary release date, although the Remuneration Committee retains discretion to release the award at the date of cessation.<br>› For the purposes of the LTIP and any deferred bonus award, 'good leaver' means cessation due to death, injury, ill-health, redundancy, or any other circumstance that the Remuneration Committee deems appropriate.<br>› Were an award to be made in accordance with Listing Rule 9.4.2. then the leaver provisions would be determined at the time of the grant. |
| **Other payments** | In appropriate circumstances, other payments may be made in the event of a termination of an Executive Director's employment in respect of, for example, accrued holiday and legal and outplacement fees. SAYE options may be exercised on termination of employment to the extent permitted by the rules of the scheme, which do not provide discretion for the Remuneration Committee in respect of the treatment on termination. |

# Remuneration Policy 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 pay 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 Director's 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.

*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 provided, in the case of a payment agreed after the 2014 AGM that it is in line with the policy approved at the 2014 AGM; 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 are 'agreed' at the time the award is granted.

*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.

**Annette Kelleher**
Chair, Remuneration Committee

8 March 2017

# Directors' Report (other statutory information)

### Principal activities and strategic report
The Company acts as a holding company to all the Group's subsidiaries.

During 2016 the principal activities of the Group comprised the manufacture and supply of:

- Infrastructure Products (Roads and Utilities)
- Galvanizing Services

Pages 2 to 34 contain further details of these areas of the business and the principal subsidiaries operating within them are set out on pages 154 to 156.

The Chairman's Statement and the Directors' 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 43.

### Statement on corporate governance
The Directors' Report for the year ended 31 December 2016 comprises 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 £48.3m (2015: £33.2m). Group revenue at £540.1m was 16% higher than the prior year. Operating profit at £51.8m was 39% higher than for the previous year (2015: £37.3m).

Details of the results for the year are shown on the Consolidated Income Statement on page 92 and the business segment information is given on pages 103 and 104.

### Dividends
The Directors recommend the payment of a final dividend of 17.9p per ordinary share (2015: 13.6p per ordinary share) which, together with the interim dividend of 8.5p per ordinary share (2015: 7.1p per ordinary share) paid on 5 January 2017, makes a total distribution for the year of 26.4p per ordinary share (2015: 20.7p per ordinary share). Subject to shareholders approving this recommendation at the AGM, the final dividend will be paid on 3 July 2017 to shareholders on the register at the close of business on 26 May 2017. The latest date for receipt of Dividend Re-investment Plan elections is 12 June 2017.

### 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 2016 | | 78,237,724 |
| Total new ordinary shares issued during the year | | 304,867 |
| Issued share capital 31 December 2016 | | 78,542,591 |
| 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 21 on pages 127 and 128 of the Group Financial Statements.

# Directors' Report (other statutory information) (continued)

### 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 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 2016 AGM and will be limited by the resolution to be put to the 2017 AGM. 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 AGM's on 14 clear days' notice was approved at the AGM on 17 May 2016 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 AGM or 11 August 2017.

### Substantial shareholdings
As at 28 February 2017, the Company had been notified in accordance with Rule 5 of the Disclosure and Transparency Rules of the Financial Conduct Authority of the following voting rights of the Company:

| Shareholder | Number of ordinary shares | % of issued share capital |
|---|---|---|
| Standard Life Investments | 5,146,485 | 6.55 |
| Hargreave Hale | 3,587,876 | 4.57 |
| Charles Stanley | 3,283,900 | 4.18 |
| BlackRock Investment Management | 2,886,340 | 3.67 |
| JPMorgan Asset Management | 2,827,297 | 3.60 |
| Legal & General Investment Management | 2,511,675 | 3.20 |

### Directors
The names of the Directors of the Company who served throughout the year, including brief biographies, are set out on pages 48 and 49.

### Directors' interests
The interests of the Directors in the share capital of Hill & Smith Holdings PLC as at 31 December 2016 are set out on page 73.

### 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 AGM and shall then be eligible for 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 of 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 detailed in note 21 on pages 121 to 126.

### Research and development
During the year, the Group spent a total of £2.0m (2015: £1.6m) on research and development.

### Political and charitable donations
Charitable donations amounting to £42,000 (2015: £36,000) 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 available on the Company's website.

### 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 75.

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

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

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

**Disclosure of information to auditor**
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 auditor is unaware; each Director has taken all the steps that he ought to have taken as a Director to make themselves aware of any relevant audit information and has established that the Company's auditor is aware of that information.

**Events since 31 December 2016**
There were no post-Balance Sheet events.

**Annual General Meeting**
The Annual General Meeting of the Company will be held at 11.00 a.m. on Thursday 11 May 2017 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 152.

By order of the Board

**Alex Henderson**
Company Secretary

8 March 2017

# Statement of Directors' Responsibilities

In respect of the Annual Report and the Financial Statements

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

Company law requires the Directors to prepare Group and Parent Company Financial Statements for each financial year. Under that law they are required to prepare the Group Financial Statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the Parent Company Financial Statements in accordance with UK Accounting Standards, including FRS 101 Reduced Disclosure Framework.

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**

We confirm that to the best of our knowledge:

- the 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 the undertakings included in the consolidation taken as a whole; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

By order of the Board

**Alex Henderson**
Company Secretary

8 March 2017

# Financial Statements

## Financial Statements



Image

**Above** - Signature's installation of the Junction Master VAS (Vehicle Activated Sign) on the A4123 New Birmingham Road. This sign, activated by a vehicle travelling at 40+ mph, displays 'Slow Down 40' and 'Slow Down Staggered Junction'.

See further information at hsholdings.com

# Independent Auditor's Report

To the members of Hill & Smith Holdings PLC

**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 2016 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows, the Company Balance Sheet and Company Statement of Changes in Equity, Company Statement of Cash Flows 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 2016 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, including FRS 101 Reduced Disclosure Framework; 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 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 - £131.8m (2015: £107.6m) Risk v 2015: ↔***

Refer to page 60 (Audit Committee Report), page 98 (Accounting Policy) and pages 109 to 117 (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 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. The assessment uses a net present value of forecast cash flows of the CGU. 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:

› 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, in addition to the required annual impairment testing;

› considering the recoverable amounts of the Group's CGUs by critically assessing the key assumptions applied in determining the value in use of these CGUs;

› evaluating 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 the business environment;

› challenging, including appraisal 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; and

› performing our own sensitivity analysis, with particular focus on the CGUs with lower levels of headroom, principally, France Galva S.A., including a reasonably possible reduction in assumed growth rates, discount rates and cash flows to compare to the sensitivity analysis prepared by the Group.

We also assessed whether the Group's disclosures 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 and indefinite life intangible assets, and that the impairment loss recognised in respect of CA Traffic is appropriately disclosed.

***UK post retirement benefits obligation - Gross liabilities £90.9m (2015: £80.1m) Risk v 2015: ↔***

Refer to page 60 (Audit Committee Report), page 101 (Accounting Policy) and pages 129 to 135 (Financial Disclosures).

*The risk*

The valuation of the UK post-retirement benefit obligation involves the selection of appropriate actuarial assumptions, most notably the discount rate applied to scheme liabilities, inflation rates and mortality rates. The selection of these assumptions is inherently subjective and small changes in the assumptions and estimates used to value the Group's net pension deficit could have a significant effect on the financial position of the Group.

*Our response*

With the support of our own actuarial specialists, we challenged the key assumptions applied 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, such as the comparison of different durations using the bond yield curve to derive a single equivalent discount rate. We also considered the adequacy of the Group's disclosures.

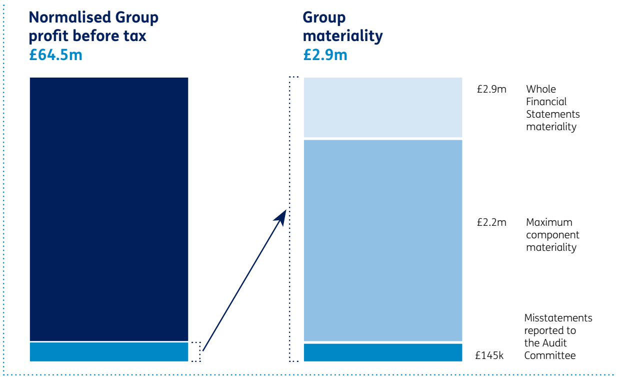
**3. Our application of materiality and an overview of the scope of our audit**

Materiality for the Group Financial Statements as a whole was set at £2.9m (2015: £2.4m), determined with reference to a benchmark of Group profit before taxation, normalised to exclude specific non-underlying items, included within note 3, being net costs in respect of business reorganisations, acquisition costs, losses on disposal of properties and an impairment charge of goodwill and acquired intangible assets as we consider these to distort the underlying performance of the Group. Normalised group profit before tax is calculated as £64.5m (2015: £50.3m), of which materiality represents 4.5% (2015: 4.8%).

We report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £145,000 (2015: £120,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 57 (2015: 54) reporting components, we subjected 38 (2015: 34) to audits and 3 (2015: 2) to specified audit procedures for Group reporting purposes. The components for which we performed work other than audits for Group reporting purposes were not individually significant but were included in the scope of our Group reporting work in order to provide further coverage over the Group's results. These components were subjected to specified risk-focused audit procedures over inventory and trade receivables.

These audits covered 84.9% (2015: 86.4%) of total Group revenue; 90.4% (2015: 97.8%) of Group profit before taxation; and 88.8% (2015: 89.5%) of total Group assets. Specified audit procedures were performed at components which comprise a further 8.0% (2015: 6.7%) of total Group revenue; 1.0% (2015: 0.1%) of Group profit before taxation; and 0.9% (2015: 0.6%) of total Group assets.




The Group audit team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back to the Group audit team. The Group audit team approved the component materialities, which ranged from £0.1m (2015: £0.1m) to £2.2m (2015: £1.8m), having regard to the mix of size and risk profile of Group entities across the components. The audit of 5 of the 38 (2015: 5 of 34) components was performed by component auditors and the remainder by the Group audit team. The Group team performed procedures on the items excluded from normalised Group profit before tax.

Telephone conference meetings were held with all of the component auditors. At these meetings, the findings reported to the Group audit team were discussed in more detail, and any further work required by the Group audit team was then performed by the component auditor. The Group audit team also visited component locations in the United States of America.

**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.

Based solely on the work required to be undertaken in the course of the audit of the Financial Statements and from reading the Strategic Report and the Directors' Report:

› we have not identified material misstatements in those reports; and

› in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

**5. We have nothing to report on the disclosures of principal risks**

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

› the Directors' Statement of Viability on pages 55 and 56, concerning the principal risks, their management, and, based on that, the Directors' assessment and expectations of the Group's continuing in operation over the 3 years to December 2019; or

› the disclosures in the Group Accounting Policies on page 97 concerning the use of the going concern basis of accounting.

**6. We have nothing to report 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 position and 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' Statements, set out on page 88, in relation to going concern and longer-term viability; and

› the part of the Corporate Governance Statement on pages 45 to 87 relating to the Company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

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

*Scope and responsibilities*

As explained more fully in the Directors' Responsibilities Statement set out on page 88, 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 financial statements 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 is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014a, 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.

**Darren Turner** (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

8 March 2017

# Consolidated Income Statement

Year ended 31 December 2016

| | Notes | 2016 Underlying £m | 2016 Non-underlying* £m | 2016 Total £m | 2015 Underlying £m | 2015 Non-underlying* £m | 2015 Total £m |
|---|---|---|---|---|---|---|---|
| **Revenue** | 1, 2 | **540.1** | **-** | **540.1** | 467.5 | - | 467.5 |
| **Trading profit** | | **70.6** | **-** | **70.6** | 56.0 | - | 56.0 |
| Amortisation of acquisition intangibles | 3 | **-** | **(2.6)** | **(2.6)** | - | (1.6) | (1.6) |
| Business reorganisation costs | 3 | **-** | **(10.5)** | **(10.5)** | - | (0.3) | (0.3) |
| Pension settlement gains | 3 | **-** | **0.2** | **0.2** | - | - | - |
| Impairment of intangible assets | 3, 10 | **-** | **(4.1)** | **(4.1)** | - | (15.7) | (15.7) |
| Acquisition costs | 3 | **-** | **(1.8)** | **(1.8)** | - | (1.0) | (1.0) |
| Loss on sale of properties | | **-** | **-** | **-** | - | (0.1) | (0.1) |
| **Operating profit** | 1, 2 | **70.6** | **(18.8)** | **51.8** | 56.0 | (18.7) | 37.3 |
| Financial income | 5 | **0.4** | **-** | **0.4** | 0.5 | - | 0.5 |
| Financial expense | 5 | **(3.0)** | **(0.9)** | **(3.9)** | (3.5) | (1.1) | (4.6) |
| **Profit before taxation** | | **68.0** | **(19.7)** | **48.3** | 53.0 | (19.8) | 33.2 |
| Taxation | 7 | **(16.3)** | **1.8** | **(14.5)** | (12.6) | 3.5 | (9.1) |
| **Profit for the year attributable to owners of the parent** | | **51.7** | **(17.9)** | **33.8** | 40.4 | (16.3) | 24.1 |
| **Basic earnings per share** | 8 | **65.9p** | | **43.0p** | 51.7p | | 30.9p |
| Diluted earnings per share | 8 | **65.1p** | | **42.5p** | 51.3p | | 30.6p |
| Dividend per share – Interim | 9 | | | **8.5p** | | | 7.1p |
| Dividend per share – Final proposed | 9 | | | **17.9p** | | | 13.6p |
| **Total** | | | | **26.4p** | | | 20.7p |

* The Group's definition of non-underlying items is included in the Group Accounting Policies on page 102.

# Consolidated Statement of Comprehensive Income

Year ended 31 December 2016

| | Notes | 2016 £m | 2015 £m |
|---|---|---|---|
| **Profit for the year** | | **33.8** | 24.1 |
| **Items that may be reclassified subsequently to profit or loss** | | | |
| Exchange differences on translation of overseas operations | | **36.5** | 1.8 |
| Exchange differences on foreign currency borrowings denominated as net investment hedges | | **(9.5)** | (0.4) |
| Effective portion of changes in fair value of cash flow hedges | | **-** | (0.1) |
| Transfers to the income statement on cash flow hedges | | **0.2** | 0.4 |
| Taxation on items that may be reclassified to profit or loss | | **-** | (0.1) |
| **Items that will not be reclassified subsequently to profit or loss** | | | |
| Actuarial (loss)/gain on defined benefit pension schemes | 23 | **(14.1)** | 5.0 |
| Taxation on items that will not be reclassified to profit or loss | 7 | **2.1** | (1.2) |
| **Other comprehensive income for the year** | | **15.2** | 5.4 |
| **Total comprehensive income for the year attributable to owners of the parent** | | **49.0** | 29.5 |

# Consolidated Statement of Financial Position

Year ended 31 December 2016

| | Notes | 2016 £m | 2015 £m |
|---|---|---|---|
| **Non-current assets** | | | |
| Intangible assets | 10 | **166.5** | 126.4 |
| Property, plant and equipment | 11 | **149.7** | 129.2 |
| | | **316.2** | 255.6 |
| **Current assets** | | | |
| Assets held for sale | 12 | **1.1** | - |
| Inventories | 14 | **71.6** | 57.7 |
| Trade and other receivables | 15 | **112.9** | 98.8 |
| Cash and cash equivalents | 16 | **15.6** | 12.9 |
| | | **201.2** | 169.4 |
| **Total assets** | 1 | **517.4** | 425.0 |
| **Current liabilities** | | | |
| Trade and other liabilities | 17 | **(105.1)** | (87.8) |
| Current tax liabilities | | **(11.2)** | (8.7) |
| Provisions for liabilities and charges | 19 | **(2.6)** | (0.2) |
| Interest bearing borrowings | 17 | **(0.3)** | (0.3) |
| | | **(119.2)** | (97.0) |
| **Net current assets** | | **82.0** | 72.4 |
| **Non-current liabilities** | | | |
| Other liabilities | 18 | **(0.4)** | (0.2) |
| Provisions for liabilities and charges | 19 | **(3.2)** | (2.7) |
| Deferred tax liability | 13 | **(7.8)** | (7.9) |
| Retirement benefit obligation | 23 | **(27.3)** | (14.6) |
| Interest bearing borrowings | 18 | **(127.3)** | (104.1) |
| | | **(166.0)** | (129.5) |
| **Total liabilities** | | **(285.2)** | (226.5) |
| **Net assets** | | **232.2** | 198.5 |
| **Equity** | | | |
| Share capital | 21 | **19.7** | 19.6 |
| Share premium | | **33.5** | 32.8 |
| Other reserves | | **4.8** | 4.6 |
| Translation reserve | | **29.3** | 2.3 |
| Hedge reserve | | **-** | (0.2) |
| Retained earnings | | **144.9** | 139.4 |
| **Total equity** | | **232.2** | 198.5 |

Approved by the Board of Directors on 8 March 2017 and signed on its behalf by:

**D W Muir**
Director

**M Pegler**
Director

Company Number: 671474

# Consolidated Statement of Changes in Equity

Year ended 31 December 2016

| | 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 2015 | | 19.5 | 31.7 | 4.5 | 0.9 | (0.4) | 125.3 | 181.5 |
| **Comprehensive income** | | | | | | | | |
| Profit for the year | | - | - | - | - | - | 24.1 | 24.1 |
| Other comprehensive income for the year | | - | - | - | 1.4 | 0.2 | 3.8 | 5.4 |
| **Transactions with owners recognised directly in equity** | | | | | | | | |
| Dividends | 9 | - | - | - | - | - | (14.1) | (14.1) |
| Credit to equity of share-based payments | 21 | - | - | - | - | - | 0.9 | 0.9 |
| Satisfaction of long term incentive payments | | - | - | - | - | - | (1.8) | (1.8) |
| Own shares held by employee benefit trust | | - | - | - | - | - | 0.9 | 0.9 |
| Transfers between reserves | | - | - | 0.1 | - | - | (0.1) | - |
| Tax taken directly to the Consolidated Statement of Changes in Equity | 7 | - | - | - | - | - | 0.4 | 0.4 |
| Shares issued | 21 | 0.1 | 1.1 | - | - | - | - | 1.2 |
| **At 31 December 2015** | | **19.6** | **32.8** | **4.6** | **2.3** | **(0.2)** | **139.4** | **198.5** |
| **Comprehensive income** | | | | | | | | |
| Profit for the year | | **-** | **-** | **-** | **-** | **-** | **33.8** | **33.8** |
| Other comprehensive income for the year | | **-** | **-** | **-** | **27.0** | **0.2** | **(12.0)** | **15.2** |
| **Transactions with owners recognised directly in equity** | | | | | | | | |
| Dividends | **9** | **-** | **-** | **-** | **-** | **-** | **(16.2)** | **(16.2)** |
| Credit to equity of share-based payments | **21** | **-** | **-** | **-** | **-** | **-** | **1.1** | **1.1** |
| Satisfaction of long term incentive payments | | **-** | **-** | **-** | **-** | **-** | **(1.4)** | **(1.4)** |
| Own shares held by employee benefit trust | | **-** | **-** | **-** | **-** | **-** | **(0.6)** | **(0.6)** |
| Transfers between reserves | | **-** | **-** | **0.2** | **-** | **-** | **(0.2)** | **-** |
| Tax taken directly to the Consolidated Statement of Changes in Equity | **7** | **-** | **-** | **-** | **-** | **-** | **1.0** | **1.0** |
| Shares issued | **21** | **0.1** | **0.7** | **-** | **-** | **-** | **-** | **0.8** |
| **At 31 December 2016** | | **19.7** | **33.5** | **4.8** | **29.3** | **-** | **144.9** | **232.2** |

† Other reserves represent the premium on shares issued in exchange for shares of subsidiaries acquired and £0.2m (2015: £0.2m) capital redemption reserve.

At 31 December 2015 the Group had purchased 86,732 of its own shares, which were held in an employee benefit trust for the purposes of settling awards granted to employees under equity-settled share based payment plans. The cost of these shares, amounting to £0.5m, was included within retained earnings at that date. In March 2016, these shares were issued in settlement of awards to employees together with an additional 11,754 shares purchased in 2016. A further 103,246 shares were purchased in 2016 at a cost of £1.1m and are held at 31 December 2016.

# Consolidated Statement of Cash Flows

Year ended 31 December 2016

| | Notes | 2016 £m | 2016 £m | 2015 £m | 2015 £m |
|---|---|---|---|---|---|
| Profit before tax | | | **48.3** | | 33.2 |
| Add back net financing costs | 5 | | **3.5** | | 4.1 |
| Operating profit | 1, 2 | | **51.8** | | 37.3 |
| Adjusted for non-cash items: | | | | | |
| Share-based payments | 4, 21 | **1.6** | | 0.9 | |
| Gain on disposal of non-current assets | 6 | **(0.2)** | | - | |
| Depreciation | 6, 11 | **17.3** | | 15.5 | |
| Amortisation of intangible assets | 6, 10 | **3.7** | | 2.5 | |
| Impairment of non-current assets | 6, 10 | **4.1** | | 15.7 | |
| | | | **26.5** | | 34.6 |
| Operating cash flow before movement in working capital | | | **78.3** | | 71.9 |
| (Increase)/decrease in inventories | | **(4.3)** | | 1.1 | |
| Increase in receivables | | **(0.6)** | | (3.0) | |
| Increase/(decrease) in payables | | **4.8** | | (0.6) | |
| Decrease in provisions and employee benefits | | **-** | | (3.3) | |
| Net movement in working capital | | | **(0.1)** | | (5.8) |
| Cash generated by operations | | | **78.2** | | 66.1 |
| Income taxes paid | | | **(15.7)** | | (12.6) |
| Interest paid | | | **(3.2)** | | (3.5) |
| **Net cash from operating activities** | | | **59.3** | | 50.0 |
| Interest received | | **0.4** | | 0.5 | |
| Proceeds on disposal of non-current assets | | **3.6** | | 1.2 | |
| Purchase of property, plant and equipment | | **(19.9)** | | (14.8) | |
| Purchase of intangible assets | | **(1.8)** | | (1.2) | |
| Acquisitions of subsidiaries | 10 | **(36.9)** | | (16.6) | |
| Deferred consideration in respect of prior year acquisitions | | **(0.5)** | | - | |
| **Net cash used in investing activities** | | | **(55.1)** | | (30.9) |
| Issue of new shares | 21 | **0.8** | | 1.2 | |
| Purchase of shares for employee benefit trust | | **(2.0)** | | (0.9) | |
| Dividends paid | 9 | **(16.2)** | | (14.1) | |
| Costs associated with refinancing of revolving credit facility | | **(1.0)** | | - | |
| New loans and borrowings | | **46.1** | | 46.0 | |
| Repayment of loans and borrowings | | **(31.7)** | | (45.0) | |
| Repayment of obligations under finance leases | | **-** | | (0.1) | |
| **Net cash used in financing activities** | | | **(4.0)** | | (12.9) |
| **Net increase in cash** | | | **0.2** | | 6.2 |
| Cash at the beginning of the year | | | **12.9** | | 6.7 |
| Effect of exchange rate fluctuations | | | **2.5** | | - |
| **Cash at the end of the year** | 16 | | **15.6** | | 12.9 |

# Group Accounting Policies

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

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the Group Financial Statements from the date that control commences until the date that control ceases.

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 FRS 101; these are presented on pages 137 to 148.

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 24.

**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 15 to 26. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Strategic Report on pages 22 to 26. In addition, note 20 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 £232.3m at 31 December 2016, expiring in April 2021. 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 2016**
In 2016 the following amendments had been endorsed by the EU, became effective and therefore were adopted by the Group:

- Amendments to IFRS 11 - Accounting for Acquisitions of Interests in Joint Operations.
- Amendments to IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciation and Amortisation.
- Amendments to IAS 27 - Equity Method in Separate Financial Statements.
- Annual Improvements to IFRSs – 2012-2014 Cycle.
- Disclosure Initiative – Amendments to IAS 1.

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

The following standards and interpretations which are not yet effective and have not been early adopted by the Group will be adopted in future accounting periods:

- IFRS 15 'Revenue from Contracts with Customers' (effective 1 January 2018).
- IFRS 9 'Financial Instruments' (effective 1 January 2018).
- IFRS 16 'Leases' (effective 1 January 2019).

The impact of IFRS 16, which was issued in January 2016, is currently being assessed. None of the other standards or amendments above are expected to have a material impact on the Group.

# Group Accounting Policies (continued)

**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 year end 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.

**Assets held for sale**
A non-current asset is classified as held for sale if its carrying amount will be recovered principally through sale rather than through continuing use, it is available for immediate sale and sale is highly probable within one year. On initial classification as held for sale, non-current assets and disposal groups are measured at the lower of previous carrying amount and fair value less costs to sell with any adjustments taken to the income statement. The same applies to gains and losses on subsequent remeasurement.

**Financial instruments**
Financial assets and liabilities are recognised on the Group's Consolidated Statement of Financial Position 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 year end 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 year end 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.

# Group Accounting Policies (continued)

The principal exchange rates used were as follows:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | **Average** | **Closing** | Average | Closing |
| Sterling to Euro (£1 = EUR) | **1.22** | **1.17** | 1.38 | 1.36 |
| Sterling to US Dollar (£1 = USD) | **1.35** | **1.23** | 1.53 | 1.48 |
| Sterling to Swedish Krona (£1 = SEK) | **11.57** | **11.14** | 12.90 | 12.50 |

**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 Consolidated Statement of Financial Position 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 year end 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 year end 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 Consolidated Statement of Financial Position. Payments made under operating leases are recognised in the Consolidated Income Statement on a straight line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Rental income from operating leases is recognised as revenue in the Consolidated Income Statement on an accruals basis.

**Revenue**
Revenue from the sale of goods and services represents the amount (excluding value added tax) invoiced to third party customers, net of returns, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer and the amount of revenue can be measured reliably. In the Galvanizing Services segment this is generally considered to be on completion of the galvanizing process when products are made available for customer collection. In the Infrastructure Products segments products are often bespoke and customer contracts more complex. As such, there are a number of conditions which must be satisfied before revenue can be recognised. These can include: legal, contractual ownership; passing internal quality control testing; dispatch from manufacturing sites; installation at customer sites; customer inspection both before and after installation; and/or, ultimately, customer acceptance. Given these conditions, a greater degree of consideration is given as to whether the terms of sale have been met and whether revenue can be recognised for each product.

**Government grants**
Government grants are recognised as a liability in the Consolidated Statement of Financial Position 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 year end 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.

In the Consolidated Income Statement current and past service costs are recognised in operating profit and 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.

# Group Accounting Policies (continued)

**Non-underlying items**
Non-underlying items are 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 year end date, and any adjustments to tax payable in respect of previous years.

**Deferred taxation**
Deferred tax is provided in full using the Consolidated Statement of Financial Position 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 year end 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 year end 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.

**Own shares held by Employee Benefit Trust ('EBT')**
Transactions of the Group-sponsored EBT are included in the Group Financial Statements. In particular, the Trust's purchases of shares in the Company are debited directly to equity.

# Notes to the Consolidated Financial Statements

## 1. Segmental information

**Business segment analysis**

The Group has three reportable segments which are Infrastructure Products - Utilities, Infrastructure Products - Roads and Galvanizing Services. Several operating segments that have similar economic characteristics have been aggregated into these reporting segments. The Group's internal management structure and financial reporting systems differentiate between these segments on the basis of the following economic characteristics:

- The Infrastructure Products - Utilities segment contains a group of businesses supplying products characterised by a degree of engineering expertise, to public and private customers involved in the construction of facilities serving the Utilities markets or in the maintenance of such facilities;
- The Infrastructure Products - Roads segment contains a group of companies supplying permanent and temporary safety products to customers involved in the construction or maintenance of national roads infrastructure; and
- The Galvanizing Services segment contains a group of companies supplying galvanizing and related materials coating services to companies in a wide range of markets including construction, agriculture and infrastructure.

**Income Statement**

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | Revenue £m | Result £m | Underlying result* £m | Revenue £m | Result £m | Underlying result* £m |
| Infrastructure Products - Utilities | 207.6 | 4.0 | 13.0 | 193.9 | (7.1) | 10.5 |
| Infrastructure Products - Roads | 168.1 | 10.9 | 19.6 | 131.6 | 15.6 | 16.0 |
| Infrastructure Products - Total | 375.7 | 14.9 | 32.6 | 325.5 | 8.5 | 26.5 |
| Galvanizing Services | 164.4 | 36.9 | 38.0 | 142.0 | 28.8 | 29.5 |
| **Total Group** | 540.1 | 51.8 | 70.6 | 467.5 | 37.3 | 56.0 |
| Net financing costs | | (3.5) | (2.6) | | (4.1) | (3.0) |
| **Profit before taxation** | | 48.3 | 68.0 | | 33.2 | 53.0 |
| Taxation | | (14.5) | (16.3) | | (9.1) | (12.6) |
| **Profit after taxation** | | 33.8 | 51.7 | | 24.1 | 40.4 |

* Underlying result is stated before non-underlying items as defined in the Group Accounting Policies on page 102, and is the measure of segment profit used by the Chief Operating Decision Maker, who is the Chief Executive. The Result columns are included as additional information.

Galvanizing Services provided £4.7m (2015: £5.2m) revenues to Infrastructure Products - Roads and £1.4m (2015: £1.6m) revenues to Infrastructure Products - Utilities. Infrastructure Products - Utilities provided £5.4m (2015: £3.0m) revenues to Infrastructure Products - Roads. These internal revenues, along with revenues generated from within their own segments, have been eliminated on consolidation.

**Capital expenditure and amortisation/depreciation**

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Capital expenditure £m | Impairment losses, amortisation and depreciation £m | Capital expenditure £m | Impairment losses, amortisation and depreciation £m |
| Infrastructure Products - Utilities | 4.9 | 3.5 | 2.5 | 19.4 |
| Infrastructure Products - Roads | 7.3 | 12.2 | 3.8 | 6.8 |
| Infrastructure Products - Total | 12.2 | 15.7 | 6.3 | 26.2 |
| Galvanizing Services | 9.9 | 9.4 | 8.3 | 7.5 |
| **Total Group** | 22.1 | 25.1 | 14.6 | 33.7 |
| Property, plant and equipment (note 11) | 20.4 | 17.3 | 13.5 | 15.5 |
| Intangible assets (note 10) | 1.7 | 7.8 | 1.1 | 18.2 |
| **Total Group** | 22.1 | 25.1 | 14.6 | 33.7 |

The impairment losses, amortisation and depreciation amounts above relating to the Infrastructure Products - Roads segment include impairment losses of £4.1m relating to CA Traffic (see note 3). The prior year amounts for the Infrastructure Products - Utilities segment include impairment losses of £15.7m relating to The Paterson Group.

# Notes to the Consolidated Financial Statements (continued)

## 1. Segmental information continued

### Geographical analysis

**Revenue (irrespective of origin)**

| | 2016 £m | 2015 £m |
|---|---|---|
| UK | **264.5** | 235.8 |
| Rest of Europe | **89.1** | 73.4 |
| North America | **156.9** | 135.0 |
| The Middle East | **8.1** | 7.2 |
| Asia | **11.5** | 13.3 |
| Rest of World | **10.0** | 2.8 |
| **Total Group** | **540.1** | 467.5 |

**Total assets**

| | 2016 £m | 2015 £m |
|---|---|---|
| UK | **217.4** | 175.5 |
| Rest of Europe | **106.1** | 88.3 |
| North America | **173.1** | 144.3 |
| Asia | **16.4** | 15.5 |
| Rest of World | **4.4** | 1.4 |
| **Total Group** | **517.4** | 425.0 |

**Capital expenditure**

| | 2016 £m | 2015 £m |
|---|---|---|
| UK | **10.6** | 8.7 |
| Rest of Europe | **4.5** | 2.9 |
| North America | **5.2** | 2.8 |
| Asia | **0.7** | 0.2 |
| Rest of World | **1.1** | - |
| **Total Group** | **22.1** | 14.6 |

## 2. Operating profit

| | 2016 £m | 2015 £m |
|---|---|---|
| Revenue | **540.1** | 467.5 |
| Cost of sales | **(340.6)** | (300.6) |
| Gross profit | **199.5** | 166.9 |
| Distribution costs | **(28.7)** | (23.2) |
| Administrative expenses | **(120.2)** | (107.6) |
| Other operating income | **1.2** | 1.2 |
| **Operating profit** | **51.8** | 37.3 |

### 3. Non-underlying items

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

- Business reorganisation costs of £10.5m (2015: £0.3m) relating to the closure or reorganisation of three of the Group's businesses as set out below.
  - On 9 March 2016 the Group announced its intention to exit its non-US Pipe Supports business, involving cessation of manufacturing in the UK and Thailand, the closure of its sales office in China and the transfer of work to its facility in India. An initial provision of £9.2m was made in respect of the estimated costs of closure. Subsequently £1.4m of this provision has been released following the favourable settlement of certain matters resulting in a net charge to the income statement of £7.8m.
  - Following the acquisition of Signature Limited on 3 August 2016, the Group has commenced a reorganisation of the business as part of its integration with Mallatite Limited, the Group's existing lighting column operation. The cost of the reorganisation and restructuring plan is £0.8m. The plan includes a reduction in the number of operating sites of the integrated business from five to three.
  - In December 2016 the Group committed to the closure of Hill & Smith Infrastructure Products India Pvt. Limited, our Roads business in India. The cost of the closure is expected to be £1.9m, which has been provided for in full in the year to 31 December 2016. Closure is expected to be completed in the first quarter of 2017.
- An impairment charge of £4.1m (2015: £15.7m). In recent years CA Traffic Limited has generated levels of profitability that are below those anticipated when the business was acquired in 2006. The current and forecast financial performance of the business (part of the Infrastructure Products – Roads segment) is below that assumed in the impairment reviews performed at 31 December 2015 and 30 June 2016. As a result, a further impairment review was performed at the end of the year based on the Board's revised expectation of future profitability and cash generation. The impairment review concluded that the carrying values of the assets of the business were less than their recoverable amount (determined by reference to the Value in Use) by £4.1m, representing the value of the goodwill arising on acquisition. The basis for determining the Value in Use, including the discount rate, was consistent with that used in the annual impairment review performed as at 31 December 2015.
- Amortisation of acquired intangible fixed assets of £2.6m (2015: £1.6m).
- Acquisition expenses of £1.8m (2015: £1.0m) principally relating to acquisitions made by the Group during the year.
- A gain of £0.2m relating to the settlement of certain defined benefit pension obligations during the year (see note 23).

Non-underlying items included in financial expense represent the net financing cost on pension obligations of £0.5m (2015: £0.7m) and a £0.4m charge in respect of amortisation of costs associated with refinancing (2015: £0.4m).

### 4. Employees

| | 2016 No. | 2015 No. |
|---|---|---|
| **The average number of people employed by the Group during the year** | | |
| Infrastructure Products - Utilities | **1,688** | 1,646 |
| Infrastructure Products - Roads | **783** | 674 |
| Infrastructure Products - Total | **2,471** | 2,320 |
| Galvanizing Services | **1,459** | 1,503 |
| **Total Group** | **3,930** | 3,823 |

| | £m | £m |
|---|---|---|
| **The aggregate remuneration for the year** | | |
| Wages and salaries | **117.3** | 100.6 |
| Share-based payments | **1.6** | 1.2 |
| Social security costs | **19.2** | 17.3 |
| Pension costs | **2.5** | 2.7 |
| | **140.6** | 121.8 |

Details of the Directors' remuneration and share interests are given in the Directors' Remuneration Report on pages 68 to 76.

# Notes to the Consolidated Financial Statements (continued)

### 5. Net financing costs

| | Underlying £m | Non-underlying £m | 2016 £m | Underlying £m | Non-underlying £m | 2015 £m |
|---|---|---|---|---|---|---|
| Interest on bank deposits | **0.4** | **-** | **0.4** | 0.5 | - | 0.5 |
| **Financial income** | **0.4** | **-** | **0.4** | 0.5 | - | 0.5 |
| Interest on bank loans and overdrafts | **3.0** | **-** | **3.0** | 3.5 | - | 3.5 |
| Total interest expense | **3.0** | **-** | **3.0** | 3.5 | - | 3.5 |
| Financial expenses related to refinancing | **-** | **0.4** | **0.4** | - | 0.4 | 0.4 |
| Interest cost on net pension scheme deficit (note 23) | **-** | **0.5** | **0.5** | - | 0.7 | 0.7 |
| **Financial expense** | **3.0** | **0.9** | **3.9** | 3.5 | 1.1 | 4.6 |
| **Net financing costs** | **2.6** | **0.9** | **3.5** | 3.0 | 1.1 | 4.1 |

### 6. Expenses and auditor's remuneration

| | 2016 £m | 2015 £m |
|---|---|---|
| **Income statement charges** | | |
| Depreciation of property, plant and equipment: | | |
| Owned | **17.3** | 15.5 |
| Leased | **-** | - |
| Operating lease rentals: | | |
| Plant and machinery | **2.3** | 2.2 |
| Other | **3.7** | 3.5 |
| Research and development expenditure | **0.5** | 0.5 |
| Amortisation of acquisition intangibles | **2.6** | 1.6 |
| Amortisation of development costs | **0.9** | 0.8 |
| Amortisation of other intangible assets | **0.2** | 0.1 |
| Impairment losses | **4.1** | 15.7 |
| Loss on disposal of non-current assets | **-** | 0.1 |
| **Income statement credits** | | |
| Profit on disposal of non-current assets | **0.2** | 0.1 |
| Rental income | **11.7** | 9.7 |

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 | **0.6** | 0.5 |
| Other assurance services | **0.1** | 0.2 |
| Services relating to corporate finance transactions | **0.2** | 0.1 |
| | **1.0** | 0.9 |

A description of the work of the Audit Committee is set out in the Audit Committee report on pages 60 to 64 and includes an explanation of how auditor objectivity and independence is safeguarded when non audit services are provided by the auditor.

### 7. Taxation

| | 2016 £m | 2015 £m |
|---|---|---|
| **Current tax** | | |
| UK corporation tax | **5.4** | 4.0 |
| Overseas tax at prevailing local rates | **12.9** | 10.1 |
| Adjustments in respect of prior periods | **(1.6)** | (2.4) |
| | **16.7** | 11.7 |
| **Deferred tax (note 13)** | | |
| UK deferred tax | **(0.4)** | 0.3 |
| Overseas tax at prevailing local rates | **-** | (3.7) |
| Adjustments in respect of prior periods | **-** | 0.1 |
| Effect of change in tax rate | **(1.8)** | 0.7 |
| **Tax on profit in the Consolidated Income Statement** | **14.5** | 9.1 |
| **Deferred tax (note 13)** | | |
| Relating to defined benefit pension schemes | **(2.1)** | 1.2 |
| Relating to financial instruments | **-** | 0.1 |
| **Tax on items taken directly to Other Comprehensive Income** | **(2.1)** | 1.3 |
| **Current tax** | | |
| Relating to share-based payments | **(0.6)** | (0.3) |
| **Deferred tax (note 13)** | | |
| Relating to share-based payments | **(0.4)** | (0.1) |
| **Tax taken directly to the Consolidated Statement of Changes in Equity** | **(1.0)** | (0.4) |

The tax charge in the Consolidated Income Statement for the period is higher (2015: higher) than the standard rate of corporation tax in the UK. The differences are explained below:

| | 2016 £m | 2015 £m |
|---|---|---|
| **Profit before taxation** | **48.3** | 33.2 |
| Profit before taxation multiplied by the effective rate of corporation tax in the UK of 20% (2015: 20.25%) | **9.7** | 6.7 |
| Expenses not deductible/income not chargeable for tax purposes | **1.4** | 0.4 |
| Non-deductible goodwill impairment | **0.8** | 1.6 |
| Benefits from internal financing arrangements | **(1.4)** | (1.3) |
| Local tax incentives | **(0.9)** | (0.9) |
| Utilisation of brought forward tax losses not recognised | **(0.1)** | - |
| Overseas profits taxed at higher/(lower) rates | **6.3** | 3.7 |
| Overseas losses not relieved | **1.6** | 0.4 |
| Withholding taxes | **0.5** | 0.1 |
| Impact of rate changes | **(1.8)** | 0.7 |
| Adjustments in respect of prior periods | **(1.6)** | (2.3) |
| **Tax charge** | **14.5** | 9.1 |

# Notes to the Consolidated Financial Statements (continued)

**8. Earnings per share**

The weighted average number of ordinary shares in issue during the year was 78.5m (2015: 78.1m), diluted for the effects of the outstanding dilutive share options 79.3m (2015: 78.8m). Underlying earnings per share have been shown because the Directors consider that this provides valuable additional information about the underlying performance of the Group.

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Pence per share | £m | Pence per share | £m |
| Basic earnings | 43.0 | 33.8 | 30.9 | 24.1 |
| Non-underlying items* | 22.9 | 17.9 | 20.8 | 16.3 |
| **Underlying earnings** | 65.9 | 51.7 | 51.7 | 40.4 |
| Diluted earnings | 42.5 | 33.8 | 30.6 | 24.1 |
| Non-underlying items* | 22.6 | 17.9 | 20.7 | 16.3 |
| **Underlying diluted earnings** | 65.1 | 51.7 | 51.3 | 40.4 |

* Non-underlying items as detailed in note 3.

**9. Dividends**

Dividends paid in the year were the prior year's interim dividend of £5.5m (2015: £5.0m) and the final dividend of £10.7m (2015: £9.1m). Dividends declared after the year end 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:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Pence per share | £m | Pence per share | £m |
| **Equity shares** | | | | |
| Interim | 8.5 | 6.7 | 7.1 | 5.5 |
| Final | 17.9 | 14.1 | 13.6 | 10.6 |
| **Total** | 26.4 | 20.8 | 20.7 | 16.1 |

### 10. Intangible assets

| | Goodwill £m | Brands £m | Customer lists £m | Capitalised development costs £m | Contracts, licences and other assets £m | Total £m |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 1 January 2015 | 100.1 | 19.5 | 13.2 | 11.9 | 2.0 | 146.7 |
| Exchange adjustments | 0.8 | 0.5 | 0.3 | - | - | 1.6 |
| Acquisitions | 8.3 | 0.9 | 7.3 | - | - | 16.5 |
| Additions | - | - | - | 1.1 | - | 1.1 |
| **At 31 December 2015** | **109.2** | **20.9** | **20.8** | **13.0** | **2.0** | **165.9** |
| **Exchange adjustments** | **12.9** | **3.6** | **2.3** | **-** | **0.3** | **19.1** |
| **Acquisitions** | **15.8** | **0.8** | **11.3** | **-** | **4.9** | **32.8** |
| **Additions** | **-** | **-** | **-** | **1.5** | **0.2** | **1.7** |
| **At 31 December 2016** | **137.9** | **25.3** | **34.4** | **14.5** | **7.4** | **219.5** |
| **Amortisation and impairment losses** | | | | | | |
| At 1 January 2015 | - | 2.5 | 8.9 | 8.6 | 0.6 | 20.6 |
| Exchange adjustments | 0.3 | 0.1 | 0.3 | - | - | 0.7 |
| Impairment losses | 8.2 | 5.6 | 0.8 | - | 1.1 | 15.7 |
| Amortisation charge for the year | - | 0.5 | 1.1 | 0.8 | 0.1 | 2.5 |
| **At 31 December 2015** | **8.5** | **8.7** | **11.1** | **9.4** | **1.8** | **39.5** |
| **Exchange adjustments** | **1.7** | **1.7** | **2.0** | **-** | **0.3** | **5.7** |
| **Impairment losses** | **4.1** | **-** | **-** | **-** | **-** | **4.1** |
| **Amortisation charge for the year** | **-** | **0.6** | **1.8** | **0.9** | **0.4** | **3.7** |
| **At 31 December 2016** | **14.3** | **11.0** | **14.9** | **10.3** | **2.5** | **53.0** |
| **Carrying values** | | | | | | |
| At 1 January 2015 | 100.1 | 17.0 | 4.3 | 3.3 | 1.4 | 126.1 |
| At 31 December 2015 | 100.7 | 12.2 | 9.7 | 3.6 | 0.2 | 126.4 |
| **At 31 December 2016** | **123.6** | **14.3** | **19.5** | **4.2** | **4.9** | **166.5** |

# Notes to the Consolidated Financial Statements (continued)

**10. Intangible assets** continued
**2016**
On 13 May 2016 the Group acquired the share capital of Safety and Security Barrier Holdings Limited, the parent company of Hardstaff Barriers Limited. Details of this acquisition are as follows:

| Safety and Security Barrier Holdings Limited | Pre acquisition carrying amount £m | Policy alignment and fair value adjustments £m | Total £m |
|---|---|---|---|
| Intangible assets | - | 4.4 | 4.4 |
| Property, plant and equipment | 1.9 | (0.7) | 1.2 |
| Inventories | 0.2 | - | 0.2 |
| Current assets | 0.7 | - | 0.7 |
| Cash and cash equivalents | 0.3 | - | 0.3 |
| **Total assets** | **3.1** | **3.7** | **6.8** |
| Current trade and other liabilities | (0.8) | (0.2) | (1.0) |
| Current tax liabilities | (0.2) | (0.8) | (1.0) |
| Deferred tax liabilities | (0.3) | (0.6) | (0.9) |
| **Total liabilities** | **(1.3)** | **(1.6)** | **(2.9)** |
| **Net assets** | **1.8** | **2.1** | **3.9** |
| **Consideration** | | | |
| Consideration in the year | | | **10.7** |
| **Goodwill** | | | **6.8** |
| **Cash flow effect** | | | |
| Consideration | | | **10.7** |
| Cash and cash equivalents acquired with the business | | | **(0.3)** |
| **Net cash consideration shown in the Consolidated Statement of Cash Flows** | | | **10.4** |

Contractual and customer relationships have been recognised as specific intangible assets as a result of the acquisition. The residual goodwill arising primarily represents the assembled workforce, market share and geographical advantages afforded to the Group. Fair value adjustments have been made to better align the accounting policies of the acquired business with the Group's accounting policies and to reflect the fair value of assets and liabilities acquired.

Post acquisition the acquired business has contributed £2.6m revenue and £0.4m underlying operating profit, which are included in the Group's Consolidated Income Statement. If the acquisition had been made on 1 January 2016, the Group's results for the year would have shown revenue of £541.2m and underlying operating profit of £70.8m.

**10. Intangible assets** continued

**2016**

On 13 July 2016 the Group acquired the share capital of Technocover Limited. Details of this acquisition are as follows:

| **Technocover Limited** | Pre acquisition carrying amount £m | Policy alignment and fair value adjustments £m | Total £m |
|---|---|---|---|
| Intangible assets | 0.1 | 5.9 | 6.0 |
| Property, plant and equipment | 2.4 | (0.1) | 2.3 |
| Inventories | 0.5 | - | 0.5 |
| Current assets | 1.7 | - | 1.7 |
| Cash and cash equivalents | 1.0 | - | 1.0 |
| **Total assets** | **5.7** | **5.8** | **11.5** |
| Current trade and other liabilities | (1.7) | - | (1.7) |
| Current tax liabilities | (0.2) | - | (0.2) |
| Deferred tax liabilities | (0.1) | (1.1) | (1.2) |
| **Total liabilities** | **(2.0)** | **(1.1)** | **(3.1)** |
| **Net assets** | **3.7** | **4.7** | **8.4** |
| **Consideration** | | | |
| Consideration in the year | | | **10.2** |
| **Goodwill** | | | **1.8** |
| **Cash flow effect** | | | |
| Consideration | | | **10.2** |
| Cash and cash equivalents acquired with the business | | | **(1.0)** |
| **Net cash consideration shown in the Consolidated Statement of Cash Flows** | | | **9.2** |

Brands, contractual and customer relationships have been recognised as specific intangible assets as a result of the acquisition. The residual goodwill arising primarily represents the assembled workforce, market share and geographical advantages afforded to the Group. Fair value adjustments have been made to better align the accounting policies of the acquired business with the Group's accounting policies and to reflect the fair value of assets and liabilities acquired.

Post acquisition the acquired business has contributed £4.6m revenue and £0.2m underlying operating profit, which are included in the Group's Consolidated Income Statement. If the acquisition had been made on 1 January 2016, the Group's results for the year would have shown revenue of £546.2m and underlying operating profit of £71.3m.

# Notes to the Consolidated Financial Statements (continued)

**10. Intangible assets** continued

**2016**

On 3 August 2016 the Group acquired the share capital of Signature Limited. Details of this acquisition are as follows:

| Signature Limited | Pre acquisition carrying amount £m | Policy alignment and fair value adjustments £m | Total £m |
|---|---|---|---|
| Intangible assets | - | 6.6 | 6.6 |
| Property, plant and equipment | 3.5 | (0.1) | 3.4 |
| Inventories | 1.7 | (0.2) | 1.5 |
| Current assets | 2.5 | (0.1) | 2.4 |
| Cash and cash equivalents | - | - | - |
| **Total assets** | **7.7** | **6.2** | **13.9** |
| Current interest bearing liabilities | (0.2) | - | (0.2) |
| Current trade and other liabilities | (3.2) | (0.2) | (3.4) |
| Current tax liabilities | (0.2) | - | (0.2) |
| Deferred tax liabilities | - | (1.1) | (1.1) |
| **Total liabilities** | **(3.6)** | **(1.3)** | **(4.9)** |
| **Net assets** | **4.1** | **4.9** | **9.0** |
| **Consideration** | | | |
| Consideration in the year | | | **12.0** |
| **Goodwill** | | | **3.0** |
| **Cash flow effect** | | | |
| Consideration | | | **12.0** |
| Refund of consideration due | | | **0.4** |
| Net overdraft acquired with the business | | | **0.2** |
| **Net cash consideration shown in the Consolidated Statement of Cash Flows** | | | **12.6** |

Brands, contractual and customer relationships have been recognised as specific intangible assets as a result of the acquisition. The residual goodwill arising primarily represents the assembled workforce, market share and geographical advantages afforded to the Group. Fair value adjustments have been made to better align the accounting policies of the acquired business with the Group's accounting policies and to reflect the fair value of assets and liabilities acquired.

Post acquisition the acquired business has contributed £4.8m revenue and £0.2m underlying operating profit, which are included in the Group's Consolidated Income Statement. If the acquisition had been made on 1 January 2016, the Group's results for the year would have shown revenue of £548.6m and underlying operating profit of £72.0m.

**10. Intangible assets** continued
**2016**
The Group has also made two other smaller acquisitions during the year:

- The trade and certain assets of E.T. Techtonics, Inc. ('ETT'), acquired in January 2016; and
- The share capital of FMK Trafikprodukter AB ('FMK') , acquired in April 2016.

Details of these acquisitions are set out below:

| | ETT Pre acquisition carrying amount £m | FMK Pre acquisition carrying amount £m | Policy alignment and fair value adjustments £m | Total £m |
|---|---|---|---|---|
| Intangible assets | - | - | - | - |
| Property, plant and equipment | - | - | - | - |
| Inventories | - | 1.3 | (0.1) | 1.2 |
| Current assets | 0.1 | 0.2 | - | 0.3 |
| Cash and cash equivalents | - | - | - | - |
| **Total assets** | **0.1** | **1.5** | **(0.1)** | **1.5** |
| Current trade and other liabilities | - | (0.2) | - | (0.2) |
| Deferred tax liabilities | - | - | - | - |
| **Total liabilities** | **-** | **(0.2)** | **-** | **(0.2)** |
| **Net assets** | **0.1** | **1.3** | **(0.1)** | **1.3** |
| **Consideration** | | | | |
| Consideration in the year | | | | **5.5** |
| **Goodwill** | | | | **4.2** |
| **Cash flow effect** | | | | |
| Consideration | | | | **5.5** |
| Contingent consideration | | | | **(0.8)** |
| Cash and cash equivalents acquired with the business | | | | **-** |
| **Net cash consideration shown in the Consolidated Statement of Cash Flows** | | | | **4.7** |

The goodwill arising primarily represents the market share and know-how afforded to the Group. Fair value adjustments have been made to better align the accounting policies of the acquired businesses with the Group's accounting policies and to reflect the fair value of assets and liabilities acquired. Contingent consideration relates to the acquisition of FMK and is the maximum amount payable dependent on the achievement of performance and product development targets.

Post acquisition the acquired businesses have contributed £3.8m revenue and £nil underlying operating profit, which are included in the Group's Consolidated Income Statement. If the acquisitions had been made on 1 January 2016, the Group's results for the year would have shown revenue of £540.5m and underlying operating profit of £70.5m.

# Notes to the Consolidated Financial Statements (continued)

**10. Intangible assets** continued
**2015**
On 25 November 2015 the Group acquired the share capital of Premier Galvanizing Limited. Details of this acquisition are as follows:

| Premier Galvanizing Limited | Pre acquisition carrying amount £m | Policy alignment and fair value adjustments £m | Total £m |
|---|---|---|---|
| Intangible assets | - | 7.9 | 7.9 |
| Property, plant and equipment | 1.2 | - | 1.2 |
| Inventories | 0.6 | (0.2) | 0.4 |
| Current assets | 2.2 | - | 2.2 |
| Cash and cash equivalents | 3.3 | - | 3.3 |
| **Total assets** | **7.3** | **7.7** | **15.0** |
| Current trade and other liabilities | (2.2) | (0.2) | (2.4) |
| Deferred tax liabilities | (0.1) | (1.3) | (1.4) |
| **Total liabilities** | **(2.3)** | **(1.5)** | **(3.8)** |
| **Net assets** | **5.0** | **6.2** | **11.2** |
| **Consideration** | | | |
| Consideration in the year | | | **18.3** |
| **Goodwill** | | | **7.1** |
| **Cash flow effect** | | | |
| Consideration | | | **18.3** |
| Deferred consideration | | | **(0.3)** |
| Cash and cash equivalents acquired with the business | | | **(3.3)** |
| **Net cash consideration shown in the Consolidated Statement of Cash Flows** | | | **14.7** |

Brands and customer relationships were recognised as specific intangible assets as a result of the acquisition. The residual goodwill arising primarily represents the assembled workforce, market share and geographical advantages afforded to the Group. Fair value adjustments have been made to better align the accounting policies of the acquired business with the Group's accounting policies and to reflect the fair value of assets and liabilities acquired.

**10. Intangible assets** continued

**2015**

The Group also made three other smaller acquisitions in 2015:

- The share capital of Novia Associates, Inc., acquired in April 2015;
- The trade and certain assets of Tegrel Limited, acquired in November 2015; and
- The share capital of Bowater Doors Limited, acquired in December 2015.

Details of these acquisitions are set out below:

| | Novia Pre acquisition carrying amount £m | Tegrel Pre acquisition carrying amount £m | Bowater Pre acquisition carrying amount £m | Policy alignment and fair value adjustments £m | Total £m |
|---|---|---|---|---|---|
| Intangible assets | - | - | - | 0.3 | 0.3 |
| Property, plant and equipment | 0.1 | 0.1 | 0.1 | 0.1 | 0.4 |
| Inventories | 0.1 | 0.2 | 0.5 | (0.1) | 0.7 |
| Current assets | 0.4 | 0.4 | - | - | 0.8 |
| Cash and cash equivalents | 0.1 | - | - | - | 0.1 |
| **Total assets** | **0.7** | **0.7** | **0.6** | **0.3** | **2.3** |
| Current trade and other liabilities | (0.2) | (0.3) | (0.3) | (0.4) | (1.2) |
| Deferred tax liabilities | - | - | - | (0.1) | (0.1) |
| **Total liabilities** | **(0.2)** | **(0.3)** | **(0.3)** | **(0.5)** | **(1.3)** |
| **Net assets** | **0.5** | **0.4** | **0.3** | **(0.2)** | **1.0** |
| **Consideration** | | | | | |
| Consideration in the year | | | | | **2.2** |
| **Goodwill** | | | | | **1.2** |
| **Cash flow effect** | | | | | |
| Consideration | | | | | **2.2** |
| Deferred consideration | | | | | **(0.2)** |
| Cash and cash equivalents acquired with the business | | | | | **(0.1)** |
| **Net cash consideration shown in the Consolidated Statement of Cash Flows** | | | | | **1.9** |

Customer lists were recognised as a specific intangible asset as a result of the acquisition of Novia Associates. Fair value adjustments have been made to better align the accounting policies of the acquired businesses with the Group's accounting policies and to reflect the fair value of assets and liabilities acquired.

# Notes to the Consolidated Financial Statements (continued)

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

| | 2016 £m | 2015 £m |
|---|---|---|
| **Infrastructure Products - Utilities** | | |
| Creative Pultrusions | **9.1** | 7.4 |
| Others <£5m individually | **10.9** | 6.5 |
| **Infrastructure Products - Roads** | | |
| Hardstaff Barriers | **6.8** | - |
| Others <£5m individually | **15.6** | 13.6 |
| **Galvanizing Services** | | |
| France Galva SA | **28.8** | 25.4 |
| USA | **27.6** | 23.0 |
| UK | **24.8** | 24.8 |
| | **123.6** | 100.7 |

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 Galvanizing brand names of £8.2m (2015: £6.9m), 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 plans for the following two years and an average growth rate of 3% applied subsequently based on management's estimate for revenue and associated cost growth. Budgets and strategic plans are prepared taking into account a range of factors including past experience, the forecast future trading environment and macroeconomic conditions in the Group's key markets. The long-term growth rate assumption reflects the historical long-term growth rates of the developed economies in which the Group principally operates.

These assumptions are applied to all CGU's with the exception of the CA Traffic CGU and France Galva SA CGU, further details of which are set out below.

The calculated headroom between value in use and carrying value of each of the cash generating units with significant amounts of goodwill, together with the pre-tax discount rates applied, is set out below. Hardstaff Barriers is excluded from this table as the CGU was acquired in May 2016 and there have been no factors arising since its acquisition that would indicate an impairment.

| | **2016** | | 2015 | |
|---|---|---|---|---|
| | **Headroom £m** | **Discount rate** | Headroom £m | Discount rate |
| Creative Pultrusions | **42.8** | **11.8%** | 21.2 | 12.6% |
| France Galva SA | **4.1** | **13.7%** | 2.5 | 14.4% |
| Galvanizing Services - USA | **233.6** | **12.1%** | 134.5 | 13.5% |
| Galvanizing Services - UK | **63.8** | **11.0%** | 25.7 | 12.2% |

The pre-tax discount rates detailed above equate to post-tax discount rates of between 9.5% and 10.0%, derived from a market participant's cost of capital and risk adjusted for individual cash generating units' circumstances. Similar discount rates are applied in determining the recoverable amounts of other cash generating units. The discount rates applied in determining headroom in both 2016 and 2015 are broadly consistent.

**CA Traffic**
The 2016 financial performance of the CA Traffic CGU was below that assumed in the impairment review carried out at 31 December 2015, and below the CGU's budget for 2016, due to the deterioration in performance in the second half of 2016. As a result the impairment review performed during the year was based on the Board's revised expectations of future profitability and cash flow forecasts, which are lower than the 2017 budget and strategic plan. The impairment review concluded that the carrying value of the assets of the business were less than their recoverable amount (determined by reference to the value in use) by £4.1 million, representing the total value of the goodwill arising on acquisition. The basis for determining the value in use, including the discount rate was consistent with that used in the annual impairment review performed as at 31 December 2015. The review concluded that no further impairment charge in relation to the remaining assets of the CA Traffic CGU was required.

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. The sensitivity analyses did not identify any material impairments with the exception of the goodwill attributed to France Galva SA.

**10. Intangible assets** continued

**France Galva SA**

The France Galva SA impairment review was prepared based on the following key assumptions:

- Budgeted cash flows for 2017, which assumed a 2% reduction in galvanizing volumes compared with 2016, and were driven by market conditions in France at the time that the budget was set.
- For 2018 and beyond the calculations assume future annual growth in galvanizing volumes of 1%. This assumption is considered appropriate as, in the Group's experience, galvanizing volumes are closely linked to growth in activity in industrial markets, itself closely linked to country GDP growth. The current GDP growth projections for France issued by the IMF exceed 1%. This assumption results in future cash flows that are higher than the original strategic plan for 2018 and 2019 and reflects the improvement in the performance of the business in 2016 compared with the prior year.
- A discount rate of 13.7%.

Galvanizing volumes are the key assumption on which the goodwill impairment review is most sensitive. A reduction of 1.7% in the 2017 budgeted volumes, assuming the same future growth rates thereafter, would reduce the headroom to zero. In the event that budgeted volumes for 2017 are achieved but that there is no subsequent growth, a goodwill impairment charge of £18.1m would arise. The carrying value of goodwill of £28.8m would be fully impaired if future volumes were assumed to fall by 1.2% per annum.

**11. Property, plant and equipment**

| | Land and buildings £m | Plant, machinery and vehicles £m | Total £m |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2015 | 77.1 | 155.5 | 232.6 |
| Exchange adjustments | 0.5 | - | 0.5 |
| Acquisitions | 0.9 | 0.7 | 1.6 |
| Additions | 4.3 | 9.2 | 13.5 |
| Transfers from assets held for sale | 1.0 | - | 1.0 |
| Disposals | (0.8) | (5.2) | (6.0) |
| **At 31 December 2015** | **83.0** | **160.2** | **243.2** |
| **Exchange adjustments** | **12.3** | **11.4** | **23.7** |
| **Acquisitions** | **4.5** | **2.4** | **6.9** |
| **Additions** | **4.7** | **15.7** | **20.4** |
| **Reclassification** | **0.8** | **(0.8)** | **-** |
| **Transfers to assets held for sale** | **(1.9)** | **-** | **(1.9)** |
| **Disposals** | **(2.4)** | **(8.5)** | **(10.9)** |
| **At 31 December 2016** | **101.0** | **180.4** | **281.4** |
| **Depreciation and impairment losses** | | | |
| At 1 January 2015 | 17.8 | 86.1 | 103.9 |
| Exchange adjustments | (0.2) | 0.1 | (0.1) |
| Disposals | (0.4) | (4.9) | (5.3) |
| Charge for the year | 2.9 | 12.6 | 15.5 |
| **At 31 December 2015** | **20.1** | **93.9** | **114.0** |
| **Exchange adjustments** | **3.3** | **5.4** | **8.7** |
| **Disposals** | **(0.7)** | **(6.8)** | **(7.5)** |
| **Reclassification** | **0.7** | **(0.7)** | **-** |
| **Transfers to assets held for sale** | **(0.8)** | **-** | **(0.8)** |
| **Charge for the year** | **3.5** | **13.8** | **17.3** |
| **At 31 December 2016** | **26.1** | **105.6** | **131.7** |
| **Carrying values** | | | |
| At 1 January 2015 | 59.3 | 69.4 | 128.7 |
| At 31 December 2015 | 62.9 | 66.3 | 129.2 |
| **At 31 December 2016** | **74.9** | **74.8** | **149.7** |

The gross book value of land and buildings includes freehold land of £18.6m (2015: £15.3m). Included in the carrying value of plant, machinery and vehicles is £nil (2015: £0.1m) 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 £40.4m (2015: £40.3m) and accumulated depreciation of £25.2m (2015: £23.1m).

# Notes to the Consolidated Financial Statements (continued)

### 12. Assets held for sale

| | 2016 £m | 2015 £m |
|---|---|---|
| Land and buildings | **1.1** | - |

At 31 December 2015 the Group did not hold any assets for sale. During 2016 one property has been actively marketed for disposal and has therefore been classified as held for sale at 31 December 2016. This property is expected to be sold in 2017.

### 13. Deferred taxation

| | Intangible assets £m | Property, plant and equipment £m | Inventories £m | Retirement obligation £m | Other timing differences £m | Total £m |
|---|---|---|---|---|---|---|
| At 1 January 2015 | (8.5) | (6.6) | 0.9 | 4.7 | 1.9 | (7.6) |
| Exchange adjustments | (0.1) | (0.1) | - | (0.1) | 0.1 | (0.2) |
| Acquisitions of subsidiaries | (1.5) | - | - | - | - | (1.5) |
| Credited/(charged) for the year in the Consolidated Income Statement (note 7) | 3.1 | 0.6 | 0.3 | (0.2) | (1.2) | 2.6 |
| Charged for the year in the Consolidated Statement of Comprehensive Income (note 7) | - | - | - | (1.2) | (0.1) | (1.3) |
| Credited for the year in the Consolidated Statement of Changes in Equity (note 7) | - | - | - | - | 0.1 | 0.1 |
| **At 31 December 2015** | **(7.0)** | **(6.1)** | **1.2** | **3.2** | **0.8** | **(7.9)** |
| **Exchange adjustments** | **(0.9)** | **(1.2)** | **-** | **0.2** | **0.5** | **(1.4)** |
| **Acquisitions of subsidiaries** | **(3.0)** | **(0.3)** | **-** | **-** | **0.1** | **(3.2)** |
| **Credited/(charged) for the year in the Consolidated Income Statement (note 7)** | **1.1** | **1.1** | **(0.3)** | **(0.2)** | **0.5** | **2.2** |
| **Credited for the year in the Consolidated Statement of Comprehensive Income (note 7)** | **-** | **-** | **-** | **2.1** | **-** | **2.1** |
| **Credited for the year in the Consolidated Statement of Changes in Equity (note 7)** | **-** | **-** | **-** | **-** | **0.4** | **0.4** |
| **At 31 December 2016** | **(9.8)** | **(6.5)** | **0.9** | **5.3** | **2.3** | **(7.8)** |

| | 2016 £m | 2015 £m |
|---|---|---|
| Deferred tax assets | **0.1** | 1.0 |
| Deferred tax liabilities | **(7.9)** | (8.9) |
| **Deferred tax liability** | **(7.8)** | (7.9) |

No deferred tax asset has been recognised in respect of tax losses of £10.9m (2015: £14.6m) as their future use is uncertain. There is no time limit on the carrying forward of these losses.

In the UK Budget on 8 July 2015, the UK Government proposed to reduce the main rate of UK corporation tax to 19% with effect from 1 April 2017 and to 18% with effect from 1 April 2020. In the Budget on 16 March 2016 a further rate reduction to 17% was proposed from 1 April 2020, instead of the reduction to 18% as originally planned. The deferred tax balance in respect of UK entities has therefore been calculated at 17% (2015: 18%) on the basis that these balances will materially reverse after 1 April 2020. In addition a reduction in the French corporation tax rate to 28% by 2020 was enacted in December 2016. The deferred tax balance in respect of French entities has therefore been calculated at 28% (2015: 33.33%) on the basis that these balances will materially reverse after 1 April 2020.

### 14. Inventories

| | 2016 £m | 2015 £m |
|---|---|---|
| Raw materials and consumables | **38.2** | 32.3 |
| Work in progress | **8.4** | 5.6 |
| Finished goods and goods for resale | **25.0** | 19.8 |
| | **71.6** | 57.7 |

**14. Inventories** continued

The amount of inventories expensed to the Consolidated Income Statement in the year was £309.8m (2015: £264.8m). The value of inventories written down and expensed in the Consolidated Income Statement during the year amounted to £2.1m (2015: £nil) and arose from the restructuring actions undertaken by the Group. The amount of inventories held at fair value less cost to sell included in the above was £nil (2015: £nil).

**15. Trade and other receivables**

| | 2016 £m | 2015 £m |
|---|---|---|
| **Trade and other current receivables** | | |
| Trade receivables | **104.3** | 91.1 |
| Prepayments and accrued income | **6.7** | 6.5 |
| Other receivables | **1.8** | 1.2 |
| Fair value derivatives | **0.1** | - |
| | **112.9** | 98.8 |

The charge to the Consolidated Income Statement in the year in respect of impairment of trade receivables was £1.7m (2015: £0.2m), which is included in non-underlying items as it relates to the restructuring actions taken by the Group during the year.

**16. Cash and borrowings**

| | 2016 £m | 2015 £m |
|---|---|---|
| **Cash and cash equivalents in the Consolidated Statement of Financial Position** | | |
| Cash and bank balances | **15.6** | 12.9 |
| **Cash** | **15.6** | 12.9 |
| **Interest bearing loans and borrowings** | | |
| Amounts due within one year (note 17) | **(0.3)** | (0.3) |
| Amounts due after more than one year (note 18) | **(127.3)** | (104.1) |
| **Net debt** | **(112.0)** | (91.5) |
| | | |
| **Change in net debt** | | |
| Operating profit | **51.8** | 37.3 |
| Non-cash items | **26.5** | 34.6 |
| Operating cash flow before movement in working capital | **78.3** | 71.9 |
| Net movement in working capital | **(0.1)** | (2.5) |
| Changes in provisions and employee benefits | **-** | (3.3) |
| **Operating cash flow** | **78.2** | 66.1 |
| Tax paid | **(15.7)** | (12.6) |
| Net financing costs paid | **(2.8)** | (3.0) |
| Capital expenditure | **(21.7)** | (16.0) |
| Proceeds on disposal of non-current assets | **3.6** | 1.2 |
| **Free cash flow** | **41.6** | 35.7 |
| Dividends paid (note 9) | **(16.2)** | (14.1) |
| Acquisitions (note 10) | **(37.4)** | (16.6) |
| Amortisation of costs associated with refinancing revolving credit facilities | **(0.4)** | (0.4) |
| Purchase of shares for employee benefit trust | **(2.0)** | (0.9) |
| Issue of new shares (note 21) | **0.8** | 1.2 |
| **Net debt (increase)/decrease** | **(13.6)** | 4.9 |
| Effect of exchange rate fluctuations | **(6.9)** | (0.4) |
| Net debt at the beginning of the year | **(91.5)** | (96.0) |
| **Net debt at the end of the year** | **(112.0)** | (91.5) |

# Notes to the Consolidated Financial Statements (continued)

### 17. Current liabilities

| | 2016 £m | 2015 £m |
|---|---|---|
| **Interest bearing loans and borrowings** | | |
| Current portion of long term borrowings | **0.3** | 0.3 |
| Finance lease and hire purchase obligations | **-** | - |
| | **0.3** | 0.3 |
| **Trade and other current liabilities** | | |
| Trade payables | **59.1** | 48.6 |
| Other taxation and social security | **10.8** | 9.6 |
| Accrued expenses and deferred income | **27.8** | 22.8 |
| Fair value derivatives | **-** | 0.4 |
| Other payables | **7.4** | 6.4 |
| | **105.1** | 87.8 |

### 18. Non-current liabilities

| | 2016 £m | 2015 £m |
|---|---|---|
| **Interest bearing loans and borrowings** | | |
| Long term borrowings | **127.3** | 104.1 |
| Finance lease and hire purchase obligations | **-** | - |
| | **127.3** | 104.1 |
| **Other non-current liabilities** | | |
| Deferred government grants | **0.4** | 0.2 |

In accordance with IAS39, the costs of £1.0m associated with the amendments to the Group's principal banking facilities in 2016 have been deducted from the carrying value of the loans and are amortised over the life of the facility.

The unsecured bank borrowings carry a rate of interest of 1.05% above LIBOR/EURIBOR/US LIBOR subject to a ratchet as defined in the facility agreement. In the USA, borrowings that are not fixed carry a rate of interest of 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.

**19. Provisions for liabilities and charges**

| | Environmental £m | Restructuring £m | Other £m | Total £m |
|---|---|---|---|---|
| At 1 January 2015 | 2.3 | 1.5 | 0.4 | 4.2 |
| Utilised during the year | - | (0.7) | - | (0.7) |
| Released during the year | - | (0.6) | - | (0.6) |
| **At 31 December 2015** | **2.3** | **0.2** | **0.4** | **2.9** |
| **Exchange adjustments** | **0.5** | **-** | **-** | **0.5** |
| **Charged during the year** | **-** | **7.2** | **-** | **7.2** |
| **Utilised during the year** | **-** | **(4.1)** | **-** | **(4.1)** |
| **Released during the year** | **-** | **(0.7)** | **-** | **(0.7)** |
| **At 31 December 2016** | **2.8** | **2.6** | **0.4** | **5.8** |

| | **2016 £m** | 2015 £m |
|---|---|---|
| Amounts due within one year | **2.6** | 0.2 |
| Amounts due after more than one year | **3.2** | 2.7 |
| | **5.8** | 2.9 |

*Environmental provisions*
Environmental provisions recognise the estimated cost of remediating contaminated land at a number of the Group's operating sites, where it is considered probable that the Group will be obliged to carry out the necessary remediation work. Primarily the issues identified relate to sites acquired through acquisitions of subsidiaries. As a consequence of the long-term nature of the liabilities, the timescales are uncertain and the provisions represent the Directors' best estimate of the associated costs. The Group has sought expert external valuations where appropriate.

*Restructuring provisions*
Restructuring provisions represent the cash costs of closing or rationalising operations. The provisions represent the Directors' best estimate of the liabilities arising and are expected to be settled within the next twelve months.

*Other provisions*
Other provisions relate to various obligations including obligations in respect of onerous leases, property dilapidations and claims or disputes.

**20. 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 commercial, operating, financial 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.

# Notes to the Consolidated Financial Statements (continued)

**20. Financial instruments** continued

**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. The Group's UK companies represent the majority of the trade receivable at 31 December 2016 with 57% (2015: 56%) and currently the only geographical region that does not generally insure trade receivables is North America, which represents 21% (2015: 22%) 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 2016 and 2015, 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 2016 all such debt was covered by cash and cash equivalents netting to £15.3m positive current liquidity (2015: £12.6m).

The Group's principal UK revolving credit facility is a multicurrency agreement with a maturity date of April 2021 and a value at 31 December 2016 of £232.3m (2015: £213.1m), based on year end exchange rates. Along with various other on demand lines of credit, including bank overdrafts and finance leases, the Group has access to facilities of £247.1m (2015: £225.6m).

**Market risk**

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

**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 2016 credit exposure including cash deposited did not exceed £3.6m with any single institution (2015: £1.9m).

**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 and North America. 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 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 the 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 Group's policy is to enter into interest rate swaps in order to fix interest rates on up to 40% of its outstanding gross borrowings. At 31 December 2016 the proportion of gross borrowings subject to fixed interest rate swaps was 0% (2015: 26%).

**20. Financial instruments** continued

**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 2016 and 2015, as set out in the Operational and Financial Review on page 23.

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** | **-** | **15.6** | **15.6** | **15.6** |
| **Interest bearing loans due within one year** | **-** | **(0.3)** | **(0.3)** | **(0.3)** |
| **Interest bearing loans due after more than one year** | **-** | **(127.3)** | **(127.3)** | **(127.3)** |
| **Derivative assets** | **0.1** | **-** | **0.1** | **0.1** |
| **Derivative liabilities** | **-** | **-** | **-** | **-** |
| **Other assets** | **-** | **106.1** | **106.1** | **106.1** |
| **Other liabilities** | **-** | **(94.3)** | **(94.3)** | **(94.3)** |
| **Total at 31 December 2016** | **0.1** | **(100.2)** | **(100.1)** | **(100.1)** |
| Cash and cash equivalents | - | 12.9 | 12.9 | 12.9 |
| Interest bearing loans due within one year | - | (0.3) | (0.3) | (0.3) |
| Interest bearing loans due after more than one year | - | (104.1) | (104.1) | (104.1) |
| Derivative assets | - | - | - | - |
| Derivative liabilities | (0.4) | - | (0.4) | (0.4) |
| Other assets | - | 92.3 | 92.3 | 92.3 |
| Other liabilities | - | (77.8) | (77.8) | (77.8) |
| Total at 31 December 2015 | (0.4) | (77.0) | (77.4) | (77.4) |

**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** | **-** | **0.1** | **-** | **0.1** |
| **Derivative financial liabilities** | **-** | **-** | **-** | **-** |
| **Total at 31 December 2016** | **-** | **0.1** | **-** | **0.1** |
| Derivative financial assets | - | - | - | - |
| Derivative financial liabilities | - | (0.4) | - | (0.4) |
| Total at 31 December 2015 | - | (0.4) | - | (0.4) |

# Notes to the Consolidated Financial Statements (continued)

**20. Financial instruments** continued
At 31 December 2016 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/US LIBOR. 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 denominated finance leases. 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/US LIBOR.

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 £11.1m (2015: £11.4m) and US Dollar £53.6m (2015: £25.2m) denominated interest bearing loans, which are predominantly used to fund the Group's European and United States operations and include £64.7m (2015: £36.9m) designated as a hedge of the net investment in a foreign operation. The foreign currency loss of £9.5m (2015: loss of £0.4m) for the effective portion was recognised directly in equity netted against exchange differences on translation of foreign operations. Any ineffective portion recognised in the Consolidated Income Statement is insignificant.

**Fixed rate financial liabilities**

| | Weighted average interest rate % | Weighted average period for which rate is fixed Years |
|---|---|---|
| **Sterling at 31 December 2016** | **6.2** | **1.7** |
| Sterling at 31 December 2015 | 5.5 | 1.2 |
| US Dollar at 31 December 2015 | 1.1 | 0.3 |
| Euro at 31 December 2015 | 1.5 | 0.3 |

*(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** | **2.5** | **(2.5)** | **(0.3)** | **(0.3)** | **(1.6)** | **(0.3)** |
| **Unsecured bank borrowings** | **125.1** | **(130.9)** | **(1.9)** | **(1.9)** | **(127.1)** | **-** |
| **Finance lease obligations** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Other liabilities** | **94.3** | **(94.3)** | **(94.3)** | **-** | **-** | **-** |
| **Derivative liabilities** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Total at 31 December 2016** | **221.9** | **(227.7)** | **(96.5)** | **(2.2)** | **(128.7)** | **(0.3)** |
| Secured bank borrowings | 2.3 | (2.3) | (0.3) | (0.2) | (0.9) | (0.9) |
| Unsecured bank borrowings | 102.1 | (108.4) | (1.7) | (1.7) | (105.0) | - |
| Finance lease obligations | - | - | - | - | - | - |
| Other liabilities | 77.8 | (77.8) | (77.8) | - | - | - |
| Derivative liabilities | 0.4 | (0.4) | (0.4) | - | - | - |
| Total at 31 December 2015 | 182.6 | (188.9) | (80.2) | (1.9) | (105.9) | (0.9) |

**20. Financial instruments** continued

*(c) Maturity profile*

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

| | 2016 £m | 2015 £m |
|---|---|---|
| **Undrawn committed borrowing facilities** | | |
| Expiring after more than one year | **105.8** | 110.2 |

*(d) Fair values*

The gain in the year on the interest rate swaps held by the UK Group was £0.2m (2015: gain of £0.3m) which is recognised in the Statement of Comprehensive Income 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 fair value of forward currency exchange contracts realised in the Consolidated Income Statement as part of fair value derivatives amounted to £nil (2015: nil). The fair values of the Group's other financial instruments at 31 December 2016 and 2015 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 £4.1m (2015: £15.7m) were recognised in respect of the carrying values of non-current assets, as detailed in note 10.

*(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**

| | 2016 £m | 2015 £m |
|---|---|---|
| Loans and receivables | **106.1** | 92.3 |
| Cash at the end of the year | **15.6** | 12.9 |
| **Total** | **121.7** | 105.2 |

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

**Carrying value of trade receivables by geography**

| | 2016 £m | 2015 £m |
|---|---|---|
| UK | **59.7** | 51.4 |
| Rest of Europe | **16.3** | 12.8 |
| North America | **21.9** | 20.1 |
| Rest of World | **6.4** | 6.8 |
| **Total** | **104.3** | 91.1 |

**Carrying value of trade receivables by business segment**

| | 2016 £m | 2015 £m |
|---|---|---|
| Infrastructure Products - Utilities | **41.6** | 38.3 |
| Infrastructure Products - Roads | **33.2** | 26.2 |
| Infrastructure Products - Total | **74.8** | 64.5 |
| Galvanizing Services | **29.5** | 26.6 |
| **Total** | **104.3** | 91.1 |

# Notes to the Consolidated Financial Statements (continued)

**20. Financial instruments** continued

**Impairment losses**

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

The ageing of trade receivables at the reporting date was:

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | Gross £m | Provisions £m | Net £m | Gross £m | Provisions £m | Net £m |
| Not past due | **75.3** | **(0.1)** | **75.2** | 61.3 | (0.2) | 61.1 |
| Past due 1–30 days | **20.7** | **-** | **20.7** | 19.0 | - | 19.0 |
| Past due 31–120 days | **7.0** | **(0.2)** | **6.8** | 8.5 | (0.4) | 8.1 |
| Past due more than 120 days | **4.8** | **(3.2)** | **1.6** | 5.1 | (2.2) | 2.9 |
| **Total** | **107.8** | **(3.5)** | **104.3** | 93.9 | (2.8) | 91.1 |

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

| | £m |
|---|---|
| At 1 January 2015 | 3.0 |
| Exchange adjustments | - |
| Credited to the Consolidated Income Statement during the year | (0.2) |
| Utilised during the year | - |
| **At 31 December 2015** | **2.8** |
| **Exchange adjustments** | **0.2** |
| **Acquisitions of subsidiaries** | **0.3** |
| **Charged in the year** | **1.7** |
| **Utilised during the year** | **(1.5)** |
| **At 31 December 2016** | **3.5** |

*(f) Sensitivity analysis*

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

- Based on average month end net debt balances that are not subject to an interest rate swap, if interest rates had varied throughout the year by 1% the positive or negative variation on the year's result would have been £1.4m (2015: £0.9m), which would directly impact on the Consolidated Income Statement.
- Based on a 10% weakening in Sterling against all currencies throughout the year, the impact on the Consolidated Income Statement would have been a gain of £3.4m (2015: £2.7m) and the impact on equity would have been a gain of £18.9m (2015: £17.9m).
- 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 £2.8m (2015: £2.2m) and the impact on equity would have been a loss of £15.5m (2015: £14.6m).

## 21. Called up share capital

| | 2016 £m | 2015 £m |
|---|---|---|
| **Allotted, called up and fully paid** | | |
| 78.5m ordinary shares of 25p each (2015: 78.2m) | **19.7** | 19.6 |

In 2016 the Company issued 0.3m shares under its various share option schemes (2015: 0.3m), realising £0.8m (2015: £1.2m).

### Options outstanding over the Company's shares

| | 2016 Number of shares | 2016 Option price (p) | 2015 Number of shares | 2015 Option price (p) | Date first exercisable | Expiry date |
|---|---|---|---|---|---|---|
| 2014 LTIP Award (granted March 2016)* | **116,563** | **-** | - | - | § | § |
| 2014 LTIP Award (granted March 2015)* | **153,290** | **-** | 153,290 | - | § | § |
| 2014 LTIP Award (granted May 2014)*¥ | **186,121** | **-** | 186,121 | - | § | § |
| 2007 LTIP Award (granted March 2013)* | **-** | **-** | 160,148 | - | § | § |
| 2007 grant of 2005 Approved Executive Share Option Scheme (granted April 2007)* | **17,146** | **350** | 34,292 | 350 | 13 April 2010 | 13 April 2017 |
| 2007 grant of 2005 Unapproved Executive Share Option Scheme (granted April 2007)* | **2,854** | **350** | 7,708 | 350 | 13 April 2010 | 13 April 2017 |
| 2012 grant of 2005 Approved Executive Share Option Scheme (granted April 2012)* | **3,586** | **316** | 8,072 | 316 | 19 April 2015 | 19 April 2022 |
| 2012 grant of 2005 Unapproved Executive Share Option Scheme (granted April 2012)* | **10,514** | **316** | 10,514 | 316 | 19 April 2015 | 19 April 2022 |
| 2015 grant of 2014 Approved Executive Share Option Scheme (granted August 2015)* | **126,991** | **685** | 144,507 | 685 | 12 August 2018 | 12 August 2025 |
| 2015 grant of 2014 Unapproved Executive Share Option Scheme (granted August 2015)* | **238,009** | **685** | 265,493 | 685 | 12 August 2018 | 12 August 2025 |
| 2010 grant of 2005 Savings Related Share Option Scheme (granted January 2011)*† | **-** | **238** | 281,902 | 238 | 1 January 2016 | 1 July 2016 |
| 2013 grant of 2005 Savings Related Share Option Scheme (granted April 2013)*† | **233,904** | **355** | 237,284 | 355 | 1 June 2018 | 1 December 2018 |
| 2014 grant of 2014 Savings Related Share Option Scheme (granted July 2014)*† | **125,291** | **429** | 136,950 | 429 | 1 August 2017 | 1 February 2018 |
| 2014 grant of 2014 Savings Related Share Option Scheme (granted July 2014)*† | **124,793** | **429** | 132,065 | 429 | 1 August 2019 | 1 February 2020 |
| 2015 grant of 2014 Savings Related Share Option Scheme (granted October 2015)*† | **153,526** | **560** | 173,111 | 560 | 1 January 2019 | 1 July 2019 |
| 2015 grant of 2014 Savings Related Share Option Scheme (granted October 2015)*† | **144,929** | **560** | 148,141 | 560 | 1 January 2021 | 1 July 2021 |
| 2016 grant of 2014 Savings Related Share Option Scheme (granted October 2016)*† | **133,959** | **963** | - | - | 1 January 2020 | 1 July 2020 |
| 2016 grant of 2014 Savings Related Share Option Scheme (granted October 2016)*† | **71,283** | **963** | - | - | 1 January 2022 | 1 July 2022 |
| **Outstanding at the end of the year** | **1,842,759** | | 2,079,598 | | | |
| Exercisable at the year end | **34,100** | | 60,586 | | | |
| Not exercisable at the year end | **1,808,659** | | 2,019,012 | | | |
| **Outstanding at the end of the year** | **1,842,759** | | 2,079,598 | | | |

* 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 2017 for the 2014 grant, 1 January 2018 for the 2015 grant and 1 January 2019 for the 2016 grant.

¥ The 2014 LTIP award granted in May 2014 includes 16,113 shares under the Group's 2014 Executive Share Option Scheme that may be awarded to participants in the Long-Term Incentive Plan.

The remaining weighted average life of the outstanding share options is 3 years 6 months (2015: 3 years 7 months).

# Notes to the Consolidated Financial Statements (continued)

## 21. 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) 2016 | Millions of options 2016 | Weighted average exercise price (p) 2015 | Millions of options 2015 |
|---|---|---|---|---|
| Outstanding at the beginning of the year | **360** | **2.1** | 232 | 2.0 |
| Granted during the year | **615** | **0.3** | 521 | 0.8 |
| Exercised during the year | **(164)** | **(0.5)** | (191) | (0.6) |
| Lapsed during the year | **(554)** | **(0.1)** | (314) | (0.1) |
| **Outstanding at the end of the year** | **443** | **1.8** | 360 | 2.1 |

The weighted average share price on the dates of exercise of share options during the year was 772p (2015: 677p), and the weighted average fair value of options and awards granted in the year was 477p (2015: 184p). The weighted average exercise price of outstanding options exercisable at the year end was 336p.

*Share-based payments*

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.

| | 2016 grant of 2014 LTIP Award | 2015 grant of 2014 LTIP Award | 2014 grant of 2014 LTIP Award | October 2016 grant of 2014 Savings Related Share Option Scheme | October 2015 grant of 2014 Savings Related Share Option Scheme | July 2014 grant of 2014 Savings Related Share Option Scheme | April 2013 grant of 2005 Savings Related Share Option Scheme | 2015 grant of 2014 Share Option Schemes | 2012 grant of 2005 Share Option Schemes | 2007 grant of 2005 Share Option Schemes |
|---|---|---|---|---|---|---|---|---|---|---|
| Fair value at measurement date (p) | 862/606 | 671/434 | 556/260 | 309/374 | 123/159 | 93/98 | 83 | 80 | 41 | 59 |
| Share price at grant date (p) | 862 | 671 | 556 | 1163 | 691 | 512 | 429 | 700 | 316 | 351 |
| Exercise price (p) | 0 | 0 | 0 | 963 | 560 | 429 | 355 | 685 | 316 | 350 |
| Expected volatility (%) | 19 | 20 | 23 | 34/37 | 18/24 | 22/21 | 26 | 20 | 28 | 22 |
| Option life (years) | 3 | 3 | 3 | 3/5 | 3/5 | 3/5 | 5 | 3 | 3 | 3 |
| Dividend yield (%) | 0 | 0 | 0 | 1.8 | 2.6 | 3.1 | 3.5 | 2.6 | 4.2 | 3.7 |
| Risk free interest rate (%) | 0.7 | 0.9 | 1.1 | 0.1/0.2 | 0.8/1.2 | 1.2/2.0 | 0.7 | 1.0 | 0.6 | 5.1 |

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 unapproved 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:

| | 2016 £m | 2015 £m |
|---|---|---|
| Equity-settled | **1.1** | 0.9 |
| Cash-settled | **0.5** | 0.3 |
| **Total expensed during the year** | **1.6** | 1.2 |

## 22. Guarantees and other financial commitments

*(a) Guarantees*

The Group had no financial guarantee contracts outstanding (2015: £nil).

*(b) Capital commitments*

| | 2016 £m | 2015 £m |
|---|---|---|
| Contracted for but not provided in the accounts | **0.8** | 1.0 |

**22. 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:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Land and buildings £m | Other £m | Land and buildings £m | Other £m |
| **Group** | | | | |
| Within one year | **4.2** | **3.5** | 3.6 | 2.7 |
| Between one and two years | **4.0** | **2.9** | 3.4 | 2.1 |
| Between two and five years | **9.8** | **3.9** | 9.1 | 3.2 |
| After five years | **6.1** | **-** | 6.3 | 0.2 |
| | **24.1** | **10.3** | 22.4 | 8.2 |

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:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Land and buildings £m | Other £m | Land and buildings £m | Other £m |
| **Group** | | | | |
| Within one year | **0.4** | **11.2** | 0.4 | 10.6 |
| Between one and five years | **1.0** | **1.5** | 1.1 | 5.0 |
| After five years | **-** | **-** | 0.1 | - |
| | **1.4** | **12.7** | 1.6 | 15.6 |

**23. Pensions**

*Total*

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

| | UK £m | Overseas £m | 2016 £m | UK £m | Overseas £m | 2015 £m |
|---|---|---|---|---|---|---|
| Total fair value of scheme assets | **68.5** | **3.2** | **71.7** | 69.0 | 2.6 | 71.6 |
| Present value of scheme funded obligations | **(90.9)** | **(7.9)** | **(98.8)** | (80.1) | (6.0) | (86.1) |
| Present value of scheme unfunded obligations | **-** | **(0.2)** | **(0.2)** | - | (0.1) | (0.1) |
| **Retirement benefit obligation** | **(22.4)** | **(4.9)** | **(27.3)** | (11.1) | (3.5) | (14.6) |

**United Kingdom**

At 31 December 2015 the Group operated two main pension schemes in the UK, the Hill & Smith Executive Pension Scheme and the Hill & Smith Pension Scheme. In March 2016 the Group completed a merger of these schemes into one new scheme, the Hill & Smith 2016 Pension Scheme ('the Scheme'). As part of the merger, certain members of the existing schemes accepted the Group's offer to crystallise their pension entitlement by payment of a winding up lump sum. The effect of this was to reduce defined benefit obligations by £2.4m but reduce the value of scheme assets by £2.2m, resulting in a net settlement gain of £0.2m, which is recognised as a non-underlying credit in the Consolidated Income Statement.

The assets of the Scheme 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 (2015: £2.1m), which includes the costs of the defined contribution and the defined benefit sections of the Scheme.

# Notes to the Consolidated Financial Statements (continued)

**23. Pensions** continued

The Scheme exposes the Group to a number of risks, the most significant being:

| Risk | Description |
|---|---|
| Volatile asset returns | The defined benefit obligation is calculated using a discount rate set with reference to high quality corporate bond yields. If assets underperform this discount rate, this will create a plan deficit. The Scheme holds a proportion of its assets in equities and other growth assets which are expected to outperform corporate bonds in the long term. However, returns are likely to be volatile in the short term, potentially resulting in short term cash requirements and an increase in the defined benefit obligation recorded on the Consolidated Statement of Financial Position. The allocation to growth assets is monitored to ensure it remains appropriate given the Scheme's long term objectives. |
| Changes in bond yields | A decrease in corporate bond yields will increase the funding and accounting liabilities, although this will be partially offset by an increase in the value of the Scheme's investments in corporate and government bonds. |
| Inflation risk | A significant proportion of the defined benefit obligation is indexed in line with price inflation, with higher inflation leading to higher liabilities. |
| Life expectancy | The majority of the Scheme's obligations are to provide a pension for the life of each of the members, so increases in life expectancy will result in an increase in the liabilities. |

A full actuarial valuation of the Scheme was last carried out as at 5 April 2015 and was updated to 31 December 2016 by a qualified actuary. All actuarial gains and losses are recognised immediately in the Consolidated Statement of Comprehensive Income.

*The principal assumptions used by the actuary*

| | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|
| Rate of increase in salaries | **n/a** | n/a | n/a | n/a | n/a |
| Rate of increase in pensions payment | **3.20%** | 3.00% | 2.90% | 3.20% | 2.60% |
| Discount rate | **2.60%** | 3.80% | 3.50% | 4.30% | 4.20% |
| Inflation - RPI | **3.40%** | 3.10% | 3.0% | 3.40% | 2.70% |
| Inflation - CPI | **2.40%** | 2.10% | 2.0% | 2.40% | 1.95% |
| Mortality table | **116%120%** | 116%120% | 116%120% | 116%120% | 116%120% |
| | **S2PACM12015 1%** | S1PACM12015 1% | S1PACM12014 1% | S1PACMI2013 1% | S1PACMI2011 1% |

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

| | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|
| Males currently aged 45 | **21.8 years** | 21.7 years | 21.9 years | 21.7 years | 21.8 years |
| Females currently aged 45 | **24.0 years** | 23.9 years | 24.4 years | 24.1 years | 24.3 years |
| Males currently aged 65 | **20.8 years** | 20.7 years | 20.9 years | 20.7 years | 20.8 years |
| Females currently aged 65 | **22.7 years** | 22.7 years | 23.1 years | 22.9 years | 23.0 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. The Group takes advice from an independent actuary regarding the appropriateness of the assumptions used.

**23. Pensions** continued

*Assets and liabilities*

The 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 an average period of approximately 15 years and which is therefore inherently uncertain, are as follows:

| | **Market value 2016 £m** | Market value 2015 £m | Market value 2014 £m | Market value 2013 £m | Market value 2012 £m |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Equities | **27.7** | 27.0 | 23.1 | 21.7 | 21.7 |
| Bonds | **39.1** | 39.9 | 37.5 | 33.3 | 33.0 |
| With profits policies | **1.2** | 1.2 | 1.1 | 1.0 | 1.4 |
| Hedge funds | **-** | - | - | - | 5.5 |
| Cash | **0.5** | 0.9 | 6.9 | 7.1 | 0.4 |
| **Total fair value of Scheme assets** | **68.5** | 69.0 | 68.6 | 63.1 | 62.0 |
| Present value of Scheme funded obligations | **(90.9)** | (80.1) | (86.3) | (80.7) | (75.8) |
| **Retirement benefit obligation** | **(22.4)** | (11.1) | (17.7) | (17.6) | (13.8) |

**Total expense recognised in the Consolidated Income Statement**

| | **2016** | | | 2015 | | |
|---|---|---|---|---|---|---|
| | **Defined contribution schemes £m** | **Defined benefit schemes £m** | **Total £m** | Defined contribution schemes £m | Defined benefit schemes £m | Total £m |
| Current service costs | **1.2** | **-** | **1.2** | 1.4 | - | 1.4 |
| Settlement gain | **-** | **(0.2)** | **(0.2)** | - | - | - |
| Expenses | **0.1** | **0.5** | **0.6** | 0.1 | 0.6 | 0.7 |
| **Charge to operating profit** | **1.3** | **0.3** | **1.6** | 1.5 | 0.6 | 2.1 |
| Interest on net Scheme deficit | **-** | **0.4** | **0.4** | - | 0.6 | 0.6 |
| **Total charged to profit before tax** | **1.3** | **0.7** | **2.0** | 1.5 | 1.2 | 2.7 |

**Change in the present value of the defined benefit obligations**

| | **2016 £m** | 2015 £m |
|---|---|---|
| Opening defined benefit obligations | **80.1** | 86.3 |
| Interest cost | **2.9** | 3.0 |
| Actuarial loss/(gain) arising from: | | |
| Financial assumptions | **15.5** | (2.6) |
| Demographic assumptions | **-** | (0.6) |
| Experience adjustment | **-** | (2.2) |
| Gains on curtailments and settlements | **(2.4)** | - |
| Benefits paid | **(5.2)** | (3.8) |
| **Closing defined benefit obligations** | **90.9** | 80.1 |

# Notes to the Consolidated Financial Statements (continued)

**23. Pensions** continued

**Changes in fair values of Scheme assets**

| | 2016 £m | 2015 £m |
|---|---|---|
| Opening fair value of assets | **69.0** | 68.6 |
| Interest income | **2.5** | 2.4 |
| Return on plan assets excluding interest income | **2.0** | (0.4) |
| Employer contributions | **2.4** | 2.2 |
| Loss on curtailments and settlements | **(2.2)** | - |
| Benefits paid | **(5.2)** | (3.8) |
| **Closing fair value of assets** | **68.5** | 69.0 |
| **Actual return on Scheme assets** | **4.5** | 2.0 |
| **Expected employer contributions in the following year** | | |
| Defined benefit Scheme | **2.9** | 2.8 |
| Defined contribution schemes | **1.1** | 1.2 |

**Amounts recognised in the Consolidated Statement of Comprehensive Income**

| | % of Scheme assets/ liabilities % | 2016 £m | % of Scheme assets/ liabilities % | 2015 £m | % of Scheme assets/ liabilities % | 2014 £m |
|---|---|---|---|---|---|---|
| Return on plan assets excluding interest income | **3** | **2.0** | (1) | (0.4) | 4 | 3.1 |
| Experience gain on Scheme obligations | **-** | **-** | 3 | 2.2 | - | - |
| Changes in assumptions underlying the present value of Scheme obligations | **(17)** | **(15.5)** | 1 | 3.2 | (7) | (6.1) |
| **Annual amount recognised** | **(14)** | **(13.5)** | 6 | 5.0 | (3) | (3.0) |
| **Total amount recognised** | | **(42.5)** | | (29.0) | | (34.0) |

| | % of Scheme assets/ liabilities % | 2013 £m | % of Scheme assets/ liabilities % | 2012 £m |
|---|---|---|---|---|
| Return on plan assets excluding interest income | (2) | (0.6) | 11 | 6.7 |
| Experience 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) |
| **Annual amount recognised** | (8) | (5.8) | (1) | (0.5) |
| **Total amount recognised** | | (31.0) | | (25.2) |

The table below shows the sensitivity of the Consolidated Statement of Financial Position to certain changes in the significant pension assumptions:

| | Balance at 31 December 2016 | Discount rate (-0.1% p.a.) £m | Inflation rate (+0.1% p.a.) £m | Life expectancy (+1 year) £m |
|---|---|---|---|---|
| Value of funded obligations | (90.9) | (92.2) | (91.9) | (94.9) |
| Fair value of plan assets | 68.5 | 68.5 | 68.5 | 68.5 |
| **Deficit** | (22.4) | (23.7) | (23.4) | (26.4) |

The Group has considered the requirements of IFRIC 14 and concluded that there is no impact on the amounts recognised in respect of retirement benefit obligations.

**23. Pensions** continued

**Overseas**

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

In the USA Bergen 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 £0.6m (2015: £0.6m).

The Consolidated Income Statement for the year includes a pension charge within operating profit of £0.9m (2015: £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.

*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 2016.

*The principal assumptions used by the actuaries*

| | **2016 USA** | **2016 France** | 2015 USA | 2015 France | 2014 USA | 2014 France |
|---|---|---|---|---|---|---|
| Rate of increase in salaries | **0.00%** | **2.00%** | 0.00% | 2.00% | 0.00% | 2.00% |
| Discount rate | **4.15%** | **1.40%** | 4.60% | 2.00% | 4.75% | 2.50% |
| Inflation | **0.00%** | **2.00%** | 0.00% | 2.00% | 0.00% | 2.00% |
| Mortality table | **2014 SOA** | **TH 00-02, TF 00-02** | 2014 SOA | TH 00-02, TF 00-02 | 94 GAR Proj. 2002 | TH 00-02, TF 00-02 |

| | 2013 USA | 2013 France | 2012 USA | 2012 France |
|---|---|---|---|---|
| Rate of increase in salaries | 0.00% | 2.00% | 0.00% | 2.00% |
| Discount rate | 5.25% | 3.10% | 4.50% | 4.00% |
| Inflation | 0.00% | 2.00% | 0.00% | 2.00% |
| Mortality table | 94 GAR Proj. 2002 | TH 00-02, TF 00-02 | 94 GAR Proj. 2002 | TH 00-02, TF 00-02 |

*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 2016 £m** | Market value 2015 £m | Market value 2014 £m | Market value 2013 £m | Market value 2012 £m |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and other insured fixed interest assets | **3.2** | 2.6 | 2.7 | 2.6 | 2.5 |
| **Total fair value of scheme assets** | **3.2** | 2.6 | 2.7 | 2.6 | 2.5 |
| Present value of scheme funded obligations | **(7.9)** | (6.0) | (5.9) | (5.1) | (4.9) |
| Present value of scheme unfunded obligations | **(0.2)** | (0.1) | (0.2) | (0.1) | (0.1) |
| **Retirement benefit obligation** | **(4.9)** | (3.5) | (3.4) | (2.6) | (2.5) |

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 year end date.

# Notes to the Consolidated Financial Statements (continued)

**23. Pensions** continued

**Total expense recognised in the Consolidated Income Statement**

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | Defined contribution schemes £m | Defined benefit schemes £m | Total £m | Defined contribution schemes £m | Defined benefit schemes £m | Total £m |
| Current service cost | 0.6 | 0.3 | 0.9 | 0.6 | - | 0.6 |
| **Charge to operating profit** | 0.6 | 0.3 | 0.9 | 0.6 | - | 0.6 |
| Interest on net pension scheme deficit | - | 0.1 | 0.1 | - | 0.1 | 0.1 |
| **Total charged to profit before tax** | 0.6 | 0.4 | 1.0 | 0.6 | 0.1 | 0.7 |

**Change in the present value of the defined benefit obligation**

| | 2016 £m | 2015 £m |
|---|---|---|
| Opening defined benefit obligation | 6.1 | 6.1 |
| Current service costs | 0.3 | - |
| Interest cost on scheme obligations | 0.2 | 0.1 |
| Actuarial losses arising from: | | |
| Financial assumptions | 0.6 | - |
| Experience adjustments | - | - |
| Benefits paid | (0.3) | (0.1) |
| Exchange adjustments | 1.2 | - |
| **Closing defined benefit obligation** | 8.1 | 6.1 |

**Changes in fair values of scheme assets**

| | 2016 £m | 2015 £m |
|---|---|---|
| Opening fair value of assets | 2.6 | 2.7 |
| Return on plan assets excluding interest income | - | - |
| Interest on plan assets | 0.1 | - |
| Benefits paid | (0.1) | (0.1) |
| Exchange adjustments | 0.6 | - |
| **Closing fair value of assets** | 3.2 | 2.6 |
| **Actual return on scheme assets** | 0.1 | - |
| **Expected employer contributions in the following year** | | |
| Defined benefit schemes | - | - |
| Defined contribution schemes | 0.6 | 0.6 |

**23. Pensions** continued

**Amounts recognised in the Consolidated Statement of Comprehensive Income**

| | **% of scheme assets/ liabilities %** | **2016 £m** | % of scheme assets/ liabilities % | 2015 £m | % of scheme assets/ liabilities % | 2014 £m |
|---|---|---|---|---|---|---|
| Experience loss on scheme obligations | **(2)** | **(0.2)** | 4 | 0.2 | 0 | - |
| Return on plan assets excluding interest income | **-** | **-** | 0 | - | 0 | - |
| Changes in assumptions underlying the present value of scheme obligations | **(5)** | **(0.4)** | (4) | (0.2) | (10) | (0.6) |
| Exchange rate adjustment on assets and liabilities | **(12)** | **(0.6)** | 0 | - | 0 | - |
| **Amount recognised in the period** | | **(1.2)** | | - | | (0.6) |
| **Total amount recognised** | | **(2.8)** | | (1.6) | | (1.6) |

| | % of scheme assets/ liabilities % | 2013 £m | % of scheme assets/ liabilities % | 2012 £m |
|---|---|---|---|---|
| Experience 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) |
| Exchange rate adjustment on assets and liabilities | n/a | - | n/a | - |
| **Amount recognised in the period** | | - | | (0.4) |
| **Total amount recognised** | | (1.0) | | (1.0) |

The Group considers that any reasonable sensitivities applied to the overseas scheme assumptions would not have a material impact on the Consolidated Statement of Financial Position.

**24. 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 year end 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 and pension increases. The factors affecting these assumptions are largely outside the Group's control (note 23).

*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.

*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 19.

*Taxation*

Management is required to make an estimate of the current tax liability together with an assessment of the temporary differences which arise as a consequence of different accounting and tax treatments. Liabilities for tax contingencies also require management judgements and estimates in respect of tax audit issues and exposures in each of the jurisdictions in which the Group operates. Where management concludes that a tax position is uncertain, a current tax liability is held for anticipated taxes that are considered probable based on the information available. The key judgement area for the Group is the pricing of intercompany goods and services between subsidiaries in different countries. Included in the current tax payable is a liability of £6.1m (2015: £5.7m) for uncertain tax positions. Management engages with professional advisors in making its assessment and, if appropriate, will liaise with the relevant taxation authorities to resolve the matter. The tax liability is reassessed in each period to reflect management's best estimate in light of the information available. If the final outcome of these matters differs from the liability held in the Financial Statements, the difference may impact the income tax charge / (credit) in the year in which the matter is concluded. Further information is set out in note 7 and note 13.

# Notes to the Consolidated Financial Statements (continued)

**24. Accounting estimates, assumptions and judgements** continued

*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, contractual arrangements 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 determined to identify the reasons for goodwill arising, which in the case of recent acquisitions, has resulted mainly from assembled workforce, technical expertise, know-how, market share and geographical advantages.

Brands have been valued based on estimated royalty rates discounted over their useful lives, which is normally 20 years, but considered indefinite for the US Voigt & Schweitzer brand which has been successfully trading for over 50 years. Customer relationships have been valued based on discounted forecast revenues 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. Other contractual arrangements have been valued based on either replacement cost or an income approach utilising 'with or without' methodology and have been deemed to have estimated useful economic lives of between 8 and 10 years.

**25. 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 68 to 76. The compensation in total for each category required by IAS24 is as follows:

| | **2016 £m** | 2015 £m |
|---|---|---|
| Salaries and short term employee benefits | **1.6** | 1.6 |
| Non-executive Directors' fees | **0.3** | 0.3 |
| Pension costs | **0.2** | 0.2 |
| Share-based payments | **0.7** | 0.7 |
| | **2.8** | 2.8 |

# Company Balance Sheet

Year ended 31 December 2016

| | Notes | 2016 £m | 2015 £m |
|---|---|---|---|
| **Fixed assets** | | | |
| Tangible assets | 3 | **0.1** | 0.1 |
| Investments | 4 | **353.4** | 362.3 |
| | | **353.5** | 362.4 |
| **Current assets** | | | |
| Debtors | 5 | **84.8** | 52.7 |
| Cash and cash equivalents | | **0.8** | - |
| | | **85.6** | 52.7 |
| **Creditors: amounts falling due within one year** | | | |
| Bank loans and overdrafts | 6, 7 | **(9.6)** | (2.9) |
| Other creditors | 6 | **(81.2)** | (95.1) |
| | | **(90.8)** | (98.0) |
| Net current liabilities | | **(5.2)** | (45.3) |
| Total assets less current liabilities | | **348.3** | 317.1 |
| **Creditors: amounts falling due after more than one year** | 7 | **(51.6)** | (54.2) |
| **Provisions for liabilities and charges** | | | |
| Pension liabilities | 9 | **(0.5)** | (0.2) |
| Other provisions | | **(0.2)** | - |
| **Net assets** | | **296.0** | 262.7 |
| **Share capital and reserves** | | | |
| Called up share capital | 10 | **19.7** | 19.6 |
| Share premium | | **33.5** | 32.8 |
| Capital redemption reserve | | **0.2** | 0.2 |
| Profit and loss account | | **242.6** | 210.1 |
| **Equity shareholders' funds** | | **296.0** | 262.7 |

Approved by the Board of Directors on 8 March 2017 and signed on its behalf by:

**D W Muir**
Director

**M Pegler**
Director

# Company Statement of Changes in Equity

Year ended 31 December 2016

| | Called up share capital £m | Share premium account £m | Capital redemption reserve £m | Profit and loss account £m | Total equity £m |
|---|---|---|---|---|---|
| Balance at 1 January 2015 | 19.5 | 31.7 | 0.2 | 114.2 | 165.6 |
| **Comprehensive income** | | | | | |
| Profit for the year | - | - | - | 110.0 | 110.0 |
| Other comprehensive income for the year | - | - | - | - | - |
| **Transactions with owners recognised directly in equity** | | | | | |
| Dividends | - | - | - | (14.1) | (14.1) |
| Credit to equity of share-based payments | - | - | - | 0.9 | 0.9 |
| Satisfaction of long term incentive plans | - | - | - | (1.8) | (1.8) |
| Own shares acquired by employee benefit trust | - | - | - | 0.9 | 0.9 |
| Issue of shares | 0.1 | 1.1 | - | - | 1.2 |
| **At 31 December 2015** | **19.6** | **32.8** | **0.2** | **210.1** | **262.7** |
| **Comprehensive income** | | | | | |
| Profit for the year | **-** | **-** | **-** | **49.4** | **49.4** |
| Other comprehensive income for the year | **-** | **-** | **-** | **(0.2)** | **(0.2)** |
| **Transactions with owners recognised directly in equity** | | | | | |
| Dividends | **-** | **-** | **-** | **(16.2)** | **(16.2)** |
| Credit to equity of share-based payments | **-** | **-** | **-** | **1.1** | **1.1** |
| Tax taken directly to the Statement of Changes in Equity | **-** | **-** | **-** | **0.4** | **0.4** |
| Satisfaction of long term incentive payments | **-** | **-** | **-** | **(1.4)** | **(1.4)** |
| Own shares held by employee benefit trust | **-** | **-** | **-** | **(0.6)** | **(0.6)** |
| Shares issued | **0.1** | **0.7** | **-** | **-** | **0.8** |
| **At 31 December 2016** | **19.7** | **33.5** | **0.2** | **242.6** | **296.0** |

Details of share options and related share-based payments are contained in note 21 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.

# Company Statement of Cash Flows

| | Notes | 2016 £m | 2016 £m | 2015 £m | 2015 £m |
|---|---|---|---|---|---|
| Loss before tax | | | **(8.0)** | | (9.2) |
| Add back net financing costs | | | **2.0** | | 3.0 |
| Operating loss | | | **(6.0)** | | (6.2) |
| Adjusted for non-cash items: | | | | | |
| Share-based payments | | **1.1** | | 0.7 | |
| Depreciation | | **-** | | - | |
| Impairment of non-current assets | | **-** | | 1.0 | |
| | | | **1.1** | | 1.7 |
| Operating cash flow before movement in working capital | | | **(4.9)** | | (4.5) |
| Decrease in receivables | | **(0.5)** | | (0.2) | |
| Increase in payables | | **0.7** | | 0.4 | |
| Increase in provisions | | **0.2** | | - | |
| Change in amounts due to/from Group undertakings | | **(31.4)** | | (6.5) | |
| Net movement in working capital | | | **(31.0)** | | (6.3) |
| Cash used in operations | | | **(35.9)** | | (10.8) |
| Income taxes paid | | | **(3.5)** | | (3.3) |
| Interest paid | | | **(1.7)** | | (2.3) |
| **Net cash used in operating activities** | | | **(41.1)** | | (16.4) |
| Interest received | | **-** | | 0.1 | |
| Dividends received | | **55.7** | | 31.5 | |
| Investments in subsidiaries | | **-** | | (0.5) | |
| **Net cash from investing activities** | | | **55.7** | | 31.1 |
| Issue of new shares | 10 | **0.8** | | 1.2 | |
| Purchase of shares for employee benefit trust | | **(2.0)** | | (0.9) | |
| Dividends paid | 2 | **(16.2)** | | (14.1) | |
| Costs associated with refinancing of revolving credit facility | | **(1.0)** | | - | |
| New loans and borrowings | | **21.0** | | 46.0 | |
| Repayment of loans and borrowings | | **(23.0)** | | (42.4) | |
| **Net cash used in financing activities** | | | **(20.4)** | | (10.2) |
| **Net (decrease)/increase in cash** | | | **(5.8)** | | 4.5 |
| Cash at the beginning of the year | | | **(2.9)** | | (7.4) |
| Effect of exchange rate fluctuations | | | **-** | | - |
| **Cash at the end of the year** | | | **(8.7)** | | (2.9) |

# 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**
These Financial Statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101'). The amendments to FRS 101 (2014/15 Cycle) issued in July 2015 have been applied.

In preparing these Financial Statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ('Adopted IFRSs'), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

Under section s408 of the Companies Act 2006 the Company is exempt from the requirement to present its own Profit and Loss Account.

As the Consolidated Financial Statements include the equivalent disclosures, the Company has taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 Share Based Payments in respect of Group settled share based payments; and
- The effects of new but not yet effective IFRSs.

The Accounting Policies set out on pages 140 to 142 have, unless otherwise stated, been applied consistently to all periods presented in these Financial Statements.

*Measurement convention*
The Financial Statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial instruments classified as fair value through profit or loss or as available-for-sale, investment property and liabilities for cash-settled share-based payments. Non-current assets and disposal groups held for sale are stated at the lower of previous carrying amount and fair value less costs to sell.

**Investments in subsidiary undertakings**
In the Company's Financial Statements, investments in subsidiary undertakings are carried at cost, less impairment.

**Foreign currencies**
Transactions in foreign currencies are translated to the Company's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the Profit and Loss Account except for differences arising on the retranslation of qualifying cash flow hedges, which are recognised in other comprehensive income.

**Financial instruments**
*Trade and other debtors*
Trade and other debtors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

*Trade and other creditors*
Trade and other creditors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

*Interest-bearing borrowings*
Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

*Derivative financial instruments*
Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

*Fair value hedges*
Where a derivative financial instrument is designated as a hedge of the variability in fair value of a recognised asset or liability or an unrecognised firm commitment, all changes in the fair value of the derivative are recognised immediately in the Profit and Loss Account. The carrying value of the hedged item is adjusted by the change in fair value that is attributable to the risk being hedged (even if it is normally carried at cost or amortised cost) and any gains or losses on remeasurement are recognised immediately in the profit and loss account (even if those gains would normally be recognised directly in reserves).

**Provisions**
A provision is recognised in the Balance Sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

**Tangible fixed assets and depreciation**
Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets.

Leases in which the Company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Where land and buildings are held under leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and less accumulated impairment losses. Lease payments are accounted for as described below.

Depreciation is charged to the Profit and Loss Account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Land is not depreciated. The estimated useful lives are as follows:

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

Depreciation methods, useful lives and residual values are reviewed at each Balance Sheet date.

**Leases**
*Operating lease payments*
Payments (excluding costs for services and insurance) made under operating leases are recognised in the Profit and Loss Account on a straight-line basis over the term of the lease. Lease incentives received are recognised in the Profit and Loss Account as an integral part of the total lease expense.

*Finance lease payments*
Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge 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. Contingent rents are charged as expenses in the periods in which they are incurred.

**Pension scheme arrangements**
*Defined benefit plans*
A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair values of any plan assets (at bid price) are deducted. The Company determines the net interest on the net defined benefit liability/(asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability/(asset).

The discount rate is the yield at the reporting date on bonds that have a credit rating of at least AA that have maturity dates approximating to the terms of the Company's obligations and that are denominated in the currency in which the benefits are expected to be paid.

Remeasurements arising from defined benefit plans comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). The Company recognises them immediately in other comprehensive income and all other expenses related to defined benefit plans in employee benefit expenses in profit or loss.

Certain of the Company's employees are members of Group-wide defined benefit schemes. The net defined benefit cost of the plans is allocated to participating entities based on the contracting entity of the participating employees of the scheme. The contributions payable by the participating entities are determined on the same basis.

# Company Principal Accounting Policies (continued)

### Share-based payments
Share-based payment arrangements in which the Company receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Company.

The grant date fair value of share-based payments awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the awards. The fair value of the awards granted is measured using an option valuation model, taking into account the terms and conditions upon which the awards were granted. 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 true-up for differences between expected and actual outcomes.

Share-based payment transactions in which the Company receives goods or services by incurring a liability to transfer cash or other assets that is based on the price of the Company's equity instruments are accounted for as cash-settled share-based payments. The fair value of the amount payable to employees is recognised as an expense, with a corresponding increase in liabilities, over the period in which the employees become unconditionally entitled to payment. The liability is remeasured at each Balance Sheet date and at settlement date. Any changes in the fair value of the liability are recognised as personnel expense in profit or loss.

### Taxation
Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the Balance Sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on 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: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably 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 temporary difference can be utilised.

### 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 guarantee contracts
Where the Company enters into financial guarantee contracts to guarantee the indebtedness of subsidiary companies, the Company considers these to be insurance contracts and 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

| | 2016 £m | 2015 £m |
|---|---|---|
| The profit on ordinary activities is stated after charging: | | |
| Operating lease rentals – land and buildings | **0.1** | 0.1 |

Fees paid to KPMG LLP 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 £5.5m (2015: £5.0m) and the final dividend of £10.7m (2015: £9.1m). Dividends declared after the year end 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:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Pence per share | £m | Pence per share | £m |
| **Equity shares** | | | | |
| Interim | **8.5** | **6.7** | 7.1 | 5.5 |
| Final | **17.9** | **14.1** | 13.6 | 10.6 |
| Total | **26.4** | **20.8** | 20.7 | 16.1 |

### 3. Tangible fixed assets

| | Short leasehold properties £m | Plant, machinery and vehicles £m | Total £m |
|---|---|---|---|
| **Cost or valuation** | | | |
| At 31 December 2015 | 0.1 | 0.4 | 0.5 |
| Additions | - | - | - |
| **At 31 December 2016** | **0.1** | **0.4** | **0.5** |
| **Depreciation** | | | |
| At 31 December 2015 | - | 0.4 | 0.4 |
| Charge for the year | - | - | - |
| **At 31 December 2016** | **-** | **0.4** | **0.4** |
| **Net book value** | | | |
| **At 31 December 2016** | **0.1** | **-** | **0.1** |
| At 31 December 2015 | 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 2015 | 351.9 | 23.8 | 0.8 | 376.5 |
| Return on capital | (8.9) | - | - | (8.9) |
| **At 31 December 2016** | **343.0** | **23.8** | **0.8** | **367.6** |
| **Provisions** | | | | |
| At 31 December 2015 | 12.1 | 1.3 | 0.8 | 14.2 |
| Impairment | - | - | - | - |
| **At 31 December 2016** | **12.1** | **1.3** | **0.8** | **14.2** |
| **Net book value** | | | | |
| **At 31 December 2016** | **330.9** | **22.5** | **-** | **353.4** |
| At 31 December 2015 | 339.8 | 22.5 | - | 362.3 |

# Notes to the Company Financial Statements (continued)

**4. Fixed asset investments** continued
A list of the businesses owned by the Company is given in note 13. 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**

| | 2016 £m | 2015 £m |
|---|---|---|
| Amounts owed by subsidiary undertakings | **79.7** | 49.1 |
| Corporation tax | **3.1** | 2.7 |
| Deferred tax (note 8) | **0.8** | 0.4 |
| Other debtors | **1.0** | 0.3 |
| Prepayments and accrued income | **0.2** | 0.2 |
| | **84.8** | 52.7 |

**6. Creditors: amounts falling due within one year**

| | 2016 £m | 2015 £m |
|---|---|---|
| **Bank loans and overdrafts (note 7)** | | |
| Bank overdrafts | **9.6** | 2.9 |
| | **9.6** | 2.9 |
| **Other creditors** | | |
| Trade creditors | **2.1** | 2.0 |
| Other taxation and social security | **0.1** | 0.1 |
| Accruals and deferred income | **2.9** | 2.5 |
| Other creditors | **1.1** | 1.0 |
| Amounts owed to subsidiary undertakings | **75.0** | 89.5 |
| | **81.2** | 95.1 |

**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 20 of the Group Financial Statements.

| | 2016 £m | 2015 £m |
|---|---|---|
| Long term bank loans | **51.6** | 54.2 |
| | **51.6** | 54.2 |

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

| | 2016 £m | 2015 £m |
|---|---|---|
| **Bank loans and overdraft** | | |
| Amounts due within one year (note 6) | **9.6** | 2.9 |
| Amounts due after more than one year: | | |
| Between one and two years | **-** | - |
| Between two and five years | **51.6** | 54.2 |
| | **51.6** | 54.2 |
| | **61.2** | 57.1 |

## 8. Deferred tax

| | 2016 £m | 2015 £m |
|---|---|---|
| At 1 January | **(0.4)** | (0.4) |
| Credited for the year in the Income Statement | **-** | - |
| Credited for the year directly in equity | **(0.4)** | - |
| **At 31 December** | **(0.8)** | (0.4) |
| Other timing differences | **(0.8)** | (0.4) |

## 9. Pension liabilities

The Company contributes to the Group pension scheme, which has sections providing benefits accruing in the future on a defined benefit basis and on a defined contribution basis. Details of the scheme and the most recent actuarial valuations are contained in note 23 to the Group Financial Statements. 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 £2.8m (2015: £2.8m), of which additional deficit contributions were £2.3m (2015: £2.5m).

## 10. Called up share capital

| | 2016 £m | 2015 £m |
|---|---|---|
| **Allotted, called up and fully paid** | | |
| 78.5m Ordinary Shares of 25p each (2015: 78.2m) | **19.7** | 19.6 |

In 2016 the Company issued 0.3m shares under its various share option schemes (2015: 0.3m), realising £0.8m (2015: £1.2m). Details of share options and related share-based payments are contained in note 21 to the Group Financial Statements.

## 11. Guarantees and other financial commitments

*(a) Guarantees*

The Company had no financial guarantee contracts outstanding (2015: £nil).

The Company guarantees the bank loans and overdrafts of certain subsidiary undertakings. The amount outstanding at 31 December 2016 was £96.9m (2015: £62.2m).

*(b) Operating lease commitments*

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

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Land and buildings £m | Other £m | Land and buildings £m | Other £m |
| Between two and five years | **0.1** | **-** | 0.1 | - |
| | **0.1** | **-** | 0.1 | - |

# Notes to the Company Financial Statements (continued)

## 12. Related party transactions

The Company has related party relationships with its key management personnel and with its subsidiaries (either directly or indirectly controlled).

The related party transactions with key management personnel are considered by the Company to be the same as those of the Group and are set out in note 25 to the Group Financial Statements.

The transactions with subsidiaries are summarised below.

*Transactions with other Group companies*

| | **Highest during the year £m** | **Balance at 31 December 2016 £m** | Highest during the year £m | Balance at 31 December 2015 £m |
|---|---|---|---|---|
| Amounts due from subsidiaries | **79.7** | **79.7** | 49.1 | 49.1 |
| Amounts due to subsidiaries | **(94.5)** | **(75.0)** | (109.5) | (89.5) |

Transactions with other Group companies typically comprise management and interest charges, dividend receipts and other recharges of administrative expenses.

The disclosure of the year end balance and the highest balance during the year is considered to provide a meaningful representation of transactions between the Company and fellow Group undertakings during the year. The highest balance due is generally at the end of each financial year as this is the time at which the Company levies its management and interest charges.

*Related party transactions reported in the Income Statement*

| | **2016 £m** | 2015 £m |
|---|---|---|
| Dividends received | **55.7** | 116.3 |
| Recharge of operating expenses | **5.9** | 5.2 |
| Net interest expense | **-** | (0.7) |

## 13. Subsidiaries

***Incorporated in the UK***

AMF Galvanisers Limited (D)
Access Design & Engineering Limited (D)
ALSIPI Limited (D)
Ash & Lacy Limited (H)*
Ash & Lacy Manufacturing Limited (H)
Ash & Lacy Overseas (Holdings) Limited (D)
Ash & Lacy Services Limited (H)
Ash Plastic Products Limited (D)
Asset International Limited (U)*
Bainbridge Engineering Limited (D)*
Barkers Engineering Limited (U, G)
Bergen Pipe Supports Group Limited (U)*
Bergen Pipe Supports Limited (U)
Berry Safety Systems Limited (D)*
Bettles and Company Limited (D)
Bipel Group plc (D)
Bipel Ltd (D)
Birtley Group Limited (U, G)
Bowater Doors Limited (U)
British Industrial Engineering Co. (Staffs) Limited (D)
Bromford Reinforcements Limited (D)
Bromford Steel Limited (D)
Brownhills Galvanizing Limited (D)
Bytec Limited (D)
C.I.C. Ralphs Limited (D)
C I Pension Trustees Limited (D)
C. I. Properties Limited (D)
C.I.C. Engineering (Finance) Limited (D)
CA Traffic Limited (R)*
Carrington Packaging Limited (D)
Cooper Securities (Dudley) Limited (D)
Cooper Securities Limited (D)
Counters & Accessories Limited (D)
Dee Organ Limited (D)
Eurogrid Limited (D)
Expamet Building Products Limited (D)
Expamet Limited (D)
Foremost Moulding Limited (D)
Gem (Ashfix) Limited (D)
Hawkshead Properties Limited (H)
Hardstaff Barriers Limited (R)
Hill & Smith (Americas) Limited (H)
Hill & Smith (France) Limited (H)*
Hill & Smith (Treasury) Limited (H)*
Hill & Smith (USA) Limited (H)
Hill & Smith Galvanized Products Limited (H)
Hill & Smith Holdings PLC (H)
Hill & Smith Infrastructure Products Group Limited (D)
Hill & Smith Limited (R, U)*
Hill & Smith Overseas Limited (H)*
Hill & Smith Pension Trustees Limited (D)
H2S2 Limited (R) **
IMAS Technology Limited (D)
J. & F. Pool Limited (D)
Jevons Tools Limited (D)
Joliso Limited (D)
Jones of Oswestry Limited (D)
Joseph Ash Limited (G)
Kinclear Limited (D)
Lamben Galvanizers 85 Limited (D)
Leech, Brain and Co Limited (D)
Lenchs (Birmingham) Limited (D)
Lionweld Kennedy Flooring Limited (U)*
London Galvanizers Limited (D)
Mallatite Limited (R)*
MB Tech Limited (D)
Meads Cooper Limited (D)
Medway Galvanising Company Limited (G)
Optimum Barrier Systems Limited (D)
Pipe Supports Overseas Limited (H)*
Post & Column Limited (D)
Premier Galvanizing Limited (G)
RBM Reinforcements Limited (D)*
Redman Architectural Metalwork Limited (D)
Redman Fisher Engineering Limited (U)
Royston Steel Fencing Limited (D)
Safety and Security Barrier Holdings Limited (H)
Seniors Reinforcement (Northern) Limited (D)*
Seniors Reinforcement Limited (D)*
Signature Limited (R)
Smeaton Lime Works Limited (D)
Technocover Limited (U)
Tegrel Limited (R)
Telford Galvanizers Limited (D)
The Albion Galvanizing Company Limited (D)
The Birmingham Galvanizing Company Limited (D)
The Globe Tank and Foundry (Wolverhampton) Limited (D)
Theta Systems Limited (D)
Variable Message Signs Limited (D)
Varley & Gulliver Limited (R)*
Vista Galvanizing (UK) Ltd (D)
Walkers Galvanizers Limited (D)
Western Galvanizers Limited (D)
Wombwell Foundry Limited (D)
Zonestar Limited (D)

All of the above subsidiaries have a year end date of 31 December and are included in the consolidated results of the Group. The Company holds 100% of the share capital of all businesses, either directly or indirectly, unless otherwise stated.

All of the above subsidiaries have a registered office address at Westhaven House, Arleston Way, Shirley, Solihull, B90 4LH, England.

(U) Utilities
(R) Roads
(G) Galvanizing
(D) Dormant
(H) Holding company
* Directly held by Hill & Smith Holdings PLC
** 50% owned joint venture

# Notes to the Company Financial Statements (continued)

**13. Subsidiaries** continued

***Incorporated in Australia***
Hill & Smith Pty Limited (R)
Suite 12, Level 12, 37 Bligh Street,
Sydney, New South Wales 2000

***Incorporated in Belgium***
Vista BVBA (H)
Louizalaan, 331-333, 1050 Brussels

***Incorporated in Canada***
Process Pipe Supports, Inc (U)
921 Barton Street, Unit #3, Stoney Creek, Ontario, L8E 5P5

***Incorporated in China***
Bergen Pipe Supports (Jiangsu) Limited (U)
West End of Fuyang Road, South Development District,
Jingjiany City, JiangSu Province, 214500

PSG Trading (Jingjiang) Limited (U)
Fuyang Road, Chengnan Development Zone,
Jingjiang City, Jiangsu Province

***Incorporated in France***
Conimast International SAS (R)
ZI la Saunière, - BP70, 89600, Saint-Florentin

Européenne de Galvanisation SAS (G)
10 Route de Merviller, 54120, Baccarat

France Galva SA (G)
ZI la Saunière - BP70, 89600, Saint-Florentin

France Galva Lorraine SAS (G)
ZI due Lavoisier, 57340, Morhange

Galvacier SAS (G)
ZI des Terres Noires, 81370, Saint Sulpice

Galva Gaillard SAS (G)
801 rue de la Rive, 42320 La Grand Croix

Galvalandes SAS (G)
3031 route de Mont-de-Marsan, CS 50007, 40120, Sarbazan

Galvanisation de l'Artois SAS (G)
437 Chemin de Noyelles, 62110, Henin-Beaumont

Galvanisation du Cambrésis SAS (G)
Champ de la Cheminée, 59980, Honnechy

Galvamed SAS (G)
1447 avenue des Verges, ZI du Pont, 13750, Plan D'orgon

Société Nantaise de Galvanisation SAS (G)
ZI - 4 rue de l'Europe, 44470, Carquefou

***Incorporated in India***
Bergen Pipe Supports (India) Private Limited (U)
Plot No 12, Ground Floor, 'RADHA', Mangala Nagar Main Road,
Porur, Chennai, 60016

Hill & Smith Infrastructure Products India Private Limited (R)
574, 3rd Floor, Main Road, Chirag Delhi, New Delhi, 110017

***Incorporated in Ireland***
Redman Fisher Limited (U)
Naas Industrial Estate, Naas,
Co Kildare, 496407

***Incorporated in Norway***
ATA Hill & Smith AS (R)
Jacob Borchsgate 6, 3012 Drammen

***Incorporated in Sweden***
ATA Hill & Smith AB (R)
Hill & Smith Sweden AB (H)
FMK Trafikprodukter AB (D)
Box 7051, 192 78, Sollentuna, Stockholms län

***Incorporated in Singapore***
Bergen Pipe Supports Pte. Limited (D)
2 Shenton Way, #18-01,
SGX Centre 1, 068804

***Incorporated in Thailand***
Bergen Pipe Supports Asia Limited (U)
26/5 Moo. 9, Soi Rattanaraj, Bangna-Trad Road, Km 18.2,
Bangchalong, Bangplee, Samut Prakarn, 10540

***Incorporated in the USA***
Bergen Pipe Supports, Inc (U)
Carpenter & Paterson, Inc. (U)
Creative Pultrusions, Inc (U)
Hill & Smith Group Holdings, Inc (H)
Hill & Smith Holdings LLC (H)
Hill & Smith, Inc. (R)
Novia Associates, Inc. (U)
Voigt & Schweitzer LLC (H)
c/o The Corporation Trust Company, Corporation Trust Centre,
1209 Orange Street, Wilmington, Delaware 19801

V&S Amboy Galvanizing LLC (G)
V&S Columbus Galvanizing LLC (G)
V&S Delaware Galvanizing LLC (G)
V&S Detroit Galvanizing LLC (G)
V&S Lebanon Galvanizing LLC (G)
V&S Memphis Galvanizing LLC (G)
V&S Schuler Engineering, Inc. (U)
V&S Schuler Tubular Products LLC (U)
V&S Taunton Galvanizing, LLC (G)
987 Buckeye Park Road, Columbus, Ohio, 43207

All of the above subsidiaries have a year end date of 31 December, with the exception of Bergen Pipe Supports (India) Private Limited and Hill & Smith Infrastructure Products India Private Limited, which each have a year end of 31 March. All of the subsidiaries listed above are included in the consolidated results of the Group. The Company holds 100% of the share capital of all businesses, either directly or indirectly.

(U) Utilities
(R) Roads
(G) Galvanizing
(D) Dormant
(H) Holding company
* Directly held by Hill & Smith Holdings PLC


V&S's galvanizing on the Mapfre Stadium, the first US soccer specific stadium in Columbus.

Demand has increased for Bristorm's Impeder bollards which are used for hostile vehicle mitigation.

# Five Year Summary

| | 2016 £m | 2015 £m | 2014 £m | 2013 £m | 2012 £m |
|---|---|---|---|---|---|
| Underlying revenue | **540.1** | 467.5 | 454.7 | 444.5 | 440.7 |
| Underlying operating profit | **70.6** | 56.0 | 49.2 | 44.5 | 44.0 |
| Underlying profit before taxation | **68.0** | 53.0 | 46.0 | 41.2 | 40.4 |
| Shareholders' funds | **232.2** | 198.2 | 181.5 | 169.1 | 162.4 |

| | Pence | Pence | Pence | Pence | Pence |
|---|---|---|---|---|---|
| Underlying earnings per share | **65.9** | 51.7 | 45.0 | 40.4 | 38.8 |
| Proposed dividends per share | **26.4** | 20.7 | 18.0 | 16.0 | 15.0 |

# Shareholder Information

## Shareholder Information



Image

**Above** - Mallatite manufactured the lighting columns and supplied the LED lanterns, alongside Varley & Gulliver's bridge parapet railing on the Erskine Bridge, spanning the River Clyde in West Central Scotland.

See further information at hsholdings.com

# Financial Calendar

| | |
|---|---|
| Annual General Meeting 2017 | 11 May 2017 |
| Trading Update | 11 May 2017 |
| Ex-dividend date for 2016 final dividend | 25 May 2017 |
| Record date 2016 final dividend | 26 May 2017 |
| Dividend Reinvestment Plan – last date for election | 12 June 2017 |
| Final 2016 ordinary dividend payable | 3 July 2017 |
| Announcement of 2017 interim results | 10 August 2017 |
| Trading Update | November 2017 |
| Payment of 2017 interim dividend | January 2018 |

# Shareholder Information

## Shareholder base

Holdings of ordinary shares at 7 March 2017

| Range of Shares | Number of holders | % | Number of shares | % |
|---|---|---|---|---|
| 1 - 500 | 672 | 28.92 | 138,486 | 0.18 |
| 501 - 1,000 | 359 | 15.45 | 273,514 | 0.35 |
| 1,001 – 5,000 | 684 | 29.43 | 1,617,699 | 2.06 |
| 5,001 – 50,000 | 442 | 19.02 | 6,383,577 | 8.13 |
| 50,001 – 100,000 | 46 | 1.98 | 3,373,865 | 4.29 |
| 100,001 – 500,000 | 86 | 3.70 | 20,605,406 | 26.23 |
| 500,001 – 1,000,000 | 15 | 0.64 | 10,014,664 | 12.75 |
| Above 1,000,000 | 20 | 0.86 | 36,137,037 | 46.01 |
| **Totals** | **2,324** | **100.00** | **78,544,248** | **100.00** |

## Shareholder type

| | Number of holders | % | Number of shares | % |
|---|---|---|---|---|
| Individuals | 1,484 | 63.86 | 4,656,857 | 5.93 |
| Institutions | 835 | 35.93 | 73,879,607 | 94.06 |
| Other corporate | 5 | 0.21 | 7784 | 0.01 |
| **Totals** | **2,324** | **100.00** | **78,544,248** | **100.00** |

## Dividend History – proposed dividends per share

| | **2016** | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|
| Interim | **8.5** | 7.1 | 6.4 | 6.0 | 5.8 |
| Final | **17.9** | 13.6 | 11.6 | 10.0 | 9.2 |
| Total | **26.4** | 20.7 | 18.0 | 16.0 | 15.0 |

### Communication with shareholders and analysts

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

### Corporate information

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

### Annual General Meeting ('AGM')

The AGM will be held on Thursday 11 May 2017 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 below.

### Electronic proxy voting

To lodge your proxy vote via the internet, log on to www.investorcentre.co.uk/eproxy. 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.com and follow the instructions. You will be able to:

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

### 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 0370 703 0084.

### Dividend Reinvestment Plan 'DRIP' (Latest date for election is 12 June 2017)

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 0370 707 1058.

# Principal Group Businesses

## Infrastructure Products - Roads

### United Kingdom

**Hill & Smith Ltd**
Highway and off-highway safety barriers
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

*Asset International Structures (D)*
Manufacturer of structural solutions including corrugated steel Multiplate, Stren-Cor, Precast arches & VSoL retained earth systems for Highway & Rail construction sectors
www.assetint.co.uk

*Asset VRS (D)*
Permanent and temporary solutions for vehicle restraints
www.asset-vrs.co.uk

*Berry Systems (D)*
Car park and industrial barriers, spring steel barriers, protection bollards, speed ramps, handrail panels
www.berrysystems.co.uk

*Brifen (D)*
Wire rope safety fence vehicle restraints
www.hill-smith.co.uk

*Tegrel (D)*
Design and manufacture of bespoke metal fabrications and enclosures
www.tegrel.co.uk

*Variable Message Signs (D)*
Design, manufacture and installation of LED based light technology solutions
www.vmstech.co.uk

**CA Traffic Ltd**
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
enquiries@c-a.co.uk
www.ca-traffic.com

**Hardstaff Barriers Ltd***
Temporary and permanent road safety barriers
Hillside, Gotham Road, Kingston-on-Soar,
Nottingham, NG11 0DF
Tel: +44 (0) 115 983 2304
enquiries@hardstaffbarriers.com
www.hardstaffbarriers.com

**Mallatite Ltd**
Manufacture 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

*Signature (D)*
Manufacturer of traffic management and highway electrical products
www.signatureltd.co.uk

**Varley & Gulliver Ltd**
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

### Rest of the World

**ATA Hill & Smith AB***
Road safety barriers, road signage and traffic safety solutions
Incorporated in Sweden
Staffans väg 7, 192 78,
Sollentuna, Sweden
Tel: +46 (0) 8 98 80 70
Fax: +46 (0) 8 29 25 15
info@ata.se
www.ata.se

**ATA Hill & Smith AS***
Road safety barriers, road signage and traffic safety solutions
Incorporated in Norway
Jacob Borchs Gate 6
3012 Drammen
Tel: +47 (0) 32 26 93 00
post@ata.co
www.ata.no

**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, 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 Pty Ltd***
Wire rope and temporary safety barriers
Incorporated in Australia
Unit 1, 242 New Cleveland Road,
Tingalpa, QLD 4173, Australia
Tel: +61 (0) 7 3162 6078
hsroads.com.au

**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.

## Infrastructure Products - Utilities

### United Kingdom

**Asset International Ltd**
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@weholite.co.uk
www.weholite.co.uk

**Barkers Engineering Ltd***
Perimeter security solutions and fasteners

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

**Birtley Group Ltd***
Galvanized lintels, construction fittings, composite doors, Expamet builders metalwork & plasterers accessories

Mary Avenue, Birtley, County Durham,
DH3 1JF
Tel: +44 (0) 191 410 6631
Fax: +44 (0) 191 410 0650
info@birtleygroup.co.uk
www.birtleygroup.co.uk

**Lionweld Kennedy Flooring Ltd**
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

**Technocover Ltd***
Steel security solutions

Henfaes Lane, Welshpool, Powys, SY21 7BE
Tel: +44 (0) 1938 555511
Fax: +44 (0) 1938 555527
techweb@technocover.co.uk
www.technocover.co.uk

### United States of America

**Creative Pultrusions, Inc.***
Manufacture of fibre reinforced polymer (FRP) compositeprofiles

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

*E.T. Techtonics (D)*
Design and construction of fiberglass bridge and boardwalk systems
www.ettechtonics.com

**V&S Utilities****
Fabrication of electrical transmission and substation structures and supplier of substation packaging services

987 Buckeye Park Road, Columbus,
Ohio, 43207, USA
Tel: +1 (614) 449 8281
Fax: +1 (614) 449 8851
info@vsschuler.com
www.vsschuler.com

**Bergen Pipe Supports, Inc.***
Manufacture and supply of pipe supports solutions, including constant and variable effort supports

484 Galiffa Drive, Donora,
Pennsylvania, 15033, USA
Tel: +1 (724) 379 5212
Fax: +1 (724) 379 9363
www.pipesupports.com

**Carpenter & Paterson, Inc.***
Industrial pipe hangers, metal framing channel and fasteners

225 Merrimac Street, Woburn,
Massachusetts, 01801, USA
Tel: +1 (781) 935 2950
Fax: +1 (781) 935 7664
www.pipehangers.com

*Novia Associates (D)*
Vibration and seismic control manufacturer
www.cp-novia.com

### Pipe Supports

**Bergen Pipe Supports India Private Ltd***
Incorporated in India

Plot No.12, Ground Floor,
“RADHA”, Mangala Nagar Main Road,
Porur, Chennai, 600116
Tel: +91 8576 305 666
bpsi@pipesupports.com
www.pipesupports.com

**Notes:**
The above lists the Company’s subsidiary undertakings, except for some intermediate holding companies and certain other undertakings of minor importance. Except where indicated, the undertakings are subsidiaries incorporated in Great Britain and the share capital consists of ordinary shares only.
* The Company’s effective interest is held indirectly for these undertakings.
** Trading name for V&S Schuler Engineering Inc and V&S Schuler Tubular Products LLC, both are indirectly held, wholly owned and incorporated in the USA.

# Principal Group Businesses (continued)

## Galvanizing Services

### United Kingdom

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

**Medway Galvanising Company Ltd***
Galvanizing, shotblasting and powder coating services together with monohinge gates
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

**Premier Galvanizing Ltd***
Galvanizing and powder coating services
Unit 25, Stoneferry Business Park
Foster Street, East Riding of Yorkshire,
HU8 8BT
Tel: +44 (0) 1482 587587
Fax: +44 (0) 1482 588599
info@premiergalv.co.uk
www.premiergalv.co.uk

**Barkers Engineering Ltd***
Galvanizing and powder coating services
Duke Street, Fenton, Stoke-on-Trent,
Staffordshire, ST4 3NS
Tel: +44 (0) 1782 343811
Fax: +44 (0) 1782 344974
sales@barkersgalvanizing.com
www.barkersgalvanizing.com

**Birtley Group Ltd***
Galvanizing services
Mary Avenue, Birtley, County Durham,
DH3 1JF
Tel: +44 (0) 191 410 4421
Fax: +44 (0) 191 492 1817
info@birtleygalvanizing.co.uk
www.birtleygalvanizing.co.uk

### United States of America

**Voigt & Schweitzer LLC***
Galvanizing services
987 Buckeye Park Road, Columbus
Ohio, 43207, USA
Tel: +1 (614) 449 8281
Fax: +1 (614) 449 8851
info@hotdipgalvanizing.com
www.hotdipgalvanizing.com

### France

**France Galva SA***
Galvanizing and powder coaters of steel
Z.I. La Saunière BP70, 89600
Saint Florentin, France
Tel: +33 (0) 3 86 43 82 30
Fax: +33 (0) 3 86 43 82 29
contact@francegalva.fr
www.francegalva.fr

**Notes:**
The above lists the Company's subsidiary undertakings, except for some intermediate holding companies and certain other undertakings of minor importance. Except where indicated, the undertakings are subsidiaries incorporated in Great Britain and the share capital consists of ordinary shares only.
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# 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 and
Managing Director - UK Utilities division)

**J F Lennox LLB, CA**
(Senior Independent Non-executive)

**A M Kelleher MSc, BA**
(Independent Non-executive)

**M J Reckitt BCom, CA**
(Independent Non-executive)

## Contacts

**Hill & Smith Holdings PLC**
Registered Office
Westhaven House
Arleston Way
Shirley, Solihull
West Midlands
B90 4LH

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

**Registration Details**
Registered in England and Wales
Company Number: 671474

**Company Website**
www.hsholdings.com

**Company Secretary**
Alex Henderson FCIS

## Professional Advisors

**Auditors**
KPMG LLP
1 Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

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

**Principal Bankers**
Barclays Bank Plc
Midlands Corporate Banking Centre
PO Box 3333
1 Snowhill
Snow Hill Queensway
Birmingham
B3 2WN

**Lawyers**
Gowling WLG
Two Snowhill
Birmingham
B4 6WR

Silks Solicitors
Barclays Bank Chambers
Birmingham Street
Oldbury
B69 4EZ

**Financial Public Relations**
MHP Communications
6 Agar Street
London
WC2N 4HN

# Shareholder Notes

**Hill & Smith Holdings PLC**
Westhaven House, Arleston Way, Shirley,
Solihull, B90 4LH, United Kingdom

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

**www.hsholdings.com**