Hill & Smith Holdings PLC

Delivering intelligent protection solutions

Annual Report for the year ended 31 December 2018

Stock code HILS

Image: Zoneguard with fence and QuadGuard at Heathrow Airport.

Our mission is to deliver sustainable profitable growth through the supply of Infrastructure Products and Galvanizing Services.

Our sectors

- Infrastructure – Roads
- Infrastructure – Utilities
- Galvanizing Services
- Group

Hill & Smith Holdings PLC

Strategic Report

Governance Report

Financial Statements

Shareholder Information

Front cover images:
Top: WAPCO's Smart Cushion® crash attenuator.
Middle: Composite Bridge installed at Little Buffalo State Park, Pennsylvania, USA.
Bottom: Galvanized lighting columns.

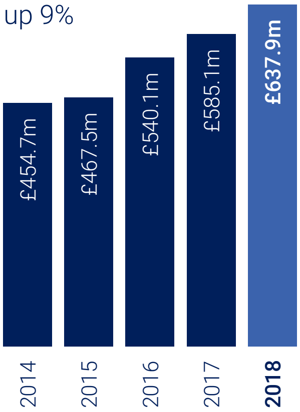
To find out more about Hill & Smith Holdings visit our website hsholdings.com

Group Highlights

- Robust performance from US and other international businesses, driven by significant investment in new and replacement infrastructure.
- Improved second half performance in UK despite a cautious investment environment.
- Seven infrastructure product acquisitions completed in 2018 and early 2019, extending product range and addressable markets.
- Full year dividend increased by 6% to 31.8p.

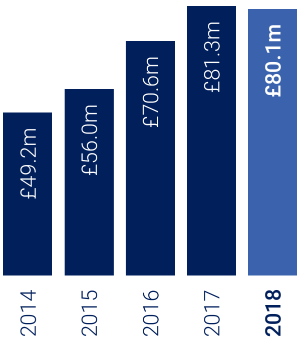
Revenue

£637.9m
up 9%



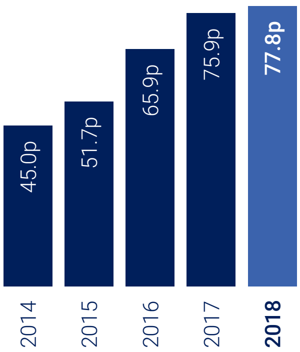
Underlying operating profit

£80.1m
down 1.5%



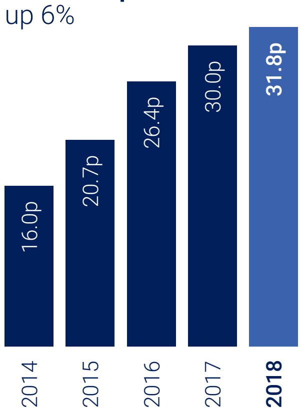
Underlying earnings per share

77.8p
up 2.5%



Dividend per share

31.8p
up 6%



	31 December 2018	31 December 2017	Change %
Revenue	**£637.9m**	£585.1m	+9
Underlying*:			
Operating profit	**£80.1m**	£81.3m	-1
Operating margin	**12.6%**	13.9%	-130bps
Profit before taxation	**£76.3m**	£78.5m	-3
Earnings per share	**77.8p**	75.9p	+3
Statutory:			
Operating profit	**£65.2m**	£74.1m	-12
Profit before taxation	**£59.8m**	£70.2m	-15
Basic earnings per share	**59.9p**	68.6p	-13
Dividend per share	**31.8p**	30.0p	+6
Net debt	**£132.9m**	£99.0m	

*All underlying measures exclude certain non-underlying items, which are as defined in note 3 on page 116 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 whose quantum, nature or volatility would otherwise 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. In respect of acquisitions, the amounts referred to represent the amounts for the period in the current year that the business was not held in the prior year. In respect of disposals and closures of subsidiary businesses, the amounts referred to represent the amounts for the period in the prior year that the business was not held in the current year.

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 of our products are designed to strict specifications and tested according to applicable standards.

Infrastructure Products – Roads

Our Roads segment designs, manufactures and installs temporary and permanent safety products for the roads market together with intelligent transport systems which provide information to road users. We principally serve the UK market, with an international presence in selected geographies.

For more information see page 12.

Infrastructure Products – Utilities

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.

For more information see page 14.

Galvanizing Services

The Galvanizing Services division offers corrosion protection services to the steel fabrication industry with multi-plant facilities in the UK, France and the USA.

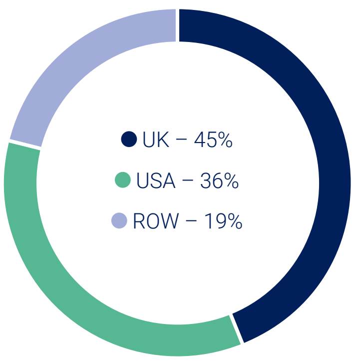
For more information see page 16.

Hill & Smith Zoneguard temporary barrier protecting a section of the M1/M3 Gateway project in Brisbane, Australia.

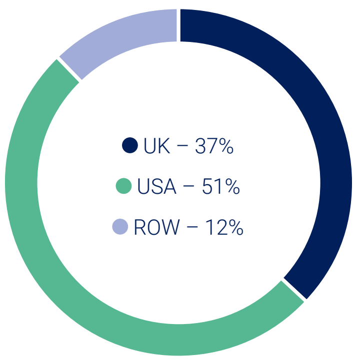
Composite stair treads for use at the new Great Wolf Lodge waterpark in Scotsdale, Arizona, USA.

Galvanized steel gates awaiting collection from Joseph Ash Limited's Walsall site.

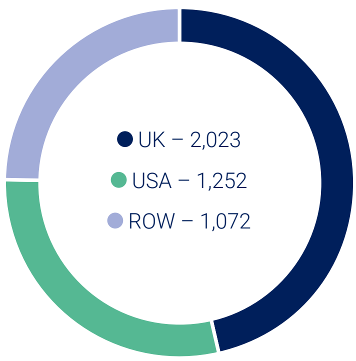
Percentage of 2018 revenue of £637.9m shown by location of the operating site



Percentage of 2018 underlying operating profit of £80.1m shown by location of the operating site



Employees by geographical location



Who We Are and Where We Operate

We are an international group with leading positions in the supply of Infrastructure Products and Galvanizing Services to global markets. Through a focus on strong positions in niche markets we aim to consistently deliver strong returns and shareholder value.

1. USA

Our businesses are situated predominantly on the east coast and in the mid-west and include V&S Galvanizing; V&S Utilities; Bergen and Carpenter & Paterson pipe supports; the Composites Group of Creative Pultrusions, Composite Advantage, Kenway and Tower Tech; and the US roads businesses of Hill & Smith Inc. and Work Area Protection Corp.

2. UK

Group head office and various locations throughout the UK, including Hill & Smith Ltd and associated Roads businesses; Birtley Group Ltd and other subsidaries covering our main infrastructure utilities businesses; and Joseph Ash Ltd who are responsible for a network of UK galvanizing plants.

3. France

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

4. Norway

A division of ATA, the road safety barrier and signage business.

5. Sweden

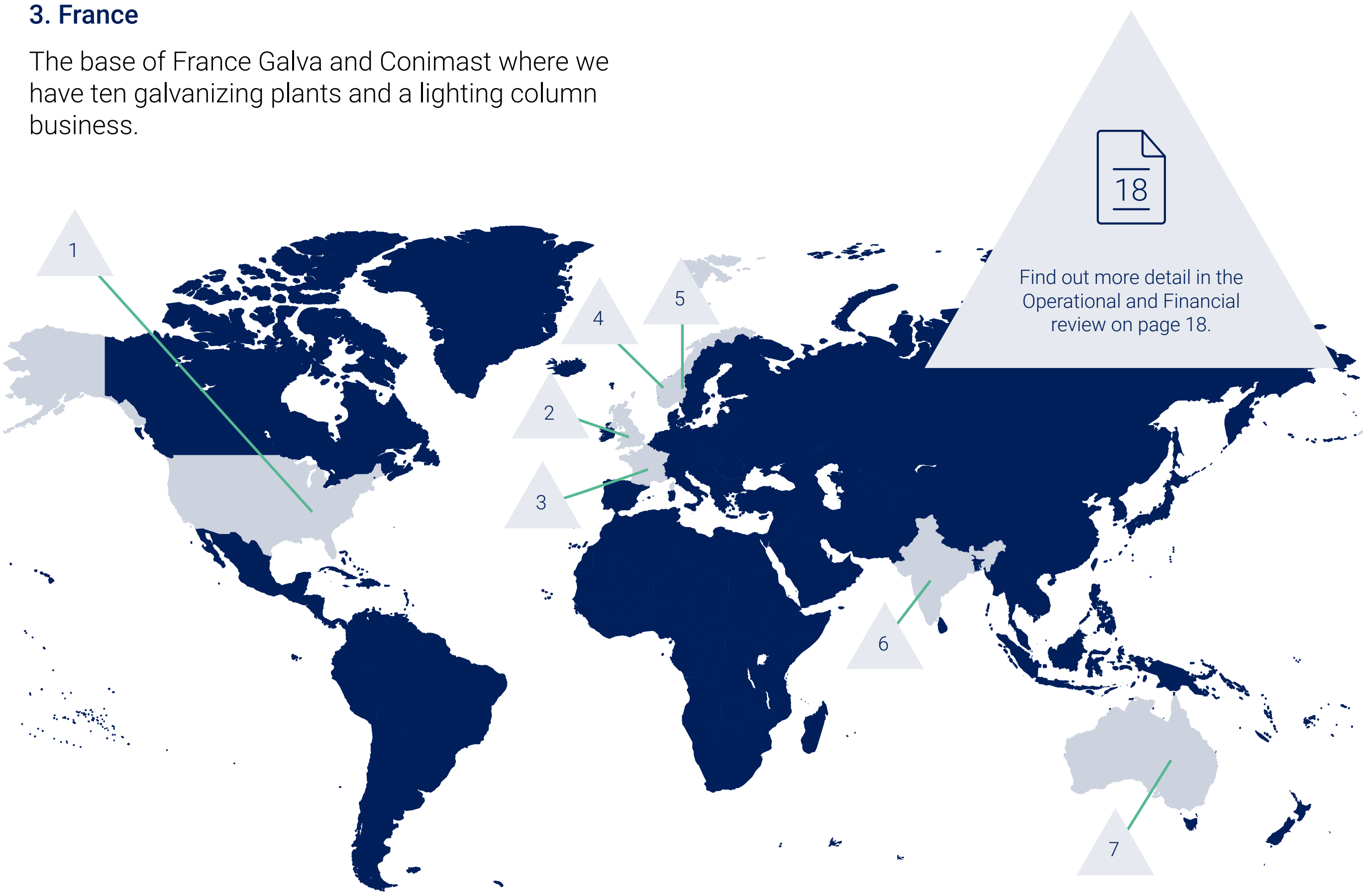
Location of ATA, FMK and Signalvakter, our road safety barrier and signage businesses.

6. India

BPSI, a centre of manufacturing excellence for pipe supports.

7. Australia

Office in Queensland for the development of our wire rope and safety barrier products business.



Find out more detail in the Operational and Financial review on page 18.

Why Invest?

We aim to deliver superior shareholder returns by building leading positions in the niche markets of infrastructure products and galvanizing services, in geographies where the underlying drivers of infrastructure spending are robust.

Our strategy is one of carefully targeted profitable growth through product development, innovation, acquisition and international expansion, all driven by highly entrepreneurial management teams throughout the organisation.

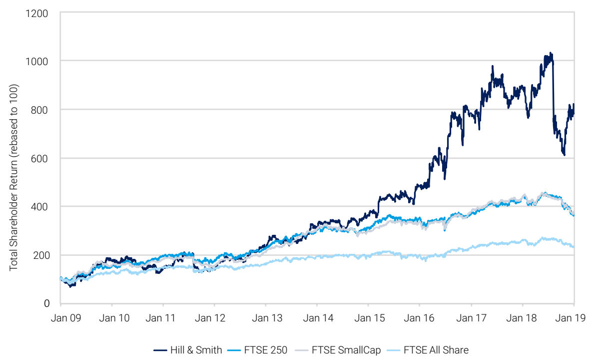
1. We are a geographically diverse group and, as such, we are not dependent on one economy for our success. We are focused on territories where there are either existing high levels of investment, driven by the need to upgrade or replace existing ageing infrastructure, or where emerging economic growth is driving the need for new infrastructure spending. As at the date of this report we operate from 60 sites in 7 countries.

2. We pursue both organic and acquisition growth. We require our individual business units to exercise agility and entrepreneurialism, seeking out opportunities in their markets and responding through innovation in product development. We supplement this organic growth with value-enhancing acquisitions that complement our existing activities and create new growth opportunities, and we are proactive and decisive in the way we manage our portfolio. In 2018, organic revenue growth was 3%, and we acquired six businesses in the UK, US and Scandinavia which, combined, contributed a further 7% of growth in our revenues.

3. This all takes place within a disciplined framework of agreed Group KPIs. We achieve a strong operating cash flow by focusing on underlying cash conversion and a disciplined approach to each business unit's return on capital employed. Over the last ten years the Group has achieved an average underlying cash conversion rate of 88%. In 2018 this was 78% (2017: 78%) or 93% excluding strategic capital expenditure.

4. We operate a progressive dividend policy and have increased dividend payments by a compound annual growth rate of 12% over the last 10 years. In August 2019 we will be paying a final dividend of 21.8p per share which, with the interim dividend of 10.0p paid in January 2019, will amount to a full dividend paid in respect of the financial year ended 31 December 2018 of 31.8p (2017: 30.0p), up 6%.

5. Our overall objective is to generate sustainable profitable growth and shareholder returns. Since 2010 our total shareholder return has materially outperformed the FTSE All Share.



Chairman's Letter

Dear Shareholder,

2018 was a more challenging year for your company but I am pleased to report that, notwithstanding the difficult environment for certain businesses in the first half, particularly in the UK, the second half saw the return to growth that we were expecting. I believe that, in the circumstances, the outturn of revenues of £637.9m (2017: £585.1m) and underlying profit of £80.1m (2017: £81.3m) represent a good performance. The results are explained in detail in the Operating and Financial Review ('OFR').

We continued to pursue our strategy of building on our leadership position in niche markets serving infrastructure needs in a range of countries, with the majority of revenue and profits arising in the UK and US. We focus on countries with high levels of infrastructure investment driven either by regulation, health and safety, security or environmental concerns, or by emerging economic growth, or both. Our strategy is to grow both organically and through acquisition and, as you will see in the OFR, revenue grew organically by 3% and has been further supplemented by additional net revenue of £40.5m from acquisitions/disposals.

We completed six acquisitions for a total consideration of £45.2m, five in the UK and US and one in Scandinavia. These have expanded our product range in both Roads and Utilities and have been successfully integrated into our existing businesses. After the year-end, we announced the acquisition of ATG Access Limited for a consideration of £22.5m. Based in the UK, ATG has a considerable international market footprint so will add both products and routes to market for our security products operations.

As well as maintaining an active acquisition pipeline and leading subsequent effective integration, your management, ably led by the Executive Directors, has continued to work on the performance of the continuing businesses, generating ideas and opportunities for growth. You will see examples of these in the various sections of this Annual Report.

In the wide portfolio of businesses that comprise Hill & Smith there has been a range of performances in 2018. The Board's focus is very much to review and debate business performance, to encourage attainment of the key performance metrics, and to ensure that the overall mix of businesses is capable of delivering the Group's targeted returns. Our attention on this proactive portfolio management very much continues.

In addition to the focus on performance your Board has spent time looking at our purpose and values, our responsibilities to all of our stakeholders, especially our employees, our environmental impact and succession at the Board level and throughout the businesses. We have also discussed the dividend and the risk environment, including Brexit, and these are all covered further below.

People

All companies are reliant on the commitment of their people to pursue their strategy successfully, and Hill & Smith is no exception. At 31 December 2018, we had 4,327 employees, including 180 who joined with the acquisitions completed during the year. On behalf of the Board, I would like to thank all of them, new and old, for rising to the challenge and producing the results that we can see.

Our primary responsibility to our employees is to ensure that our businesses are safe places to work. This is discussed further under Health & Safety below.

As a Board we have been reviewing our employee engagement in light of the new UK Corporate Governance Code ('the Code') which came into effect on 1 January 2019. We will be reporting on this in the 2019 Annual Report.

We believe it is important to encourage employee shareholder participation wherever practical and we currently have 786 of our UK-based employees enrolled in our Save as You Earn ('SAYE') schemes.

Jock Lennox
Chairman

Succession planning has remained an important Board priority and we have discussed the various plans and activities in place, both business-level specifics and also the wider development activities that are in place to ensure people are ready to step up when the time comes. We continue to look at diversity in all its senses so that our mix of people is tapping into all the sources of talent.

Purpose and values

You will see on page 10 of this Annual Report that we have set out the Purpose and Values for Hill & Smith for the first time. Whilst this is also in anticipation of the new Code, the publication of these is in essence a formalisation of what Hill & Smith has been designed to achieve, and how it has set out to achieve it, for a number of years now.

So that these important statements are aligned with the individual businesses, work has been undertaken involving the Executive Directors and business-level management to test the direction and points of emphasis. In adopting these Purpose and Value statements the Board was able to see that they sit comfortably at the business level and can be made to 'work'. We will provide feedback on their impact in due course.

Environment

We have been reporting on our impact on the environment for a number of years now. The detailed results are included in the Corporate and Social Responsibility Report ('CSR') contained within this Annual Report.

As this aspect of corporate responsibility continues to develop we look regularly at the scope of reporting so that the communication is consistent and appropriate. Our aim is to conform with our responsibilities. As the Group continues to grow, our reporting is focused on accounting for the change in the impact of our relative intensity. I am pleased to say that this has continued to reduce, from 0.116 in 2017 to 0.108 in 2018.

Health & Safety

We continue to place a high emphasis on ensuring that we make our various sites safe places to work for our employees and visitors. Detailed reporting is contained within the CSR report.

The Board receives regular analyses of incidents both actual and near misses. Management continues to work with the businesses so that we see consistent reporting and the willingness to learn from each other's experiences. In a diverse Group like Hill & Smith, particularly with the acquisitions that are made, this will remain a continuing point of emphasis. For the incidents reported, attention is very much on looking for root causes so that learnings can be made and shared as necessary across the Group.

We continue to use a third party assurance and advisory support service and have now extended this to a domestic provider in the US. Over the last two years the focus on reporting and auditing has seen accidents reduce by 7.8% and the injury rate per 100,000 employees reduce by 13.6%.

Board succession

In the year, as has already been mentioned, the Code was updated. One of the changes is the application, for the first time, of the "nine year" rule to the tenure of the Chair. This is highly relevant to Hill & Smith as I joined the Board in 2009.

I have set out in more detail in the Corporate Governance Report how this provision applies. The recommendation of the Board, led by the Senior Independent Director for this purpose and excluding me, is that I should be proposed for re-election at the Annual General Meeting in May. My tenure will continue to be subject to annual approval. The Board has also agreed that during 2019 it will commence a search for an additional Non-executive Director to further strengthen the composition of the Board.

I held a number of meetings with leading shareholders during 2018 and among other matters I flagged the Board's thinking regarding my tenure as Chairman. The feedback was supportive and we will continue with this process of consultation through the Senior Independent Director during 2019.

As at the date of this report, Mark Pegler will step down as Group Finance Director on 30 April 2019. This move reflects the outcome of the Board's long-term succession planning alongside Mark's personal plans for the future. I wish him well and would like to add my thanks for his major contribution to the development of Hill & Smith. A search for his successor is underway.

Looking ahead

As is well documented, we face a variety of uncertainties in 2019, not least Brexit, the range of possible outcomes and their likely impact in the UK.

In our disclosures on principal risks and risk management and our comments on the potential impact of Brexit (as set out in the OFR), we have set out the matters that we have identified as needing to be managed and mitigated as we pursue the next stage of development of Hill & Smith.

The outlook section in the OFR sets out our expectations for the year ahead which, overall, are that we are cautiously optimistic that 2019 will be a year of progress for Hill & Smith.

Dividend and Annual General Meeting

The Board has proposed a 6% increase in the final dividend to 21.8p which, if approved, would result in a full year dividend also up 6% at 31.8p. Dividends are a central part of shareholder returns and this will be our sixteenth successive year of increases, a testament to the Group's cash generative business model.

The Annual General Meeting is to be held at The Village Hotel, Shirley, B90 4GW on 16 May 2019. The meeting is an ideal forum for raising any questions you may have of your Board and I hope many of you take advantage of the opportunity. I look forward to meeting you there.

Jock Lennox
Chairman

6 March 2019

Training & development

The Apprenticeship Levy

Since the launch of the Apprenticeship Levy in May 2017, Hill & Smith has seen an increase in the number of personal training and development opportunities across the Group. The Group contributes c. £280,000 annually and is determined to ensure that all our UK businesses are committed to implementing training schemes. To facilitate this our Group head office works closely with an Apprenticeship Levy manager to interact with the 10 UK subsidiaries to drive engagement in apprenticeship schemes. In the last 12 months we have gone from having only 5 apprentices across three of our UK subsidiaries to having 64 across eight. Work will continue in 2019 to encourage more use of the levy.

Sites are taking advantage of utilising their Levy in a variety of areas; however, the greatest impact is through Business Improvement Techniques across numerous companies launching this summer. Through 5S, Kaizen and efficiency projects those sites will see a great return on investment during the programme by making the processes slicker, resolving issues and improving bottom line profits. Staff are really getting involved in making a tangible difference in their workplace. Along with this sites are taking on Apprentices across a variety of other areas: Business Administration, Electrical Engineering, Design/Draughtsperson, Health & Safety, Welding, Warehousing, Sales and Accounting.

Other Training

The HS Group General Management Development Programme will begin in April 2019 with six workshop dates throughout April to October 2019. This is for existing managers who have had no formal training and want to further develop their leadership skills. The programme comprises six one-day workshops and will be held at our Bilston site. It is a skills development programme, and can be converted in to ILM qualification at a later date if desired.

Our 'Understanding the Essentials of Finance' workshop will help non-financial managers develop their financial understanding, appreciate how their decisions affect their organisation's financial performance and enable them to contribute to and understand financial discussions and meetings in the workplace. It will demystify the jargon, explore key ratios, and examine key trends and areas for concern as well as help managers identify future key issues, threats and opportunities and how to plan and budget for them.

In Q2 of 2019 we shall be introducing our 'Successful Supervisors Programme', a three-part programme for first-line managers/supervisors to build their leadership skills and develop their teams by encouraging flexibility, motivation and a positive attitude to work.

Business Model

Our Purpose

Our purpose is to deliver innovative solutions in infrastructure products and galvanizing services, for the benefit of our shareholders, customers and employees.

Our Culture

We encourage a high degree of entrepreneurialism at business unit level, supported by the resources of a larger group and within a disciplined framework of clear strategic priorities, whilst at the same time applying the appropriate level of corporate governance and reporting.

Our Markets

Our businesses serve a wide range of industries, including road, rail, utilities, power generation and construction, supplying infrastructure products as well as corrosion protection services. Our largest markets are the UK and US, but we also have businesses in Scandinavia, France, India and Australia. For more information see pages 12 to 17.

Business Segments

Product areas

Infrastructure – Roads

For more information see page 12.

12

Infrastructure – Roads

Our Roads businesses design, manufacture and supply products including permanent road safety barriers and other vehicle restraint solutions, temporary work zone protection products, hostile vehicle mitigation products, street lighting columns, car park and bridge parapets, and variable road message systems.

Infrastructure – Utilities

For more information see page 14.

14

Infrastructure – Utilities

Our Utilities businesses design, manufacture and supply products and services for the power generation, liquefied natural gas, renewables, utilities, construction and other industrial sectors. These include pipe supports, electricity transmission structures, energy components, liquid storage and water management solutions, perimeter security, industrial flooring and access systems, and GRP composite products.

Galvanizing Services

For more information see page 16.

16

Galvanizing Services

The Galvanizing Services division provides corrosion protection services, in the form of hot dip zinc galvanizing and other coatings, for metal products used in a wide range of infrastructure and other industrial applications. It serves external customers, as well as the Group's infrastructure product companies, through a network of facilities in the UK, France and the North East region of the USA.

Creating Value

For shareholders

A focused and well balanced group capable of generating sustainable profitable growth and superior total shareholder returns.

For customers

A highly customer-focused group of businesses, committed to operational excellence and delivering innovative solutions, superior manufacturing capability and the highest quality customer service.

Our Strategy

Our strategy is to deliver sustainable profitable growth through product development, innovation and international expansion. We target geographies with high levels of infrastructure investment driven either by regulation, health & safety, security or environmental concerns, or by emerging economic growth, or both. Growth is achieved organically and through acquisition, and we actively manage our business portfolio.

Our Governance

The Board is collectively responsible for upholding high standards of corporate governance and leadership, and we place a high priority on meeting our environmental and social responsibilities, whilst continuing to deliver value to shareholders. Effective risk management is critical to the achievement of our strategy, and our risk management processes are integrated into daily business activities. For more information see pages 32 to 39 and 52 to 82.

Growth strategy

Revenue Growth and Targeted Returns

The Board ensures that revenue growth is achieved at each individual business unit alongside appropriate targets for margins, return on invested capital and debt, which in turn flows through to sustainable profitable growth at Group level.

The Group's targets are as follows: ROIC of 20%; underlying margin of 12% - 15%; net debt to EBITDA ratio of 1.5 - 2.0x.

Geographical Expansion

We have a major presence in the UK and the US. From that strong base, we target further geographies where infrastructure is either being upgraded or is being invested in, where our existing solutions can readily and profitably be introduced, and where businesses can be acquired to enhance our market position.

Entrepreneurial Culture

We require and incentivise our individual business units to exercise agility and entrepreneurialism, and we allow them room to do so. This approach ensures that decisions are made close to the market and that our businesses can respond rapidly both to opportunities and to changes in their competitive environment.

Portfolio Management

We manage our business portfolio proactively. We supplement organic growth with acquisitions that complement our existing activities and create new growth opportunities, but we also closely monitor all our businesses to ensure that they are capable of contributing to the attainment of the Group's overall growth targets. Where this is not the case prompt action is taken, whether through restructuring or divestment.

Outcome

A strong track record, over many years, of profitable growth, cash generation and increasing dividends.

A balanced portfolio of responsibly managed businesses today, with leading niche positions in growth markets.

A growth strategy, management culture and financial profile that create a strong platform for further sustained, superior Total Shareholder Returns over time.

For employees

As an employer committed to providing the right environment in which to work we insist that people connected with the Group can work safely, are trained correctly, behave in the right way, and comply with all local legal and regulatory requirements, thus ensuring the sustainability of the business as well as the environment and the communities in which we operate. We do this by implementing the correct policies and procedures relating to our people and the environment, by successfully delivering an effective health & safety system, and by encouraging our businesses to interact with their local communities. See pages 42 to 43 for more information.

Our Values

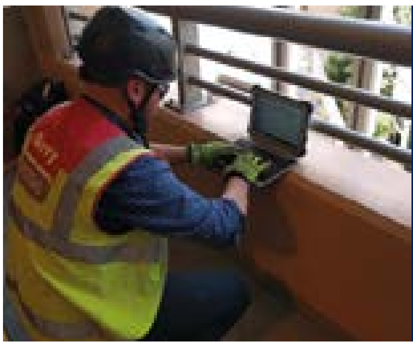
At the heart of everything we do, our values underpin the behaviours of our people and of our businesses across the Group.

Protecting people and our communities

Acting with integrity

Innovating and developing

Operational excellence



Accountability

We practise the highest standards of health and safety, promote wellbeing for our people, both inside and outside of work, and seek to offer protection to the communities in which we work through our products and services.

This means that we:

- do not cut corners in pursuit of lowering cost or increasing efficiency, if it prejudices the health and safety or wellbeing of our colleagues and customers;
- understand that all employees have a duty to each other to keep ourselves safe from harm or injury;
- abide by our own safety policies and procedures; and
- will consider the impact of our actions on the community, our customers and each other.

We do the right thing, for people, our customers and all stakeholders. We do what we say we will do, expect the same of each other and speak up when there is a problem. We place importance on relationships internally and externally, treating everyone we come in to contact with, with respect, honesty, openness and care.

This means that we:

- treat our colleagues and customers with respect, even in challenging situations;
- deliver solutions which meet the exacting requirements of our customers;
- do what we say we will do, when we say it and, if we can't, we will communicate in good time;
- raise our concerns with senior management if we suspect wrongdoing; and
- care for our colleagues and the communities in which we work.

We encourage collaboration both internally across the worldwide Hill & Smith Group and externally with regulators and customers to deliver the right solutions to protect our communities. We are committed to developing our people to ensure that our businesses have the right skills and talents for now and in the future.

This means that we:

- will always seek to meet our customers' needs;
- will continue to work in partnership with our customers, to develop our understanding of the markets in which we both operate;
- will take risks that are within our approved risk appetite in order to develop the business;
- understand we all have a shared responsibility to develop ourselves and others; and
- develop in-house talent in order to support both the business and the career aspirations of our employees.

We work alongside our customers, stakeholders and partners to deliver solutions, which add value, increase efficiency and solve their problems, whilst offering the highest standards of customer service and behaviours, utilising superior manufacturing capabilities and a well-trained and knowledgeable workforce.

This means that we:

- continually ask ourselves 'is this what our customers want?';
- treat all our customers and their products with respect;
- act ethically in everything we do;
- continually review our manufacturing processes to ensure they are as efficient and as environmentally considerate as possible; and
- invest in customer service training for staff in order to ensure they deliver a first-class experience.

We take accountability for our own work. We take the initiative, seek clarity and transparency and demand high standards from ourselves, our colleagues and our leaders.

This means that we:

- respond to changing circumstances with agility and make decisions quickly and with accuracy;
- communicate our decisions to colleagues and customers with clarity;
- achieve what we set out to achieve and learn from our mistakes;
- actively seek out opportunities for continuous development; and
- foster a culture where our employees feel able to challenge our leadership.

Our Business Segments in 2018

Revenue	£208.5m
Underlying operating profit	£24.2m
Underlying operating margin	11.6%

Number of subsidiaries
11
Number of employees
927

Market drivers

- Government road investment initiatives in the UK and the US:
  - Next phase of UK Road Investment Strategy announced, with increased funding through to 2025 and with Smart Motorways at its core
  - Implementation of US Administration's Fixing America's Surface Transportation '(FAST') Act through to 2021
- Ongoing heightened terror threat driving demand for hostile vehicle mitigation systems for buildings and areas at risk of attack.

Strategic priorities

- Maintaining market-leading positions in vehicle restraint systems ('VRS') and other road safety traffic products, sign posts and lighting columns
- Developing and delivering new industry-leading barrier and hostile vehicle mitigation systems through market analysis and technical development
- Aligning our businesses as key and sustainable supply chain partners with our clients
- Continuing to investigate the horizontal market integration of our manufacturing capabilities
- Identifying further acquisition opportunities to extend product offer and further strengthen our market positions.

Geographical spread

- UK (9 sites)
- USA (5 sites in 4 states)
- France (1 site)
- Scandinavia (10 sites)
- Australia (1 site)

Images:

Above: VecuStop attached to Variguard temporary steel barrier on the M6, junctions 12 to 15, Stafford. UK.

Facing page Top: Permanent precast concrete barrier installed on the A1M between Leeming and Thirsk, North Yorkshire. UK.

Facing page Middle: Rebloc barrier installed in Stockholm, Sweden, by ATA.

Facing page Bottom: A Wayne County, Indiana bridge replacement project utilising Hill & Smith Inc's Zoneguard rental fleet for temporary traffic control.

Locations

- UK – 9
- International – 17

Employees

- UK – 544
- International – 364

Progress

- Growing international acceptance of temporary steel barrier safety products: major new distribution agreement with nationwide US distributor; sales into Norway, Denmark, Australia & New Zealand
- Investment in additional steel and concrete temporary safety barrier in the UK and Australia
- Continued development and deployment of new hostile vehicle mitigation products at high-profile, security-sensitive UK locations
- Higher demand for lighting columns in France and market share gained in northern Europe.

Expansion

- Three acquisitions completed to extend our product offering in line with our strategy, all successfully integrated into our existing businesses:
  - D Gibson, UK supplier of road signs and ancillary products
  - Signalvakter Syd, Scandinavian supplier of traffic management systems
  - Work Area Protection Corp., US supplier of road workzone safety and traffic control products.

Revenue and Returns

- Revenue up 11% (2017: £187.1m)
- Underlying margin of 11.6%. (2017: 12.6%) (business segment target range 10% - 14%)
- ROIC of 17.3% (Group target ROIC: 20%)

Our Business Segments in 2018

Images:

Above: An historic church, in Springboro, Ohio, USA, built in 1885 with a disguised RF-transparent steeple manufactured and supplied by V&S Utilities.

Facing page Top: An American Electric Power substation manufactured jointly by V&S Utilities Oklahoma & Ohio plants.

Facing page Middle: LPCB SR4 rated cage, providing physical security of a transformer at a South Staffordshire Water PLC site. UK.

Facing page Bottom: A Composite Advantage developed composite bumper or 'camel' for use by the US Navy to moor CVN aircraft carriers when in port.

Revenue	£239.0m
Underlying operating profit	£18.3m
Underlying operating margin	7.7%

Number of subsidiaries
15
Number of employees
1,849

Market drivers

- Requirement for new power generation in emerging economies and replacement of ageing infrastructure in developed countries
- Government investment initiatives:
  - UK Government's Asset Management Programme (AMP6) for the water industry
  - UK Government and departmental guidelines for critical infrastructure protection
- Investment in US electricity distribution forecast to continue over medium term
- UK investment in new-build housing, supported by Government initiatives to address long-term housing shortage.

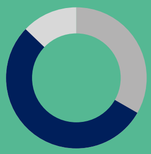
Strategy

- Developing engineered solutions, both in core product range and in adjacent and complementary areas which can be delivered through existing supply chains
- Aligning ourselves as key and sustainable supply chain partners with our clients
- Identifying further acquisition opportunities to extend product offer, increase penetration of existing products and further strengthen our market positions
- Expansion of fibre reinforced polymer ('FRP') technical solutions into wider infrastructure markets.

Geographical spread

- UK (8 sites)
- USA (13 sites in 7 states)
- India (3 sites)

Locations



- UK – 8
- USA – 13
- RoW – 3

Employees

- UK – 785
- USA – 767
- RoW – 297

Progress

- Composite materials businesses benefited from wider product offering created by acquisitions in 2017
- Increased orders for plastic pipe for water management, driven by AMP6 and higher volume of new housing developments in UK
- Exciting opportunities emerging in both local and export markets for our protection solutions for critical infrastructure sites – first-time deployment at large data centres in Europe
- Building products business embarked on major capital investment programme to increase capacity and improve efficiency in order to benefit fully from growth in UK new-build housing market
- Strong demand for pipe supports in a robust US economy.
- Delivery to the Middle East of our first cryogenic pipe supports project.

Expansion

- Three acquisitions completed and successfully integrated, extending product offering and addressable markets, and increasing our manufacturing capacity:
  - Composite Advantage Inc., Ohio, US supplier of fibre reinforced polymer infrastructure products including for waterfront, rail, bridge decks and oil & gas
  - Engineered Endeavours Inc., Ohio, US supplier of utility poles for power distribution and wireless cellular markets
  - The Grating Company Limited & Pro Composites Limited, UK supplier of GRP composite products for construction and rail markets
- Pipe supports business in India enjoying demand from both local and international power markets, supplying projects in India, Japan, Indonesia and Middle East.

Revenue and returns

- Revenue up 11% (2017: £215.7m)
- Underlying margin of 7.7%. (2017: 7.8%) (business segment target range 7% - 11%)
- ROIC of 17.6% (Group target ROIC: 20%)

Our Business Segments in 2018

Revenue	£190.4m
Underlying operating profit	£37.6m
Underlying operating margin	19.7%

Number of subsidiaries
5
Number of employees
1,571

Market drivers

- Ongoing high levels of activity in transport infrastructure, utilities, security, construction, agriculture and other sectors in our chosen geographies
- Imposition of tariffs on imported fabricated steel products, and Executive Order to 'Buy American' on all infrastructure projects with federal financial assistance, driving US volumes
- UK market consolidating, presenting opportunities to further strengthen market leadership.

Strategy

- Differentiation through high service levels and competitive pricing, enabled by well invested facilities and strategically located plant networks
- Increasing focus on lower-volume but higher-margin work
- Provide high level of support to, and thereby increase competitiveness of, Group's Infrastructure business segments
- Continue process of geographic infill in UK, North East USA and France, through acquisition of competitors and greenfield investment.

Geographical spread

- UK – 10 sites
- USA – 6 sites in north east USA and one in the south
- France – 10 sites

Images:

Above: Galvanized walkways inside a water tower on the Ariane 6 space project.

Facing page Top: A stature of Queen Aethelflaed, Lady of the Mercians, being galvanized at Joseph Ash Ltd's Bilston plant.

Facing page Middle: Galvanized temporary bridge structures at Joseph Ash Ltd's Telford plant.

Facing page Bottom: Galvanized barrier on the Mersey Gateway Bridge.

Locations

Employees

Progress

- UK performance benefited from strategic decision to focus on lower volume but higher margin work from smaller, jobbing customers
- US business well ahead driven by strong day-to-activity across a range of sectors, and despite absence of large one-off projects
- Volumes up in France and an improved market share.

Expansion

- Commenced greenfield development of a new galvanizing plant in the State of New York, due to be operational in Q4, 2019. This provides further filling out of our geographic footprint in North East USA.

Revenue and returns

- Revenue up 4% (2017: £182.3m)
- Underlying margin of 19.7%. (2017: 22.4%) (business segment target range 18% - 21%)
- ROIC of 18.5% (Group target ROIC: 20%)

Operational & Financial Review

2018 overview

After a difficult start to the year, Hill & Smith returned to growth in the second half and delivered underlying profitability for 2018 only marginally below the record prior year. Our US and other international businesses performed strongly, driven by the significant investment going into the replacement of ageing infrastructure and new infrastructure projects. Our UK business experienced certain headwinds earlier in the year, with adverse weather in Q1 and delays to some key roads projects, but delivered a strong second half trading performance.

Our UK and US operations, which generated 81% of revenue and 88% of underlying operating profit, operate principally in niche infrastructure markets where the overall outlook remains positive. The Group benefits from the industrial and geographical spread of its markets and businesses, which not only create a resilient business model but also opportunities for profitable growth. Overall, we are confident that our focused strategy of developing and investing in businesses with market leading positions in growth infrastructure markets, combined with our active and decisive approach to portfolio management, including bolt-on acquisitions, will provide continued growth and drive attractive returns for shareholders.

During the year, in line with our growth strategy, we:

- completed six acquisitions in the UK, USA and Scandinavia for our Roads and Utilities divisions, for total cash consideration in the period of £45.2m, with further consideration of up to £2.6m dependent on future financial performance;
- committed to a new-build galvanizing facility in northern USA, expected to be operational fourth quarter 2019;
- completed the investment in a further 30km of concrete, and committed to an additional 38km of steel, temporary safety barrier in the UK with a combined investment of £10.4m.

After the year end, on 22 February 2019, we completed the acquisition of ATG Access Limited, a UK-based supplier of hostile vehicle mitigation perimeter security solutions, for a cash consideration of £22.5m. In addition, on 10 January 2019, the Group completed an amendment to its principal debt facility, extending the term to January 2024 and increasing the size by £50m to c.£280m. The increase in headroom will allow the Group greater flexibility to pursue further growth opportunities.

			Change %	
	2018	2017	Reported	Constant currency
Revenue	**£637.9m**	£585.1m	+ 9	+ 10
Underlying(1):				
Operating profit	**£80.1m**	£81.3m	- 1	-
Profit before tax	**£76.3m**	£78.5m	- 3	-1
Earnings per share	**77.8p**	75.9p	+3	+4
Reported:				
Operating profit	**£65.2m**	£74.1m	-12	
Profit before tax	**£59.8m**	£70.2m	-15	
Basic earnings per share	**59.9p**	68.6p	-13	

(1) Underlying measures exclude certain non-underlying items, which are detailed in note 3 to the Financial Statements.

Annual revenue increased by 9% to £637.9m (2017: £585.1m), despite a translational currency headwind of £7.1m or 1%. After adjusting for net additional revenue of £40.5m from acquisitions/disposals, organic revenue growth was 3%. Underlying operating profit declined by 1% to £80.1m (2017: £81.3m), which included a headwind from currency translation of £1.4m. The net operating profit contribution from acquisitions/disposals was £3.0m. Underlying operating margin reduced by 130bps to 12.6% (2017: 13.9%) while underlying profit before taxation was 3% lower at £76.3m (2017: £78.5m). Reported operating profit was £65.2m (2017: £74.1m), a decrease of 12% on the prior year. Reported profit before tax was £59.8m (2017: £70.2m). The principal reconciling items between underlying and reported operating profit are a goodwill impairment charge of £6.0m, amortisation of acquisition intangibles of £4.8m and acquisition related expenses of £2.2m.

£m	Revenue	Underlying operating profit
2017	585.1	81.3
Acquisitions & disposals	40.5	3.0
Currency	(7.1)	(1.4)
Organic growth/ decline	19.4	(2.8)
2018	637.9	80.1

The phasing of revenue and to a greater extent underlying operating profit was again second half weighted in 2018, principally reflecting improvements in the Group's UK operations after some challenges in the first half, the impact of acquisitions and a normal degree of seasonality across the Group's portfolio of businesses.

	First half	Second half	Full year
2018			
Revenue £m	**295.4**	**342.5**	**637.9**
Underlying operating profit £m	**34.6**	**45.5**	**80.1**
Underlying operating margin %	**11.7**	**13.3**	**12.6**
Reported operating profit £m	**31.0**	**34.2**	**65.2**
2017			
Revenue £m	291.8	293.3	585.1
Underlying operating profit £m	38.8	42.5	81.3
Underlying operating margin %	13.3	14.5	13.9
Reported operating profit £m	35.4	38.7	74.1

Dividend

The Group continues to generate good levels of profitability and benefits from a cash generative business model. The Board is recommending an increase of 6% in the final dividend to 21.8p per share (2017: 20.6p per share) making a total dividend for the year of 31.8p per share (2017: 30.0p per share), an increase of 6% on the prior year. Underlying dividend cover remains a conservative 2.4 times (2017: 2.5 times). Reported dividend cover is 1.9 times (2017: 2.3 times).

Our long-term performance and outlook gives us the confidence to maintain a progressive dividend policy which has resulted in sixteen years of uninterrupted dividend growth. The final dividend, if approved, will be paid on 1 July 2019 to those shareholders on the register at the close of business on 24 May 2019.

Brexit

Hill & Smith is an international business, operating in seven countries and selling into numerous others. The Group has continued to monitor closely, and on a business-by-business basis, the identified operational and financial risks arising from the UK's expected exit from the EU on 29 March 2019.

In Europe we have operations located in the UK, France, Sweden and Norway. Although the UK businesses do produce goods for export, the overall percentage is relatively small and the proportion destined for the EU is less than 1% of Group revenues. Whilst some of the supply chain inputs for the UK emanate from the EU, again the proportion is not significant. The operations located in France, Sweden and Norway do not have any significant transactions with the UK.

A small number of businesses use supply chains from both the Far East and the USA and there remains a possibility of potential disruption at UK sea ports in the period following exit. Contingency plans are in place within the relevant businesses and throughout the supply chain to mitigate these risks, such as purchasing additional stock of key raw materials and securing additional supply chain capacity.

Approximately 6% of our UK employees are EU Nationals and we are communicating with them using the latest information from the UK Government. They will also be receiving our support, to the extent necessary, to obtain 'settled status' if and when needed.

Like other UK based international businesses, we remain exposed to any impact Brexit may have on currency. Any transactional exposure is hedged in accordance with existing treasury policies, and the short term impact should therefore not be material. As is common, any translational exposure is unhedged and the translation of the Group's overseas earnings, net assets and net debt could therefore be impacted by any sudden and prolonged movement in Sterling.

The impact of any significant macro-economic disruption to wider demand patterns is difficult to predict but our experience is that our exposure to longer term infrastructure investment programmes, in many cases Government-funded, will mitigate the impact on the Group. As always, we remain vigilant and will react with our customary speed as necessary.

Outlook

The industrial and geographical spread of the Group's markets and businesses not only provide a resilient base, but also opportunities for growth. Notwithstanding the current cautious investment environment in the UK, the fundamentals of our niche infrastructure markets remain encouraging.

In Utilities, our UK and US activities continue to benefit from the significant investment in replacing ageing infrastructure and new infrastructure projects in those countries. In Galvanizing, wider market conditions, supported by infrastructure activity, remain favourable and we expect our businesses to consolidate their strong market positions and continue to take advantage of opportunities.

In the UK, we have confidence that the Group's road product portfolio will continue to benefit from increased investment in the UK's road infrastructure. Implementation of the Department for Transport's Road Investment Strategy is entering the final year of the initial five year plan, providing certainty of funding through to 2019/20. Recent UK Government announcements have confirmed its commitment to a second phase of road investment across 2020 to 2025, increasing funding by some 66% to £25.3 billion compared to the prior five year period.

In the US, the Administration has implemented its 'Buy American' policy through the imposition of tariffs and requirements to source locally for federally funded infrastructure projects. Our US businesses remain well positioned to benefit from any such on-shoring trends.

Overall, despite all the current well-documented political and macro-economic uncertainty, we are confident that our leading market positions, business model and financial strength put us in a strong position to take advantage of market opportunities as they present themselves. Whilst we continue to experience some short term

Operational & Financial Review (continued)

uncertainty in the UK, we have reasonable expectations that 2019 will be a year of progress for the Group.

Infrastructure Products

	£m		+/- %	Constant Currency %
	2018	2017		
Revenue	**447.5**	402.8	+11	+13
Underlying operating profit	**42.5**	40.4	+5	+7
Underlying operating margin %	**9.5**	10.0		
Reported operating profit	**29.3**	34.4		

The Infrastructure Products division supplies engineered products to the roads and utilities markets in geographies where there is sustained long term investment in infrastructure. In 2018 the division accounted for 70% (2017: 69%) of the Group's revenue and 53% (2017: 50%) of underlying operating profit. Revenues increased 11% to £447.5m (2017: £402.8m) which included a £5.4m headwind from exchange rate movements. Acquisitions and disposals contributed a net £40.5m of revenue. Organic revenue growth was £9.6m, or 2%. Underlying operating profit was £42.5m (2017: £40.4m), an increase of £2.1m or 5%, with currency translation headwinds of £0.7m. Acquisitions/disposals contributed a net £3.0m. Underlying operating margin was 9.5% (2017: 10.0%). Reported operating profit was £29.3m (2017: £34.4m) and included intangible asset impairment charges of £6.0m relating to the Group's acquisition of Technocover Limited in 2016, and costs of £0.7m (2017: £2.8m) relating to restructuring actions taken during the year.

Roads

	£m		+/- %	Constant Currency %
	2018	2017		
Revenue	**208.5**	187.1	+11	+13
Underlying operating profit	**24.2**	23.6	+3	+4
Underlying operating margin %	**11.6**	12.6		
Reported operating profit	**20.3**	20.9		

Our Roads business designs, manufactures and installs temporary and permanent safety products for the roads market. We principally serve the UK market, but with an increasing international presence in selected geographies – Scandinavia, USA, France and Australia – where there is a growing demand for innovative tested safety products. Roads represented 33% (2017: 32%) of the Group's revenue in 2018, and 30% (2017: 29%) of underlying operating profit. Revenues increased 11% to £208.5m (2017: £187.1m). After currency headwind of £2.0m and net contribution from acquisitions/ disposals of £28.3m, the organic decline was 3%. Underlying operating profit of £24.2m was £0.6m higher than the prior year (2017: £23.6m), including a £0.3m headwind from currency translation and £2.1m from acquisitions/disposals.

Reconciliation of Reported to Underlying operating profit	£m	
	2018	2017
Reported operating profit	**20.3**	20.9
Restructuring actions	**-**	1.8
Past service pension costs	**0.3**	-
Profit on disposal of subsidiary	**-**	(0.6)
Acquisition costs and amortisation	**3.6**	1.5
Underlying operating profit	**24.2**	23.6

UK

The UK Government's Road Investment Strategy ('RIS') is entering its final year of an initial five-year plan. The RIS aims to provide certainty of investment funding for the period 2015/16 to 2019/20, to improve the connectivity and condition of the existing road network and, importantly, to increase capacity, with delivery of 1,300 additional lane miles. In October 2018, the Group was encouraged to hear the Government commit to further significant investment in the UK roads network. Confirming funding for its Road Investment Strategy 2 ("RIS2") programme, the UK Government increased investment across 2020 to 2025 to £25.3 billion, an increase of some 66% compared with the initial RIS programme spanning 2015 to 2020. The delivery of Smart Motorways, in which the Group has an active and significant presence, continues to lie at the core of the Government's investment in the strategic road network.

In the first half of the year we experienced some delays in the commencement of new projects, principally Smart Motorways, as Highways England completed detailed planning to ensure efficient execution. Demand for our rental temporary safety barrier was therefore below our expectations in the first half, although completion delays on existing projects helped to mitigate the impact. New Smart Motorway projects were progressively commissioned throughout the year and second half utilisation rates were significantly higher and in line with expectations. As the significant investment programme ramps up we continue to expect high demand for both our steel and concrete temporary safety barriers. In anticipation of the programme ahead, we completed the investment in a further 30km of concrete and committed to an additional 38km of steel temporary safety barrier, with a combined investment of £10.4m. The outlook for the remainder of RIS1 and for RIS2, the details of which are due to be published later in 2019, remains strong.

Demand for permanent safety barrier, bridge parapet and lighting columns was adversely impacted by UK weather conditions in the first quarter with limited end of financial year spend by local councils as funds were diverted elsewhere to keep the transport network operational. The market for permanent safety barrier subsequently improved and was in line with our expectations. Our bridge parapet business was also adversely impacted by preparations to relocate to a new, larger facility expected to be completed in the first quarter of 2019. Our lighting column and signage business continues to deliver a strong performance in a competitive market. An enhanced product portfolio and inclusion in a number of supply chain framework agreements will provide a platform for further development. On 1 January 2018, we acquired D Gibson Road & Quarry Services Limited for a cash consideration of £0.3m. Supplying road signs and ancillary products to UK contractors, the business has been absorbed into our existing lighting column and signage business.

The delays in the commencement of new Smart Motorway projects adversely impacted our Variable Message Signs ('VMS') business and volumes and profitability were materially below the prior year. The impact of the lower volumes has been partly mitigated as we completed the previously announced restructuring involving the closure of two UK sites and consolidation into our existing facility in the north east of England. Our Remotely Operated Temporary Traffic

Management ('ROTTM') signs, which are safety-led permanent applications on motorways where no hard shoulder exists, continue to be deployed across the network. Development of a new, full colour LED variable message sign for use on the next phase of the Smart Motorway roll-out was completed and the first project for the new technology was won for delivery in the first half of 2019.

With the continuing high threat of terrorism, demand for our range of hostile vehicle mitigation products, including temporary and permanent, steel and concrete applications, remains strong. We continue to develop new products and applications to protect key locations and events across the country, including Hinkley Point, the US Ambassador's residence in London on the visit of the US President, royal weddings and the Commonwealth Heads of Government meeting. As previously reported, we are experiencing growing interest from UK and international third parties in purchasing our proven safety product for road and hostile vehicle mitigation applications. During the year we sold both new and existing rental fleet temporary safety barrier for applications in Denmark, Norway and the UK including 24km for use on 'Project Brock' on the M20 in Kent which will be used to control traffic on the motorway to Dover in the post-Brexit interim.

Exports of Brifen, our wire rope safety barrier system, and Bristorm, our high containment anti-terrorist perimeter barrier, experienced a slow start to the year but finished strongly as projects and credit financing were released. After the year end, on 22 February 2019, the Group announced the acquisition of ATG Access Limited ("ATG") for a cash consideration of £22.5m. Based in the UK and exporting to over 30 countries, ATG specialises in the development, manufacture and installation of hostile vehicle mitigation perimeter security solutions including bollards, road blockers, barriers and gates. The combination of our existing security products with those of ATG provides a strong platform to accelerate the expansion of both our existing UK and international roads businesses.

Non-UK

Our Scandinavian businesses performed well and profitability was ahead of the prior year. Further investment in the temporary steel and concrete safety barrier rental fleet continues to be made to support significant upgrades to the wider road networks, including the E4 Stockholm bypass. On 28 March 2018, we acquired Signalvakter Syd for an initial cash consideration of £0.4m. A further £0.5m consideration is potentially due dependent on financial performance over the next five years. A traffic management business, Signalvakter has been integrated into our existing Scandinavian operations and will serve to extend our product offering. In January 2019, we recruited sixteen people from an existing road traffic safety management business to complement and accelerate our traffic management and safety products operation.

In France, our lighting column business has started to experience higher demand from local councils across the country as additional budgets are allocated to urban design work ahead of municipal elections in 2020. Recent work to develop export markets was also successful with market share gained in northern Europe. Despite a competitive market, results were materially ahead of the prior year.

Employing both a rental and direct sales approach, exciting progress continues to be made in promoting our temporary safety barrier in both the USA and Australia. In the USA, acceptance of our temporary steel barrier, Zoneguard, as an alternative to concrete is now well established in a number of states. In May 2018 we signed a major new distribution agreement with a nationwide US roads traffic management business and this is a major step forward for the business, expanding the number of states which the product can reach. Overall, despite a slower first half of the year, volumes sold were similar to the prior year. In Australia, road infrastructure investment remains buoyant. In addition to delivering a 12km Zoneguard project into New Zealand along with a significant project in Queensland, the business also invested in the further expansion of its rental fleet and utilisation was high.

On 9 May 2018, the Group announced the acquisition of the trade and assets of Work Area Protection Corp. ("WAPCO") for a cash consideration of £31.2m. Based in the USA, WAPCO specialises in the development, manufacture and distribution of a wide range of road work zone safety products including crash attenuators, temporary variable message signs, smart work zone systems and traffic control products such as drums, channelizers and cones. The combination of WAPCO's business with our existing US and international roads businesses will increase the scale and range of road safety products we can sell into key geographies where the infrastructure investment outlook is strong. WAPCO has been fully integrated into our existing US operation and trading since acquisition has been in line with expectations.

Utilities

	£m		+/-	Constant Currency
	2018	2017	%	%
Revenue	**239.0**	215.7	+11	+13
Underlying operating profit	**18.3**	16.8	+9	+12
Underlying operating margin %	**7.7**	7.8		
Reported operating profit	**9.0**	13.5		

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 housebuilding. The requirements for new power generation in emerging economies and replacement of ageing infrastructure in developed countries provide excellent opportunities for the Group's businesses. Revenues increased by 11% to £239.0m (2017: £215.7m) including a £12.2m contribution from acquisitions and despite a headwind from currency translation of £3.4m. Organically, revenue was £14.5m or 7% higher than the prior year. Underlying operating profit was £18.3m (2017: £16.8m) including a negative currency impact of £0.4m and a contribution from acquisitions of £0.9m.

Reconciliation of Reported to Underlying operating profit	£m	
	2018	2017
Reported operating profit	**9.0**	13.5
Restructuring actions	**0.7**	1.0
Impairment charges	**6.1**	0.4
Past service pension costs	**0.4**	-
Acquisition costs and amortisation	**2.1**	1.9
Underlying operating profit	**18.3**	16.8

Non-UK

In the US, investment across key utilities infrastructure continues and our power transmission substation business grew strongly. Significant steel and zinc price increases were managed effectively through the supply chain and profitability was ahead of the prior year. On 17 August 2018, we acquired the business assets of Engineered Endeavours Inc. from Chapter 11 proceedings in Ohio, USA for a cash consideration of £4.8m. The business designs and manufactures utility poles for the power distribution and wireless cellular markets and gives us 52,000 sq. ft. of additional manufacturing capacity. Already integrated into our existing US utility business, performance has been ahead of plan and the

Operational & Financial Review (continued)

positive reaction from the enlarged customer base bodes well for the future. Investment in US electricity distribution is forecast to continue over the medium term and we are excited about the opportunities for the combined business.

With a growing acceptance of its expanding product offering, our composite materials group delivered record results, growing both revenue and profitability by delivering wide ranging projects for cooling towers, bridge structures, fender piles, seawall, rail protective cover boards and harbour camels. Kenway and TowerTech, acquired in 2017, have been seamlessly integrated into the Group and the benefits of a wider product offering are evident. Facilities at our Pennsylvania base have been expanded and the TowerTech operation will relocate in the first quarter of 2019. The business and assets of Composite Advantage Inc. ("CA") were acquired on 5 October 2018 for an initial cash consideration of £8.0m (net of expected working capital adjustments on completion of £1.0m). A further £1.2m is due on the expiry of certain warranties and indemnities. Based in Ohio, USA, CA provides fibre reinforced polymer products for infrastructure markets including waterfront, rail, bridge decks and oil & gas. CA is being integrated into the existing composite products business and will expand the range of technical solutions into ever wider infrastructure markets. Trading since acquisition has been encouraging and we remain excited by the opportunities for growth.

UK

In the UK, all of our utilities businesses were impacted by the poor weather in the first quarter and, whilst trading subsequently improved, overall results were mixed. Our plastic pipe business experienced the expected up-turn in orders from Asset Management Period 6 ("AMP6") and continued to enjoy good volumes from new housing developments. However, private investment projects were below expectations, in part due to a more cautious investment environment in the UK. The performance of Technocover Limited, our security access cover operation, was below expectation as key water utilities deferred or diverted funds away from security investment plans and profitability was impacted by operational gearing and inefficiencies.

The industrial flooring business used the slower start to the year to restructure its operations, enabling it to improve operational efficiency as the year progressed. Performance in the second half of the year was strong as we designed, supplied and installed flooring, walkways and handrails for rail maintenance depots, energy from waste plants and rail platform extensions in both steel and composite material. New products have been readily accepted by the customer base and will assist in increasing market share. On 27 April 2018, we acquired the business and certain assets of The Grating Company Limited and Pro Composites Limited for an initial cash consideration of £0.5m. A further £0.9m consideration is potentially due dependant on financial performance over the next five years. The businesses specialise in the supply and installation of glass reinforced plastic composite products for the construction and rail markets in the south east of the UK, and have been integrated into our existing UK composites operation within the industrial flooring business.

Our security fencing operation continues to develop its range of tested options for the protection of critical infrastructure sites, which have been deployed at large data centres in both Ireland and Continental Europe for the first time. The introduction of more specialist products has helped to offset the decline in spend from electrification projects on the UK rail network. Exciting opportunities exist in both local and export markets that require high security protection and the recent acquisition of ATG will help widen our product offering and geographical reach.

Our building products business, supplying composite residential doors, steel lintels and builders' metalwork, was impacted by the poor weather in the first quarter but recovered strongly, benefitting from growth in the new build housing market and growing its share of the residential door market. The business also embarked on a major capital investment programme to increase capacity and improve efficiency to enable it to take advantage of medium term growth opportunities.

Pipe Supports

In our US pipe supports business the requirement for engineered pipe supports in the power sector has continued, albeit at lower levels versus the prior year, with the focus around combined cycle gas power, chemical and waste water plants. Strong demand from a robust US economy, including a growing commercial construction market in the north east of the country, resulted in our industrial hangers business improving revenue and profitability. Rising input prices, principally resulting from the implementation of tariffs, were managed through the supply chain.

In India, both the local and the international power market for our engineered pipe supports remains encouraging and we have supplied coal and gas projects in India, Japan and Indonesia in addition to our first cryogenics project in the Middle East. Whilst results were below the exceptional prior year, the introduction of new products developed by our Indian team will continue to expand the customer base and our market reach.

Galvanizing Services

	£m		+/-	Constant Currency
	2018	2017	%	%
Revenue	**190.4**	182.3	+4	+5
Underlying operating profit	**37.6**	40.9	- 8	- 6
Underlying operating margin %	**19.7**	22.4		
Reported operating profit	**35.9**	39.7		

The Galvanizing Services division offers corrosion protection services to the steel fabrication industry with multi-plant facilities in the USA, France and the UK. The division accounts for 30% (2017: 31%) of the Group's revenue and 47% (2017: 50%) of underlying operating profit. Revenue increased by 4% to £190.4m (2017: £182.3m) which included an adverse currency translation of £1.7m. Organic revenue growth was 5%. Underlying operating profit of £37.6m (2017: £40.9m) included a £0.7m currency headwind. The organic decline in profitability was £2.6m. Underlying operating margin was 19.7% (2017: 22.4%).

Reconciliation of Reported to Underlying operating profit	£m **2018**	2017
Reported operating profit	**35.9**	39.7
Acquisition amortisation	**1.3**	1.2
Past service pension costs	**0.4**	-
Underlying operating profit	**37.6**	40.9

USA

Located in the north east of the USA, 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.

Day-to-day infrastructure investment remains strong with growth across a wide range of market sectors, particularly OEM and Bridge & Highway with new and replacement bridges, overhead sign structures, sound walls and highway fencing all performing well. Overall, despite the absence of large one-off projects, volumes

Zoneguard temporary workzone protection barrier deployed by Asset Vehicle Restraint Systems, a division of Hill & Smith Ltd along the M6 motorway, junctions 13-15 near Stoke-on-Trent. UK.

Operational & Financial Review (continued)

were 7% ahead of the prior year which once again resulted in record profitability. Operating margins were marginally lower than the prior year as higher zinc input costs were managed through the supply chain. Bridge & Highway demand in particular is expected to continue into 2019 at significant levels, supplemented by the return of alternative energy infrastructure products as investment re-commences. Recent moves by the US Administration to implement tariffs on imported fabricated steel products, along with an Executive Order to 'Buy American' on all infrastructure projects with federal financial assistance, is expected to benefit the US galvanizing industry.

During the period, the Group committed the capital to invest in the greenfield development of a new plant which further fills out our geographical footprint. The plant is expected to be operational in the fourth quarter of 2019.

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.

Volumes were 1% above the prior year, and the business improved market share. Competition remains strong and the pass-through of higher zinc costs in particular in the second half of the year was difficult. Peak zinc prices have now worked their way through the supply chain. Growth in the smaller jobbing market continues but structural volumes remain subdued. Overall, profitability and operating margin were below the same period prior year principally due to the higher zinc input costs.

UK

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

Overall, volumes were down 5% compared to the prior year with the first quarter particularly weak due to the adverse weather before recovering as the year progressed. The volume reduction was also, in part, a function of our successful strategic decision to focus on lower volume but higher margin work from smaller jobbing customers as opposed to lower priced structural steel work. Day to day demand from the agricultural, housing and trailers markets was strong, offsetting weaker rail and construction sectors. Zinc price increases were successfully managed through the supply chain albeit resulting in a lower operating margin than in the prior year. Significant investment to expand capacity and improve efficiency was made in our Hull and Medway facilities, the benefits from which are expected to accrue in 2019.

Bristorm Impeder 30 Bollards, manufactured and supplied by Hill & Smith Ltd installed to protect a bus station in Singapore. One of seven projects in the city being undertaken by ESCO, our agent in Singapore.

Financial review

Cash generation and financing

The Group again demonstrated its cash generating abilities with strong operating cash flow of £87.7m (2017: £76.5m).

The increase in working capital in the year was £6.3m (2017: increase of £19.1m), the prior year increase reflecting significant rises in commodity prices, particularly zinc. The current year movement includes a working capital inflow of £16.0m in the second half, partly reflecting the liquidation of inventory built in the first half ahead of the anticipated stronger trading period. Working capital as a percentage of annualised sales was 17.0% at 31 December 2018 (2017: 17.4%). Debtor days were in line with the prior year at 61 days.

Capital expenditure at £32.8m (2017: £20.7m) represents a multiple of depreciation and amortisation of 1.7 times (2017: 1.1 times). The Group invested £12.6m in its fleet of temporary road safety rental barriers during the year, including £9.7m in the UK in anticipation of strong future demand from the Government's Road Investment Strategy. Other significant items of expenditure in the year included £4.5m on new facilities to support the expansion of certain of our businesses in the UK roads and US composite products markets, £2.1m of equipment upgrades that will improve efficiency and productivity in a number of our operations, and £0.9m of product development spend reflecting the continued innovation within the Group's suite of products, particularly for the 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 2018 the Group achieved an underlying cash conversion rate of 78% (2017: 78%), or 93% excluding the impact of the £12.6m investment in the temporary barrier rental fleet that will support future growth. Over the past ten years the Group has achieved an average cash conversion rate of 88%.

	Reported £m	Non-underlying items £m	Underlying £m
Operating profit	65.2	14.9	80.1
Non-cash items	31.2	(11.3)	19.9
Net movement in working capital	(6.3)	-	(6.3)
Cash generated by operations	90.1	3.6	93.7
Capital expenditure (net)	(31.6)	-	(31.6)
Adjusted operating cash flow*	58.5	3.6	62.1
Operating profit	65.2		80.1
Cash conversion %	90%		78%

*Adjusted to include net capital expenditure and to exclude movements in provisions/pensions.

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 2018 was £132.9m, representing a year on year increase of £33.9m including adverse exchange rate movements of £3.3m principally reflecting the overall weakening in Sterling against the US Dollar compared with the end of the prior year. The Group's net debt includes 41% denominated in US Dollars and 10% denominated in Euros, which act as a hedge against the net asset investments in overseas businesses.

Change in net debt

	2018 £m	2017 £m
Operating profit	**65.2**	74.1
Depreciation and amortisation*	**24.3**	23.2
Working capital movement	**(6.3)**	(19.1)
Pensions and provisions	**(2.4)**	(3.2)
Other items	**6.9**	1.5
Operating cash flow	**87.7**	76.5
Tax paid	**(13.3)**	(16.7)
Net financing costs paid	**(3.9)**	(2.8)
Capital expenditure	**(32.8)**	(20.7)
Sale of fixed assets	**1.2**	2.3
Free cash flow	**38.9**	38.6
Dividends	**(23.6)**	(20.7)
Acquisitions & disposals	**(45.8)**	(5.8)
Amortisation of refinancing costs	**(1.0)**	(0.4)
Net issue of shares	**(1.2)**	(2.0)
Change in net debt	**(32.7)**	9.7
Opening net debt**	**(96.9)**	(112.0)
Exchange	**(3.3)**	3.3
Closing net debt	**(132.9)**	(99.0)

* includes £4.8m (2017: £4.0m) in respect of acquisition intangibles.

**2018 opening net debt restated for the adoption of IFRS 9 Financial Instruments, reducing net debt by £2.1m.

On 31 December 2018 the Group's principal debt facility consisted of a £230m multicurrency revolving credit agreement maturing in April 2021. At the year end the Group had committed debt facilities available of £232.7m and a further £11.3m in overdrafts and other on-demand facilities.

Maturity profile of debt facilities

	2018		2017
On demand	**£11.3m**	On demand	£9.5m
2019-2020	**£0.8m**	2018-2020	£0.7m
2021	**£231.9m**	2021	£227.1m

Subsequent to the year end, on 10 January 2019 the Group completed an amendment of its principal debt facility, extending the term to January 2024 and increasing the size by £50m to c.£280m, with no significant impact on costs and no changes to financial covenants. This amendment provides the Group with extended certainty of funding through an uncertain economic period and further increases the headroom available to the Group in order to pursue growth opportunities.

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 2018 were:

	Actual	Covenant
Interest Cover	26.5 times	> 4.0 times
Net debt to EBITDA	1.3 times	< 3.0 times

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

Net finance costs

	2018	2018 £m	2017	2017 £m
Underlying net cash interest:				
Bank loans/overdrafts		**3.8**		2.8
Non underlying:				
Net pension interest	**0.6**		0.7	
Costs of refinancing	**1.0**	**1.6**	0.4	1.1
		5.4		3.9

Net financing costs in the year were £5.4m (2017: £3.9m). The net cost from pension fund financing under IAS 19 was £0.6m (2017: £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 £1.0m 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 and of modification gains arising in accordance with IFRS 9. The underlying cash element of net financing costs increased by £1.0m to £3.8m (2017: £2.8m), the change reflecting interest rate rises in the US during 2018 and higher levels of average net debt resulting from acquisitions and capital investment programmes. Underlying operating profit covered net cash interest 21.1 times (2017: 29.0 times). Reported operating profit covered total reported interest 12.1 times (2017: 19.0 times).

Return on invested capital ('ROIC')

The Group aims to maintain ROIC above its pre-tax weighted average cost of capital (currently c.9%), with a target return of 20%. In 2018, ROIC was 17.9% (2017: 20.2%), the reduction largely reflecting the significant capital investments undertaken during the year and reductions in underlying operating margins. 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 14.6% (2017: 18.4%).

	Group ROIC	Reported ROIC
Operating profit (£m)	80.1	65.2
Average invested capital (£m)	446.6	446.6
ROIC %	17.9%	14.6%

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 2017 revenue and underlying operating profit using 2018 average exchange rates would have reduced the prior year revenue by £7.1m and reduced underlying operating profit by £1.4m, the movements primarily reflecting the impact of Sterling's appreciation against the US Dollar compared with the prior 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 2019. Retranslating 2018 revenue and underlying operating profit using exchange rates at 26 February 2019 (inter alia £1 = $1.30 and £1 = €1.13) would increase the revenue and underlying operating profit by £5.3m (1%) and £1.0m (1%) respectively. For the US Dollar, a 1 cent movement results in a £1.7m adjustment to revenue and a £0.3m adjustment to underlying operating profit, while the equivalent impacts for a 1 cent movement in the Euro are £0.7m and £0.1m respectively.

Non-underlying items

The total non-underlying items charged to operating profit in the Consolidated Income Statement amounted to £14.9m (2017: £7.2m) 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	(0.7)	(0.5)	(0.2)	-
Impairment charges	(6.1)	-	-	(6.1)
Amortisation of acquisition intangibles	(4.8)	-	-	(4.8)
Acquisition expenses	(2.2)	(1.8)	(0.4)	-
Pension past service costs	(1.1)	-	(1.1)	-
	(14.9)	(2.3)	(1.7)	(10.9)

- Business reorganisation costs of £0.7m include:
  - A charge of £0.5m relating to the restructuring of the Group's UK Industrial Flooring business, part of the Infrastructure Products – Utilities segment, a decision taken in light of weaker market conditions in the first half of the year. The restructuring has improved the efficiency and productivity of the business.
  - A further charge of £0.2m in respect of the relocation of the Oklahoma-based Tower Tech business, which the Group acquired in 2017, to our existing composite products facility in Pennsylvania.
- The impairment charge of £6.1m includes a full impairment of the goodwill and intangible assets relating to the Group's acquisition of Technocover Limited in July 2016, amounting to £6.0m. Despite a reasonable performance in 2017, albeit marginally below expectations, in 2018 the business has experienced a further deterioration in its results due principally to a lack of activity in the niche areas of the water industry market that the business services. As a result, an impairment review was performed at 31 December 2018 resulting in a full impairment of the goodwill and remaining book value of acquired intangible assets, reflecting a short/medium-term outlook for the business that is below that anticipated at the time of the acquisition.

- Non-cash amortisation of acquired intangible fixed assets was £4.8m (2017: £4.0m), the increase reflecting the acquisitions made by the Group during the current and prior year.
- Acquisition related expenses of £2.2m (2017: £0.6m) reflect costs associated with acquisitions and include £0.4m relating to future consideration payments to previous owners of the acquired businesses, the terms of which require those costs to be treated as a post-acquisition employment expense in accordance with IFRS 3 (Revised).
- In October 2018 the High Court handed down a judgement requiring businesses with defined benefit pension schemes to equalise historical Guaranteed Minimum Pensions (GMPs) between male and female members. The Group has taken professional advice as to the impact of this judgement and concluded that a cost of £1.0m is likely to be incurred in equalising GMPs arising in prior years. The charge has been treated as a non-underlying item in accordance with the Group's definitions of such items. A further charge of £0.1m was incurred in respect of changes to the terms of the Group's pension schemes in France.

The net cash impact of the above items was an inflow of £2.3m in the year, a £1.7m outflow expected in 2019 and a non-cash element therefore amounting to £10.9m. 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 £12.6m (2017: £16.3m). The underlying effective tax rate for the Group was 19.6% (2017: 24.0%), 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 of reductions in headline corporate tax rates in the UK, USA and France. Cash tax paid was £13.3m (2017: £16.7m), with the reduction in spend also reflecting the falls in national corporate tax rates. Tax paid was broadly in line with the current tax charge for the year of £13.6m.

The Group's net deferred tax liability is £6.3m (2017: £5.6m). An £8.6m (2017: £6.7m) deferred tax liability is provided in respect of brand names, customer relationships and other contractual arrangements acquired, while a further £0.6m (2017: £0.9m) 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.

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 3% to 77.8p (2017: 75.9p). The diluted UEPS was 77.2p (2017: 74.8p). Basic earnings per share was 59.9p (2017: 68.6p). The weighted average number of shares in issue was 78.8m (2017: 78.6m) with the diluted number of shares at 79.5m (2017: 79.6m) adjusted for the outstanding number of dilutive share options.

Pensions

The Group operates a number of defined contribution and defined benefit pension plans both in the UK and overseas. The IAS 19 deficit of the defined benefit plans as at 31 December 2018 was £23.0m, a reduction of £2.6m compared to 31 December 2017 (£25.6m). The reduction in the overall deficit relates principally to the UK scheme and was largely driven by a 40 basis point increase in the discount rate, in line with movements in corporate bond yields, and deficit recovery payments made during the year.

The Group's UK defined benefit pension scheme, The Hill & Smith 2016 Pension Scheme (the 'Scheme'), remains the largest employee benefit obligation within the Group. 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 2018 was £17.6m (2017: £20.8m). The gross assets and liabilities of the Scheme were each reduced by £7.9m during the year as a result of transfer values taken by members.

The Group remains actively engaged in dialogue with the Scheme's Trustees with regard to management, funding and investment strategy. A formal actuarial valuation of the Scheme as at April 2016 was finalised in 2017, alongside an update to the investment strategy, resulting in the Group agreeing a deficit recovery plan with the Trustees that requires cash contributions amounting to £2.5m per annum until September 2027. The next triennial valuation is April 2019.

Acquisitions

In May 2018 the Group acquired the business and assets of WAPCO for a consideration of £31.2m. Intangible assets arising on the acquisition amounted to £18.0m, comprising customer lists of £4.5m, patents of £4.0m, brands of £0.8m and residual goodwill of £8.7m.

In August 2018 the Group acquired the business and assets of Engineered Endeavors, Inc. for a consideration of £4.8m. Intangible assets arising on the acquisition amounted to £1.7m, comprising customer lists of £0.5m and residual goodwill of £1.2m.

In October 2018 the Group acquired the business and assets of Composite Advantage for a consideration of £10.2m. Intangible assets arising on the acquisition amounted to £5.5m, comprising customer lists of £1.5m, patents of £0.5m, brands of £0.3m and residual goodwill of £3.2m.

The Group also completed three smaller acquisitions during the period:

- In January we acquired D Gibson Road & Quarry Services Limited for a cash consideration of £0.3m;
- In March we acquired Signalvakter Syd for an initial cash consideration of £0.4m, with future deferred consideration of up to £0.5m contingent on financial performance over the next five years;
- In May we acquired the business and assets of The Grating Company Limited for initial cash consideration of £0.5m and deferred consideration of up to £0.9m dependent on performance over the next three years.

Intangible assets arising on these smaller acquisitions comprised customer lists of £0.4m and residual goodwill of £0.9m.

On 22 February 2019 the Group acquired ATG Access Limited and its related entities for a cash consideration of £22.5m on a debt free, cash free basis.

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.

New International Financial Reporting Standards

IFRS 15 'Revenue from Contracts with Customers' and IFRS 9 'Financial Instruments' are applicable to reporting periods beginning on or after 1 January 2018, and have therefore been adopted by the Group.

IFRS 15 provides a principles-based approach to the recognition of revenue from contracts with customers, focussing on the identification of performance obligations in a contract and requiring revenue to be recognised when or as those performance obligations are satisfied. The new standard affects certain revenue streams in the Group's Utilities segment where revenue that was previously recognised at the point of delivery of products to customers is now recognised over the period of manufacture of those products. Further details of the impact are set out in the accounting policies on pages 104 and 105, and in note 1 to the financial statements on page 114.

The implementation of IFRS 9, which replaces IAS 39, has resulted in the Group adjusting the treatment of debt modifications in prior years as explained in note 1 to the financial statements. The standard has not had any other material impact on the Group.

IFRS 16 'Leases' will be applicable to the Group in the year ending 31 December 2019. The Group's preparations for the introduction of IFRS 16 are at an advanced stage and a summary of the expected impacts is set out in note 1 to the financial statements.

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

6 March 2019

Mark Pegler

Group Finance Director

Case Study

The Hard Rock Casino, Atlantic City.

Atlantic City has a history of its buildings being devastated by the strong winds that pass through the area every hurricane season. Consequently it was decided that new buildings should incorporate more protection from the elements.

Leading the way on this new initiative is the world renowned “Hard Rock Casino and Hotel.” Creating one of their largest venues in the country a new casino and hotel has been built complete with a front façade including a 10 storey-high Gibson Guitar. Built from structural tubular steel this modern artsy “pop” design welcomes guest to the new venue.

The steel needed to be protected beyond a basic paint system as in the past the storms have brought flying debris, sand, and ocean salt water to ravage local buildings. Given theses circumstances hot-dip galvanizing was regarded as the best choice for corrosion protection for all the structural steel used, not only this new location, but all building restoration and new construction work in this area of New Jersey.

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

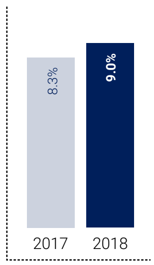
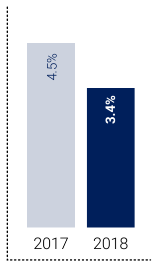
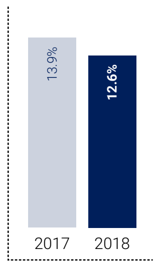
The entrance to the Hard Rock Casino & Hotel, galvanized by the Amboy plant of V&S Galvanizing. The use of hot dip galvanizing will protect the structures and means they should never have to close the entrance to the new “crown jewel” of Atlantic City.

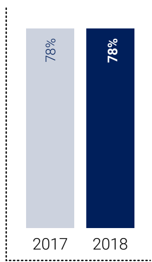
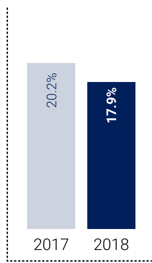
Measuring Our Performance

The Board has adopted certain 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. Other non-financial KPIs can be found on pages 46 and 48.

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**
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.
KPI definition	Annual % growth in total revenue. Annual % organic growth in revenue.	Underlying operating profit as a % of total revenue.
2018 performance	Total growth  Organic growth 	Down 130bps 
Comment	Organic revenue growth in 2018 was 3.4%, largely driven by the Group's Utilities and Galvanizing Services businesses. Total growth was higher at 9% as a result of acquisitions made during the current and prior year.	The Group's underlying operating profit of £80.1m represents a 12.6% return on sales, a 130bps reduction on the prior year. The change predominantly relates to the Galvanizing Services segment, where the pass-through of higher zinc input costs reduced the segment margin by 2.7 percentage points.

Underlying earnings per share ('UEPS') growth	**Free cash flow**	**Return on invested capital ('ROIC')**
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.	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.
Underlying profit after tax for the year divided by weighted average number of ordinary shares.	Underlying free cash flow divided by underlying operating profit. Underlying free cash flow is defined as underlying operating cash flow less capital expenditure.	Underlying operating profit divided by 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.
3% growth 	No change 	Down 23bps 
The Group's UEPS for 2018 is 77.8p, an increase of 3% compared with 2017. Key factors were the contribution from organic revenue growth, acquisitions completed during the current/prior year and a reduction in the underlying effective tax rate from 24% to 19.5%.	The Group achieved an underlying cash conversion rate of 78% in 2018, in line with 2017, or 93% after excluding strategic capital investment programmes undertaken during the year. Working capital increased by £6.3m during the year, while capital expenditure at £32.8m represented a multiple of depreciation and amortisation of 1.7 times (2017: 1.1 times).	The Group aims to achieve ROIC that exceeds its weighted average cost of capital (currently c.11% on a pre-tax basis), with a target return of 20%. In 2018 the group achieved ROIC of 17.9% (2017: 20.2%), the reduction largely reflecting the fall in underlying operating margins during the year and the impact of strategic capital investments made to support future growth prospects.

Risk Management and Assurance

Responsibilities

Effective risk management is critical to the achievement of our strategic objectives of portfolio management, geographical diversification, entrepreneurial management and targeted growth returns. All our subsidiaries hold leading positions in the provision of galvanizing services, or 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.

Appetite

A Risk Management Framework operates across the Group, clarifying how risk is to be managed in a way which satisfies the autonomous operating model of the Group and in particular, roles and responsibilities at each level (see below). The approach, which is subject to continual improvement, has allowed the Board to consider its appetite in the light of the Group's business model and carry out a robust assessment during 2018, of the principal risks and uncertainties that might threaten the Group's business model, future performance, solvency and liquidity which can be found on pages 36 to 39.

The Group operates a tiered approach to risk management, with risk registers at each level linked to the appropriate objectives and flows of appetite, information and assurance as outlined in Figure 1.

Framework

The Risk Management Framework is, by definition, only an outline of the approach to risk management across the Group and its elements are summarised in Figure 2. It wraps around the implementation of specific compliance programmes and internal controls and is supported by the internal and external audit programmes and a range of external accreditation schemes. In addition, the Group's entrepreneurial management culture at subsidiary level means that individual businesses are able to add additional elements. This ensures risk management is effectively embedded in a way that fits each particular operating environment and risk horizon. Within this framework the following roles and responsibilities exist:

The Group Board:

Retains overall ownership and accountability for risk management;

- ensures the Directors have the appropriate skills, knowledge and experience to effectively assess the Group Principal Risks and carry out their duties effectively;
- establishes the Group Principal Risks and oversees the management of these;
- establishes the Group risk appetite; and
- leads on the external reporting of risk and viability.

The Audit Committee supports the Group Board by:

- monitoring and testing the Risk Management Framework, appetite and associated internal controls;
- ensuring there is a link between the Group Principal Risks and the Group's internal and external audit programme;
- reviewing sufficient internal and external sources of assurance and information to enable it to recommend to the Group Board where changes may be needed to the Risk Management Framework or Group Principal Risks; and
- reviewing the detail of external reporting.

Figure 1
Approach to risk management

Figure 2 Risk Management Framework

Governance

Culture and strategy | Risk appetite | Reporting and assurance

Core risk management

Identify → Assess and quantify → Manage → Monitor

Infrastructure

Tools, systems and data | Policies and procedures | Roles and responsibilities

The Risk Committee:

- acts as a conduit between the Group and subsidiary risk registers, supporting the dissemination of the Framework and appetite down to the subsidiaries and flow of assurance up to the Group Board;
- supports the executive team to embed the Risk Management Framework by designing and implementing supporting systems, procedures, tools and training;
- proactively analyses and challenges the assessment, management and monitoring of subsidiary risk registers and day-to-day risk management; and
- ensures the Group Board and Audit Committee are provided with sufficient information in order to discharge their responsibilities effectively.

The executive team:

- ensures each subsidiary is effectively embedding the Group Risk Management Framework and is maintaining a current live risk register that is actively managed; and
- oversees completion of all required Group reporting of risk with escalation of any significant matters to the Risk Committee in a timely manner.

A decorative cupola atop an architectural tower with RF-Transparent concealment panels situated in Northwood, North Carolina, USA manufactured at V&S Utilities Inc.

Risk Management and Assurance (continued)

Risk in 2018

Risk Committee

The Risk Committee receives reports from the subsidiaries on their individual risks. The Committee met formally five times during the year and comprises the Group Financial Controller, the Group Company Secretary, the Assistant Company Secretary, the Group Internal Audit Manager and the Group's Corporate Development Director.

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.

Risk Analysis

As part of the challenging validation approach and due to the changing political environment in the UK, Europe and the US, the Risk Committee reviewed in depth, the Subsidiaries' feedback on the Group's Principal Risk of 'Changes in global outlook and geopolitical environment' and in so doing, determined that at an individual business unit level this risk was perceived as referring to events that would introduce increased competitive pressure to these businesses causing changes in raw material prices and exchange rates; reductions in the cost of entry to our markets; and changes in customer buying habits. Our Subsidiaries felt able to mitigate these problems at a local level by taking immediate actions to nullify the effect of these causes, using their entrepreneurial culture and agile capabilities to respond to such events. However, they felt less able to formulate what mitigating actions they could take to major global geopolitical upheaval.

Following detailed debate, the Risk Committee concluded that the Group's Principal Risk Register should be amended. 'Changes in global outlook and geopolitical environment' should be treated as a risk that required Group strategic intervention by way of product, market and entity portfolio diversification and changes in our acquisition strategy if needed to mitigate effects of risk crystallisation. The risk of 'increased competitive pressure' should be included as a Principal Risk, albeit one that the Board looked to the local management teams to mitigate.

The risk of Brexit was also analysed by the Risk Committee, who determined that Brexit was an event that increased the probability and/or impact of the Group's twelve principal risks rather than existing as its own risk. Specifically:

- Increase in competitive pressure as raw material prices increase due to a weakening in Sterling;
- Increase in competitive pressure as raw material prices increase due to a change in import tariffs;
- Increase in supply chain failure as a "no deal" Brexit might have implications on supply and warehousing capacity;
- Increase in supply chain failure as transportation and bureaucracy cause import delays;
- Changes in Government spending plans may impact UK-based investment decisions, although we might expect infrastructure spend to increase in the event that the wrong or "no deal" Brexit causes uncertainty in the UK economy; and
- Changes in global outlook and political environment as concern grows that different safety standards may be applicable between the UK and the EU.

All UK subsidiaries have provided the Board with their assessments of how Brexit might affect their ability to trade. The results of which highlighted possible raw material shortages in respect of goods purchased from the EU as well as other potential supply chain issues. In response there has been some increased investment in inventory and some consideration of alternative warehousing solutions.

Risk Activities

During 2018, to further enhance the Group's approach to risk management, we:

- delivered in-depth face-to-face training to the senior managers of our largest subsidiaries to equip them with the latest insight into risk management techniques and emerging risk themes;
- introduced the mitigation concept of controls and assurances and discussed the risk management bow-tie analysis of causes and consequences, pre-event and post-event controls;
- attended strategy meetings and held further risk seminars, at those subsidiaries who requested additional training;
- held in-depth discussions within the Risk Committee on the individual subsidiary risk submissions; and
- continuously worked to improve Board reporting, developing reporting tools for our subsidiaries to help them embed risk identification and articulation into their business processes.

Risk in 2019

The key focus during 2019 will include:

- the Board, following the provisions of the new UK Corporate Governance Code, assuming responsibility for the monitoring and testing of the Risk Management Framework and ensuring that there is a link between risks identified and the internal audit programme;
- continued assessment of the principal risks facing the Group and subsidiaries including those that might threaten the Group's business model, future performance, solvency and liquidity;
- continual onsite work with all subsidiaries to align risks with strategy;
- further work to embed the risk management processes with our subsidiaries, particularly by increasing the range of methods used to assess the effectiveness of risk mitigations;
- consideration of any emerging risks that might disrupt the business models and strategies of our subsidiaries; and
- an assessment of methods in risk management and internal controls to ensure that our approach remains up-to-date and appropriate for a Premium Listed issuer.

The Mersey Gateway Bridge

Joseph Ash Galvanizing was proud to provide the galvanizing protection to this bridge structure. Hot dip galvanizing has been used worldwide for well over a century because it provides a long-life, low-maintenance corrosion protection which safeguards steel from atmospheric attack. This is important in huge scale engineering projects that need to provide safety standards for the public, as well as longevity for the structure being built.

Principal Risks and Uncertainties

Economic

Risk: Changes in government spending plans

Trend: Slightly higher

Description and potential impact
The Group generates the majority of its revenues from its operations located in the UK and the USA. A reduction in UK or US government infrastructure spending, particularly in relation to national roads infrastructure in the UK, could reduce demand for our products and services. This includes the impact of Brexit which is difficult to determine.

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.

Economic

Risk: Changes in global outlook and geopolitical environment

Trend: Slightly higher

Description and potential impact
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.

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.

As an international group operating in seven countries and selling into numerous others the impact of Brexit is difficult to quantify.

Commercial & Financial

Risk: Increase in competitive pressure

Trend: Slightly higher

Description and potential impact
Increased volatility, uncertainty and slowdown in our markets could result in increased prices and the emergence of new technologies, leading to a loss of customers and/or pricing pressures leading and as a consequence a loss of sales and reduced profits.

The impact of a 'no deal' Brexit may lead to a change in trade tarfiffs and/or a weakening of sterling, causing a resultant increase in prices for raw materials.

Commercial & Financial

Risk: Product failure

Trend: No change

Description and potential impact
The Group operates in infrastructure markets where it is critical that its products meet customer and legislative requirements and where the consequences of product failure are potentially serious.

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.

Commercial & Financial

Risk: Contractual Failure

Trend: No change

Description and potential impact
The Group delivers its commitments to its customers through a variety of contractual arrangements of both a short and medium-term nature.

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.

The availability of debt finance to some of our markets sectors may change as lenders' appetite for risk decreases.

Operational

Risk: Supply chain deficiency

Trend: Slightly higher

Description and potential impact
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. A small number of businesses use supply chains from both the Far East and the USA, and there remains a possibility of potential disruption at UK sea ports in the period following Brexit.

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.

Portfolio management | Geographic expansion | Target returns and leverage | Entrepreneurial culture

Mitigation
- Our existing entity portfolio contains a diversity of product, market and territory and we will continue with this approach. External strategy review completed in 2018 and mitigating opportunities identified.
- Market and product development initiatives.
- Co-operation between Group businesses, leveraging the Group's size/international footprint and exploiting synergies.
- Monitoring of UK businesses and the effects of Brexit.
- Exposure to longer term infrastructure investment programmes.

Link to strategy

Mitigation
- 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.
- Current and future financial performance is continuously monitored, facilitating rapid response to changes in market conditions.
- The Group has closely monitored on a business-by-business basis, the identified operational and financial risks arising from the UK's expected exit from the EU on 29 March 2019.

Link to strategy

Mitigation
- The holding of leading positions in niche markets of infrastructure products and galvanizing services with high barriers to entry.
- In line with our entrepreneurial model, our decisions are made close to our markets and our businesses are agile and responsive to changes in their competitive landscape.
- Regular subsidiary Board meetings that review market and customer activity.
- Our subsidiary businesses aim to provide superior products and high service levels to customers, whilst aiming to ensure there is no dependency on any one particular customer.

Link to strategy

Mitigation
- Products tested, approved and accredited by regulatory bodies.
- Quality control protocols fully implemented and continuously monitored.
- Contractual controls in place to minimise economic impacts.
- Insurance cover maintained globally with insurance partners.
- Litigation supported/managed by external legal specialists.
- Thematic review carried out in 2018 with recommendations made for prioritisation in 2019.

Link to strategy

Mitigation
- Group material contract review process ensures specialist central oversight of key contractual arrangements.
- Contracts training for key staff.
- Dedicated quantity surveyors and contracts managers embedded in subsidiary management structures to control projects.
- Litigation supported/managed by external legal specialists.
- Insurance cover maintained globally with insurance partners.

Link to strategy

Mitigation
- Group procurement standards in place, including robust due diligence of supply chain partners and requiring dual sourcing where available.
- Maintenance of relationships with key suppliers through regular interaction and assessment of performance/financial status.
- Oversight of material procurement contracts ensuring robust contractual protections.
- Goods inwards and stock management processes in place to reduce the likelihood of defects in or shortage of raw materials.
- Contingency plans are in place within the relevant businesses and throughout the supply chain to mitigate these risks, such as purchasing additional stock of key raw materials and securing additional supply chain capacity.

Link to strategy

Principal Risks and Uncertainties (continued)

Operational

Risk: Weaknesses in IT systems

Trend: No change

Description and potential impact
The Group relies on the information technology systems used in the daily operations of its subsidiaries.

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.

Breakdowns in controls and security procedures could cause the Group to become susceptible to cyber risks.

Operational

Risk: Acquisition strategy failure

Trend: No change

Description and potential impact
The Group's growth strategies include the acquisition of businesses around the world that complement or supplement its existing activities.

Failure to execute an effective acquisition and integration programme would have a significant impact on the Group's ability to generate sustainable profitable growth for shareholders.

Operational

Risk: Lack of product development and innovation

Trend: No change

Description and potential impact
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.

The development of new products and technologies carries risk including the failure to develop a commercially viable offering within an acceptable timeframe.

Human Resources

Risk: Failure to recruit and retain key employees

Trend: No change

Description and potential impact
The Group encourages an entrepreneurial culture through a decentralised management structure.

An inability to attract, develop and retain high-quality individuals in key management positions could severely affect the long term success of the Group.

Legal & Regulatory

Risk: Failure to comply with applicable health and safety legislation

Trend: No change

Description and potential impact
The Group operates a number of manufacturing facilities around the world.

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.

Legal & Regulatory

Risk: Violation of applicable laws and regulations

Trend: No change

Description and potential impact
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, GDPR, trade/export compliance and competition/anti-trust.

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.

Portfolio management | Geographic expansion | Target returns and leverage | Entrepreneurial culture

Mitigation
- External specialist support with the development and oversight of IT system change programmes.
- Disaster recovery plans documented, tested and monitored by Group businesses.
- The Group's Policy Manual incorporates IT policies in respect of system back-up procedures and hardware/software protection.
- The Board maintains a watching brief on IT risks, particularly cyber risk, and has commissioned a project of improvement for 2019.

Link to strategy

Mitigation
- External strategy review completed in 2018, providing a road map for future M&A activity.
- Board approval required for Group acquisitions, in line with the Group Board's Schedule of Matters Reserved.
- Due diligence protocols deployed in relation to assessment of target businesses, including financial, commercial, legal and others where appropriate.
- Contractual protections and assurances sought from sellers to mitigate subsequent identification of risks.
- '100 Day' post-acquisition integration plan established for all material acquisitions with regular performance monitoring and reporting to the Board.

Link to strategy

Mitigation
- Entrepreneurial culture established through a decentralised management structure, ensuring that Group businesses are agile and responsive to changes in their competitive environments. The Group actively encourages and supports research and development programmes at subsidiary level where knowledge of the market and needs of our customers is greatest.
- Executive Board approval of product development proposals within the Group's capital spend approval policies. Active Intellectual Property management, by individual business units overseen by Group. Dedicated quality compliance resources in place across Group businesses, ensuring responsiveness to regulator and/or customer approval requirements.
- Board monitoring of emerging risks alongside external specialist support, where both the risks identified and the potential opportunities arising are considered.

Link to strategy

Mitigation
- Succession planning model driven by the Group Chief Executive and overseen by the Board.
- Implementation of contractual protections and retentions in employment contracts of senior management and other key employees.
- Competitive remuneration, benefits and incentive plans offered to employees and regularly benchmarked.
- Recruitment process developed to include competency requirements and skills gap analysis.
- Training and development of employees, which includes a programme of IOD and ILM courses for senior management and identified potential successors, and apprenticeship and other vocational courses for specialist and technical roles.

Link to strategy

Mitigation
- Regular health and safety monitoring, supported by an external independent health, safety and environmental consultant, both in the UK & the US. Use of an online 'safety cloud' reporting framework.
- UK & US Health and Safety Forums monitor performance and share best practice.
- Culture of zero tolerance in respect of health and safety violations promoted by the Board and disseminated throughout Group businesses supported with appropriate HR policies and the Business Code of Conduct.
- External health and safety accreditations and relationships maintained with regulatory bodies.
- Health and safety as a priority area of focus for new acquisitions.
- Any incident with serious outcomes is followed up and investigated thoroughly and improvement recommendations are implemented to minimise any reoccurrence.

Link to strategy

Mitigation
- Group Code of Conduct sets out required approach for all staff.
- Staff training provided on Anti-Bribery and Corruption and Competition Compliance.
- Programme of audits undertaken on a cyclical basis to review subsidiary compliance with regulatory requirements, including for example simulated 'dawn raids'.
- Software solutions implemented globally to ensure compliance with trade and export legislation.
- Externally hosted whistleblowing hotline available to all employees to allow them to raise concerns in confidence or anonymously, if preferred.
- Modern Slavery compliance programme continued through 2018.
- Toolkits issued to all UK subsidiaries to aid compliance with local GDPR. Audits further training to be completed in 2019.

Link to strategy

Corporate Responsibility

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.

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.

Non-financial information statement

We aim to comply with the Non-financial Reporting requirements contained in S414CA and S415CB of the Companies Act 2006. The table below, and the information it refers to, is intended to help readers understand our position on key non-financial matters.

Reporting requirement	Policies and standards which govern our approach	Additional information	See page no.
Employees	• Group Code of Business Conduct* • Training & development policy* • Senior management salary policy • Health & Safety policy*	Behaving correctly Succession planning and talent management Group learning and development Health & safety Wellbeing	44 42 42-43 45-46 43
Human rights	• Recruitment of employees policy • Employment references policy • Equal opportunities & diversity policy* • Board diversity statement* • Data protection policy* • Modern slavery policy*	Diversity & inclusion Gender pay Human rights	43 43 44
The environment	• Environment policy* • Energy policy*	Sustainability Greenhouse gases Water & waste	47 47-48 48
Community	• Individual subsidiary approach		49
Anti-bribery and corruption	• Anti-bribery & corruption policy* • International competition law policy • Gifts & Entertainment policy • Whistleblowing policy*		44 44 44 69
Description of the business model	• Our business model • Our purpose • Our values		8-9 8 10-11
Description of the principal risk and uncertainties and impact of business activities.	• Our business model • Our markets • Risk framework • Principal risks & uncertainties		8-9 12-17 32-34 36-39
Non-financial key performance indicators.	• Diversity • Accidents • Greenhouse gas emissions • Water & waste		43 46 47-48 48

Visit https://www.hsholdings.co.uk/about-us/corporate-governance/policies

Those policies marked with an asterisk can be found on the Company's website

Case Study

Following the Hurricane Maria disaster, V&S Galvanizing helped bring relief to the island of Puerto Rico, by being part of the relief effort that rebuilt 18 bridges across the island re-establishing the road network and reconnecting communities.

In September 2017, Hurricane Maria brought devastation to the island of Puerto Rico, leaving the island without power, food, communications or water. More than 1,100 lives were lost in this catastrophic event.

During 2018, the US Bridge and Acrow Bridge companies brought relief to five communities throughout the island using modular designed bridges. In just six weeks, with the help of the V&S Galvanizing plants in Columbus, Taunton and Amboy the first of these hot dip galvanized bridges was manufactured and installed. Within six months, all the community's bridges were completed, reconnecting the residents across the island. In total there were 18 bridges reconnecting the Puerto Rican citizens with families and their lives.

V&S Galvanizing's plants galvanized more than 2,850 metric tons of hot dip galvanized steel, which was used to create more than 20,000 feet of bridges, including the embedments, stringers, cross members, and all major structural support members. The flooring was also galvanized and coated with each company's trademarked grit surface. Even though the work took place during the heart of the winter, V&S Galvanizing's workforce ensured that the steel was galvanized, properly packed into containers and prepared for the emergency contractors to erect the bridges immediately on arrival of steel at the site.

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

Corporate Responsibility (continued)

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 people. 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. 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.

Succession planning and talent management

We are in the fourth year of our Succession Planning and Talent Management ('SPTM') programme for managers across all subsidiaries. Subsidiary Boards continue to identify the senior managers within the Group who would succeed them on their subsidiary board as directors. In 2018 we saw the programme bear fruit, in that two managers were promoted to the position of subsidiary company directors and, in one case, the opportunity was filled by a senior manager from elsewhere in the Group.

UK subsidiaries continue to engage with the SPTM process and recognise the need to address succession considerations, talent management and staff development to enable ongoing corporate success. The SPTM programme has supplemented and/or formalised existing arrangements for some companies; for others it has introduced a new approach to explore succession planning and learning and development more generally, whilst others are still relatively recently adopting the process as a result of ongoing expansion and restructuring. A number of management and leadership programmes have been co-ordinated since the SPTM launch – an executive-level development programme, culminating in the IOD Corporate Director qualification; a senior management leadership programme and a first-line management development programme sponsored by the Institute of Leadership and Management ('ILM'). All these programmes additionally enable managers to undertake recognised management qualifications as part of their studies. These management programmes are underpinned by Group-wide programmes at supervisory and team leader level.

In 2018 we introduced an SPTM programme into our US subsidiaries, with twelve senior managers being identified as leaders of the future. Participants were identified by local Managing Directors across the three US business groups and attended a nine-day programme over seven months. The workshops were delivered at various different sites across the US, incorporating site tours to provide an opportunity for managers to improve their understanding of our different businesses and network effectively with their peers. The programme was designed to maximise the impact of these leaders and their teams within their own organisations. Content included leadership, emotional intelligence, financial awareness, understanding culture and performance, leading change, strategy and innovation.

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 and in 2018 we introduced a number of apprenticeship schemes across the UK subsidiaries. Our UK sites are taking advantage of utilising their apprenticeship levy payments in a variety of areas; however, the greatest impact is through Business Improvement Techniques launched across numerous companies this summer. Through 5S Lean Development and Kaizen projects, businesses are looking to see major improvements in their manufacturing processes as well as taking on apprentices across a variety of areas: Business Administration, Electrical Engineering, Design/Draughtsperson, Health & Safety, Welding, Warehousing, Sales and Accounting. In addition, in 2019 two new development programmes will commence:

- The UK Hill & Smith Group General Management Development Programme designed for existing managers who have no formal training and want to further develop their leadership skills. The programme is one of skills development and comprises six one-day sessions. It will be possible to convert to an ILM qualification at a later date if desired.

- The US Supervisors Development Programme is a five-month programme, delivered as a combination of face-to-face and virtual workshops. The programme has been designed to ensure our next level of supervisors/managers are developing their skills in line with the senior managers, delivering consistent messages from management levels across the businesses of leadership, goal setting, accountability, giving feedback, managing change, influencing others, handling resistance and performance coaching.

Employees are also encouraged to immerse themselves in the Group with regular communication through the Group's intranet and owning shares in the Group through the employee sharesave scheme. This currently has over 750 participants.

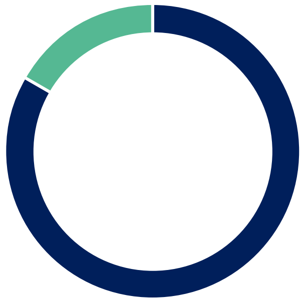
Diversity and inclusion
The Group is committed to equal opportunities and fairness and to policies, practices and regulations for promotion of equal opportunities in recruitment, training and career development. As the Group has a global presence, these are appropriate for the local areas of operation. 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 an externally hosted whistleblowing hotline to report adverse behaviours. The Board has overall responsibility for the Company's Equal Opportunities, Discrimination and Diversity Policy.

As at 31 December 2018, the Group-wide split of male and female employees is shown in the charts opposite.

Gender pay
Gender pay reporting legislation requires employers with 250 or more employees to publish statutory calculations every year showing how large the pay gap is between their male and female employees. This legislation affects three of our UK subsidiaries: Birtley Group Ltd, a galvanizer and construction business; Joseph Ash Ltd, a galvanizing business; and Hill & Smith Ltd, a roads barrier manufacturer.

The gender pay gap indicates the percentage difference in the average pay between all men and women in a workforce and is different to any equality of pay, which deals with the pay differences between men and women who carry out the same jobs, similar jobs or work of equal value. The data for each of the above companies can be found on their websites via www.hsholdings.com.
For 2018, the Group extended these calculations to all our UK subsidiaries. This Group data can also be found on our website www.hsholdings.com.

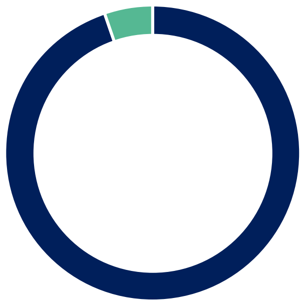
Wellbeing
During 2018, the Group partnered with *Lifeworks* to deliver an Employee Assistance Programme ('EAP') to its UK employees. This programme includes the following: 24/7/365 access to support; EAP-appropriate counselling model; unlimited routine telephonic critical & significant incident support; phone apps; and support for dependants. Lifeworks are also able to support our international colleagues and we will be looking at this in more detail during 2019.



Number of PLC Board Directors:

Male & Female split

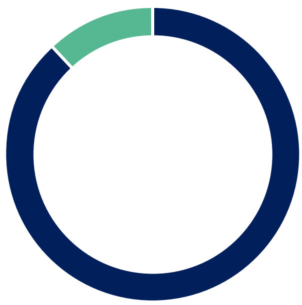
Male	5
Female	1



Number of other Directors:

Male & Female split

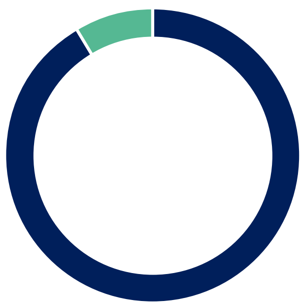
Male	59
Female	2



Number of senior managers in the Group:

Male & Female split

Male	167
Female	19



Total number of employees in the Group:

Male & Female split

Male	3,728
Female	366

Visit www.hsholdings.com

To read the Board's Statement on Diversity and the Group's Equal Opportunities Policy.

Corporate Responsibility (continued)

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 Code of Business Conduct ('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 Managers within their business unit, 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, which is approved annually by the Audit Committee. The policy gives assurance that issues will be investigated and resolved in accordance with the principles of the CBC. During 2018 eleven such issues were reported and investigated.

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 this 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.

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 continued to support a number of policies and initiatives during 2018 to supplement the Group's existing compliance controls in respect of anti-slavery and human trafficking. In January 2018 we undertook an internal audit of our Bergen Pipe Supports business in India and concluded that there were no issues that should concern the Group. During 2018 we have also undertaken an in-depth analysis of the location of our UK-based subsidiaries' customers and suppliers and compared that against the Global Slavery Index. The analysis revealed that the vast majority, 97% of both our customers and suppliers, were based in the United Kingdom and that only < c.0.08% of suppliers and customers were based in countries in the bottom quartile of the Global Slavery Index. Consequently, the risk of exposure to modern slavery in our supply and customer chains is considered to be low. However, we are taking steps to ensure that these customers and suppliers conform to the Group's CBC and Modern Slavery policy. We intend to undertake the same exercise with our USA-based subsidiaries in 2019.

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

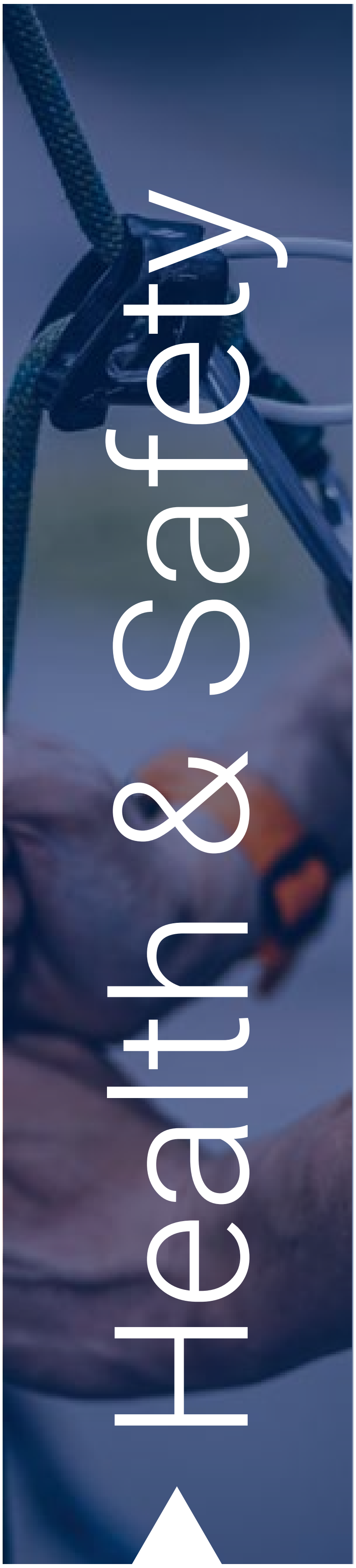
The Group deploys an Anti-Bribery & Corruption Programme which includes policies, training and due diligence of all third parties with whom the Group engages. The provision and receipt of gifts and entertainment is tolerated within considered parameters which align with the Group's legal obligations. 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, online training and auditing via simulated dawn raid. The programme is based on requirements of UK law with local variations applied to non-UK businesses.

The Group operates 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

An ongoing and non-negotiable commitment to our workers continues to minimise the risks they face on a daily basis. The provision and maintenance of good health, safety and welfare standards for everyone is a prime focus across all sites. The Group continues to adopt various measures to maintain a safe working environment, to ensure work-related risks are effectively identified and controlled, that our monitoring regimes for health and safety help to spot issues at the earliest opportunity and that lessons are learnt from any events that do occur.

The awareness around and importance of safety culture, personal responsibility and keeping an eye out for anything 'dangerous' forms a key part of our Group objectives. Sites continue to work alongside our external health and safety consultant to assist the Group in achieving its objectives around health and safety which continues to be focussed on: third-party support including a programme of external audits, a compliance-based software solution and for the UK/US subsidiaries regular Group safety forum meetings. In the US, the appointment of a third-party Safety Specialist, to mirror our well established approach in the UK, will provide more effective support for site auditing and ongoing advice to the US operations.

This approach, alongside our safety forums and regular contact with key parties on each site, continues to ensure that best practice is shared, that practical solutions to common issues are evaluated and that overall, sites are striving to work to a set of common standards.

Summary of health and safety objectives for 2018

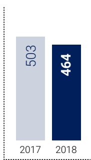
Objectives	Outcomes
In the UK, the safety culture assessment tool was re-run to provide us with a comparison on how the safety culture across the businesses is improving.	This was undertaken across all UK sites in July 2018. Whilst the 55% response rate was lower than the previous survey (2016: 65%), the Safety Climate Tool ratings showed improvements across all areas reviewed. Overall, our UK sites are performing in line with other industries. Of particular note were upward performance shifts in Organisational Commitment and Health & Safety Trust and Engagement. All sites still face the ongoing challenge of ensuring their day to day working procedures covering H&S requirements are made simpler and are easier to understand by our workers. Sites are now starting to implement their own action plans to address the survey findings.
In the US, an inaugural Health & Safety Forum was held in April 2018 with another in November, bringing together, for the first time, key health and safety teams from across our US subsidiaries who shared best practice, discussed common issues and agreed a way forward for safety performance and auditing.	Full day meetings in April and November 2018 saw 22 representatives from all US businesses discuss a range of safety-related matters, together with key parties from our Insurers. The days were extremely useful in sharing best practice and setting the framework for future relationships and meetings. Further meetings for 2019 are planned. In parallel with the US Safety Forum, an external Safety Specialist has been appointed to assist the Company in providing more scrutiny and support to the US sites. The appointment will run alongside the UK's continued use of a third party consultant to advise, audit and validate safety performance.
The continuation of the external audit programme, with current levels to be maintained or improved, as appropriate.	Audits undertaken for UK sites showed a consistent level of performance from 2017 and visits to ATA in Sweden and Bergen Pipes in India also showed those subsidiaries are improving their approaches to health and safety. For the US, following the appointment of the Safety Specialist, a joint exercise with our UK Consultant was undertaken at three sites to share our UK audit protocol and expected standards. The US Consultant is now all set up and will commence the 2019 programme of audits directly with each site. For France, a Board visit was undertaken and an overview of their safety performance was discussed.

Corporate Responsibility (continued)

Objectives	Outcomes
An ongoing drive to encourage better reporting of near misses and non-injury related events and a further review in the way accident data is collated to provide a more meaningful measure based on employment rate.	Within the UK subsidiaries, there was a 22% increase in the numbers of near miss events reported which demonstrated the effectiveness of various awareness campaigns reminding workers of the importance of 'not walking by' something that may be dangerous. At the same time, we also saw a reduction in total injury reports, which we hope is also a reflection of addressing issues before they cause an injury. Collating a consistent set of data points for rates is ongoing.

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, Asset International Limited, Variable Message Signs, and Mallatite Ltd, France Galva;
- Within the Joseph Ash Group, additional sites have been certified to OHSAS 18001 with a view to the remaining sites attaining it by the end of 2019;
- Birtley Group, Technocover and Bergen Pipe Supports India have started their OHSAS 18001 journey and are expecting to achieve certification in 2019;
- Joseph Ash Galvanizing 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 Achilles supplier HSE accreditation, which is a national registration scheme allowing companies to be assessed to work in the Infrastructure sector;
- Following on from 2016, which saw a number of UK subsidiaries launch drug and alcohol awareness campaigns with a supporting policy and random monitoring, other sites are now adopting a similar approach to help ensure the impact of social use of drugs and alcohol is better understood; and
- Technocover were asked to present a session on hand-arm vibration at a Health & Safety Executive organised event in North Wales, outlining how the issue could be practically dealt with. This also built on various other UK subsidiaries introducing real-time monitoring and data trackers for hand-arm vibration exposure. This has helped greatly in operatives being able to control their own levels of exposure.

KPIs	Link to our strategy	KPI definition	2018 performance	Comment
Health and safety	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.	Number of accidents, including minor injuries. Number of lost time accidents. Audit scores and benchmarkings.	 Down 7.8%	The focus during 2018 remained the desire to raise the awareness of minor injury and near-miss reporting and improve the culture within our businesses, thereby helping our employees to better understand the inherent benefits from having a safe place to work.

Incidents

Encouraging the open reporting of accidents and incidents continues to be a prime objective. In the UK, more effective near-miss reporting is leading to a much better appreciation of working safely and keeping work areas clean and tidy. We intend to undertake further work in this area to ensure a more open and active reporting culture around close-call and near-miss events.

For 2018 the Group received, on a like-for-like basis, 464 accident reports (2017:503). Allowing for acquisitions which have now been included in the Group's health & safety regime, the injury rate per 100,000 employees fell by 13.6% and days lost due to accidents fell from 123 in 2017 to 61 in 2018.

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. In the UK for 2018 this showed that existing sites were maintaining a good level of performance and newly acquired sites had improved their rating by more than 50%.

Those overseas subsidiaries that were audited, also showed a good level for performance and improvements being made year-on-year, both in terms of general working conditions, risk management and specific safety initiatives.

With our US Safety Specialist now appointed, the Group is better placed to benchmark the US operations going forward.

2019 Health and Safety objectives
In the forthcoming year our efforts in promoting a safe and secure workplace will continue with specific focus on:

- In the UK, ensuring the results from the safety culture assessment tool are used to form future strategy and action plans for each site.
- Firmly embedding the Safety Forum across the US subsidiaries to assist in sharing best practice, discussing common issues and agreeing the way forward for safety performance and auditing.
- The continuation of the external audit programme for sites in the UK, Sweden and India, with current levels to be maintained or improved, as appropriate. For the US sites, ensuring each one is audited by the newly appointed Safety Specialist and benchmarked standards collated accordingly to provide a baseline against which future performance can be assessed. In France, we intend to undertake a further review of their corporate health and safety arrangements to provide a benchmark against the UK/US businesses.
- An ongoing drive to encourage better reporting of near misses and non-injury related events and encouragement to promote the monitoring of safe/unsafe behaviours as a means for providing both positive and negative feedback to workers and management.

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.

As in previous years, the Group continues 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 annual Energy Forum meeting in November 2018, 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 and recyclable and non-recyclable resources, ensuring long-term environmental and business sustainability and creating long-term value for shareholders and other stakeholders.

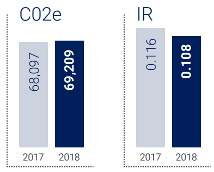
We recognise that our business can have a direct and indirect effect upon the environment. The data provided below illustrates how our carbon footprint is created by them, allowing us to monitor the impact of our operations on the environment and make improvements where feasible.

Group total emissions by scope

	Group emissions 2018	Group emissions 2017	Group emissions 2016	Group emissions 2015
Scope 1 (Gas, fuel & oil usage)	**44,231.49**	44,995.94	45,346.72	40,662.05
Purchased electricity	**24,448.78**	22,599.19	21,950.87	23,146.75
Water & waste	**528.90**	472.20	869.10	466.07
Total tCO_2e	**69,209.17**	68,067.33	68,166.69	64,274.87
Total revenue	**£637.9m**	£585.1m	£540.1m	£467.5m
Intensity ratio	**0.108**	0.116	0.126	0.137

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.

Corporate Responsibility (continued)

KPIs	Link to our strategy	KPI definition	2018 performance	Comment
C02e emissions	Cost reductions and greater efficiency, improve not only our operating margins but also the sustainability of our operations.	Carbon usage comparison year on year and over a three-year programme.		The Group has continued to focus on energy saving opportunities; however, due to the acquisition of three new sites actual total tCO2e used across the group rose by 1,142.85 tonnes. Group activities also increased throughout the year with the result that the Group's intensity ratio fell by 6.9%.

Water consumption

Although water consumption rose in 2016, the initiatives put in place in 2016-2017 resulted in a fall in overall water usage in 2017 of 7.4% with a resultant 14.7% fall in the intensity ratio. These same initiatives have continued the improvement in 2018, with the IP ratio falling by a further 12.2%.

Group water usage

	2018 volume	2017 volume
UK water usage	**36,895.5 m³**	36,001 m³
Overseas water usage	**50,589.4 m³**	55,475 m³
Total usage	**87,484.9 m³**	91,476 m³
Ratio per £1,000 of Group turnover	**0.137**	0.156

Waste management

The Group continues to manage its waste disposal, discouraging the use of landfill sites and 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.

Waste quantities

	2018 volume	2017 volume
Liquid waste	**11,727 m³**	12,083 m³
Acidic waste (like-for-like)	**10,471 m³**	10,475 m³
	2018 tonnes	2017 tonnes
Waste to landfill	**5,038**	4,404
Recycled waste	**28,779**	20,736
Total waste (inc. landfill)	**33,817**	25,410

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.

Visit www.hsholdings.com

To see the Company's Energy and Environmental policies

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 Joseph Ash Ltd supported the Lily Mae Foundation and worked with a valued customer, Reid Steel, to rebuild a school on the Caribbean Island of Tortola. Other subsidiaries supported national and local organisations including Magic FM, Macmillan Cancer Support and Hope House.

Images:

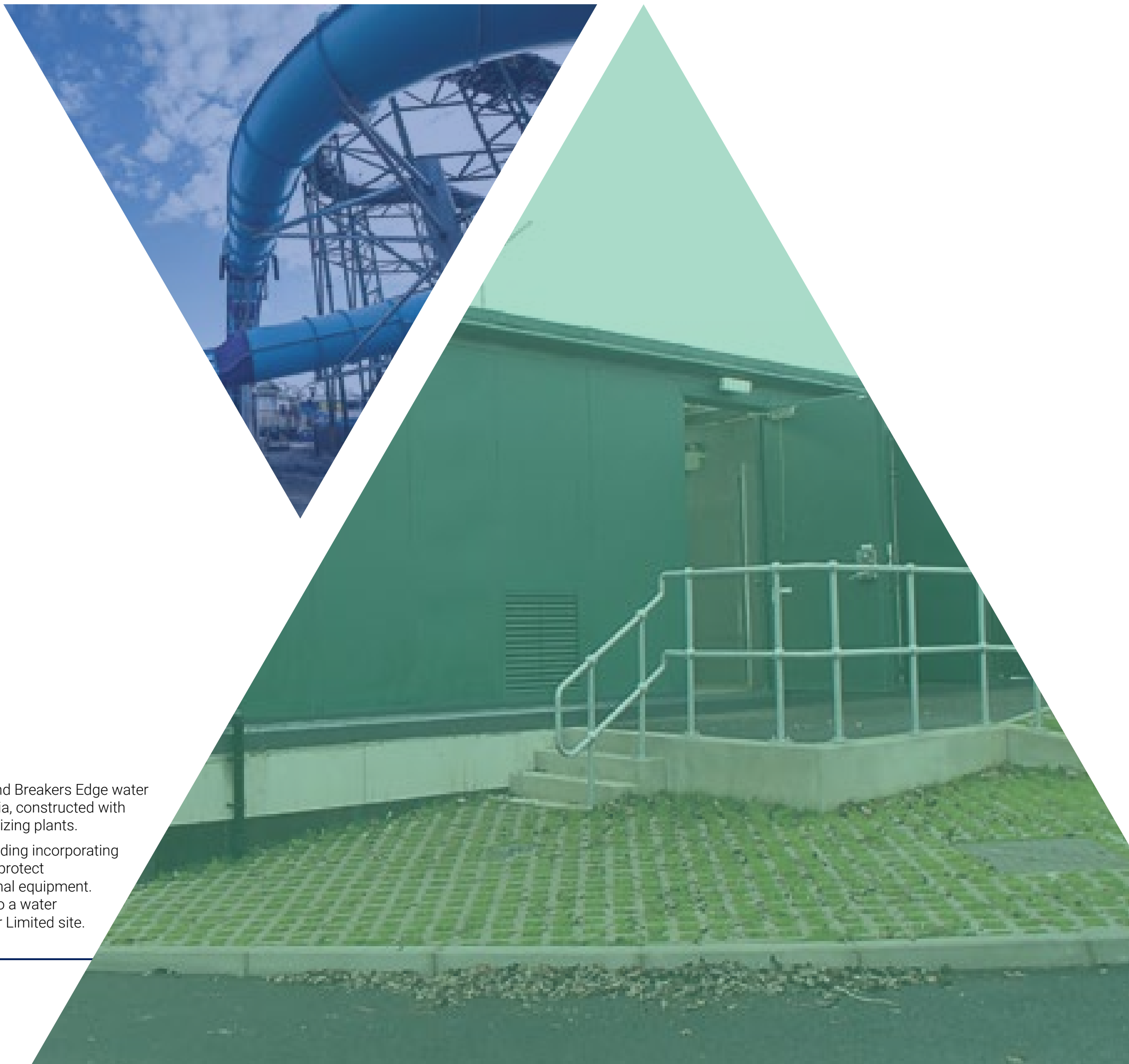
Top: Artist's impression of the new school on the Caribbean island of Tortola.

Middle: Staff at Technocover Ltd, Welshpool, hand over a cheque in respect of their fundraising efforts.

Bottom: Lionweld Kennedy Bake Off and Joseph Ash Ltd's sponsored golf day.

The Massachusetts Bay Transit Authority is using Composite Advantage Inc's products for their accessibility platforms in Boston. These fibre reinforced polymer ('FRP') composite platforms and ramps are replacing deteriorated concrete panels on train platforms as they are unaffected by salt, water and de-icing chemicals.

Governance Report



Top: The thrilling new White Cap and Breakers Edge water slides at Hershey Park, Pennsylvania, constructed with steel galvanized by our V&S Galvanizing plants.

Bottom: Modular steel security building incorporating twin and single doors, designed to protect mechanical and electrical operational equipment. Provided by Technocover Limited to a water booster station on an Affinity Water Limited site.

Board of Directors

J F Lennox LLB, CA

Chairman and Non-executive (62)

Jock is the Non-executive Chairman of Enquest plc and a Non-executive Director and Audit Committee Chairman of Barratt Developments plc. Jock was a Non-executive Director of Dixons Carphone plc until the end of 2018 and retired as a partner from Ernst & Young in 2009.

Appointed to the Board

12 May 2009

Committee Membership

Nomination (c)

D W Muir BSc, CEng, MICE

Group Chief Executive (58)

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 30 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 (50)

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 July 2016 to June 2018 he was Managing Director of the UK Utilities Division.

Appointed to the Board

11 March 2008

Committee Membership

n/a

A C B Giddins FCA

Senior Independent Non-executive (53)

Alan is a Managing Partner and head of Private Equity at 3i Group plc ('3i'), and a member of its Executive Committee. He has extensive experience of sitting on the boards of international businesses, and is currently a Non-executive Director of a company in which 3i has invested, Audley Travel, a market leader in tailor-made experiential travel. Prior to joining 3i in 2005, he spent 13 years in investment banking advising a broad range of quoted companies. He qualified as a chartered accountant at KPMG in 1990 and has a degree in economics.

Appointed to the Board

3 October 2017

Committee Membership

Audit, Remuneration, Nomination

A M Kelleher MSc, BA

Independent Non-executive (52)

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 a Non-executive 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 (60)

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 Senior Independent Non-executive Director and Chairman of the Audit Committee at Cranswick plc, where he is also a member of the Nomination and Remuneration Committees. Mark was also a Non-executive Director of Mitie Group PLC until July 2018.

Appointed to the Board

1 June 2016

Committee Membership

Audit (c), Remuneration, Nomination

Chairman's Introduction to Governance

Jock Lennox
Chairman

We have used the UK Corporate Governance Code 2016 (the "Code") to assess our governance arrangements during 2018. As a premium listed issuer on the London Stock Exchange and in accordance with the listing rules, Hill & Smith Holdings PLC has assessed its application of the Code under the headings of: Leadership, Effectiveness, Accountability, Remuneration and Relations with Shareholders. In doing so the Board can confirm that for the financial year ended 31 December 2018 the Company complied fully with the requirements of the Code.

Board Dynamics

The Board leads the business in a way that is honest, transparent and accountable and is ultimately responsible for the delivery of the Group's strategy and for the management of risk. 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. The Board comprises four Non-executive Directors, including myself, as Chairman, and two Executive Directors. Each director brings a set of skills and experiences to the Board discussions ensuring that a frank exchange of views drives positive decision-making and continues the Company's strategy, which has proven successful in delivering value to shareholders.

More information can be found on the Board's effectiveness in the Governance Report see page 59.

Board Activities

During the year we continued to make improvements in our risk management processes, (see pages 32 to 34) and strengthen our internal controls environment.

Mark Reckitt, Chair of the Audit Committee, gives more insight into this in his report on pages 67 to 72.

In January 2018 we considered the findings and conclusions of a review of our strategy, confirming the Board's belief in the continuation of the Group's strategy of developing leading positions in the niche markets of infrastructure products and galvanizing services.

More information on our strategy, our business model and our markets can be found on pages 8 to 17.

As reported last year the Board received the findings of an externally facilitated Board effectiveness review and during the year have considered what actions should be taken to respond to those conclusions, in light of the 2018 Code recommendations.

More information can be found in our report on Board effectiveness on page 59.

In response to market sentiment, the Board has continued its robust consideration of executive remuneration, considering how to best balance the promotion of the Group's long-term success whilst supporting an appropriate internal culture.

Annette Kelleher, Chair of the Remuneration Committee, explains more in her report on pages 73 to 82.

Looking Ahead

The Governance landscape has changed considerably during 2018, with BEIS statements on executive directors' pay, gender pay, CEO pay ratios, and guidance on the application of s172 Companies Act 2006; the new Corporate Governance Code published by the FRC along with associated guidance on Board effectiveness; and also publication of the Wates Principles for large private companies which will affect three of our UK subsidiaries.

The Board has and continues to review the 2018 Code to ensure that it can comply during 2019 with its principles and provisions. We have already started a project to formalise the Company's purpose, culture and values.

Some of the output of this work can be found in our Strategic report on pages 10 to 11.

We have discussed workforce engagement with the management teams of our subsidiaries and whilst we are pleased with the level of top-down engagement, we are considering more options to improve total engagement to a level which will support our values and our mission to deliver sustainable profitable growth.

2019 is an important year as we seek to ensure that our governance arrangements continue to support our Group's growth, whilst at the same time ensuring that we remained focused on delivering our strategy. I would like to thank my Board colleagues and all employees for their continuing efforts in developing our Group and delivering innovative solutions from their companies.

Situated around environmentally sensitive coastal estuaries on the California coastline, this inert fibre reinforced polymer access walkway provides an approach for the inspection and repair of steel electrical transmission structures.

Governance Report

Q: What is the role of the Board?

A. The Board sets the entrepreneurial culture, within which our subsidiaries operate. The Hill & Smith Holdings PLC Group consists of the Company and the principal subsidiary companies, listed on pages 166 to 168, and during 2018 operated in seven different countries. Whilst the Group's businesses are directly supervised by local operating boards and performance is monitored at individual operating company and divisional levels, reports are received by the Group Board on a monthly basis detailing financial performance, including variances to forecast and estimated year-end outturns; health & safety activities; people activities; and risks and opportunities.

More details of the Group's business model and strategy can be found on pages 8 to 17.

There is careful oversight of the individual businesses. The Executive Directors regularly attend the subsidiary companies' monthly board meetings, and there is liaison across divisions to ensure, where appropriate, the consistent application of governance, operational procedures and Group policies and practices. There are clear lines of delegated authority and businesses are given a high degree of autonomy to promote their activities in an entrepreneurial fashion. There is regular communication between the managing director of the subsidiary and our Chief Executive, who also attends subsidiary board meetings. The two Executive Directors are accountable to the Board for the operational application of these controls.

As we move into 2019 and acknowledge the new principles and provisions of the 2018 Code, the Board and in particular our CEO, supported by the Group Company Secretary, will review the Purpose & Values project. We commenced this in the latter part of 2018 and involved meetings with, and information received from the Directors of our subsidiaries and their immediate reports. The findings will allow the Board to articulate to a wider audience the purpose of Hill & Smith Holdings PLC.

Q: What are the Board's responsibilities?

A. The Board is collectively responsible for the long-term success of the Company and is focused on ensuring its own effectiveness. The Board has established a process designed to maximise that effectiveness and this operates within a framework of Board meetings, discussions and site visits; strategic focus; information provided by the Executive Directors and senior management; and knowledge of the governance background within which the Group operates and the affairs of the subsidiaries. Enabling the Board to support the Group's long-term success, whilst managing any conflicts of interest.

Q: How does the Board discharge these responsibilities?

A. 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. In particular, the Board takes decisions on and reviews:

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; Corporate sustainability and responsibility, ethics, health and safety, the environment; and Pension benefits and liabilities.

As well as these regular reviews, during 2018 the Board visited the France Galva and Conimast sites in Saint Florentin, France; considered the Groups' year-end forecasts and possible full year outturn ahead of the announcement of Group trading statements and received, reviewed and approved matters including: A revised year-end forecast; the acquisitions of Work Area Protection Corp; Composite Advantage; Signalvakter and EEI in the US, and The Grating Company in the UK; acquisition integration plans; strategy development plans; national distributor agreements; the conclusions of the externally facilitated board effectiveness review; succession planning and talent management updates; goodwill and intangible asset carrying values; the viability statement; 2019 budget presentations from V&S Galvanizing LLC; Hill & Smith Ltd; and Creative Pultrusions Inc.; and budget reports from other subsidiaries.

Q: Who constituted the Board during 2018?

A. During the whole of 2018 the Board comprised: Jock Lennox, Chairman; Alan Giddins, Senior Independent and Non-executive Director; Annette Kelleher, Non-executive Director; Mark Reckitt, Non-executive Director; Derek Muir, Chief Executive; and Mark Pegler, Group Finance Director. See pages 52 to 53 for biographies. All of the directors attended all the Board meetings held during 2018.

Q: What value does our Chairman add to the Board?

A. 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, promoting a culture of openness and debate; facilitating constructive board relations and effective contribution of board members; ensuring Directors receive accurate, timely and clear information; and providing an opportunity for the Non-executive Directors to meet without the Executive Directors present. He regularly seeks engagement with major shareholders to understand views on governance and performance against strategy.

The intention was that his appointment would be for several years. However, under the 2018 Code the provisions around tenure of the Chairman have been changed such that the Chair should now not remain in place beyond nine years from the date of their first appointment to the board. This period can be extended for a limited time to facilitate effective succession planning and board development particularly where the Chair was an existing Non-executive Director on appointment. Since Jock Lennox was appointed Chair on 17 May 2017 and to the Board on 12 May 2009, this amendment is relevant. The nomination committee (excluding the Chair) has considered this matter and has resolved that Jock Lennox should continue as Chair so that the leadership of the board remains settled for the time being. Accordingly Jock Lennox' reappointment as a director and Chair will be proposed at the forthcoming AGM on 16 May 2019. An initial discussion was held with certain shareholders in 2018 and they expressed their support for this approach and asked that an explanation be provided in the Annual Report.

Q: What value does our Chief Executive add to the Board?

A. The Chief Executive is responsible for the management of the Company, recommending and executing the Group's strategy and development, meeting financial objectives, implementing policies and maintaining controls. The Chief Executive has a long association with the Group, having joined the Company in 1990 and being appointed to the Board of Hill & Smith Limited in 1998 and to the Group Board in August 2006, and brings to the Board an in-depth knowledge of the operations of all the Group's subsidiaries, maintaining a programme of visits to the Group's subsidiary businesses, throughout the world. Along with the Group Finance Director, the Chief Executive provides information to the Board via their regular written reports; presentation of proposals for Board approval; and input into subsidiary budgets. These budgets are initially challenged by the Executive Directors 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.

Q: How do our Non-executive Directors contribute to the Board?

A. The Non-executive Directors take an active role in challenging strategy and monitoring the performance of the Company. There exists an appropriate combination of Executive and Non-executive Directors, together with clear divisions of responsibilities between the leadership of the board and the executive leadership of the company's business. Non-executive Directors have sufficient time to meet their board responsibilities and provide constructive challenge, strategic guidance, specialist advice and hold management to account.

The Non-executive Directors, led by Alan Giddins our Senior Independent Director, meet independently without the Chairman present and also meet with the Chairman, independent of management.

Q: How is our Board supported by our sub-committees?

A. During 2018, the Board was supported by three committees, each reporting directly to the Board.

The Nomination Committee, comprising the Chairman, the three Non-executive Directors and the Chief Executive, has responsibility for assisting the Board with succession planning and with the selection of a new Executive Director, Non-executive Director or Chairman. The Audit Committee, comprising the three Non-executive Directors, has responsibility for planning and reviewing the Company's interim and preliminary reports and accounts, and its internal controls and risk management systems, and the Remuneration Committee, comprising the three Non-executive Directors, is responsible for the creation, approval and implementation of the Company's Remuneration Policy in respect of Executive Directors, Company Secretary and senior executives.

For more information on the work of the Audit Committee see pages 67 to 72 and for more information on the work of the Remuneration Committee see pages 73 to 82.

Q: How frequently did our Board and sub-committees come together?

A. During 2018, the Board met on 11 occasions, the Audit Committee on five occasions and the Nomination and Remuneration Committees both met on four occasions.

	Board Meetings	Audit Committee	Nomination Committee	Remuneration Committee[1]
Total	**11**	**5**	**4**	**4**
Jock Lennox	11	5*	4	4*
Derek Muir	11	5*	4	4*
Mark Pegler	11	5*	1*	1*
Alan Giddins	11	5	4	4
Annette Kelleher	11	5	4	4
Mark Reckitt	11	5	4	4

*attendance as a guest

[1] No Director took part in a meeting where their salary was discussed.

Visit www.hsholdings.com
for Leadership framework

Governance Report (continued)

Q: What is the profile of our Board?

A: Our 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 (see 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. Half of the Board consists of independent Non-executive Directors.

The biographies of the Directors of the Board are shown on pages 52 and 53, along with any significant other commitments and appointments they have.

Skills and business experience:

Strategy (5)	Supply chain (4)
Leadership (6)	Marketing (5)
Operating performance & delivery (6)	Risk management and assurance (6)
Mergers & Acquisitions (6)	Digital (2)
Financial Planning (6)	Health & Safety (6)
International markets (6)	Human Resources (5)
Business integration (6)	Culture & Ethics (6)

Q: Has the Board been conflicted at any time during the year?

A: 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. 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 52 and 53. 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.

Q: Have there been any changes to the Board during the year?

A: The Board has appointed a Nomination Committee, composed of a majority of independent Non-executive Directors to oversee any changes to the Board. The Committee leads the process of Board appointments, and supports the Board in succession planning for the Board and senior management. Following a review of the Group's strategy and current succession plans, no changes were made to the Board in the financial year to 31 December 2018. The terms of reference of the Nomination Committee can be found at www.hsholdings.com.

For more information on the work of the Nomination Committee see page 65.

Visit www.hsholdings.com

for Board Committee Terms of Reference

Q: What arrangements are in place for director training and development?

A: The Chairman has discussed training and development needs with all Board members, as part of individual performance evaluations. 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 experiences for Directors include attendance at seminars, forums, conferences and working groups, as well as the provision of information from the Company Secretary. The Board regularly receives:

- Updates from its advisors on topics of interest and during the year received briefings on the new Code both in respect of the requirements of the Board to articulate the Company's purpose, culture and values and to implement mechanisms to engage with the wider workforce as well as an update on the Remuneration Committee's new duties to understand the remuneration arrangements across the wider workforce within the Group; and
- Information from the businesses within the Group on their strategic and operational plans; organisational changes; and health & safety audits.

Q: What is the Board's view on diversity?

A: The Board is committed to ensuring that the Company's workforce is as diverse as possible, that it has access to a wide labour market and that members of the workforce are recruited on merit, regardless of age, disability, marital or civil partner status, pregnancy and maternity, race, colour, nationality, ethnic or national origin, religion or belief, gender or sexual orientation. As part of this commitment, the Board annually approves its Statement on Diversity and the Group's Equal Opportunities & Diversity Policy.

Details of the number of men and women at board level; the number of men and women who are 'managers' (i.e. those employees with authority and responsibility for planning, directing and controlling the activities of the Company); and the number of men and women across the organisation as a whole are reported in this Annual Report on page. Where appropriate, the Board will take steps to address any gender discrimination or other diversity imbalance, including (but not limited to) by ensuring that the Company's vacancies are advertised to a diverse labour market.

Q: What did the 2017 Board Effectiveness Review recommend?

A: The 2017 Board Effectiveness Review conducted by Colin Mayer CBE FBA, Professor of Management Studies at Saïd Business School, University of Oxford, made recommendations in the following areas:

- The Board should continue to focus on the Group's strategic and long-term sustainability;
- The Board should give consideration to determining and defining the Group's purpose and values;
- Existing work around succession planning should be extended further;
- The Board should build on existing mechanisms to further embed culture and values; and
- Improvements could be made to the presentation and format of Board packs.

Q: How did we respond to the recommendations of the 2017 Board Effectiveness review?

A: The Board has responded to these matters as follows:

- Evaluated an external review of the Group's strategy and focus, concluding that regular updates on corporate activity within the Group's core markets should be received by the Board as well as information around associated and aligned markets;
- More focus was applied to subsidiary company succession planning, with company talent spotting being monitored and confirmed by the Executive Directors;
- Work commenced on articulating the purpose, culture and values of the Company, with meetings held between the Executive Directors, Company Secretary and the Corporate Development Director and between the Company Secretary and the senior leadership teams in the UK and the US.
- Providing the Company Secretary with feedback on the information that the Directors wished to see more regularly within the Board packs, focusing on strategy and future performance as well as providing more data on people, health & safety and macro-economic factors. Board packs are now more concise and aligned to the Company's purpose, strategy and values.

Q: What did we learn from our most recent board evaluation?

A: Our most recent evaluation was carried out in January 2019 via an externally facilitated self-assessment questionnaire. The review was approached from the perspective of the new UK Corporate Governance Code. It established that during 2019 the Board should seek to:

- Engage with the subsidiaries to further develop the business planning activity into a perpetual long-term process;
- Receive more formal shareholder feedback given to the Chairman, the CEO and other Directors, ensuring that responses are appropriate, clear and understood by all sides;
- Consider the need for additional group resource to support the Executive Directors and the Board as a whole;
- Consider the use of non-financial metrics within incentive schemes; and
- When considering the continuing Board succession planning have regard for the growth of the Group and the potential need for additional non-executive skills and experience.

Q: How do you asses the performance of the Directors?

A: As required by the Code, Alan Giddins, as Senior Independent Director meets with his Board colleagues to discuss the performance of the Chairman and the Chairman meets with the Non-executive Directors to discuss the performance of the Executive Directors, who are not present at these meetings.

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. Following this evaluation of the performance of the Board, and on the recommendation of the Nomination Committee, the Board is proposing that all Directors should stand for re-election at the Group's forthcoming Annual General Meeting ('AGM').

France Galva has provided 650 tonnes of galvanized steel to the construction of the Saint Serge Ice Rink in Angers, France. The new building that will be completed in 2019 will host a fun ice rink open to all and a sports rink for competitive ice sports.

Ice rink Saint Serge in Angers

These photographs show the galvanized steel being put in place (top) and an artist's impression of the finished building (bottom).

Governance Report (continued)

Q: How does our Board approach financial and business reporting?

A. The respective responsibilities of the Directors and External Auditor in connection with the Financial Statements are explained in the Statement of Directors' Responsibilities on page 90 and the Independent Auditor's Report on pages 92 to 98.

Q: What responsibility does our Board have for managing risk?

A. Overall responsibility for 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 and for internal control, and reviewing the effectiveness of these processes, lies with the Board. The process has been in place throughout 2018, 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;
- Six-monthly submissions from all subsidiaries detailing the risks they have identified and what controls and assurances they have in place to mitigate these risks;
- 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;
- The use of a Risk Committee to monitor, validate and report on the Group-wide risk assessment process;
- Audit Committee discussion of the corporate risk register and the risk management system with subsequent reports to the Board; and
- The embedding of a senior management top-down approach to complement the work of the Risk Committee.

32 - 39

More information on the Group's key risks and uncertainties is shown on pages 32 to 39.

Q: How does our Internal Audit function support the work of our Board?

A. During 2018 the Audit Committee reviewed the annual audit plans for 2018 and 2019, as prepared by the Group Internal Audit Manager and recommended the plans to the Board. The 2018 plan followed a risk-based programme concentrating on reviewing the Group's assurances and controls over its principal risks. For 2019, the Board has requested that the plan focuses on core baseline controls and key policy compliance, along with thematic reviews covering certain strategic and operational risks.

Q: How does our Board ensure that our risk management and internal control systems are effective?

A. 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 2018, 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.

Strategic Report
Governance Report
Financial Statements
Shareholder Information

Governance Report (continued)

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. This 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.

Q: What has the Board done in consideration of the Group's short-term sustainability?

A. The Board has considered the Group's status as a going concern and 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, which reflect the amendment to the Group's core debt facilities on 10 January 2019 as explained on page 25. 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 assumptions have been flexed to take into account any potential negative impacts that the Group could suffer as a result of the UK's likely departure from the European Union on 29 March 2019. 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.

Q: What has the Board done in consideration of the Group's longer-term sustainability?

A. Please see the Viability Statement below.

The Viability Statement.

The Directors have considered the prospects of the Group over the three-year period immediately following the 2018 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 30 to 31) in addition to net debt, liquidity and financing requirements. 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 36 to 39). This robust assessment considered the impact of the principal risks on the business model, which include those that may arise as a result of 'Brexit', 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;
- A reduction in revenues in all of the Group's Utilities businesses; and
- A reduction in revenues across a range of the Group's UK businesses to reflect the possible impacts on macro-economic conditions of a disorderly Brexit.

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 2018 with an undrawn committed facility headroom of £60.8m and a history of strong cash generation, and noted that the Company's principal financing facilities are committed until January 2024 (following the amendments made in January 2019) 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 2021.

Q: What has the Board done to ensure that the Annual Report represents a fair, balanced and understandable assessment of the Group's position and prospects?

A. The Board received a recommendation from the Audit Committee that the Group's position and prospects had been assessed and reported on in the Annual Report in a way that was fair, balanced and understandable. Prior to making the recommendation to the Board 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 Group's performance in 2018 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 the external auditor 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 2018 giving them a clear and understandable picture of the Group's business model, key drivers and commercial operations.

Q: What is the purpose of our remuneration policy?

A. The purpose of our remuneration policy is to be able to recruit and retain Executive Directors of sufficient calibre to develop and deliver our business strategy and create shareholder value; to ensure remuneration arrangements are in the best interests of the Group, in line with the wider workforce and do not pay more than is appropriate and does not pay for failure. More information on the Group's Remuneration Policy is available in the Policy Table on pages 83 to 86 of the Group's Remuneration Report.

Q: Has our remuneration policy operated as intended?

A. We believe that the policy has operated as intended. Our Executive Directors' pay arrangements are made up of three fundamental elements: salary, a short-term annual bonus, and a three-year longer-term incentive arrangement. Whilst we have achieved an underlying operating profit that was behind our 2018 target, it was comparable with our record year of 2017. Thus whilst the bonus achieved by the Executive Directors in respect of the year to 31 December 2017 was 94% of salary (Operating Profit: £81.3m), the bonus earned for the period 31 December 2018 is 24.1% of salary (Operating Profit: £80.1m).

However, given that the long-term incentive arrangements cover a three-year performance period, where performance is measured by the growth in underlying earnings per share ('UEPS') and Total Shareholder Return ('TSR'), the three-year growth of the company, represented by an increase in UEPS of 50.5%, will result, in conjunction with an upper-quartile TSR position of 24th, in a vesting of 100% of the shares awarded in 2016 as part of the long-term incentive plan, reflecting the strong performance of the group over the three year performance period from 1 January 2016. More information is available on pages 77 and 79 of the Group's Remuneration Report.

Q: How has the Board engaged with the wider workforce regarding pay increases for 2019?

A. In deciding on the annual increase of 2.4% for the Executive Directors, the Remuneration Committee received information on the average increases being given across the Group's 31 subsidiaries located in seven countries.

73 - 82

Find out more detail in the Directors' Remuneration Report on pages 73 to 82.

Governance Report (continued)

Q. How does our Board engage with our Shareholders?

A. 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 have meet with institutional shareholder representatives both in the UK and USA, as well as hosting a site visit at Hill & Smith Limited, Bilston, UK and the Chairman met directly with a number of institutional shareholder representatives. The Board also regularly receives reports from the Company's brokers and financial public relations agency on feedback from institutional shareholders following the Executive Directors' presentations and Alan Giddins, our Senior Independent Director, is available to shareholders as and when required. The AGM is also an opportunity for the shareholders to hear about the business and engage with the Directors.

Q. What value does the Board place on our AGM?

A. The Board is very keen that as many shareholders who wish to are able to attend the Company's AGM and ask questions of all of the Directors. 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. At the AGM our Chief Executive and Group Finance Director give a presentation to all shareholders in attendance and shareholder participation is encouraged, questions and feedback are invited and all Directors are in attendance and available to meet with shareholders. In 2018 Proxy votes of shareholders for the AGM were tabulated independently by the Company's registrars, provided at the AGM and published on the website shortly after the conclusion of that meeting. At our AGM in 2018, we announced that we will conduct voting in 2019 by way of a poll. The Board believes that calling a poll ensures that all votes are counted and declared so significant opposition is demonstrated where appropriate.

Q. Who can shareholders turn to if they have any concerns?

A. 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. Alan Giddins, as Senior Independent Director, was contacted to discuss concerns over the number of Company Boards that Jock Lennox was appointed to and whether these commitments impinged on his ability to commit time to the Company. The matter was discussed at a Board meeting and it was concluded that Jock continued to have sufficient time to commit to his responsibilities as Chairman of the Company.

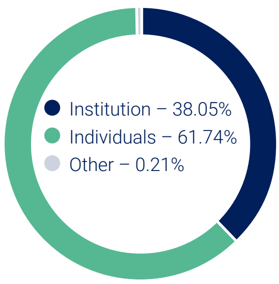
Q. How can shareholders communicate with the Board outside of results season?

A. All Directors are available to meet with shareholders to discuss matters and can be contacted through the Company Secretary at any time. The Secretary also engages with shareholders and the investor community as and when required. Copies of all trading updates and Interim and Annual Reports are posted on the Company's website, together with details of key financial and shareholder information, governance statements, Group policies and corporate and organisational structure.

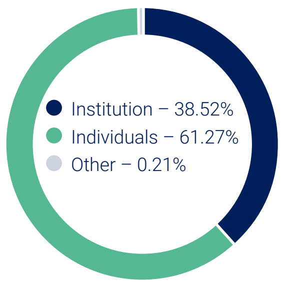
Q. Has the shareholder base changed significantly during 2018?

A. As at 1 March 2019, Institutions and individuals comprised 38.05% and 61.74% respectively of our register, compared to 38.52% and 61.27% at a similar time in 2018. See the table on page 165 for more details.

Type of Shareholder 2018



Type of Shareholder 2017



Nomination Committee Report

Committee Membership

During the year the Committee comprised myself as the Group's Chairman, the Non-executive Directors Annette Kelleher, Mark Reckitt and Alan Giddins and the Group Chief Executive, Derek Muir. The Committee met four times in the financial period under review with all eligible members of the Committee being present on each occasion.

Role of the 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 well as myself and the Group Finance Director, were selected through externally facilitated recruitments. All Non-executive Directors are independent, as was I on appointment. The Board believes this has created an effective group of Executive and Non-executive Directors able to provide the required range of skills, knowledge and experience to ensure development of the Group, implementation of its strategy and sound governance. The Committee 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.

For more information on the balance of skills and experience see page 58.

Non-executive Directors

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.

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.

Committee Membership

	Date of Appointment	Length of service at 31 December 2018
Jock Lennox	12 May 2009	9 years 7 months
(as Chairman	11 May 2017	1 year 7 months
Annette Kelleher	1 December 2014	4 years 1 month
Mark Reckitt	1 June 2016	2 years 7 months
Alan Giddins	3 October 2017	1 year 3 months

The work of the Committee during the year

During the year, and the period up to the date of this report, the Committee 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, in this regard the Committee has overseen the succession planning and discussions with Mark Pegler, Group Finance Director, resulting in the announcement on 6 March 2019 that Mark will step down from the Board on 30 April 2019. The Committee has commenced the search for his successor;
- Subsidiary succession planning and talent management;
- Board evaluation – Review of the externally-facilitated self-assessment Board evaluation questionnaire, a summary of which is contained on page 59;
- The revised tenure of the Chair (in my absence), in the light of the new UK Corporate Governance Code, concluding that the extension allowed by the Code to facilitate effective succession planning and board development was both appropriate and relevant. Accordingly it was resolved that I should continue as Chair so that the leadership of the board remains settled for the time being; and
- The Committee's revised terms of reference.

Plans for the year ahead

The Committee intends to remain focused on succession planning and talent management, recognising that with 31 entrepreneurial subsidiaries across seven geographies the identification of high-calibre individuals within these businesses and their successful transition into senior management roles along with the introduction of new skills into these businesses is of utmost importance to the delivery of the Group's long-term strategy.

Jock Lennox
Chairman

6 March 2019

V&S Galvanizing's Columbus plant provided hot-dip galvanized steel trellises, ornamental railings and architectural steelwork for the Mirror Lake at the Ohio State University.

Audit Committee Report

Dear Shareholder

It is a pleasure to make my report as the Audit Committee Chairman of Hill & Smith Holdings PLC and to explain to how your Audit Committee and the Company's senior management team have continued to develop and enhance our risk management processes and internal audit programmes. We appointed a Group Internal Audit Manager in September 2017 and during 2018 we reviewed the reports produced covering a Group-wide thematic review into product failure risk as well as multiple subsidiary-level reviews focussed on risk mitigation reviews, Group policy compliance, and the strength of core, baseline internal controls. The Committee was pleased with the effectiveness of the strengthened internal audit function and approved an internal audit plan for 2019 with a wider scope of work at subsidiary level, together with appointment of additional resource to enable effective delivery of the plan.

During the year, the Committee has also noted the wider debate in the UK on the role and effectiveness of external auditors, considered the steps taken by the major audit firms that seek to improve the effectiveness of the external audits that they undertake and discussed this topic with KPMG, our external auditor. We have reviewed the changes that they have put in place, received a report from the Audit Quality Review team at the Financial Reporting Council on KPMG's audit of Hill & Smith Holdings PLC for the year ended 31 December 2017 and assessed the implications as part of our consideration of the effectiveness of the external audit undertaken by KPMG. We remain satisfied that KPMG are able to undertake an effective external audit for Hill & Smith Holdings PLC.

As reported on last year, the executive team, with the support of the Audit Committee, has continued to build upon the risk assessment methodology which was implemented across the Group in which further training sessions on risk identification, definition and mitigation actions were delivered to all senior executives across the Group. The subsidiaries have access to an online reporting tool to enable the production of business unit specific risk registers in a consistent format for review and challenge by the Group Risk Committee. During the year, the Risk Committee comprised the Group Company Secretary, the Group Financial Controller, the Group Assistant Company Secretary, the Group Internal Audit Manager and the Group's Director of Corporate Development. As part of the continual improvement process, senior operational management also provided the Risk Committee with information on risks that were apparent across all subsidiaries and that might affect the Group's ability to deliver its strategic plan.

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

- Primary areas of judgement considered by the Committee in relation to the 2018 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 2019.

Mark Reckitt
Chairman, Audit Committee

6 March 2019

Audit Committee Report (continued)

The role and meeting 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. It 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 risk management and internal control systems and internal audit function. The Committee's terms of reference can be found on the Company's website.

During the year the Audit Committee comprised:

- Mark Reckitt;
- Alan Giddins; and
- Annette Kelleher.

Mark Reckitt has been specifically identified, in keeping with the provisions of the UK Corporate Governance Code, as the Committee member having recent and relevant financial experience. He has previously held the positions 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. He is currently the Audit Committee Chairman and Senior Independent Director at Cranswick plc.

The Committee meets according to the requirements of the Company's financial calendar and during 2018 met on five occasions: In January to review the Subsidiaries' risk registers and internal audit activities; and approve the internal audit plan for 2018. in February to consider the Annual Report together with the external audit findings, August to consider the half-year results, October to consider the subsidiaries' 2018 risk registers, approve the external auditors plan for 2018 and approve their fees and in December to, approve the internal audit plan for 2019 and approve the Group's principal risks & uncertainties. Attendees at each of the meetings included by invitation, the Chairman; the Group Chief Executive; the Group Finance Director; the Group Financial Controller; the Group Internal Audit Manager; the external auditor, KPMG and, where appropriate other advisors. Time is also allowed for the Committee to speak with the external auditor and the Group Internal Audit Manager without the presence of the executive management.

The FRC's Audit Quality Review team carried out a review of certain areas of the audit conducted by KPMG LLP for the year ended 31 December 2017. In selecting which aspects of an audit to review, the FRC take account of those areas considered to be higher risk by the auditors and Audit and Risk Committees, their knowledge and experience of audits of similar entities and the significance of an area in the context of the financial statements. The results of this review were shared with the Audit Committee in November 2018 and has been discussed with KPMG. Based on that review no significant matters were raised for the attention of the Audit Committee and good practice observations were noted in respect of data analytics work undertaken in testing revenue at the major UK component and the clarity of reporting to the Audit Committee in respect of the assessment of impairment of goodwill. In addition to receiving reports from internal audit on internal controls, the Committee requested and received specific reports following the identification of a controls breakdown relating to inventory at one of the smaller UK subsidiaries. In addition to determining the root cause of the breakdown, work was undertaken to satisfy the Committee that the issue was not being repeated at other similar subsidiaries. The conclusions, with which the Committee concurred, were that the issues were limited to the specific subsidiary and that the impact of the breakdown was not significant to the results of the group.

As Audit Committee Chairman, Mark Reckitt has maintained regular contact with the external audit partner and the Group Internal Audit Manager outside Committee meetings and without the management of the business present. In these meetings a wide range of matters are discussed, including changes in financial reporting and governance landscape, the Company's readiness to accommodate these developments, the approach to auditing activities undertaken by KPMG and the internal audit function and our approach to managing risk and assurance generally.

Responsibilities of the Committee

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; and External Audit and non-Audit Work.

Financial Statements and Reports
• Reviewed the 2018 Annual Report, the 2018 Interim Report and other trading updates issued during the year;
• Reviewed the disclosures made in the 2018 Annual Report in respect of the effectiveness of the Group's risk management and internal controls.
• 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 62).
• Advised the Board on whether the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable (see page 62);
• Reviewed areas of the accounts which require particular judgement including the carrying value of goodwill and indefinite life assets; the defined benefit pension scheme valuation; and taxation (see below).

Primary areas of judgement considered by the Committee in relation to the 2018 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 99 to 148. 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 £148.0m at 31 December 2018. 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 further considers the disclosures made in respect of sensitivities, in particular in respect of France Galva SA, in note 10 to the Financial Statements on pages 123 to 128. Business plans are signed off by the Board and assessment models are reviewed and challenged as part of the audit, for which the external auditor, KPMG, provides reporting to the Committee.

Defined benefit pension scheme valuation
Net defined benefit pension obligations under IAS19 amount to £23m at 31 December 2018. 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 auditor 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 appropriate.

Risk management
• Reviewed the outputs from the Group's risk management process to ensure that subsidiaries were identifying, articulating, evaluating and mitigating risks.
• Reviewed reports made via the Group's whistleblowing process and the conclusions from any investigations, ensuring that lessons learned were implemented.
• Advised the Board on whether, given an assessment of the Company's current and forecast position and principal risks, the Board can approve its viability statement (see page 62).

Risk management

The risk management process is continually kept under review to ensure that outcomes from the subsidiaries' risk submissions provide the necessary information for the Audit Committee to carry out a robust assessment of the risks affecting the Group as a whole. Subsidiary management are continually monitored and supported to ensure their risk management policies and risk mitigations are suitable to meet the Board's appetite for the risks identified.

Risk management process
Every year the Committee seeks to improve the Group's risk management processes to ensure that the Group's principal risks and uncertainties are correctly identified by virtue of a top-down/bottom-up approach utilising the experiences of the Audit Committee and the Group's 31 subsidiaries. In this, the Audit Committee is supported by the Group's Risk Committee, which comprises the Group Financial Controller, the Group Company Secretary, the Assistant Company Secretary, the Group Internal Audit Manager and the Group's Corporate Development Director.

The Risk Committee overseas the risk management process, which is one of continual improvement and during the year a programme of training for senior management was delivered across the Group; through face-to-face seminars in the UK, USA and Sweden and through a training manual to the other international jurisdictions. These sessions complement the work already done on risk management and focused on the concept of risk mitigation – controls and assurance.

The Risk Committee reviews, discusses and validates the risk submission data received from the subsidiaries. Any risks submitted by subsidiaries that do not align with the Group's principal risks are individually reviewed and taken into account in current and subsequent reviews of the Group principal risks. The Audit Committee has monitored the resultant key risks on the corporate risk register and during the year received reports and minutes from the Risk Committee, detailing the Group-wide risk assessment process and the movements in major risks and provided updates on subsidiaries' risk mitigation activity. More information on the activities of the Risk Committee and the Group's principal risks and uncertainties can be found on pages 32 to 34.

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 report such incidents through an externally hosted internet and telephone based whistleblowing hotline or if necessary, to the Company Secretary or the Chairman of the Audit Committee. This policy can be found on the Group website.

Any incidents reported, whether through the whistleblowing hotline or direct to the Company Secretary or any other member of Group-level management are investigated under the supervision of the Company Secretary and resolved appropriately. The Committee receives reports

Audit Committee Report (continued)

from the Group Company Secretary on these cases, on the investigative process, the conclusions, and any lessons to be learned from these events.

Internal audit
• 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. • Monitored the performance of the Group Internal Audit Manager and reviewed the work of the Group's Internal Audit function concluding that it is operating effectively and was appropriately resourced. • Evaluated the Internal Audit Plan for 2019 that was submitted with reference to the risk management reporting process and agreed that further resource should be added to the function to enable it to widen the scope of the Internal Audit activities.

Internal audit

The Audit Committee and Hill & Smith executive management ensure that the Group Internal Audit manager who reports to the Group Finance Director and the Audit Committee Chairman has free access to the businesses, information and management within the Group.

Internal audit function
The internal audit function is overseen by the Group Internal Audit Manager. The Audit Committee annually review and approve the Internal Audit Charter that sets out:

- the function's purpose: to independently and objectively evaluate the effectiveness of internal controls, risk management and governance processes; and
- how the function will discharge its responsibility, primarily by preparing and executing a risk based audit plan, identifying opportunities to improve internal control, risk management and governance processes and by verifying improvements agreed with management are implemented within a reasonable timeframe.

In accordance with the Internal Audit Charter, the Audit Committee and executive management ensure that the internal audit function has free and unrestricted access to the Group's records, physical properties and personnel pertinent to carrying out its activities, and remains free from inappropriate management influence or other restrictions on its ability to perform its work in an objective and effective manner.

The 2018 Internal Audit Plan balanced the focus of the function between Group-wide principal risks and subsidiary-level risks. It included a Group-wide thematic review of product failure risk mitigation, and multiple subsidiary-level reviews focused on Group subsidiaries' risk mitigation, compliance with Group Policy and the strength of core, baseline internal controls.

Where internal audit work did find instances of control weakness, or non-compliance with Group policy, the findings have been discussed at the Audit Committee, and the resulting audit actions have either been implemented, or are in the process of being addressed in accordance with agreed timelines. However, as noted on pages 8 to 17, Hill & Smith Holdings PLC operates a decentralised business model where significant accountability is devolved to subsidiary operational and financial management. Control weaknesses identified at subsidiary level are taken seriously and management and the Audit Committee seek to ensure that their cause is understood and mitigating actions are taken to limit the potential for recurrence. In view of the work of internal audit, external audit and Group management it is considered unlikely that a weakness at an individual subsidiary would have a material impact when taken in the context of the Group as a whole.

In 2019, the function is being further strengthened with additional resource which will continue to widen the scope and intensity of the function's assurance activity.

Internal control
The Audit Committee is responsible for ensuring that the Group's system of internal control is embedded within all subsidiary companies. The Committee monitors the adequacy and effectiveness of the Group's internal control processes through review and discussion of:

- the proposed internal audit plan ensuring that it was aligned to the principal risks of the business and received regular progress updates on the delivery of the objectives of the plan;
- the 14 internal audit reports and findings presented throughout the year together with the progress by management in addressing the issues identified on a timely basis;
- executive management reports and presentations including updates on specific areas provided at the request of the Committee. In the period covered by this report this included the implementation of new accounting standards including IFRS 15 - Revenue from contracts with customers, and accounting judgements including the carrying value of goodwill and intangible assets of France Galva, SA and Technocover Ltd;
- external audit reports and findings at the half-year, interim and year end audit phases; and
- reports from the Group's external professional advisors as commissioned which, in 2018, included reports on the Group's health and safety arrangements and cyber security control environment.

Effectiveness of internal audit
The Audit Committee is responsible for monitoring and reviewing the effectiveness of the Group's internal audit function.

As noted above the Audit Committee reviewed and approved the risk based audit plan and monitored progress with its completion. Changes to the plan arising in the year, including the completion of additional work, were discussed and approved at the Audit Committee meetings.

Throughout the year the Audit Committee discussed the internal audit function's outputs with the Group Internal Audit Manager and executive management. The Audit Committee was satisfied that the Internal Audit function is operating effectively and that the level of experience within the department was appropriate to meet the Group's needs during the year. As previously noted it was agreed that the scope of many of the internal audits should be widened and that additional resource should be recruited to enable this.

External audit and non-audit work
• 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 in relation to France Galva S.A. and Technocover Ltd; provisions for uncertain income tax positions; and UK post-retirement benefits obligations;
• Reviewed, considered and agreed the methodology of the 2018 audit work to be undertaken by the external auditor;
• Oversaw the relationship with the external auditor, reviewing their performance and advising the Board on their appointment and remuneration;
• Evaluated the independence and objectivity of the external auditor;
• Reviewed feedback from the FRC AQR Report;
• Reviewed the level and nature of non-audit services provided by the external auditor during 2018, noting that KPMG, the Company's external auditor had, along with other major audit firms decided to provide only audit and related services to their audit clients with effect from November 2018; and
• Reviewed and approved updates to the non-audit services policy and the Procedure for the external auditor policy.

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 2018 year-end audit during the Committee meeting in October 2018. 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 in relation to France Galva S.A; valuation of goodwill in relation to Technocover Ltd, which was omitted from the final key audit issues as it had been fully impaired during the year; provisions for uncertain income tax positions and UK 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.

In December 2018, 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 reviewed this feedback together with the 2017 Audit Quality Inspection review undertaken by the FRC on KPMG, and discussed the broader topic of the perceived quality and effectiveness of external audits generally. Following this discussion the Committee 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 2018 audit. The Committee discussed the issues raised in the report, particularly in relation to the areas highlighted, at their meeting in February 2019. A similar discussion of the external auditor's report, following their 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.

Financial Reporting Council ('FRC') review
On 13 November 2018, the Group received a letter from the Financial Reporting Council concerning its review of the Group's Annual Report and Accounts for the year ended 31 December 2017. As a result of the review, we have further enhanced the information we disclose with regard to the potential impact of sensitivities on the goodwill impairment calculations in respect of France Galva SA (see note 10 on pages 123 to 128) and expanded the information that we provide in relation to the assets of the Group's UK defined benefit pension scheme, including an explanation of the funding strategy that the Group and Trustees have agreed (see note 23 on page 143). In addition, the Parent Company financial statements for the current year include a credit for pension deficit contributions due from fellow subsidiary undertakings in prior years that had not previously been recognised, as explained on page 157. There was no impact of this item on the consolidated financial statements. On 6 February 2019, correspondence was received from the FRC concluding the review to their satisfaction.

The FRC's review was based on the Annual Report and Accounts and did not benefit from a detailed knowledge of the business or an understanding of the underlying transactions entered into. It was, however, conducted by staff of the FRC who have an understanding of the relevant legal and accounting framework.

Audit Committee Report (continued)

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 auditor 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 last partner rotation occurred in December 2016 when Darren Turner, recommended by KPMG and approved by the Audit Committee took over for the 31 December 2016 year-end audit. This year's audit will be his third.

Following the EU Audit Directive which took effect from June 2016, the Group has 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 has considered that it would be prudent to prepare for new auditors for the 2020 year-end. As such, a tender process would be commenced in the second half of 2019. There are no contractual obligations in place that restrict our choice of statutory auditor.

Non-audit fees

The Committee reviewed its 'Non-Audit Services' policy in December 2018 to ensure it meets the detailed requirements of the EU Audit legislation, 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.

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 level by the full Audit Committee. 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 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 2018, there were fees of £248,000 (2017: £122,600) paid to the auditor for non-audit services. The fees paid covered due diligence on acquired businesses and aborted acquisition costs £238,000 (2017: £92,400), assurance reviews £10,000 (2017: £13,500) and restructuring work £nil (2017: £16,700). Audit fees for 2018 were £982,000, representing a 1:4 ratio between non-audit and audit fees (2017: 1:6). Further details of these amounts are included in note 6 of the accounts on page 118.

In November 2018, KPMG announced that, in order to remove the perception of any conflict of interest arising from the provision of non-audit services to audited entities, they would be discontinuing the provision of all non-audit services (other than those closely related to the audit) to all FTSE 350 companies. Any contracted non-audit services that had commenced before the date of the announcement (or were in discussion at that date) that had not been completed would be delivered in line with contractual commitments.

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

6 March 2019

Remuneration Committee Report

Annette Kelleher
Chair, Remuneration Committee

Dear Shareholder,

I would like to present our 2018 Directors' Remuneration Report. At our AGM in May 2017, shareholders approved our Directors' Remuneration Policy and you will find a summary of the policy on pages 83 to 86. I am pleased to say that this policy was strongly supported by our shareholders, with 93% of the votes in favour of it.

Corporate Governance Change

The Remuneration Committee is very mindful of the revised UK Corporate Governance Code ('the Code') which was published in July 2018. Recognising that the new governance rules will apply in 2019, the Committee has had a number of discussions since July about the implications of the Code. It is the Committee's intention to adopt a best practice approach to the Code. We plan to reflect the necessary modifications in our new policy that we will present to shareholders at our 2020 AGM. This will include, for example, a formal policy for post-employment shareholding for Executive Directors. However, during 2019 we plan to strengthen our definitions of malus and clawback to ensure they are in line with the Code for incentive plans being issued in 2019. At the same time, we will be giving the Remuneration Committee the discretion to amend formulaic incentive plan outcomes should this be necessary. In addition, the Committee has planned a number of meetings during 2019 to prepare its policies and processes related to the overall management and the wider workforce remuneration across the countries we operate in. The Committee will also invest time to develop ways in which the Board can regularly effectively engage with our employee across with the Group.

2018 performance and remuneration

Against a backdrop of uncertain political and macro-economic conditions the Company has performed reasonably well, albeit not as well as in 2017, which was a record year. More details about the Company's operational and financial performance can be found on pages 18 to 28.

This 2018 performance is reflected in the incentive remuneration outcomes for the year. Detailed information in relation to the 2018 annual bonus is included on page 76 where the comparison with 2017 can also be found. However, in summary, based on the Company's performance in 2018, the Executive Directors earned bonuses of 24.1% of base salary, of which 20% will be deferred in to shares. More information is given on page 76.

The performance period for the LTIP award granted in 2016 ended on 31 December 2018. Two criteria were applied to this award, 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 over the 3 years, carried out by the Committee's advisors, Deloitte LLP, 100% of the award vested. This reflects the strong performance of the group over the three-year performance period from 1 January 2016. More information is given on page 79.

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 2019, we are following this principle where by both our Executives will receive salary increases of 2.4%.

The Non-executive director fees has been increased by approximately 2.4% with effect from 1 January 2019, details on other Non-executive fees are set out on page 82 .

I believe our current remuneration structures have enabled us to make the appropriate rewards in 2018. During 2019 we will start our planning for our triennial policy review in 2020 and I will update you further in my next report.

Annette Kelleher
Chair, Remuneration Committee

6 March 2019

Directors' Remuneration Report

Policy and strategy

The Company's strategy is explained in detail on pages 8 to 17. The Company's Remuneration Policy was approved by shareholders at the Annual General Meeting ('AGM') on 11 May 2017 with 93.44% of all votes cast in favour. The Remuneration Policy Table and accompanying notes to the Policy have been provided on pages 83 to 86 as it is considered these would be helpful for shareholders to have them repeated in this year's report. However, to aid reading in relation to the application of the Remuneration Policy in 2019, certain date references have been updated. The full policy can be found in complete form on the Company's website at www.hsholdings.com.

The Policy 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. The table below sets out how variable remuneration is linked to the Company's strategic drivers and business objectives.

<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.

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
ROIC
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;

and

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
ROIC
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
ROIC
Operating margins</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 pages 76 to 77.

Committee activity

The Committee
During the year, and the period to the date of this report, the Remuneration Committee (the 'Committee') consisted of Annette Kelleher, Chair, together with Mark Reckitt and Alan Giddins. 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.

During this time the Committee:

- Approved the annual bonus calculation and payment for the financial years 2017 and 2018 – further information is given on page 76;
- Measured the performance conditions of the Company's Long Term Incentive Plan ('LTIP') in respect of awards granted in 2015, confirming that 100.0% of the TSR portion and 100.0% of the UEPS portion of the original award vested;
- Approved grants under the rules of the Company's 2014 LTIP;
- Measured the performance conditions of the Company's LTIP in respect of awards granted in 2016, 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 77;
- Approved grants under the rules of the Company's 2014 Executive Share Option Scheme ('ESOS');
- Approved the award of a new SAYE scheme, to run from December 2018 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 2.4% increase, with effect from 1 January 2019, in line with the increases awarded to the wider workforce;
- Approved the annual bonus performance measures and targets for 2019;
- Reviewed reports on the Group's approach to the Gender Pay gap in UK subsidiaries where this was appropriate, approving the Gender Pay statement for inclusion on the relevant websites;
- Reviewed and approved the Company's Annual Remuneration Report for inclusion in the Company's 2018 Annual Report and Accounts; and

- Considered and approved new Committee terms of reference that had been update for the new Corporate Governance Code.

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 £7,700 for the year ended 31 December 2018. 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 shareholder voting
The Group remains committed to ongoing shareholder dialogue and takes an active interest in voting outcomes. The Company's 2017 Remuneration Report was put before members at our AGM in May 2018 and the Company's current Remuneration Policy was put before members at the 2017 AGM, with shareholder approval of each as follows.

% of votes	For	Against	Withheld votes
Annual Remuneration Report (2018 AGM)	97.69%	2.31%	1,787,595 votes were withheld in relation to this resolution (3.36%)
Remuneration Policy Report (2017 AGM)	93.44%	6.56%	826,027 votes were withheld in relation to this resolution (1.52%)

The following parts of the Remuneration Report are subject to audit other than elements explaining the application of the policy in 2019.

How the Remuneration Policy was implemented in 2018 – Executive Directors

Single remuneration figure for 2018

	Base Salary[(1)]	Taxable Benefits[(2)]	Annual Bonus[(3)]	LTIP (vested in respect of performance period ended 2018)[(4)]	Pension	Total 'Single Figure' 2018
D W Muir	507,800	52,180	122,380	697,085	126,950	1,506,395
M Pegler	355,500	22,279	85,675	445,792	88,875	998,121
Total	863,300	74,459	186,473	1,142,877	215,825	2,504,516

Single remuneration figure for 2017

	Base Salary[(1)]	Taxable Benefits[(2)]	Annual Bonus[(3)]	LTIP (vested in respect of performance period ended 2017)	Pension	Total 'Single Figure' 2018
D W Muir	493,000	50,465	463,421	954,463	123,250	2,084,599
M Pegler	345,100	22,279	324,394	610,703	86,275	1,388,751
Total	838,100	72,744	787,815	1,565,266	209,525	3,473,350

(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 £22,679 (2017: £20,989) 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, including the amount deferred into shares. A description of how the bonus payout was determined can be found on page 76.

(4) LTIP is the value of LTIPs vested in respect of a performance period ended in 2018. A description of the basis on which awards vested and the value can be found on page 77.

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

During the period under review the Committee reviewed the salaries of the Executive Directors and other senior executives, in the context of the current performance of the Company and the levels of pay increases applied throughout the Group's national and international businesses. This approach is consistent with previous years.

Directors' Remuneration Report (continued)

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.

2018 annual bonus
As disclosed in the 2017 Directors Remuneration Report, following approval of the Company's Remuneration Policy in 2017, the annual bonus opportunity for 2018 was amended to 125% of salary, with 20% of the bonus earned delivered in shares that are deferred for two years.

The extent to which the bonus was earned is summarised below. Following consultation with shareholders, the Company has decided to include details as to the range of performance targets as well as to disclose the bonus outturns for both 2017 and 2018 in this year's report as follows:

		Target Performance		Stretch Performance			
	Maximum pay out per performance measure (% of base salary)	2018 on target performance	Bonus payable for on target performance (% of base salary)	2018 stretch performance	Bonus payable for stretch performance (% of base salary)	Actual performance	Actual pay out per performance measure (% of base salary)
Growth in underlying EPS	25%	76.2p	18.75%	80.0p	31.25%	77.8p	24.1%
Underlying profit before tax	25%	£80.4m	18.75%	£84.4m	31.25%	£76.3m	-
Underlying operating margins	25%	13.0%	18.75%	13.3%	31.25%	12.6%	-
Achievement of budgeted internal ROIC	25%	19.4%	18.75%	19.9%	31.25%	18.0%	-
Total	100%		75%		125%		24.1%

20% of the bonus earned by each Executive Director will be deferred into an award of shares which will vest following the end of a deferral period of two years, subject, ordinarily, to continued employment but to no additional performance conditions. The cash bonus and deferred bonus earned by each Executive Director is as follows.

Executive Director	Total bonus earned	Bonus paid in cash	Bonus paid as an award of deferred shares
D W Muir	£122,380	£97,904	£24,476
M Pegler	£85,675	£68,540	£17,135

2017 annual bonus
The performance conditions for the year ended 31 December 2017 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)	2017 on target performance	Bonus payable for on target performance (% of base salary)	2017 stretch performance	Bonus payable for stretch performance (% of base salary)	Actual performance	Actual pay out per performance measure (% of base salary)
Growth in underlying EPS	25%	7.7%	15%	12.5%	25%	15%	25%
Underlying profit before tax	25%	£74.7m	15%	£78.4m	25%	£77.8m	23%
Underlying operating margins	25%	13.4%	15%	13.7%	25%	13.9%	25%
Achievement of budgeted internal ROIC	25%	19.9%	15%	20.4%	25%	20.2%	21%
Total	100%		60%		100%		94%

LTIP awards vesting in respect of 2018

Each Executive Director was granted an LTIP award on 17 March 2016 which vested subject to the achievement of performance conditions based on absolute UEPS growth over the three year performance period ended 31 December 2018 (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 the award	Vesting shares	Vested value*
Threshold	15% UEPS growth	25%	UEPS growth of 50.5%	UEPS: 100% of maximum	D W Muir	55,371	55,371	£653,378
	Median TSR	25%						
Maximum	30% UEPS growth	100%	TSR ranked 24 (out of 131)	TSR: 100% of maximum	M Pegler	35,410	35,410	£417,838
	Upper Quartile	100%						

*The value of shares is calculated by reference to the share price on 28 February 2019, being £11.80. In accordance with the rules of the LTIP, each of Messrs Muir and Pegler is entitled to a further benefit by reference to the dividends paid over the period from grant to vesting, amounting to £43,707 in the case of D W Muir and £27,955 and in the case of M Pegler, delivered as additional shares, being 3,704 and 2,369 respectively.

Total pension entitlements

D W Muir was a member of the Hill & Smith 2016 Pension Scheme ("the Scheme"), the Group's defined benefit pension plan, until 22 June 2017, when he took a transfer value as reported in last year's Annual Report. He now has no entitlement in the Scheme.

Pension contributions

D W Muir receives a cash payment in lieu of any pension contribution, equal to 25% of his base salary amounting to £126,950 for the year ended 31 December 2018 (2017: £123,250).

M Pegler receives a cash payment in lieu of any pension contribution, equal to 25% of his base salary amounting to £88,875 for the year ended 31 December 2018 (2017: £86,275).

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 2019 that was operated in 2018.

Share awards granted during the year

During the year to 31 December 2018 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 (2)
D W Muir	12 March 2018	nil cost option	47,690	£634,754	25%	1 January 2018 – 31 December 2020
M Pegler	12 March 2018	nil cost option	33,387	£444,381	25%	1 January 2018 – 31 December 2020

(1) Calculated by reference to a share price of £13.31, being the average of the mid-market prices for the three trading days prior to the grant date and reflecting an award of 125% of base salary.

(2) After the end of the performance period, LTIP awards will be subject to an additional two year holding period before they are released to the Executive Directors.

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 250 (excluding Investment Trusts and Financial Services companies).

Directors' Remuneration Report (continued)

Share options

The interests of Executive Directors, who served during 2018, in options for ordinary shares in the Company, granted under the Company's SAYE schemes, together with options granted and exercised during 2018, are included in the following table:

Executive	Grant Price	Awards held 31 December 2017	Granted during the year	Exercised during the year	Lapsed during the year	Awards held 31 December 2018	Period that option is exercisable	
							From	To
D W Muir	£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
	£8.91	-	424	-	-	424	1 January 2022	1 July 2022
M Pegler	£3.55	4,225	-	4,225	-	-	1 June 2018	1 December 2018
	£10.21	881	-	-	881	-	1 January 2021	1 July 2021
	£8.91	-	3,367	-	-	3,367	1 January 2022	1 July 2022

Statement of Executive Directors' shareholding and interest in shares

				Unvested		
	Type	Owned outright	Vested but unexercised	Subject to performance conditions (4)	Not subject to performance conditions	Total as at 31 December 2018
D W Muir	Shares (1)	340,515	n/a	149,924	n/a	468,996
	Market value options (2)	n/a	-	2,281	-	2,281
	SAYE options (3)	n/a	-	n/a	5,923	5,923
M Pegler	Shares (1)	54,573	n/a	101,601	n/a	166,926
	Market value options (2)	n/a	-	2,281	-	2,281
	SAYE options (3)	n/a	-	n/a	3,367	3,367

(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 two times their annual salary – see below.

(2) The Market Value options were granted under the tax-advantaged part of the ESOS as part of the LTIP award granted in 2017 and subject to the same performance conditions as part of that LTIP award. The ESOS options have an exercise price of 1315p 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 28 February 2019 the Remuneration Committee approved the vesting of 100% of the 2016 LTIP award, being 59,075 and 37,779 shares for D W Muir and M Pegler respectively.

Shareholding guidelines

	D W Muir	M Pegler
Shareholding requirement	200%	200%
Current shareholding as at 31 December 2018	340,515	54,573
Current value (based on share price on 31 December 2018 of £12.00)	£4,086,180	£654,876
Current % of salary	804%	184%

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 number and number shares respectively, being the net amount of those shares vested on 28 February 209 in respect of the 2016 LTIP award and D W Muir is interested in an extra 531 shares received on 4 January 2019 through the Company's Dividend Re-Investment Plan ('DRIP').

M Pegler will retain sufficient shares from the vesting of 100% of the 2016 LTIP award, that vested on 28 February 2019 to ensure that the 200% shareholding guideline is maintained.

Non-executive Director shareholding

Director	2018	2017
J F Lennox	11,000	7,500
A C B Giddins	6,245	4,500
A M Kelleher	2,164	2,164
M J Reckitt	4,000	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 2018 and 28 February 2019. 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 2018.

Transactions with Directors
There were no material transactions between the Group and the Directors during 2018.

How the Remuneration Policy was implemented in 2018 – Non-executive Directors

Non-executive Director single figure comparison

Director	Role	Board Fees	Other Fees	Taxable Benefits	Annual Bonus	LTIP	Pension	Total 'Single Figure' 2018	Total 'Single Figure' 2017
J F Lennox	Chairman	165,000	-	-	-	-	-	165,000	114,577
A C B Giddins	Senior Independent Director	56,650	-	-	-	-	-	56,650	13,609
A M Kelleher	Remuneration Committee Chair	56,650	-	-	-	-	-	56,650	55,000
M J Reckitt	Audit Committee Chair	56,650	-	-	-	-	-	56,650	55,000
Total		334,950	-	-	-	-	-	334,950	238,186

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.

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 2016 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.

Directors' Remuneration Report (continued)

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 2017 and 2018.

Percentage increase	Chief Executive Officer	Wider workforce
Salary	3%	2% - 7.5%
Taxable benefits	3.4%	-
Annual bonus	-76.3%	-4.8%

For salary purposes the 'wider workforce' comparator group looked at the increases awarded across the UK subsidiaries at all levels of the workforce and found that pay awards across these businesses ranged from 2% to 7.5%, with the average being 3.10%. Additional increases were also made to take into account structural changes within the wider pay environment. The bonus figures were taken from those senior executives operating on similar incentivised arrangements to the CEO and capable of influencing the Group's performance, as well as their own individual businesses' performance.

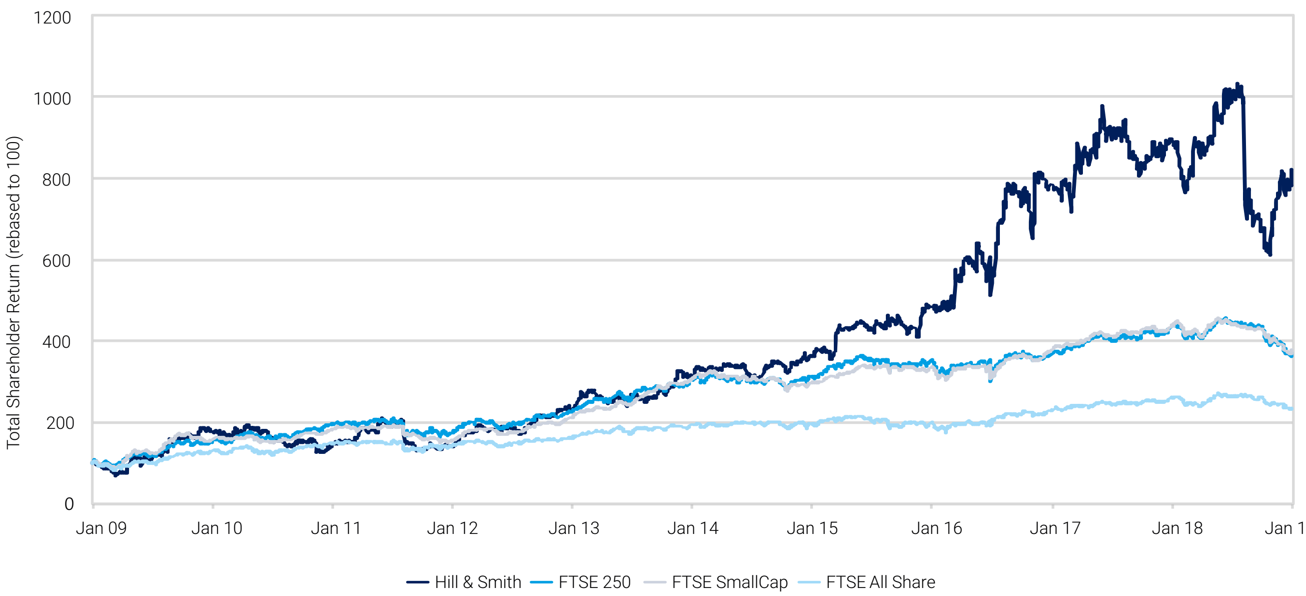
Relative importance of spend on pay

	2018	2017	% change
Dividends paid in respect of the financial year	£25.1m	£23.8m	5.5%
Overall spend on pay	£160.4m	£148.7m	7.9% (1)

(1) This includes a 4.6% increase in the average number of people employed by the Group. See note 4 to the accounts on page 117.

Chief Executive remuneration pay compared to performance

The graph below shows the TSR performance of the Company over the ten year period to 1 January 2019 compared to the appropriate FTSE indices.



The table below summarises the Chief Executive's single figure for the past ten 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	2017	2018
Chief Executive's single figure (£'000)	1,059	851	690	941	1,084	1,835	1,894	2,134	2,085	1,506
Annual bonus (% of maximum)	95	14	30	85	16	100	100	100	94	19
LTIP vesting (% of maximum number of shares)	100	100	-	-	50	92.7	97.9	100	100	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 2019 – Executive Directors

Salary

Base salaries were reviewed in December 2018 and as from 1 January 2019 are:

Chief Executive	£520,000
Finance Director	£364,000

This represents an increase of 2.4% which is in line with the increase to other employees within the Group. Salaries will next be reviewed in December 2019 for the financial year 2020.

Annual bonus

The annual bonus opportunity for 2019 will remain unchanged as follows:

Chief Executive	• Maximum opportunity of 125% of base salary • 80% paid in cash • 20% delivered in shares
Finance Director	• Maximum opportunity of 125% of base salary • 80% paid in cash • 20% delivered in shares

The Committee can disclose that for the 2019 financial year the annual bonus targets will be equally weighted towards:

- Growth in UEPS;
- Budgeted underlying operating profit;
- Underlying 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 in the Company's 2019 Annual Report.

Share plans

The Remuneration Policy approved by shareholders at the Company's AGM in May 2017, permits the Committee to grant awards under the LTIP up to a maximum of 150% of base salary. However the Committee has no plans to exercise this approval to the maximum and intend to make an award in 2019 in respect of the performance period 1 January 2019 – 31 December 2021, 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**

* Straight line vesting will apply between these two points.

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

Directors' Remuneration Report (continued)

After the end of the performance period, LTIP awards will be subject to an additional two year holding period before they are released to the Executive Directors.

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 2019 – Non-executive Directors

Fees
The fees of Non-executive Directors are 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 2018, the Board approved an average of a 2.4% increase in the fees for the Chairman and Non-executive Directors.

	2019	2018
Chairman	£169,000	£165,000
Non-executive Director	£50,000	£48,900
Senior Independent Director	£8,000	£7,750
Audit Committee Chair	£8,000	£7,750
Remuneration Committee Chair	£8,000	£7,750

Annette Kelleher

Chair, Remuneration Committee

6 March 2019

Directors' remuneration policy report

The Company's Directors' Remuneration Policy was approved at the 2017 AGM (with over 93% votes in favour of the policy) and took effect from the close of that meeting and is summarised below. It does not form part of the Annual Remuneration Report and will not be subject to a vote at the Company's AGM on 17 May 2018.

Policy table for Directors

	Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Base salary	To recruit and retain Executive Directors. Provides fixed remuneration for the Executive Directors, which reflects the individual's experience and the size and scope of the Executive's responsibilities.	Normally reviewed annually and fixed for twelve months. Salaries are determined by the Remuneration Committee taking into account a range of factors, which may include but are not limited to: • the size and scope of the role; • individual and Group performance; • the range of salary increases (in percentage terms) applied to the wider workforce; • total organisational salary budgets; and • pay levels for comparable roles in companies of a similar size and complexity. 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: • increase in scope or responsibility; • performance in role; or • an Executive Director being moved to market positioning over time. No maximum salary opportunity has been set out in this policy report to avoid setting expectations for Executive Directors.	Not applicable.
Benefits	To recruit and retain Executive Directors. Ensures the overall package is competitive. 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). 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. 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. SAYE scheme contribution as permitted in accordance with the relevant tax legislation.	Not applicable.
Pension	To recruit and retain Executive Directors. 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. 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. For any newly appointed executive director, the maximum contribution rate (or cash allowance) would be up to a maximum 20% of base salary. 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.

Directors’ Remuneration Report (continued)

	Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
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. Bonus pay out is determined by the Remuneration Committee after the year end, based on audited performance, where appropriate, against those targets. 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. 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. 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. Deferred bonus awards will vest in the event of a change of control. 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. 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. Financial performance measures may include, for example: • measures based on underlying earnings per share; • budgeted profit; • operating margins; or • return on capital. 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. The Remuneration Committee will determine an appropriate vesting schedule for each measure used. 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. 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. 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. 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. Awards are typically granted annually and vesting is subject to achievement of performance measures normally over at least three years. 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). 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. 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. Malus and clawback provisions apply to the LTIP as described below this table. 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. However, for 2017, the maximum opportunity will be 125% of base salary. 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. Performance measures will be based on financial metrics, and/or share price growth related metrics, and/or strategic metrics. For 2017, the performance measures and weightings will be: • 50% based on UEPS performance; and • 50% based on relative total shareholder return ('TSR'). For achievement of the threshold level of performance (the minimum level of performance for vesting to occur) up to 25% of the maximum opportunity will vest for each element. For achievement of maximum performance (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. 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.

Directors' Remuneration 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. 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. 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. The fee structure is as follows: • the Chairman is paid a single consolidated fee; • the Non-executive Directors are paid a basic fee plus additional fees for Chairmanship of a Committee; • the Senior Independent Director also receives an additional fee in respect of this role; and • fees may be paid wholly or partly in shares. The Non-executive Directors do not participate in any of the Group's share incentive plans nor do they receive any pension contributions. Non-executive Directors may be eligible to benefits such as the use of secretarial support, travel costs or other benefits that may be appropriate.	Fees are subject to an overall cap as set out in the Company's Articles of Association from time to time. Fees are based on the time commitment and responsibilities of the role. Fees are appropriately positioned against comparable roles in companies of a similar size and complexity in the relevant market.	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.

Directors' Report (other statutory information)

Principal activities and strategic report

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

During 2018 the principal activities of the Group comprised the manufacture and supply of:

- Infrastructure Products (Roads and Utilities); and
- Galvanizing Services

Pages 1 to 49 contain further details of these areas of the business and the principal subsidiaries operating within them are set out on pages 166 to 168.

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 1 to 49.

Statement on corporate governance

The Directors' Report for the year ended 31 December 2018 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 £59.8m (2017: £70.2m). Group revenue at £637.9m was 9% higher than the prior year. Operating profit at £65.2m was 12% down on the previous year (2017: £74.1m).

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 2018	78,697,103
Total new ordinary shares issued during the year	315,161
Issued share capital 31 December 2018	79,012,264
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 139 and 140 of the Group Financial Statements.

Details of the results for the year are shown on the Consolidated Income Statement on page 99 and the business segment information is given on pages 113 to 115.

Dividends

The Directors recommend the payment of a final dividend of 21.8p per ordinary share (2017: 20.6p per ordinary share) which, together with the interim dividend of 10.0p per ordinary share (2017: 9.4p per ordinary share) paid on 4 January 2019, makes a total distribution for the year of 31.8p per ordinary share (2017: 30.0p per ordinary share). Subject to shareholders approving this recommendation at the AGM, the final dividend will be paid on 1 July 2019 to shareholders on the register at the close of business on 24 May 2019. The latest date for receipt of Dividend Re-investment Plan elections is 10 June 2019.

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

Directors' Report (continued)

also the UK Listing Authority requirements, as the Company's shares are listed on the London Stock Exchange. At the date of this report no shares were held in treasury.

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 2018 AGM and will be limited by the resolution to be put to the 2019 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 2018 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 17 August 2019.

Substantial shareholdings

As at 21 February 2019, 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
Aberdeen Standard Investments (Standard Life)	4,678,845	5.92
Canaccord Genuity Wealth Mgt	4,292,937	5.43
Mondrian Investment Partners	3,214,302	4.06
AXA Investment Mgrs	3,180,589	4.02
Legal and General Investment Mgt	2,966,489	3.75
Charles Stanley	2,902,089	3.67
Royal London Asset Mgt	2,872,676	3.63

Directors

The names of the Directors of the Company who served throughout the year, including brief biographies, are set out on pages 52 and 53.

Directors' interests

The interests of the Directors in the share capital of Hill & Smith Holdings PLC as at 31 December 2018 are set out on pages 78 and 79.

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 Act 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 20 on pages 133 to 138.

Research and development

During the year, the Group spent a total of £1.2m (2017: £1.6m) on research and development.

Political and charitable donations

Charitable donations amounting to £30,000 (2017: £34,000) 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 81.

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 2018

On 10 January 2019, the Group completed an amendment to its principal UK revolving credit facility, extending the term to January 2024 and increasing the size of the facility by £50m to c. £280m.

On 22 February 2019, the Group announced the acquisition of 100% of the share capital of Cobaco holdings Limited, the parent company of ATG Access Limited ("ATG") for a cash consideration of £22.5m. Based in the UK and exporting to over 30 countries, ATG specialises in the development, manufacture and installation of hostile vehicle mitigation perimeter security solutions including bollards, road blockers, barriers and gates

Annual General Meeting

The Annual General Meeting of the Company will be held at 11.00 a.m. on Thursday 16 May 2019 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 164.

By order of the Board.

Alex Henderson
Company Secretary

6 March 2019

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the Group and parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (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, relevant, reliable 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;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

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 are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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

6 March 2019

Financial Statements

Top: Substation structures provided for American Electric Power. Produced from V&S Utilities' Muskogee, Oklahoma and Canton, Ohio plants.

Bottom: A Tower Tech pultruded Fibre Reinforced Polymer ('FRP') modular cooling tower installed on the Marriott Hotel, Aruba.

To the members of Hill & Smith Holdings PLC

Independent Auditor's Report

1. Our opinion is unmodified

We have audited the financial statements of Hill & Smith Holdings PLC ("the Company") for the year ended 31 December 2018 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows, Company Balance Sheet, Company Statement of Changes in Equity, Company Statement of Cash Flows, and the related notes, including the accounting policies on pages 100 to 108.

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 2018 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the shareholders on 19 March 1999. The period of total uninterrupted engagement is for the 19 financial years ended 31 December 2017. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview		
Materiality: Group financial statements as a whole	£3.25m (2017:£3.25m) 4.6% (2017: 4.4%) of Normalised profit before tax	
Coverage	96% (2017:96%) of Group normalised profit before tax	
Key audit matters	**vs 2017**	
New risks	The impact of uncertainties due to the UK exiting the European Union on our audit	▲
Recurring risks	Valuation of goodwill in relation to France Galva S.A.	◀▶
	Provisions for uncertain income tax positions	◀▶
	UK post retirement benefits obligation	◀▶
	Carrying value of investments in subsidiary undertakings (Parent Company only)	◀▶

2. Key audit matters: including our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
The impact of uncertainties due to the UK exiting the European Union	**Unprecedented levels of uncertainty** All audits assess and challenge the reasonableness of estimates and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Group's future prospects and performance. In addition, we are required to consider the other information presented in the Annual Report including the principal risks disclosure and the viability statement and to consider the directors' statement 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. Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.	We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included: • **Our Brexit knowledge** – We considered the directors' assessment of Brexit-related sources of risk for the Group's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks. • **Sensitivity analysis** – When addressing areas that depend on forecasts, we compared the directors' analysis to our assessment of the full range of reasonably possible, scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty. • **Assessing transparency** – We considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks. **Our results** We found the estimates and related disclosures and disclosures in relation to going concern to be acceptable. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.
Valuation of goodwill in relation to France Galva S.A. (£30.1 million; 2017: £29.7 million) *Refer to page 67 (Audit Committee Report), page 105 (accounting policy) and pages 117 to 124 (financial disclosures).*	**Forecast based valuation** Market conditions in France have been challenging for France Galva S.A. and as a result there is limited headroom when testing this CGU for impairment, and that headroom is sensitive to the assumptions adopted. There are inherent uncertainties involved in forecasting and discounting future cash flows and relatively small changes in these assumptions could give rise to material changes in the assessment of the carrying value of goodwill. The effect of these matters is that, as part of our risk assessment, we determined that the value in use of goodwill has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (note 10) disclose the sensitivity estimated by the Group.	**Our procedures included:** • **Benchmarking assumptions:** Comparing the group's assumptions to externally derived data in relation to projected growth and discount rates; • **Our sector experience:** Evaluating the appropriateness and year on year consistency of underlying assumptions in determining the cash flows including considering the appropriateness of the growth assumption applied, comparison of forecast cash flows to those achieved during the financial year ended 31 December 2018 and challenging management where such future cash flows are significantly higher than current levels or do not reflect known or probable changes in the business environment; • Challenging, assisted by our own valuation specialists, the key inputs used in the calculation of the discount rate by comparing it against external data sources and comparator group data; • **Sensitivity analysis:** Performing our own sensitivity analysis on the assumptions noted above; • **Assessing transparency:** Assessing whether the Group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflected the risks inherent in the valuation of goodwill in relation to France Galva S.A.. **Our results** We found the resulting estimate of the recoverable amount of goodwill in relation to France Galva S.A. to be acceptable (2017: acceptable).

Independent Auditor's Report (continued)

	The risk	Our response
Provisions for uncertain income tax positions (£8.3 million; 2017: £7.8 million) *Refer to page 67 (Audit Committee Report), page 108 (accounting policy) and page 144 (financial disclosures).*	**Subjective estimate** The Group's international operations result in transactions that impact multiple tax jurisdictions. This activity has led to the existence of a number of uncertain tax positions for which the Group makes a provision based on its best estimate of the amount of tax payable. The provisions for these estimates often require judgement as to the interpretation of specific tax law. In addition there is a risk of an error in estimating the provision. The effect of these matters is that, as part of our risk assessment, we determined that provisions for uncertain income tax provisions has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (note 24) disclose the range estimated by the Group.	Our procedures included: • **Our tax expertise:** With the assistance of our own tax specialist, we: – Assessed the Group's tax positions, its correspondence with the relevant tax authorities, and analysed and challenged the assumptions used to determine tax provisions based on our knowledge and experiences of the application of the international and local legislation by the relevant authorities and courts; – Assessed the tax implications of the intragroup refinancing exercise undertaken in prior years; – Inspected Board minutes for reference to tax matters; – Challenged as to why the provisions for uncertain income tax positions represents management's best estimate; • **Assessing transparency:** Assessing whether the tax accounting and disclosures complied with the requirements of IAS 12 'Income Taxes'. **Our results** We found the level of provisions for uncertain income tax positions to be acceptable (2017: acceptable).
UK post retirement benefits obligation (£72.8 million; 2017: £81.9 million) *Refer to page 67 (Audit Committee Report), page 107 (accounting policy) and pages 137 to 143 (financial disclosures).*	**Subjective valuation** The valuation of the UK post retirement benefits obligation involves the selection of appropriate actuarial assumptions, most notably the discount rate applied to the 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 pension obligation could have a significant effect on the Group's net pension deficit. The effect of these matters is that, as part of our risk assessment, we determined that the UK post retirement benefits obligation has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (note 23) disclose the sensitivity estimated by the Group.	Our procedures included: • **Benchmarking assumptions:** Challenging, with the support of our own actuarial specialists, the key assumptions applied, being the discount rate, inflation rate and mortality/life expectancy against externally derived data; • **Assessing transparency:** Considering the adequacy of the Group's disclosures in respect of the sensitivity of the deficit to these assumptions. **Our results** We found the valuation of the UK post retirement benefits obligation to be acceptable (2017: acceptable).

	The risk	Our response
Carrying value of investment in subsidiary undertaking (£325.0 million; 2017: £324.9 million) *Refer to page 148 (accounting policy) and page 151 (financial disclosures).*	**Low risk/ high value (Parent company only)** Investment in subsidiaries represents 78% of the Company's total assets. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the parent Company financial statements, this is considered to be the area that had the greatest effect on our overall parent company audit.	Our procedures included: • **Tests of detail:** Comparing the carrying amount of 100% of investments with the relevant subsidiaries' draft balance sheet to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount and assessing whether those subsidiaries have historically been profit-making; • **Assessing subsidiary audits:** Assessing the work performed on the subsidiary audits for a sample of subsidiaries and considering the results of that work, on those subsidiaries' profits and net assets; • **Comparing valuations:** For the investments where the carrying amount exceeded the net asset value, comparing the carrying amount of the investment with the expected value of the business based on a suitable multiple of the subsidiaries' profit or a discounted cash flow. **Our results** We found the resulting estimate of the carrying value of investment in subsidiary undertakings to be acceptable (2017 result: acceptable).

Independent Auditor's Report (continued)

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 £3.25m (2017: £3.25m), determined with reference to a benchmark of Group profit before tax, normalised to exclude net costs in respect of business reorganisations, acquisition expenses, pension past service expenses, impairment of assets held for sale and an impairment charge of goodwill as disclosed in note 3. Normalised Group profit before tax is calculated as £69.9m (2017: £74.0m), of which materiality represents 4.6% (2017: 4.4%).

Materiality for the parent Company financial statements as a whole was set at £2.4m (2017: £2.4m), determined with reference to a benchmark of Company total assets, of which it represents 0.6% (2017: 0.5%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £162,500, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the group's 59 (2017: 56) reporting components, we subjected 27 (2017: 27) to full scope audits for group purposes.

The components within the scope of our work accounted for the percentages illustrated opposite.

The remaining 5% of total Group revenue, 4% of Group profit before tax, 13% of total Group assets and 4% of normalised Group profit before tax is represented by 32 reporting components, none of which individually represented more than 2% of any of total Group revenue, Group profit before tax, total Group assets or normalised Group profit before tax. For these residual components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group 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. The Group team approved the component materialities, which ranged from £0.1m to £2.4m, having regard to the mix of size and risk profile of the Group across the components. The work on 10 of the 59 components (2017: 5 of the 56 components) was performed by component auditors and the rest, including the audit of the parent Company, was performed by the Group team. The Group team performed procedures on the items excluded from normalised Group profit before tax.

The Group team visited 1 (2017: 1) component in the United States of America, the component in Sweden (2017: no visit) and the component in France (2017: visit) to confirm appropriate execution of the audit plan & strategy and inspect their findings. Telephone conference meetings were also held with these component auditors and all other components that were not physically visited. At these visits and meetings, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.

4. We have nothing to report on going concern

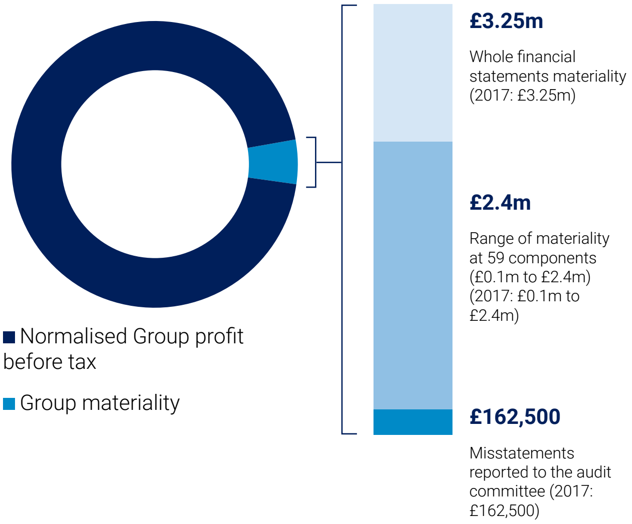
The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Normalised profit before tax

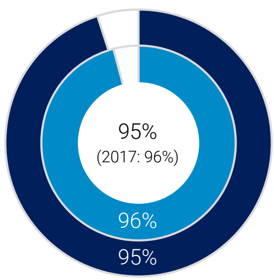
£69.9m (2017: £74.0m)

Group Materiality

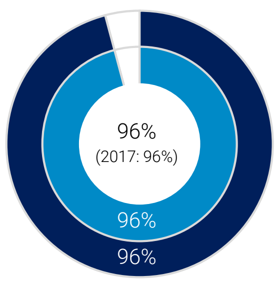
£3.25m (2017: £3.25m)



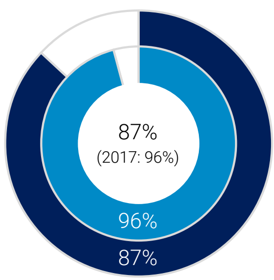
Group revenue



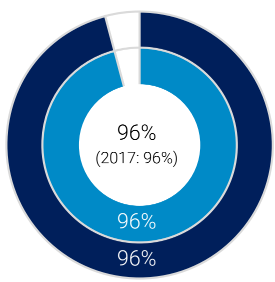
Group profit before tax



Group total assets



Normalised Group profit before tax



■ Full scope for Group audit purposes 2018

■ Full scope for Group audit purposes 2017

□ Residual components

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the Company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group's and Company's business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and Company's available financial resources over this period were:

- Reduction or delay in local government infrastructure programmes;
- Significant changes in foreign exchange rates; and
- The impact of Brexit on the Group's supply chain.

As these were risks that could potentially cast significant doubt on the Group's and Company's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Group's and Company's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively and evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise. We also considered less predictable but realistic second order impacts, such as the impact of Brexit and the erosion of customer or supplier confidence, which could result in a rapid reduction of available financial resources.

Based on this work, we are required to report to you if:

- we have anything material to add or draw attention to in relation to the directors' statement on page 100 on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements ; or
- the related statement under the Listing Rules set out on page 88 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

5. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report
Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report
In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of principal risks and longer-term viability
Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the directors' confirmation within the viability statement, page 60, that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks and Uncertainties disclosures describing these risks and explaining how they are being managed and mitigated; and
- the directors' explanation in the viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether 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 of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the viability statement. We have nothing to report in this respect.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements 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 section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

Independent Auditor's Report (continued)

6. We have nothing to report on the other matters on which we are required to report by exception

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.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities
As explained more fully in their statement set out on page 88, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect
We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards) and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the group to component audit teams of relevant laws and regulations identified at group level.

The potential effect of these laws and regulations on the financial statements varies considerably.

The Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Whilst the Group is subject to many other laws and regulations, we did not identify any others where the consequences of non-compliance alone could have a material effect on amounts or disclosures in the financial statements.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

8. The purpose of our audit work and to whom we owe our responsibilities

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

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

Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

6 March 2019

Year ended 31 December 2018

Consolidated Income Statement

	Notes	2018 Underlying £m	2018 Non-underlying* £m	2018 Total £m	2017 Underlying £m	2017 Non-underlying* £m	2017 Total £m
Revenue	1, 2	**637.9**	**-**	**637.9**	585.1	-	585.1
Underlying operating profit		**80.1**	**-**	**80.1**	81.3	-	81.3
Amortisation of acquisition intangibles	3	**-**	**(4.8)**	**(4.8)**	-	(4.0)	(4.0)
Business reorganisation costs	3	**-**	**(0.7)**	**(0.7)**	-	(2.8)	(2.8)
Pension past service expense	3	**-**	**(1.1)**	**(1.1)**	-	-	-
Impairment of assets	3, 10,12	**-**	**(6.1)**	**(6.1)**	-	(0.4)	(0.4)
Acquisition costs	3	**-**	**(2.2)**	**(2.2)**	-	(0.6)	(0.6)
Profit on disposal of subsidiary	3	**-**	**-**	**-**	-	0.6	0.6
Operating profit	1, 2	**80.1**	**(14.9)**	**65.2**	81.3	(7.2)	74.1
Financial income	5	**0.6**	**-**	**0.6**	0.6	-	0.6
Financial expense	5	**(4.4)**	**(1.6)**	**(6.0)**	(3.4)	(1.1)	(4.5)
Profit before taxation		**76.3**	**(16.5)**	**59.8**	78.5	(8.3)	70.2
Taxation	7	**(14.9)**	**2.3**	**(12.6)**	(18.9)	2.6	(16.3)
Profit for the year attributable to owners of the parent		**61.4**	**(14.2)**	**47.2**	59.6	(5.7)	53.9
Basic earnings per share	8	**77.8p**		**59.9p**	75.9p		68.6p
Diluted earnings per share	8	**77.2p**		**59.3p**	74.8p		67.7p
Dividend per share – Interim	9			**10.0p**			9.4p
Dividend per share – Final proposed	9			**21.8p**			20.6p
Total				**31.8p**			30.0p

* The Group's definition of non-underlying items is included in the Group Accounting Policies on page 116.

Year ended 31 December 2018

Consolidated Statement of Comprehensive Income

	Notes	2018 £m	2017 £m
Profit for the year		**47.2**	53.9
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of overseas operations		**11.7**	(11.3)
Exchange differences on foreign currency borrowings denominated as net investment hedges		**(4.7)**	4.9
Taxation on items that may be reclassified to profit or loss		**-**	-
Items that will not be reclassified subsequently to profit or loss			
Actuarial gain on defined benefit pension schemes	23	**1.7**	-
Taxation on items that will not be reclassified to profit or loss	7	**(0.3)**	(0.2)
Other comprehensive income/(expense) for the year		**8.4**	(6.6)
Total comprehensive income for the year attributable to owners of the parent		**55.6**	47.3

Year ended 31 December 2018

Consolidated Statement of Financial Position

	Notes	2018 £m	2017 £m
Non-current assets			
Intangible assets	10	**183.8**	163.9
Property, plant and equipment	11	**170.2**	145.1
Deferred tax assets	13	**0.5**	-
		354.5	309.0
Current assets			
Assets held for sale	12	**0.8**	0.7
Inventories	14	**96.6**	84.6
Trade and other receivables	15	**142.0**	116.5
Cash and cash equivalents	16	**36.9**	16.4
		276.3	218.2
Total assets	1	**630.8**	527.2
Current liabilities			
Trade and other liabilities	17	**(120.9)**	(104.8)
Current tax liabilities		**(10.4)**	(11.7)
Provisions for liabilities and charges	19	**(1.3)**	(2.1)
Interest bearing borrowings	17	**(0.4)**	(0.3)
		(133.0)	(118.9)
Net current assets		**143.3**	99.3
Non-current liabilities			
Other liabilities	18	**(2.7)**	(0.5)
Provisions for liabilities and charges	19	**(2.7)**	(2.9)
Deferred tax liabilities	13	**(6.8)**	(5.6)
Retirement benefit obligations	23	**(23.0)**	(25.6)
Interest bearing borrowings	18	**(169.4)**	(115.1)
		(204.6)	(149.7)
Total liabilities		**(337.6)**	(268.6)
Net assets		**293.2**	258.6
Equity			
Share capital	21	**19.8**	19.7
Share premium		**35.5**	34.1
Other reserves		**4.9**	4.9
Translation reserve		**29.9**	22.9
Retained earnings		**203.1**	177.0
Total equity		**293.2**	258.6

Approved by the Board of Directors on 6 March 2019 and signed on its behalf by:

D W Muir
Director

M Pegler
Director

Company Number: 671474

Year ended 31 December 2018

Consolidated Statement of Changes in Equity

	Notes	Share capital £m	Share premium £m	Other reserves† £m	Translation reserves £m	Hedge reserves £m	Retained earnings £m	Total equity £m
At 1 January 2017		19.7	33.5	4.8	29.3	-	144.9	232.2
Comprehensive income								
Profit for the year		-	-	-	-	-	53.9	53.9
Other comprehensive income for the year		-	-	-	(6.4)	-	(0.2)	(6.6)
Transactions with owners recognised directly in equity								
Dividends	9	-	-	-	-	-	(20.7)	(20.7)
Credit to equity of share-based payments	21	-	-	-	-	-	1.3	1.3
Satisfaction of long term incentive awards		-	-	-	-	-	(2.5)	(2.5)
Own shares held by employee benefit trust		-	-	-	-	-	(0.1)	(0.1)
Transfers between reserves		-	-	0.1	-	-	(0.1)	-
Tax taken directly to the Consolidated Statement of Changes in Equity	7	-	-	-	-	-	0.5	0.5
Shares issued	21	-	0.6	-	-	-	-	0.6
At 31 December 2017		**19.7**	**34.1**	**4.9**	**22.9**	**-**	**177.0**	**258.6**
Adoption of new accounting standards		**-**	**-**	**-**	**-**	**-**	**2.7**	**2.7**
At 1 January 2018 (restated)		**19.7**	**34.1**	**4.9**	**22.9**	**-**	**179.7**	**261.3**
Comprehensive income								
Profit for the year		**-**	**-**	**-**	**-**	**-**	**47.2**	**47.2**
Other comprehensive income for the year		**-**	**-**	**-**	**7.0**	**-**	**1.4**	**8.4**
Transactions with owners recognised directly in equity								
Dividends	**9**	**-**	**-**	**-**	**-**	**-**	**(23.6)**	**(23.6)**
Credit to equity of share-based payments	**21**	**-**	**-**	**-**	**-**	**-**	**1.1**	**1.1**
Satisfaction of long term incentive awards		**-**	**-**	**-**	**-**	**-**	**(2.9)**	**(2.9)**
Own shares held by employee benefit trust		**-**	**-**	**-**	**-**	**-**	**0.2**	**0.2**
Transfers between reserves		**-**	**-**	**-**	**-**	**-**	**-**	**-**
Tax taken directly to the Consolidated Statement of Changes in Equity	**7**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Shares issued	**21**	**0.1**	**1.4**	**-**	**-**	**-**	**-**	**1.5**
At 31 December 2018		**19.8**	**35.5**	**4.9**	**29.9**	**-**	**203.1**	**293.2**

† Other reserves represent the premium on shares issued in exchange for shares of subsidiaries acquired and £0.2m (2017: £0.2m) capital redemption reserve.

At 31 December 2017 the Group had purchased 89,970 of its own shares, which were held in an employee benefit trust for the purpose of settling awards granted to employees under equity-settled share based payment plans. The cost of these shares, amounting to £1.2m, was included within retained earnings at that date. In March 2018, 87,017 of these shares were issued in settlement of awards to employees. A further 87,500 shares were purchased in 2018 at a cost of £1.0m. At 31 December 2018 a total of 90,453 shares are therefore held, at a cost of £1.0m.

Year ended 31 December 2018

Consolidated Statement of Cash Flows

	Notes	2018 £m	2018 £m	2017 £m	2017 £m
Profit before tax			**59.8**		70.2
Add back net financing costs	5		**5.4**		3.9
Operating profit	1, 2		**65.2**		74.1
Adjusted for non-cash items:					
Share-based payments	4, 21	**1.1**		1.8	
Gain on disposal of subsidiary	3	**-**		(0.6)	
Gain on disposal of non-current assets	6	**(0.3)**		(0.1)	
Depreciation	6, 11	**18.6**		18.2	
Amortisation of intangible assets	6, 10	**5.7**		5.0	
Impairment of assets held for sale	6, 12	**0.1**		0.4	
Impairment of non-current assets	6, 10	**6.0**		-	
			31.2		24.7
Operating cash flow before movement in working capital			**96.4**		98.8
Increase in inventories		**(3.4)**		(13.8)	
Increase in receivables		**(9.8)**		(5.3)	
Increase in payables		**6.9**		-	
Decrease in provisions and employee benefits		**(2.4)**		(3.2)	
Net movement in working capital			**(8.7)**		(22.3)
Cash generated by operations			**87.7**		76.5
Purchase of assets for rental to customers			**(14.5)**		-
Income taxes paid			**(13.3)**		(16.7)
Interest paid			**(4.4)**		(3.4)
Net cash from operating activities			**55.5**		56.4
Interest received		**0.5**		0.6	
Proceeds on disposal of non-current assets		**0.6**		2.3	
Proceeds on disposal of assets held for sale	12	**0.6**		-	
Purchase of property, plant and equipment		**(17.4)**		(19.4)	
Purchase of intangible assets		**(0.9)**		(1.3)	
Acquisitions of businesses	10	**(45.2)**		(7.9)	
Deferred consideration in respect of prior year acquisitions		**(0.6)**		(0.4)	
Disposal of subsidiary		**-**		2.5	
Net cash used in investing activities			**(62.4)**		(23.6)
Issue of new shares	21	**1.5**		0.6	
Purchase of shares for employee benefit trust		**(2.7)**		(2.6)	
Dividends paid	9	**(23.6)**		(20.7)	
Costs associated with refinancing of revolving credit facility		**-**		-	
New loans and borrowings		**78.3**		32.9	
Repayment of loans and borrowings		**(26.8)**		(41.3)	
Net cash from/(used in) financing activities			**26.7**		(31.1)
Net increase in cash			**19.8**		1.7
Cash at the beginning of the year			**16.4**		15.6
Effect of exchange rate fluctuations			**0.7**		(0.9)
Cash at the end of the year	16		**36.9**		16.4

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 149 to 159.

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.

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.

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 Operational & Financial Review on pages 18 to 28, together with the financial position of the Group, its cash flows, liquidity position and borrowing facilities. 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 £230.5m at 31 December 2018, expiring in April 2021. As set out in the Operational & Financial Review on pages 18 to 28, on 10 January 2019 this facility was increased to £280m and the maturity date extended to January 2024. 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 2018

In 2018 the following amendments had been endorsed by the EU, became effective and therefore were adopted by the Group:

- IFRS 15 'Revenue from Contracts with Customers'
- IFRS 9 'Financial Instruments'
- Amendments to IFRS 2 Share Based Payments
- Annual Improvements to IFRSs – 2014-2016 Cycle
- IFRIC 22 Foreign Currency Transactions and Advance Consideration

The impacts of IFRS 15 and IFRS 9 on the Group's results for the year are set out below. The other amendments have not had a material impact on the financial statements.

IFRS 15 'Revenue from Contracts with Customers'

On 1 January 2018 the Group adopted IFRS 15, applying the modified retrospective approach. IFRS 15 provides a principles-based approach to the recognition of revenue from contracts with customers, focusing on the identification of performance obligations in a contract and requiring revenue to be recognised when those performance obligations are satisfied. The Group has chosen to apply the modified retrospective approach and so comparative information throughout these financial statements has not been restated i.e. it is presented as previously reported, under IAS 18 and related interpretations. Additionally, the disclosure requirements in IFRS 15 have not generally been applied to comparative information.

The effect of initial application of IFRS 15 is mainly attributable to earlier revenue recognition from certain contracts entered into by businesses in the Infrastructure Products – Utilities segment. Under IAS 18, revenue for certain products manufactured by these businesses was recognised when the customer accepted the goods and the related risks and rewards of ownership transferred, usually on delivery depending on the Incoterms defined in the contract. Under IFRS 15, revenue from products that are produced for specific customer requirements and therefore require a high degree of customisation is required to be recognised over the period of manufacture of those products i.e. before delivery to the customer. Consequently the revenue for these products is recognised sooner under IFRS 15 than under IAS 18. The impacts of these changes on items other than revenue are an increase in trade and other receivables, recognition of contract assets and a reduction in inventories. The adoption of IFRS 15 has not had a material impact on businesses in the Infrastructure Products – Roads segment, where products are generally of a more standard nature, or in the Galvanizing Services segment where revenue is generally recognised on completion of the galvanizing process. Further details are set out in the Revenue accounting policy on page 110.

The impact on retained earnings at 1 January 2018, net of tax, on transition to IFRS 15 was an increase of £0.9m. The following tables summarise the impacts on the Group's statement of financial position as at 31 December 2018 and its income statement for the year then ended for each of the line items affected. There was no material impact on the Group's statement of cash flows for the year ended 31 December 2018.

Impact on the consolidated income statement

	As Reported £m	Adjustments £m	Amounts without adoption of IFRS 15 £m
Revenue	637.9	-	637.9
Cost of sales	(409.3)	0.2	(409.1)
Income tax expense	(12.6)	-	(12.6)
Others	(168.8)	-	(168.8)
Profit for the year	**47.2**	**0.2**	**47.4**

Impact on the consolidated statement of financial position

	As Reported £m	Adjustments £m	Amounts without adoption of IFRS 15 £m
Inventories	96.6	2.2	98.8
Contract assets	2.9	(2.9)	-
Trade and other receivables	139.1	-	139.1
Others	392.2	-	392.2
Total assets	**630.8**	**(0.7)**	**630.1**
Retained earnings	**203.1**	**(0.7)**	**202.4**

IFRS 9 'Financial instruments'

IFRS 9 Financial Instruments is the standard that replaces IAS 39 Financial Instruments: Recognition and Measurement. The new standard addresses the classification, measurement and derecognition of financial assets and liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The Group has adopted IFRS 9 from 1 January 2018 and has used the exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9, but rather those of IAS 39.

Classification and measurement

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities; however it eliminates the previous IAS 39 category for financial assets of 'loans and receivables'. The effect of this change on the Group is to amend the classification of trade and other receivables from 'loans and receivables' to 'amortised cost'. This change of classification has not had any impact on the carrying amount of trade and other receivables.

Refinancing

IFRS 9 requires that when a financial liability measured at amortised cost is modified without being derecognised, a modification gain or loss should be recognised in the income statement. This represents a change from IAS 39, under which no gain or loss was recognised.

The Group's principal funding facility, which is a financial liability, is a multicurrency revolving credit agreement that was originally established in 2011, but subsequently 'amended and extended' in 2014 and 2016, each of which was accounted for as a modification without derecognition under IAS 39. On transition to IFRS 9, the modification gain that would have arisen on each of those modifications, when treated in accordance with IFRS 9, has been calculated and applied retrospectively resulting in a credit to equity at 1 January 2018 of £1.8m comprising a reduction of £2.1m in the carrying value of the financial instrument, which is included in the Group's definition of net debt, and recognition of a deferred tax liability of £0.3m.

The following tables summarise the impacts on the Group's income statement and statement of financial position. There was no impact on the Group's cash flow statement.

Group Accounting Policies (continued)

Impact on the consolidated income statement

	As Reported £m	Adjustments £m	Amounts without adoption of IFRS 9 £m
Financial expense	(6.0)	0.6	(5.4)
Others	53.2	-	53.2
Profit for the period	**47.2**	**0.6**	**47.8**

Impact on the consolidated statement of financial position

	As Reported £m	Adjustments £m	Amounts without adoption of IFRS 9 £m
Non-current interest bearing borrowings	(169.4)	(1.5)	(170.9)
Deferred tax liabilities	(6.8)	0.3	(6.5)
Others	469.4	-	469.4
Net assets	**293.2**	**(1.2)**	**292.0**
Retained earnings	**203.1**	**(1.2)**	**201.9**

Impairment of financial assets

IFRS 9 has introduced a new impairment model which requires the recognition of impairment provisions based on expected credit losses rather than incurred credit losses as was the case under IAS 39. It applies to financial assets at amortised cost (which include trade and other receivables), contract assets arising under IFRS 15 and lease receivables amongst others. For trade receivables, the Group applies the simplified approach set out in IFRS 9 to measure expected credit losses using a lifetime expected credit loss allowance. This change in impairment methodology did not have a material impact on the Group's financial results.

New IFRS standards and interpretations to be adopted in the future

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

- IFRS 16 'Leases' (effective 1 January 2019)
- IFRIC 23 'Uncertainty over Income Tax Treatments' (effective 1 January 2019)
- Amendments to IFRS 9 'Financial Instruments' (effective 1 January 2019)
- Annual Improvements to IFRSs – 2015-2017 cycle
- Amendments to IAS 19 Employee Benefits
- Amendments to References to the Conceptual Framework in IFRS Standards
- Amendments to IFRS 3 Business Combinations
- Amendments to IAS 1 and IAS 8

With the exception of IFRS 16, the above changes are not expected to have a material impact on the Group.

IFRS 16 'Leases'

IFRS 16 was issued by the IASB in January 2016 and replaces IAS 17 and its related interpretations. The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both the lessee and the lessor. For lessees, IFRS 16 eliminates the classification of leases as either operating or finance leases and introduces a single lessee accounting model with some exemptions for short term and low value leases. The lessee recognises a right-of-use asset, representing its right to use the underlying asset, and a lease liability representing its obligation to make lease payments. It also includes an election which permits a lessee not to separate non-lease components (e.g. maintenance) from lease components and instead to capitalise both the lease cost and associated non-lease cost. For lessors, IFRS 16 substantially carries forward the accounting treatment under IAS 17 and is not therefore expected to have a material impact on the Group's contracts in which it is a lessor.

The standard will primarily affect the accounting for the Group's operating leases. The application of IFRS 16 will result in the recognition of additional assets and liabilities in the statement of financial position, while in the income statement it will replace the operating lease expense with a depreciation charge on the right-of-use asset and an interest expense on the lease liabilities. In addition, the Group will no longer recognise provisions for operating leases that it considers are onerous and will instead perform impairment testing on the right-of-use asset.

The Group's non-cancellable operating lease commitments on an undiscounted basis at 31 December 2018 are £38.5m (see note 22), which provides an indication of the scale of leases held by the Group. Within this amount, £26.9m relates to approximately 50 properties that the Group leases for its manufacturing and distribution activities, with the balance of £11.6m relating to other items, the majority of which are plant and machinery and vehicle leases. The actual impact of applying IFRS 16 will depend on a number of factors including the discount rates for each lease calculated as at 1 January 2019, the expected lease term (including renewal options) and any exemptions for short-term and low-value leases. IFRS 16 requires future lease liabilities to be discounted and therefore the amount that the Group will recognise as a right-of-use asset at 1 January 2019 will be lower than the undiscounted commitment of £38.5m at 31 December 2018.

The Group has implemented a new accounting process and an accounting software solution to manage the transition to IFRS 16.

Based on the information currently available for the operating leases that will be recognised in the statement of financial position at 1 January 2019, the estimated impact on the key amounts in the Group's financial statements that will be affected is as follows:

Property, plant and equipment	Increase	c.20%
Net debt	Increase	c.25%
EBITDA	Increase	c.10%
Operating profit	Increase	c.1%
Profit before tax and EPS	Increase	Marginal

Transition

The Group will apply IFRS 16 from its effective date using the modified retrospective approach, under which the cumulative effect of adoption will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information. The Group will apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and related interpretations.

Intangible assets

IFRS 3 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'). In determining that these brands have indefinite lives, consideration was given to the extent of their trading history, which in all cases exceeds 50 years, their prominence in the markets in which they operate and the nature of the products sold under those brands in the context of potential for future development. 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 amount of directly attributable 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.

Group Accounting Policies (continued)

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 fair value through other comprehensive income (FVOCI) 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 FVOCI 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.

The principal exchange rates used were as follows:

	2018		2017	
	Average	**Closing**	Average	Closing
Sterling to Euro (£1 = EUR)	**1.13**	**1.11**	1.14	1.13
Sterling to US Dollar (£1 = USD)	**1.33**	**1.28**	1.29	1.35
Sterling to Swedish Krona (£1 = SEK)	**11.60**	**11.43**	11.00	11.08
Sterling to Indian Rupee (£1 = INR)	**91.25**	**89.10**	83.90	86.30
Sterling to Australian Dollar (£1 = AUD)	**1.79**	**1.81**	1.68	1.73

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, either the FIFO or average cost method is used depending on the nature of the inventory. 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.

Group Accounting Policies (continued)

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 is measured based on the consideration specified in a contract with a customer for the provision of goods and services. The amount recognised excludes sales taxes and is adjusted for any discounts or volume rebates that are included in the contract. The Group does not routinely offer discounts or volume rebates, but where it does the variable element of revenue is based on the most likely amount of consideration that the Group believes it will receive.

The Group recognises revenue when it transfers control over a good or service to a customer. The following information sets out the Group's approach to the nature and timing of the satisfaction of performance obligations in contracts with customers in each of its operating segments and the related revenue recognition policies.

Infrastructure Products – Utilities and Roads

For standard products that are manufactured, revenue is recognised when goods are accepted by customers, which is usually on delivery depending on the Incoterms defined in the contract. The Group also enters into certain contracts which require customers to inspect and accept goods that have been manufactured but retained in the Group's facilities; in these cases the customer is deemed to have accepted the product when they have provided evidence of their acceptance and revenue is therefore recognised at that point, assuming that the other criteria set out in IFRS 15 have been met.

Certain of the Group's businesses in the Utilities segment manufacture non-standard products that are specific to customer requirements and therefore require a high degree of customisation. The Group has determined that in these cases a product with no alternative use is created. Where the contractual terms are such that if the contract is terminated by the customer then the Group has a right to reimbursement of the costs incurred including a reasonable margin, revenue is recognised over time i.e. before the completed goods are delivered to the customer's premises. Progress is generally determined using input methods (such as costs incurred), unless the circumstances of the contract are such that output methods (such as milestones reached) are considered more appropriate.

In some cases the Group provides installation of its products to customers as an additional service. Revenue from installation services is recognised over the period that the installation takes place, which is generally less than one month.

Certain of the Group's Roads businesses provide rental assets to customers. Revenue from these rental agreements is recognised over the period over which the assets are available to the customer.

Galvanizing Services

Contracts with customers in the Galvanizing Services segment are generally simple. Revenue is recognised at a point in time, which is when the galvanizing process has been completed and the customers' goods are available to them.

Contract assets

Contract assets primarily relate to the rights to consideration for work completed but not billed at the reporting date. Contract assets are transferred to receivables when the rights become unconditional.

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.

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, which can vary depending on the nature, size and frequency of acquisitions in each financial year.
- Expenses associated with acquisitions, comprising professional fees incurred and any consideration, which, under IFRS 3 (Revised), is required to be treated as a post-acquisition employment expense.
- 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 non-underlying tax charge or credit comprises the tax effect of the above non-underlying items.

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.

Group Accounting Policies (continued)

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, and, in reporting, management have taken the view that they comprise a segment 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

	2018			2017		
	Revenue £m	**Reported operating profit £m**	**Underlying operating profit* £m**	Revenue £m	Reported operating profit £m	Underlying operating profit* £m
Infrastructure Products – Utilities	**239.0**	**9.0**	**18.3**	215.7	13.5	16.8
Infrastructure Products – Roads	**208.5**	**20.3**	**24.2**	187.1	20.9	23.6
Infrastructure Products – Total	**447.5**	**29.3**	**42.5**	402.8	34.4	40.4
Galvanizing Services	**190.4**	**35.9**	**37.6**	182.3	39.7	40.9
Total Group	**637.9**	**65.2**	**80.1**	585.1	74.1	81.3
Net financing costs		**(5.4)**	**(3.8)**		(3.9)	(2.8)
Profit before taxation		**59.8**	**76.3**		70.2	78.5
Taxation		**(12.6)**	**(14.9)**		(16.3)	(18.9)
Profit after taxation		**47.2**	**61.4**		53.9	59.6

* Underlying operating profit is stated before non-underlying items as defined in the Group Accounting Policies on page 111, and is the measure of segment profit used by the Chief Operating Decision Maker, who is the Chief Executive. The reported operating profit columns are included as additional information.

Galvanizing Services provided £6.4m (2017: £6.6m) revenues to Infrastructure Products – Roads and £1.6m (2017: £1.9m) revenues to Infrastructure Products – Utilities. Infrastructure Products – Utilities provided £5.2m (2017: £5.6m) revenues to Infrastructure Products – Roads. Infrastructure Products – Roads provided £0.2m (2017: nil) revenues to Infrastructure Products – Utilities. These internal revenues, along with revenues generated from within their own segments, have been eliminated on consolidation.

Notes to the Consolidated Financial Statements (continued)

1. Segmental information continued

As explained in the accounting policies on page 104, the Group has adopted IFRS 15 from 1 January 2018. Due to the transition method chosen, comparative information has not been restated. In the following tables, revenue from contracts with customers is disaggregated by primary geographical market, major product/service lines and timing of revenue recognition. The table also includes a reconciliation of the disaggregated revenue with the Group's reportable segments.

	Utilities		Roads		Galvanizing		Total	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
Primary geographical markets	**£m**	£m	**£m**	£m	**£m**	£m	**£m**	£m
UK	**113.3**	112.7	**104.7**	115.5	**60.5**	60.4	**278.5**	288.6
Rest of Europe	**5.4**	4.7	**56.2**	44.8	**53.2**	50.4	**114.8**	99.9
North America	**112.0**	86.8	**35.9**	9.7	**76.7**	71.5	**224.6**	168.0
The Middle East	**2.5**	1.7	**2.1**	4.5	**-**	-	**4.6**	6.2
Rest of Asia	**5.4**	8.3	**0.2**	-	**-**	-	**5.6**	8.3
Rest of the world	**0.4**	1.5	**9.4**	12.6	**-**	-	**9.8**	14.1
	239.0	215.7	**208.5**	187.1	**190.4**	182.3	**637.9**	585.1
Major product/service lines								
Manufacture, supply and installation of products	**239.0**	215.7	**186.5**	169.2	**-**	-	**425.5**	384.9
Galvanizing services	**-**	-	**-**	-	**190.4**	182.3	**190.4**	182.3
Rental income	**-**	-	**22.0**	17.9	**-**	-	**22.0**	17.9
	239.0	215.7	**208.5**	187.1	**190.4**	182.3	**637.9**	585.1
Timing of revenue recognition								
Products and services transferred at a point in time	**151.9**	204.3	**152.1**	131.5	**190.4**	182.3	**494.4**	518.1
Products and services transferred over time	**87.1**	11.4	**56.4**	55.6	**-**	-	**143.5**	67.0
	239.0	215.7	**208.5**	187.1	**190.4**	182.3	**637.9**	585.1

Additional segmental analysis

Capital expenditure and amortisation/depreciation

	2018		2017	
	Capital expenditure £m	**Impairment losses, amortisation and depreciation £m**	Capital expenditure £m	Impairment losses, amortisation and depreciation £m
Infrastructure Products – Utilities	**5.6**	**11.1**	4.4	4.5
Infrastructure Products – Roads	**21.1**	**9.2**	7.7	8.8
Infrastructure Products – Total	**26.7**	**20.3**	12.1	13.3
Galvanizing Services	**7.5**	**10.0**	7.9	9.9
Total Group	**34.2**	**30.3**	20.0	23.2
Property, plant and equipment (note 11)	**33.3**	**18.6**	18.7	18.2
Intangible assets (note 10)	**0.9**	**11.7**	1.3	5.0
Total Group	**34.2**	**30.3**	20.0	23.2

The 2018 amounts for impairment losses, amortisation and depreciation relating to the Infrastructure Products – Utilities segment include goodwill and acquired intangible asset impairment losses of £6.0m relating to Technocover Limited.

1. Segmental information continued

Geographical analysis

Total assets

	2018 £m	2017 £m
UK	**236.1**	217.6
Rest of Europe	**124.2**	119.4
North America	**255.1**	173.4
Asia	**12.0**	14.3
Rest of World	**3.4**	2.5
Total Group	**630.8**	527.2

Non-current assets

	2018 £m	2017 £m
UK	**129.7**	125.7
Rest of Europe	**71.0**	70.2
North America	**147.7**	107.7
Asia	**3.9**	4.3
Rest of World	**2.2**	1.1
Total Group	**354.5**	309.0

Capital expenditure

	2018 £m	2017 £m
UK	**20.4**	6.4
Rest of Europe	**5.3**	6.3
North America	**7.2**	5.6
Asia	**0.1**	1.1
Rest of World	**1.2**	0.6
Total Group	**34.2**	20.0

2. Operating profit

	2018 £m	2017 £m
Revenue	**637.9**	585.1
Cost of sales	**(409.3)**	(365.8)
Gross profit	**228.6**	219.3
Distribution costs	**(35.8)**	(32.1)
Administrative expenses	**(129.1)**	(114.6)
Other operating income	**1.5**	1.5
Operating profit	**65.2**	74.1

Notes to the Consolidated Financial Statements (continued)

3. Non-underlying items

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

- Business reorganisation costs of £0.7m (2017: £2.8m) relating to two restructuring actions taken by the Group:
  - During the year the Group undertook a restructuring of its UK Industrial Flooring business, part of the Infrastructure Products – Utilities segment, a decision taken in light of weaker market conditions in the first half of the year. The restructuring has improved the efficiency and productivity of the business and supported an improved performance in the second half of the year. The cost in the year was £0.5m.
  - Following the acquisition of Tower Tech in August 2017, the Group commenced a programme to close Tower Tech's facility in Oklahoma City and relocate the business to the existing Creative Pultrusions site in Pennsylvania, resulting in a prior year charge of £0.4m. A further charge of £0.2m has been recognised in 2018 representing additional closure costs that will be incurred.
- Amortisation of acquired intangible fixed assets of £4.8m (2017: £4.0m).
- Acquisition expenses of £2.2m (2017: £0.6m) relating to acquisitions completed during the period. The costs include £0.4m (2017: £nil) relating to future consideration payments to previous owners of the acquired businesses, the terms of which require those costs to be treated as a post-acquisition employment expense in accordance with IFRS 3 (Revised).
- An impairment charge of £6.0m in respect of goodwill and acquired intangible assets relating to the Group's acquisition of Technocover Limited in July 2016. As set out in the Operational and Financial Review on pages 18 to 28, despite a reasonable performance in 2017, albeit marginally below expectations, in 2018 the business has experienced a further deterioration in its results due principally to a lack of activity in the niche areas of the water industry market that the business services. As a result, an impairment review was performed at 31 December 2018 resulting in a full impairment of the goodwill and remaining book value of acquired intangible assets, reflecting a short/medium term outlook for the business that is below that anticipated at the time of the acquisition.
- A past service cost of £1.1m in respect of defined benefit pension schemes. In October 2018 the High Court handed down a judgement requiring businesses with defined benefit pension schemes to equalise historical Guaranteed Minimum Pensions (GMPs) between male and female members. The Group has taken professional advice as to the impact of this judgement and concluded that a cost of £1.0m is likely to be incurred in equalising GMPs arising in prior years. In drawing this conclusion the Group has taken into account the four potential approaches that the judgement ruled to be suitable for calculating the equalisation cost, and has calculated that the range of outcomes under each of these approaches is likely to be between £0.9m and £1.2m. The charge has been treated as a non-underlying item in accordance with the Group's definitions of such items. A further charge of £0.1m was incurred in respect of changes to the terms of the Group's pension schemes in France.
- An impairment charge of £0.1m in respect of assets held for sale (note 12), reflecting a loss on the disposal of that property during the year.

In April 2017 the Group sold its traffic data collection business, CA Traffic Limited, to TagMaster AB for net consideration of £2.6m. Net assets disposed were £2.0m resulting in a profit on disposal of £0.6m. The details of the disposal were:

	£m
Capitalised development costs	**0.6**
Inventories	**1.4**
Current assets	**0.8**
Cash and cash equivalents	**0.1**
Current liabilities	**(0.8)**
Deferred tax	**(0.1)**
Net assets	**2.0**
Consideration	**2.8**
Less costs of disposal	**(0.2)**
Gain on disposal	**0.6**
Cash flow effect	
Consideration less costs of disposal	**2.6**
Cash and cash equivalents disposed of	**(0.1)**
Net cash received shown in the Consolidated Statement of Cash Flows	**2.5**

Non-underlying items included in financial expense represent the net financing cost on pension obligations of £0.6m (2017: £0.7m) and a £1.0m (2017: £0.4m) charge in respect of amortisation of costs associated with refinancing.

4. Employees

	2018 No.	2017 No.
The average number of people employed by the Group during the year		
Infrastructure Products – Utilities	**1,788**	1,739
Infrastructure Products – Roads	**931**	833
Infrastructure Products – Total	**2,719**	2,572
Galvanizing Services	**1,499**	1,459
Total Group	**4,218**	4,031

	£m	£m
The aggregate remuneration for the year		
Wages and salaries	**132.3**	123.1
Share-based payments	**1.1**	1.8
Social security costs	**22.5**	20.9
Pension costs	**4.5**	2.9
	160.4	148.7

Directors' remuneration	2018 £m.	2017 £m.
Directors' remuneration	**1.5**	1.9
Amounts receivable under long term incentive schemes	**1.1**	1.6
Company contributions to money purchase pension plans	**0.2**	0.2
	2.8	3.7

The aggregate of remuneration and amounts receivable under long term incentive schemes of the highest paid Director was £1.4m (2017: £2.0m), and company pension contributions of £0.1m (2017: £0.1m) were made to a money purchase scheme on his behalf.

Number of directors	2018 No	2017 No
Retirement benefits are accruing to the following number of Directors under:		
Money purchase schemes	**2**	2
Defined benefit schemes	**-**	-
The number of Directors who exercised share options was	**2**	1
The number of Directors in respect of whose qualifying services shares were received or receivable under long term incentive schemes was	**2**	2

Further details of the Directors' remuneration and share interests are given in the Directors' Remuneration Report on pages 73 to 82.

Notes to the Consolidated Financial Statements (continued)

5. Net financing costs

	Underlying £m	Non-underlying £m	2018 £m	Underlying £m	Non-underlying £m	2017 £m
Interest on bank deposits	**0.6**	**-**	**0.6**	0.6	-	0.6
Financial income	**0.6**	**-**	**0.6**	0.6	-	0.6
Interest on bank loans and overdrafts	**4.4**	**-**	**4.4**	3.4	-	3.4
Total interest expense	**4.4**	**-**	**4.4**	3.4	-	3.4
Financial expenses related to refinancing	**-**	**1.0**	**1.0**	-	0.4	0.4
Interest cost on net pension scheme deficit (note 23)	**-**	**0.6**	**0.6**	-	0.7	0.7
Financial expense	**4.4**	**1.6**	**6.0**	3.4	1.1	4.5
Net financing costs	**3.8**	**1.6**	**5.4**	2.8	1.1	3.9

6. Expenses and auditor's remuneration

	2018 £m	2017 £m
Income statement charges		
Depreciation of property, plant and equipment:		
Owned	**18.6**	18.2
Leased	**-**	-
Operating lease rentals:		
Plant and machinery	**3.7**	3.3
Other	**4.9**	3.7
Research and development expenditure	**0.4**	0.3
Amortisation of acquisition intangibles	**4.8**	4.0
Amortisation of development costs	**0.8**	0.9
Amortisation of other intangible assets	**0.1**	0.1
Impairment losses	**6.1**	0.4
Foreign exchange loss	**-**	0.1
Income statement credits		
Profit on disposal of non-current assets	**0.3**	0.1
Foreign exchange gain	**0.3**	-
Other rental income	**1.1**	1.1

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	**0.9**	0.7
Services relating to corporate finance transactions	**0.2**	0.1
	1.2	0.9

A description of the work of the Audit Committee is set out in the Audit Committee report on pages 67 to 72 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditor.

7. Taxation

	2018 £m	2017 £m
Current tax		
UK corporation tax	**5.3**	7.6
Overseas tax at prevailing local rates	**9.5**	11.7
Adjustments in respect of prior years	**(1.2)**	(1.1)
	13.6	18.2
Deferred tax (note 13)		
UK deferred tax	**(0.8)**	(0.7)
Overseas tax at prevailing local rates	**0.4**	0.7
Adjustments in respect of prior year	**(0.1)**	-
Effects of changes in tax rates and laws	**(0.5)**	(1.9)
Tax on profit in the Consolidated Income Statement	**12.6**	16.3
Deferred tax (note 13)		
Relating to defined benefit pension schemes	**0.3**	0.2
Effect of change in tax rate	**-**	-
Tax on items taken directly to Other Comprehensive Income	**0.3**	0.2
Current tax		
Relating to share-based payments	**(0.6)**	(0.3)
Deferred tax (note 13)		
Relating to share-based payments	**0.6**	(0.2)
Tax taken directly to the Consolidated Statement of Changes in Equity	**-**	(0.5)

The tax charge in the Consolidated Income Statement for the period is higher (2017: higher) than the standard rate of corporation tax in the UK. The differences are explained below:

	2018 £m	2017 £m
Profit before taxation	**59.8**	70.2
Profit before taxation multiplied by the effective rate of corporation tax in the UK of 19% (2017: 19.25%)	**11.4**	13.5
Expenses not deductible/income not chargeable for tax purposes	**0.7**	1.0
Non-deductible goodwill impairment	**0.4**	-
Non-taxable profit on disposal of UK subsidiary	**-**	(0.1)
Benefits from international financing arrangements	**(0.8)**	(0.8)
Local tax incentives	**(0.3)**	(0.9)
Overseas profits taxed at higher rates	**3.0**	6.9
Overseas losses not relieved	**-**	0.3
Withholding taxes	**-**	0.1
Impacts of rate and law changes	**(0.5)**	(1.9)
Successful claim following EU challenge regarding tax on French dividends	**-**	(0.7)
Adjustments in respect of prior periods	**(1.3)**	(1.1)
Tax charge	**12.6**	16.3

Notes to the Consolidated Financial Statements (continued)

8. Earnings per share

The weighted average number of ordinary shares in issue during the year was 78.8m (2017: 78.6m), diluted for the effects of the outstanding dilutive share options 79.5m (2017: 79.6m). Underlying earnings per share have been shown because the Directors consider that this provides valuable additional information about the underlying performance of the Group.

	2018		2017	
	Pence per share	**£m**	Pence per share	£m
Basic earnings	**59.9**	**47.2**	68.6	53.9
Non-underlying items*	**17.9**	**14.2**	7.3	5.7
Underlying earnings	**77.8**	**61.4**	75.9	59.6
Diluted earnings	**59.3**	**47.2**	67.7	53.9
Non-underlying items*	**17.9**	**14.2**	7.1	5.7
Underlying diluted earnings	**77.2**	**61.4**	74.8	59.6

* Non-underlying items as detailed in note 3.

9. Dividends

Dividends paid in the year were the prior year's interim dividend of £7.4m (2017: £6.7m) and the final dividend of £16.2m (2017: £14.0m). Dividends declared after the year end date are not recognised as a liability, in accordance with IAS 10. The Directors have proposed the following interim dividend and final dividend for the current year, subject to shareholder approval:

	2018		2017	
	Pence per share	**£m**	Pence per share	£m
Equity shares				
Interim	**10.0**	**7.9**	9.4	7.4
Final	**21.8**	**17.2**	20.6	16.4
Total	**31.8**	**25.1**	30.0	23.8

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 2017	137.9	25.3	34.4	14.5	7.4	219.5
Exchange adjustments	(4.1)	(1.4)	(0.9)	-	(0.1)	(6.5)
Acquisitions	4.4	0.7	0.7	-	-	5.8
Additions	-	-	-	1.3	-	1.3
Disposal of subsidiary	(4.3)	-	-	(2.0)	-	(6.3)
At 31 December 2017	**133.9**	**24.6**	**34.2**	**13.8**	**7.3**	**213.8**
Exchange adjustments	**3.7**	**0.9**	**0.7**	**-**	**0.3**	**5.6**
Acquisitions	**14.0**	**1.1**	**6.9**	**-**	**4.5**	**26.5**
Additions	**-**	**-**	**-**	**0.8**	**0.1**	**0.9**
At 31 December 2018	**151.6**	**26.6**	**41.8**	**14.6**	**12.2**	**246.8**
Amortisation and impairment losses						
At 1 January 2017	14.3	11.0	14.9	10.3	2.5	53.0
Exchange adjustments	(0.9)	(0.6)	(0.9)	-	-	(2.4)
Amortisation charge for the year	-	0.7	2.6	0.9	0.8	5.0
Disposal of subsidiary	(4.3)	-	-	(1.4)	-	(5.7)
At 31 December 2017	**9.1**	**11.1**	**16.6**	**9.8**	**3.3**	**49.9**
Exchange adjustments	**0.5**	**0.3**	**0.6**	**-**	**-**	**1.4**
Amortisation charge for the year	**-**	**0.8**	**3.0**	**0.8**	**1.1**	**5.7**
Impairment losses	**1.9**	**0.3**	**2.5**	**-**	**1.3**	**6.0**
At 31 December 2018	**11.5**	**12.5**	**22.7**	**10.6**	**5.7**	**63.0**
Carrying values						
At 1 January 2017	123.6	14.3	19.5	4.2	4.9	166.5
At 31 December 2017	124.8	13.5	17.6	4.0	4.0	163.9
At 31 December 2018	**140.1**	**14.1**	**19.1**	**4.0**	**6.5**	**183.8**

Notes to the Consolidated Financial Statements (continued)

10. Intangible assets continued

2018

Work Area Protection Corp

On 8 May 2018 the Group acquired the trade and assets of Work Area Protection Corp ("WAPCO") to expand the Group's presence in the US road safety market. WAPCO specialises in the development, manufacture and distribution of a range of road work safety zone products. Details of the acquisition are set out below:

Work Area Protection Corp	Pre acquisition carrying amount £m	Policy alignment and fair value adjustments £m	Total £m
Intangible assets			
Brands	-	0.8	0.8
Customer lists	-	4.5	4.5
Contracts, licenses and other assets	-	4.0	4.0
Property, plant and equipment	3.4	(0.1)	3.3
Inventories	7.5	(0.5)	7.0
Current assets	7.5	-	7.5
Total assets	**18.4**	**8.7**	**27.1**
Current liabilities	(4.3)	(0.1)	(4.4)
Deferred tax	-	(0.2)	(0.2)
Total liabilities	**(4.3)**	**(0.3)**	**(4.6)**
Net assets	**14.1**	**8.4**	**22.5**
Consideration			
Consideration in the year			31.2
Goodwill			**8.7**
Cash flow effect			
Consideration			31.2
Net cash consideration shown in the Consolidated Statement of Cash Flows			**31.2**

Brands, contractual arrangements and customer lists 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 businesses with the Group's accounting policies and to reflect the fair value of assets and liabilities acquired. There is no difference between the gross value and fair value of acquired receivables.

Post acquisition the acquired business has contributed £25.0m revenue and £1.8m underlying operating profit, which are included in the Group's Consolidated Income Statement. If the acquisition had been made on 1 January 2018, the Group's results for the year would have shown revenue of £650.7m and underlying operating profit of £81.7m.

10. Intangible assets continued

Composite Advantage Inc.

On 5 October 2018, the Group acquired the trade and assets of Composite Advantage Inc. ("CA") to expand the Group's offering in the US composites market. CA is a leading pultrusions manufacturer specialising in the production of fibre reinforced polymer products for infrastructure markets, including waterfront, rail, bridge decks and oil & gas. Details of the acquisition are set out below:

Composite Advantage	Pre acquisition carrying amount £m	Policy alignment and fair value adjustments £m	Total £m
Intangible assets			
Brands	-	0.3	0.3
Customer lists	-	1.5	1.5
Contracts, licenses and other assets	-	0.5	0.5
Property, plant and equipment	2.1	-	2.1
Inventories	1.0	-	1.0
Current assets	3.2	-	3.2
Total assets	**6.3**	**2.3**	**8.6**
Current liabilities	(1.6)	-	(1.6)
Total liabilities	**(1.6)**	**-**	**(1.6)**
Net assets	**4.7**	**2.3**	**7.0**
Consideration			
Consideration in the year			10.2
Goodwill			**3.2**
Cash flow effect			
Consideration			10.2
Deferred Consideration			(2.2)
Net cash consideration shown in the Consolidated Statement of Cash Flows			**8.0**

Brands, contractual arrangements and customer lists 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 businesses with the Group's accounting policies and to reflect the fair value of assets and liabilities acquired. There is no difference between the gross value and fair value of acquired receivables.

Post acquisition the acquired business has contributed £3.8m revenue and £0.6m underlying operating profit, which are included in the Group's consolidated income statement. If the acquisition had been made on 1 January 2018, the Group's results for the year would have shown revenue of £645.4m and underlying operating profit of £80.3m.

Notes to the Consolidated Financial Statements (continued)

10. Intangible assets continued

Engineered Endeavors Inc.

On 17 August 2018, the Group acquired from Chapter 11 proceedings certain of the business, trade, assets and workforce of Engineered Endeavors Inc. ("EEI"). Based in Ohio, USA, the business designs and manufactures utility poles for the power distribution and wireless cellular markets. Details of the acquisition are set out below:

Engineered Endeavors	Pre acquisition carrying amount £m	Policy alignment and fair value adjustments £m	Total £m
Intangible assets			
Customer lists	-	0.5	0.5
Property, plant and equipment	3.8	(0.9)	2.9
Inventories	0.1	-	0.1
Deferred tax	-	0.1	0.1
Total assets	**3.9**	**(0.3)**	**3.6**
Current liabilities	-	-	-
Total liabilities	**-**	**-**	**-**
Net assets	**3.9**	**(0.3)**	**3.6**
Consideration			
Consideration in the year			4.8
Goodwill			**1.2**
Cash flow effect			
Consideration			4.8
Net cash consideration shown in the Consolidated Statement of Cash Flows			**4.8**

Customer lists 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 businesses with the Group's accounting policies and to reflect the fair value of assets and liabilities acquired. There is no difference between the gross value and fair value of acquired receivables.

Post acquisition the acquired business has contributed £1.4m revenue and £0.3m underlying operating profit, which are included in the Group's Consolidated Income Statement. If the acquisition had been made on 1 January 2018, the Group's results for the year would have shown revenue of £641.1m and underlying operating profit of £79.8m.

10. Intangible assets continued

The Group also made three other smaller acquisitions during the year:

- The trade and certain assets of D Gibson Road and Quarry Services Limited, based in the UK, acquired on 1 January 2018;
- The trade and certain assets of Signalvakter Syd, based in Sweden, acquired on 28 March 2018; and
- The trade and assets of The Grating Company Limited and Pro Composites Limited, based in the UK, acquired on 27 April 2018.

Details of these acquisitions are set out below:

	D Gibson - Pre acquisition carrying amount £m	Signalvakter - Pre acquisition carrying amount £m	The Grating Company - Pre acquisition carrying amount £m	Policy alignment and provisional fair value adjustments £m	Total £m
Intangible assets					
Customer list	-	-	-	0.4	0.4
Property, plant and equipment	-	0.3	-	-	0.3
Inventories	0.1	-	-	-	0.1
Current assets	-	-	0.5	(0.5)	-
Total assets	**0.1**	**0.3**	**0.5**	**(0.1)**	**0.8**
Current liabilities	-	(0.2)	(0.2)	-	(0.4)
Deferred tax	-	-	-	(0.1)	(0.1)
Total liabilities	**-**	**(0.2)**	**(0.2)**	**(0.1)**	**(0.5)**
Net assets	**0.1**	**0.1**	**0.3**	**(0.2)**	**0.3**
Consideration					
Consideration in the year					1.2
Goodwill					**0.9**
Cash flow effect					
Cash consideration					1.2
Net cash consideration shown in the Consolidated Statement of Cash Flows					**1.2**

Customer lists have been recognised as specific intangible assets as a result of these acquisitions. 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 businesses with the Group's accounting policies and to reflect the fair value of assets and liabilities acquired. The fair value of the current assets acquired of £nil relate to trade receivables which have a gross value of £0.5m.

Post acquisition the acquired businesses have contributed £5.8m revenue and £0.2m underlying operating profit, which are included in the Group's Consolidated Income Statement. If the acquisitions had been made on 1 January 2018, the Group's results for the year would have shown revenue of £639.8m and underlying operating profit of £80.3m.

In addition to the above acquisitions, the Group paid a further amount of £0.6m in deferred consideration in respect of acquisitions made in the prior year.

Notes to the Consolidated Financial Statements (continued)

10. Intangible assets continued

2017

During the prior year, the Group acquired the trade and assets of two businesses:

- On 24 March 2017 the Group acquired the trade and assets of Kenway Corporation ("Kenway"), a specialist in technologically advanced composite design, manufacturing and field service work across a broad range of industries including marine, power, pulp and paper, transportation and renewable energy.
- On 15 August 2017 the Group acquired the trade and assets of Tower Tech Inc ("Tower Tech"), a leading provider of composite cooling towers both for permanent installations and temporary rental applications.

Details of these acquisitions are set out below:

	Kenway - Pre acquisition carrying amount £m	TowerTech - Pre acquisition carrying amount £m	Policy alignment and provisional fair value adjustments £m	Total £m
Intangible assets				
Brands	-	-	0.7	0.7
Customer list	-	-	0.7	0.7
Property, plant and equipment	0.4	1.3	(0.3)	1.4
Inventories	1.0	2.0	(0.9)	2.1
Current assets	0.7	0.9	-	1.6
Total assets	**2.1**	**4.2**	**0.2**	**6.5**
Current liabilities	(0.3)	(1.7)	-	(2.0)
Deferred tax	-	-	(0.1)	(0.1)
Total liabilities	**(0.3)**	**(1.7)**	**(0.1)**	**(2.1)**
Net assets	**1.8**	**2.5**	**0.1**	**4.4**
Consideration				
Consideration in the year				8.5
Goodwill				**4.1**
Cash flow effect				
Cash consideration				8.5
Deferred consideration				(0.6)
Net cash consideration shown in the Consolidated Statement of Cash Flows				**7.9**

Brands and customer lists were recognised as specific intangible assets as a result of these acquisitions. The residual goodwill arising primarily represents the assembled workforce, market share and geographical advantages afforded to the Group. Fair value adjustments were 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. There was no difference between the gross value and fair value of acquired receivables.

Prior to the acquisition of the trade and assets of Tower Tech, the Group and Tower Tech were parties to trading arrangements on an arm's length basis. Trading between Tower Tech and fellow Group undertakings continues, on an arm's length basis, after the acquisition.

In addition to the above acquisitions, the Group paid a further amount of £0.4m in deferred consideration in respect of acquisitions made in 2016.

During the prior year, a further £0.3m of goodwill was recognised in relation to the finalisation of fair value adjustments on acquisitions made in 2016.

10. Intangible assets continued

Cash generating units with significant amounts of goodwill

	2018 £m	2017 £m
Infrastructure Products – Utilities		
US Composites	**16.1**	12.1
V&S Utilities	**5.6**	4.1
Others <£5m individually	**5.2**	6.4
Infrastructure Products – Roads		
WAPCO	**9.1**	-
Hardstaff Barriers	**6.8**	6.8
ATA	**6.1**	6.3
Mallatite	**5.7**	5.6
Others <£5m individually	**4.0**	4.0
Galvanizing Services		
France Galva SA	**30.1**	29.7
USA	**26.6**	25.0
UK	**24.8**	24.8
	140.1	124.8

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 brand names of £7.9m (2017: £7.5m), 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, 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 France Galva SA CGU. The France Galva SA impairment review was prepared based on the following key assumptions:

- Budgeted cash flows for 2019, which assume a 0.8% reduction in galvanizing volumes compared with 2018.
- For the period 2020-2023 the calculations assume 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% between 2019 and 2023.
- For the period from 2024 onwards the calculations assume annual growth in cash flows of 3%, consistent with the historical long-term growth rates in France.
- A pre-tax discount rate of 11.4%.

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.

	2018			2017		
	Goodwill £m	Headroom £m	Discount rate	Goodwill £m	Headroom £m	Discount rate
US Composites	**16.1**	**63.9**	**10.4%**	12.1	40.4	11.3%
V&S Utilities	**5.6**	**54.5**	**10.1%**	4.1	42.4	10.7%
Hardstaff Barriers	**6.8**	**12.6**	**10.5%**	6.8	8.9	10.7%
ATA	**6.1**	**31.4**	**10.6%**	6.3	12.2	11.3%
Mallatite	**5.7**	**19.0**	**9.9%**	5.6	22.4	9.8%
France Galva SA	**30.1**	**18.0**	**11.4%**	29.7	21.3	11.3%
Galvanizing Services – USA	**26.6**	**327.5**	**10.3%**	25.0	266.4	10.9%
Galvanizing Services – UK	**24.8**	**80.0**	**10.1%**	24.8	98.5	10.1%

*WAPCO is excluded from this table in the current year as the CGU was acquired in the year.

Notes to the Consolidated Financial Statements (continued)

10. Intangible assets continued

The pre-tax discount rates detailed above are 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.

Using the method set out above with a pre-tax discount rate of 14.3%, the impairment review in respect of Technocover Limited concluded that the carrying values of the assets of the business were less than their recoverable amount by £6.0m, allocated to the goodwill (£1.9m) and the remaining book value of acquired intangible fixed assets (£4.1m) arising on the acquisition. The Group has therefore recognised an impairment charge of £6.0m in respect of Technocover Limited, as further explained in note 3 on page 116.

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 analysis did not identify any material impairments (with the exception of Technocover Limited as described above), however the calculations in respect of the goodwill attributable to France Galva SA are relatively sensitive to the assumptions adopted.

France Galva SA

Galvanizing volumes, future cash flows and the discount rate are the key assumptions on which the goodwill impairment review is most sensitive. The following table provides information on the impact on calculated headroom of various scenarios for each of the key assumptions (independently in each case):

Input	Scenario	Sensitivity applied %	Sensitised headroom £m
	Base case	(0.8)	18.0
Change in 2019 volumes (vs. 2018)	H&S sensitised	(5.0)	1.6
	Zero headroom	(5.5)	-
	Base case	1.0	18.0
Volume growth 2018-2023	H&S sensitised	0.0	6.9
	Zero headroom	(0.7)	-
	Base case	3.0	18.0
Cash flow growth 2024 onwards	H&S sensitised	1.0	1.8
	Zero headroom	0.7	-
	Base case	11.4	18.0
Pre-tax discount rate	H&S sensitised	12.8	6.2
	Zero headroom	13.8	-

11. Property, plant and equipment

	Land and buildings £m	Plant, machinery and vehicles £m	Total £m
Cost			
At 1 January 2017	101.0	180.4	281.4
Exchange adjustments	(3.5)	(2.9)	(6.4)
Acquisitions	-	1.4	1.4
Additions	4.9	13.8	18.7
Reclassification	0.1	(0.1)	-
Disposal of subsidiary	-	(0.3)	(0.3)
Disposals	(1.5)	(5.5)	(7.0)
At 31 December 2017	**101.0**	**186.8**	**287.8**
Exchange adjustments	**4.6**	**2.5**	**7.1**
Acquisitions	**5.2**	**3.4**	**8.6**
Additions	**6.8**	**26.5**	**33.3**
Transfer to inventories	**-**	**(2.1)**	**(2.1)**
Transfers to assets held for sale	**(1.2)**	**-**	**(1.2)**
Disposals	**(0.2)**	**(4.0)**	**(4.2)**
At 31 December 2018	**116.2**	**213.1**	**329.3**
Depreciation and impairment losses			
At 1 January 2017	26.1	105.6	131.7
Exchange adjustments	(0.5)	(1.6)	(2.1)
Disposals	(0.5)	(4.3)	(4.8)
Reclassification	-	-	-
Disposal of subsidiary	-	(0.3)	(0.3)
Charge for the year	3.9	14.3	18.2
At 31 December 2017	**29.0**	**113.7**	**142.7**
Exchange adjustments	**1.7**	**1.8**	**3.5**
Disposals	**(0.1)**	**(3.8)**	**(3.9)**
Transfers to inventories	**-**	**(1.4)**	**(1.4)**
Transfers to assets held for sale	**(0.4)**	**-**	**(0.4)**
Charge for the year	**4.2**	**14.4**	**18.6**
At 31 December 2018	**34.4**	**124.7**	**159.1**
Carrying values			
At 1 January 2017	74.9	74.8	149.7
At 31 December 2017	72.0	73.1	145.1
At 31 December 2018	**81.8**	**88.4**	**170.2**

The gross book value of land and buildings includes freehold land of £20.8m (2017: £18.4m). Included in the carrying value of plant, machinery and vehicles is £nil (2017: £nil) 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 £65.3m (2017: £53.4m) and accumulated depreciation of £35.7m (2017: £33.7m).

12. Assets held for sale

	2018 £m	2017 £m
Land and buildings	**0.8**	0.7

During the year, the property presented in assets held for sale at 31 December 2017 was disposed of for consideration of £0.6m resulting in an impairment charge of £0.1m. In addition, a further property has been actively marketed for disposal and has therefore been classified as held for sale at 31 December 2018. This property is expected to be sold in 2019.

Notes to the Consolidated Financial Statements (continued)

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 2017	(9.8)	(6.5)	0.9	5.3	2.3	(7.8)
Exchange adjustments	0.3	0.2	-	(0.1)	(0.1)	0.3
Acquisitions of businesses	(0.5)	0.1	0.3	-	-	(0.1)
Disposal of subsidiary	0.1	-	-	-	-	0.1
Credited/(charged) for the year in the Consolidated Income Statement (note 7)	2.0	1.3	(1.0)	(0.3)	(0.1)	1.9
Charged for the year in the Consolidated Statement of Comprehensive Income (note 7)	-	-	-	(0.2)	-	(0.2)
Credited for the year in the Consolidated Statement of Changes in Equity (note 7)	-	-	-	-	0.2	0.2
At 31 December 2017	**(7.9)**	**(4.9)**	**0.2**	**4.7**	**2.3**	**(5.6)**
Adoption of new accounting standards	-	-	-	-	(0.3)	(0.3)
At 1 January 2018 (restated)	**(7.9)**	**(4.9)**	**0.2**	**4.7**	**2.0**	**(5.9)**
Exchange adjustments	**(0.2)**	**(0.2)**	**-**	**0.1**	**-**	**(0.3)**
Acquisitions of businesses	**(0.4)**	**0.2**	**-**	**-**	**-**	**(0.2)**
Credited /(charged) for the year in the Consolidated Income Statement (note 7)	**1.4**	**(1.0)**	**(0.2)**	**(0.1)**	**0.9**	**1.0**
Charged for the year in the Consolidated Statement of Comprehensive Income (note 7)	**-**	**-**	**-**	**(0.3)**	**-**	**(0.3)**
Charged for the year in the Consolidated Statement of Changes in Equity (note 7)	**-**	**-**	**-**	**-**	**(0.6)**	**(0.6)**
At 31 December 2018	**(7.1)**	**(5.9)**	**-**	**4.4**	**2.3**	**(6.3)**

	2018 £m	2017 £m
Deferred tax assets	**0.5**	0.9
Deferred tax liabilities	**(6.8)**	(6.5)
Deferred tax liability	**(6.3)**	(5.6)

No deferred tax asset has been recognised in respect of tax capital losses of £10.7m (2017: £10.5m) as their future use is uncertain. There is no time limit on the carrying forward of the losses.

The UK Budget on 16 March 2016 included a rate reduction to 17% from 1 April 2020 which was enacted during 2016. In line with the prior year, the deferred tax balance in respect of UK entities has been calculated at 17% on the basis that these balances will materially reverse after 1 April 2020. A reduction in the French corporation tax rate to 25% by 2022 was enacted in December 2017. The deferred tax balance in respect of the French entities has therefore been mainly calculated at 25% (2017: 25%) on the basis that the majority of the balances will reverse after 2022.

14. Inventories

	2018 £m	2017 £m
Raw materials and consumables	**46.5**	44.1
Work in progress	**8.7**	9.2
Finished goods and goods for resale	**41.4**	31.3
	96.6	84.6

The amount of inventories expensed to the Consolidated Income Statement in the year was £371.5m (2017: £320.9m). The value of inventories written down and expensed in the Consolidated Income Statement during the year amounted to £0.1m (2017: £nil).The amount of inventories held at fair value less cost to sell included in the above was £nil (2017: £nil).

15. Trade and other receivables

	2018 £m	2017 £m
Trade and other current receivables		
Trade receivables	**129.5**	107.4
Prepayments and accrued income	**7.2**	6.2
Other receivables	**2.4**	2.9
Contract assets	**2.9**	-
	142.0	116.5

The charge to the Consolidated Income Statement in the year in respect of the expected loss of trade receivables was £0.8m (2017: £0.3m). The Group does not require collateral in respect of trade and other receivables. The Group does not have trade receivables or contract assets for which no loss allowance is recognised because of collateral.

Loss rates are based on actual credit loss experience over the last four years. These rates are multiplied by scalar factors to reflect differences between economic conditions during the period over which data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

16. Cash and borrowings

	2018 £m	2017 £m
Cash and cash equivalents in the Consolidated Statement of Financial Position		
Cash and bank balances	**36.9**	16.4
Cash	**36.9**	16.4
Interest bearing loans and borrowings		
Amounts due within one year (note 17)	**(0.4)**	(0.3)
Amounts due after more than one year (note 18)	**(169.4)**	(115.1)
Net debt	**(132.9)**	(99.0)
Change in net debt		
Operating profit	**65.2**	74.1
Non-cash items	**31.2**	24.7
Operating cash flow before movement in working capital	**96.4**	98.8
Net movement in working capital	**(6.3)**	(19.1)
Changes in provisions and employee benefits	**(2.4)**	(3.2)
Operating cash flow	**87.7**	76.5
Tax paid	**(13.3)**	(16.7)
Net financing costs paid	**(3.9)**	(2.8)
Capital expenditure	**(32.8)**	(20.7)
Proceeds on disposal of non-current assets and assets held for sale	**1.2**	2.3
Free cash flow	**38.9**	38.6
Dividends paid (note 9)	**(23.6)**	(20.7)
Acquisitions (note 10)	**(45.8)**	(8.3)
Disposals (note 3)	**-**	2.5
Amortisation of costs associated with refinancing revolving credit facilities (note 5)	**(1.0)**	(0.4)
Purchase of shares for employee benefit trust	**(2.7)**	(2.6)
Issue of new shares (note 21)	**1.5**	0.6
Net debt (increase)/decrease	**(32.7)**	9.7
Effect of exchange rate fluctuations	**(3.3)**	3.3
Net debt at the beginning of the year	**(99.0)**	(112.0)
Adoption of new accounting standards	**2.1**	-
Net debt at the beginning of the year (restated)	**(96.9)**	(112.0)
Net debt at the end of the year	**(132.9)**	(99.0)

Notes to the Consolidated Financial Statements (continued)

16. Cash and borrowings continued

Reconciliation of movements in financial liabilities to cash flows arising from financing activities

	2018 £m	2017 £m
Interest bearing loans and borrowings		
At 1 January (as previously reported)	**115.4**	127.6
Adoption of new accounting standards	**(2.1)**	-
At 1 January (restated)	**113.3**	127.6
New loans and borrowings	**78.3**	32.9
Repayments of loans and borrowings	**(26.8)**	(41.3)
Cash flows from financing activities	**51.5**	(8.4)
Other changes		
Effect of exchange rate fluctuations	**4.0**	(4.2)
Amortisation of costs associated with refinancing of revolving credit facility	**1.0**	0.4
At 31 December	**169.8**	115.4

17. Current liabilities

	2018 £m	2017 £m
Interest bearing loans and borrowings		
Current portion of long term borrowings	**0.4**	0.3
Finance lease and hire purchase obligations	**-**	-
	0.4	0.3
Trade and other current liabilities		
Trade payables	**76.5**	59.5
Other taxation and social security	**12.3**	10.8
Accrued expenses and deferred income	**27.4**	29.0
Fair value derivatives	**-**	0.1
Other payables	**4.7**	5.4
	120.9	104.8

18. Non-current liabilities

	2018 £m	2017 £m
Interest bearing loans and borrowings		
Long term borrowings	**169.4**	115.1
Finance lease and hire purchase obligations	**-**	-
	169.4	115.1
Other non-current liabilities		
Deferred consideration on acquisitions	**1.3**	-
Deferred government grants	**1.4**	0.5
	2.7	0.5

19. Provisions for liabilities and charges

	Environmental £m	Restructuring £m	Other £m	Total £m
At 1 January 2017	2.8	2.6	0.4	5.8
Exchange adjustments	(0.1)	-	-	(0.1)
Charged during the year	-	2.7	-	2.7
Utilised during the year	-	(3.2)	-	(3.2)
Released during the year	(0.2)	-	-	(0.2)
At 31 December 2017	**2.5**	**2.1**	**0.4**	**5.0**
Exchange adjustments	**0.1**	**-**	**-**	**0.1**
Charged during the year	**-**	**0.2**	**-**	**0.2**
Utilised during the year	**-**	**(1.1)**	**(0.2)**	**(1.3)**
Released during the year	**-**	**-**	**-**	**-**
At 31 December 2018	**2.6**	**1.2**	**0.2**	**4.0**

	2018 £m	2017 £m
Amounts due within one year	**1.3**	2.1
Amounts due after more than one year	**2.7**	2.9
	4.0	5.0

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 businesses. As a consequence of the 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 most significant geographical trade receivable at 31 December 2018 with 47% (2017: 56%) and currently the only geographical region that does not generally insure trade receivables is the USA, which represents 31% (2017: 23%) of the Group's trade receivables. Subsidiaries in the USA have a policy of taking out trade references before granting credit limits and selectively insuring where it is deemed appropriate by management.

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 2018 all such debt was covered by cash and cash equivalents netting to £36.5m positive current liquidity (2017: £16.1m).The Group's principal UK revolving credit facility is a multicurrency agreement with a value at 31 December 2018 of £230.5m (2017: £225.5m), based on year end exchange rates. As set out on page 25, on 10 January 2019 the size of this facility was increased to £280m and the maturity date extended to January 2024. Along with various other on demand lines of credit, including bank overdrafts and finance leases, the Group has access to facilities of £244.0m at 31 December 2018 (2017: £237.3m).

Market risk

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

Counterparty risk

A group of relationship banks provides the bulk of the banking services, with pre-approved credit limits set for each institution. Financial derivatives are entered into with these core banks and the underlying credit exposure to these instruments is included when considering the credit exposure to the counterparties. At the end of 2018 credit exposure including cash deposited did not exceed £13.6m with any single institution (2017: £4.8m).

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 the USA. This results in foreign currency exchange risk due to exchange rate movements which will affect the Group's transaction costs and the translation of the results and 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 2018 the proportion of gross borrowings subject to fixed interest rate swaps was 0% (2017: 0%).

Insurance

The Group purchases insurance for commercial, legal and contractual reasons. The Group retains insurable risk where external insurance is not commercially viable.

20. Financial instruments continued

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 2018 and 2017, as set out in the Operational and Financial Review on pages 18 to 28.

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	**-**	**36.9**	**36.9**	**36.9**
Interest bearing loans due within one year	**-**	**(0.4)**	**(0.4)**	**(0.4)**
Interest bearing loans due after more than one year	**-**	**(169.4)**	**(169.4)**	**(169.4)**
Derivative assets	**-**	**-**	**-**	**-**
Derivative liabilities	**-**	**-**	**-**	**-**
Other assets	**-**	**131.9**	**131.9**	**131.9**
Other liabilities	**-**	**(108.6)**	**(108.6)**	**(108.6)**
Total at 31 December 2018	**-**	**(109.6)**	**(109.6)**	**(109.6)**
Cash and cash equivalents	-	16.4	16.4	16.4
Interest bearing loans due within one year	-	(0.3)	(0.3)	(0.3)
Interest bearing loans due after more than one year	-	(115.1)	(115.1)	(115.1)
Derivative assets	-	-	-	-
Derivative liabilities	(0.1)	-	(0.1)	(0.1)
Other assets	-	110.3	110.3	110.3
Other liabilities	-	(93.9)	(93.9)	(93.9)
Total at 31 December 2017	(0.1)	(82.6)	(82.7)	(82.7)

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	**-**	**-**	**-**	**-**
Derivative financial liabilities	**-**	**-**	**-**	**-**
Total at 31 December 2018	**-**	**-**	**-**	**-**
Derivative financial assets	-	-	-	-
Derivative financial liabilities	-	(0.1)	-	(0.1)
Total at 31 December 2017	-	(0.1)	-	(0.1)

Notes to the Consolidated Financial Statements (continued)

20. Financial instruments continued

At 31 December 2018 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 and US Dollar 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 £17.7m (2017: £10.7m) and US Dollar £74.2m (2017: £49.6m) denominated interest bearing loans, which are predominantly used to fund the Group's European and United States operations and include £91.9m (2017: £60.3m) designated as a hedge of the net investment in a foreign operation. The foreign currency loss of £4.7m (2017: gain of £4.9m) 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 2018	**6.5**	**0.1**
US Dollar at 31 December 2018	**4.0**	**1.6**
Sterling at 31 December 2017	6.5	1.1

(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:

	Effective interest rate	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	**Floating**	**2.2**	**(2.2)**	**(0.4)**	**(0.4)**	**(1.3)**	**(0.1)**
Unsecured bank borrowings	**Floating**	**167.6**	**(179.4)**	**(4.2)**	**(4.2)**	**(171.0)**	**-**
Other liabilities	**n/a**	**108.6**	**(108.6)**	**(108.6)**	**-**	**-**	**-**
Derivative liabilities	**n/a**	**-**	**-**	**-**	**-**	**-**	**-**
Total at 31 December 2018		**278.4**	**(290.2)**	**(113.2)**	**(4.6)**	**(172.3)**	**(0.1)**
Secured bank borrowings	Floating	2.0	(2.0)	(0.3)	(0.3)	(1.1)	(0.3)
Unsecured bank borrowings	Floating	113.4	(121.2)	(2.2)	(2.2)	(116.6)	(0.2)
Other liabilities	n/a	93.9	(93.9)	(93.9)	-	-	-
Derivative liabilities	n/a	0.1	(0.1)	(0.1)	-	-	-
Total at 31 December 2017		209.4	(217.2)	(96.5)	(2.5)	(117.7)	(0.5)

The unsecured bank borrowings bear interest based on LIBOR/EURIBOR, plus a margin (as defined in the facilities agreement) which varies depending on the Group's ratio of net debt to EBITDA. The secured bank borrowings are held by subsidiaries in the USA and bear interest at varying rates linked to underlying US bond markets.

20. Financial instruments continued

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

	2018 £m	2017 £m
Undrawn committed borrowing facilities		
Expiring after more than one year	**60.8**	111.4

(d) Fair values

The fair value of forward currency exchange contracts realised in the Consolidated Income Statement as part of fair value derivatives amounted to £nil (2017: nil). The fair values of the Group's other financial instruments at 31 December 2018 and 2017 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 £0.1m were recognised in respect of the asset held for sale, as detailed in note 12. In addition, impairment charges of £6.0m 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

	2018 £m	2017 £m
Amortised cost	**131.9**	110.3
Cash at the end of the year	**36.9**	16.4
Total	**168.8**	126.7

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

Carrying value of trade receivables by geography

	2018 £m	2017 £m
UK	**61.5**	60.2
Rest of Europe	**23.0**	19.0
North America	**40.7**	24.3
Rest of World	**4.3**	3.9
Total	**129.5**	107.4

Carrying value of trade receivables by business segment

	2018 £m	2017 £m
Infrastructure Products – Utilities	**42.0**	32.3
Infrastructure Products – Roads	**55.2**	43.1
Infrastructure Products – Total	**97.2**	75.4
Galvanizing Services	**32.3**	32.0
Total	**129.5**	107.4

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:

	2018			2017		
	Gross £m	**Provisions £m**	**Net £m**	Gross £m	Provisions £m	Net £m
Not past due	**87.6**	**(0.1)**	**87.5**	76.7	(0.1)	76.6
Past due 1–30 days	**28.6**	**-**	**28.6**	20.2	-	20.2
Past due 31–120 days	**8.1**	**(0.6)**	**7.5**	8.6	(0.3)	8.3
Past due more than 120 days	**8.3**	**(2.4)**	**5.9**	4.7	(2.4)	2.3
Total	**132.6**	**(3.1)**	**129.5**	110.2	(2.8)	107.4

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

	£m
At 1 January 2017	3.5
Exchange adjustments	(0.1)
Acquisitions of subsidiaries	-
Charged in the year	0.3
Utilised during the year	(0.9)
At 31 December 2017	**2.8**
Exchange adjustments	**-**
Acquisitions of subsidiaries	**0.1**
Charged in the year	**0.8**
Utilised during the year	**(0.6)**
At 31 December 2018	**3.1**

(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, if interest rates had varied throughout the year by 1% the positive or negative variation on the year's result would have been £1.7m (2017: £1.4m), which would directly impact on the Consolidated Income Statement.
- Based on a 10% weakening in Sterling against all currencies throughout the year, the impact on the Consolidated Income Statement would have been a gain of £4.3m (2017: £3.9m) and the impact on equity would have been an increase of £25.4m (2017: £19.3m).
- 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 £3.5m (2017: £3.2m) and the impact on equity would have been a decrease of £20.7m (2017: £16.4m).

21. Called up share capital

	2018 £m	2017 £m
Allotted, called up and fully paid		
79.0m ordinary shares of 25p each (2017: 78.7m)	**19.8**	19.7

In 2018 the Company issued 0.3m shares under its various share option schemes (2017: 0.2m), realising £1.5m (2017: £0.6m).

Options outstanding over the Company's shares

	2018 Number of shares	2018 Option price (p)	2017 Number of shares	2017 Option price (p)	Date first exercisable	Expiry date
2014 LTIP Award (granted May 2018)*	**98,838**	**-**	-	-	§	§
2014 LTIP Award (granted May 2017)*¥	**103,925**	**-**	103,925	-	§	§
2014 LTIP Award (granted March 2016)*	**116,563**	**-**	116,563	-	§	§
2014 LTIP Award (granted March 2015)*	**-**	**-**	153,290	-	§	§
2012 grant of 2005 Approved Executive Share Option Scheme (granted April 2012)*^	**3,586**	**316**	3,586	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)*^	**63,554**	**685**	126,991	685	12 August 2018	12 August 2025
2015 grant of 2014 Unapproved Executive Share Option Scheme (granted August 2015)*^	**138,767**	**685**	238,009	685	12 August 2018	12 August 2025
2018 grant of 2014 Approved Executive Share Option Scheme (granted August 2018)*^	**53,920**	**1,113**	-	-	21 August 2021	21 August 2028
2018 grant of 2014 Unapproved Executive Share Option Scheme (granted August 2018)*^	**546,080**	**1,113**	-	-	21 August 2021	21 August 2028
2013 grant of 2005 Savings Related Share Option Scheme (granted April 2013)*†	**4,225**	**355**	216,920	355	1 June 2018	1 December 2018
2014 grant of 2014 Savings Related Share Option Scheme (granted July 2014)*†	**-**	**429**	1,257	429	1 August 2017	1 February 2018
2014 grant of 2014 Savings Related Share Option Scheme (granted July 2014)*†	**112,350**	**429**	122,557	429	1 August 2019	1 February 2020
2015 grant of 2014 Savings Related Share Option Scheme (granted October 2015)*†	**135,243**	**560**	145,821	560	1 January 2019	1 July 2019
2015 grant of 2014 Savings Related Share Option Scheme (granted October 2015)*†	**134,253**	**560**	140,807	560	1 January 2021	1 July 2021
2016 grant of 2014 Savings Related Share Option Scheme (granted October 2016)*†	**90,773**	**963**	117,543	963	1 January 2020	1 July 2020
2016 grant of 2014 Savings Related Share Option Scheme (granted October 2016)*†	**48,622**	**963**	60,328	963	1 January 2022	1 July 2022
2017 grant of 2014 Savings Related Share Option Scheme (granted October 2017)*†	**69,443**	**1,021**	123,784	1,021	1 January 2021	1 July 2021
2017 grant of 2014 Savings Related Share Option Scheme (granted October 2017)*†	**27,541**	**1,021**	54,879	1,021	1 January 2023	1 July 2023
2018 grant of 2014 Savings Related Share Option Scheme (granted September 2018)*†	**240,412**	**891**	-	-	1 January 2022	1 July 2022
2018 grant of 2014 Savings Related Share Option Scheme (granted September 2018)*†	**123,489**	**891**	-	-	1 January 2024	1 July 2024
Outstanding at the end of the year	**2,122,098**		1,736,774			
Exercisable at the year end	**220,646**		15,357			
Not exercisable at the year end	**1,901,452**		1,721,417			
Outstanding at the end of the year	**2,122,098**		1,736,774			

* 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, otherwise awards will vest if the participants continue to be in employment.

^ Vesting of awards under the ESOS schemes is subject to various performance criteria that are based on the profitability of subsidiary businesses.

§ 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 2019 for the 2016 grant, 1 January 2020 for the 2017 grant and 1 January 2021 for the 2018 grant.

¥ The 2017 LTIP award granted in May 2017 includes 6,843 shares under the Group's 2014 Executive Share Option Scheme that may be awarded to participants in the Long-Term Incentive Plan.

Notes to the Consolidated Financial Statements (continued)

21. Called up share capital continued

The remaining weighted average life of the outstanding share options is 4 years 9 months (2017: 3 years 3 months).

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

	Weighted average exercise price (p) 2018	**Millions of options 2018**	Weighted average exercise price (p) 2017	Millions of options 2016
Outstanding at the beginning of the year	**518**	**1.7**	443	1.8
Granted during the year	**933**	**1.1**	649	0.3
Exercised during the year	**(307)**	**(0.5)**	(189)	(0.3)
Lapsed during the year	**(854)**	**(0.2)**	(761)	(0.1)
Outstanding at the end of the year	**739**	**2.1**	518	1.7

The weighted average share price on the dates of exercise of share options during the year was 1314p (2017: 1347p), and the weighted average fair value of options and awards granted in the year was 236p (2017: 610p). The weighted average exercise price of outstanding options exercisable at the year end was 655p (2017: 325p).

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.

	2018 grant of 2014 LTIP Award	2017 grant of 2014 LTIP Award	2016 grant of 2014 LTIP Award	2015 grant of 2014 LTIP Award	Sept 2018 grant of 2014 Savings Related Share Option Scheme	October 2017 grant of 2014 Savings Related Share Option Scheme	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	2018 grant of 2014 Executive Share Option Schemes	2015 grant of 2014 Executive Share Option Schemes	2012 grant of 2005 Executive Share Option Schemes
Fair value at measurement date (p)	1,318p/745p	1,388p/850p	862p/606p	671p/434p	194p/197p	317p/322p	309p/374p	123p/159p	93p/98p	83p	131p	80p	41p
Share price at grant date (p)	1,318p	1,388p	862p	671p	1030p	1241p	1163p	691p	512p	429p	1068p	700p	316p
Exercise price (p)	0p	0p	0p	0p	891p	1021p	963p	560p	429p	355p	1113p	685p	316p
Expected volatility (%)	22%	21%	19%	20%	26%/24%	32%/28%	34%/37%	18%/24%	22%/21%	26%	26%	20%	28%
Option life (years)	3	3	3	3	3/5	3/5	3/5	3/5	3/5	5	3	3	3
Dividend yield (%)	0.0%	0.0%	0.0%	0.0%	2.9%	2.1%	1.8%	2.6%	3.1%	3.5%	2.8%	2.6%	4.2%
Risk free interest rate (%)	0.9%	0.2%	0.7%	0.9%	0.8%/1.0%	0.5%/0.8%	0.1%/0.2%	0.8%/1.2%	1.2%/2.0%	0.7%	0.8%	1.0%	0.6%

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:

	2018 £m	2017 £m
Equity-settled	**1.1**	1.3
Cash-settled	**-**	0.5
Total expensed during the year	**1.1**	1.8

22. Guarantees and other financial commitments

(a) Guarantees
The Group had no financial guarantee contracts outstanding (2017: £nil).

(b) Capital commitments

	2018 £m	2017 £m
Contracted for but not provided in the accounts	**7.0**	0.9

(c) Operating lease commitments
The total future minimum commitments payable under non-cancellable operating leases are analysed as follows:

	2018		2017	
	Land and buildings £m	**Other £m**	Land and buildings £m	Other £m
Group				
Within one year	**5.8**	**4.4**	4.9	3.8
Between one and two years	**5.0**	**3.4**	4.4	3.4
Between two and five years	**8.5**	**3.7**	10.0	4.1
After five years	**7.6**	**0.1**	5.9	0.1
	26.9	**11.6**	25.2	11.4

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

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

	2018		2017	
	Land and buildings £m	**Other £m**	Land and buildings £m	Other £m
Group				
Within one year	**0.4**	**9.3**	0.4	6.0
Between one and five years	**0.4**	**3.5**	0.7	0.3
After five years	**0.1**	**-**	-	0.1
	0.9	**12.8**	1.1	6.4

23. Pensions

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

	UK £m	**Overseas £m**	**2018 £m**	UK £m	Overseas £m	2017 £m
Total fair value of scheme assets	**55.2**	**2.9**	**58.1**	61.1	3.0	64.1
Present value of scheme funded obligations	**(72.8)**	**(8.0)**	**(80.8)**	(81.9)	(7.6)	(89.5)
Present value of scheme unfunded obligations	**-**	**(0.3)**	**(0.3)**	-	(0.2)	(0.2)
Retirement benefit obligation	**(17.6)**	**(5.4)**	**(23.0)**	(20.8)	(4.8)	(25.6)

United Kingdom

The Group operates one main pension scheme in the UK, the Hill & Smith 2016 Pension Scheme ('the Scheme'), providing benefits on a defined benefit and defined contribution basis. The Scheme is closed to future accrual.

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 £2.8m (2017: £1.8m), which includes the costs of the defined contribution and the defined benefit sections of the Scheme. The charge includes an amount of £1.0m (2017: £nil) relating to the expected cost of settling historical guaranteed minimum pensions (as explained in note 3).

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 against this discount rate, this will create a plan deficit. The Scheme holds a proportion of its assets in equity funds 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 Liability Driven Investment and bond funds.
Inflation risk	A significant proportion of the defined benefit obligation is indexed in line with price inflation, with higher inflation leading to higher liabilities. This risk will be partially offset by the Scheme's Liability Driven Investments, which will increase in value in line with market inflation expectations.
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 2016 and was updated to 31 December 2018 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

	2018	2017	2016	2015	2014
Rate of increase in salaries	**n/a**	n/a	n/a	n/a	n/a
Rate of increase in pensions payment	**3.2%**	3.1%	3.20%	3.00%	2.90%
Discount rate	**2.8%**	2.4%	2.60%	3.80%	3.50%
Inflation – RPI	**3.3%**	3.2%	3.40%	3.10%	3.0%
Inflation – CPI	**2.3%**	2.2%	2.40%	2.10%	2.0%
Mortality table	**105%102% S2PACM12017 (1.25%)**	105%102% S2PACM12016 (1.25%)	116%120% S2PACM12015 1%	116%120% S1PACM12015 1%	116%120% S1PACM12014 1%

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

	2018	2017	2016	2015	2014
Males currently aged 45	**22.9 years**	23.0 years	21.8 years	21.7 years	21.9 years
Females currently aged 45	**25.3 years**	25.2 years	24.0 years	23.9 years	24.4 years
Males currently aged 65	**21.8 years**	21.9 years	20.8 years	20.7 years	20.9 years
Females currently aged 65	**23.8 years**	23.8 years	22.7 years	22.7 years	23.1 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 2018 £m	Market value 2017 £m	Market value 2016 £m	Market value 2015 £m	Market value 2014 £m
Assets					
Equities	**6.7**	29.0	27.7	27.0	23.1
Bonds	**27.0**	18.4	39.1	39.9	37.5
With profits policies	**1.3**	1.3	1.2	1.2	1.1
Liability Driven Investment funds	**20.0**	10.2	-	-	-
Cash	**0.2**	2.2	0.5	0.9	6.9
Total fair value of Scheme assets	**55.2**	61.1	68.5	69.0	68.6
Present value of Scheme funded obligations	**(72.8)**	(81.9)	(90.9)	(80.1)	(86.3)
Retirement benefit obligation	**(17.6)**	(20.8)	(22.4)	(11.1)	(17.7)

In 2017 the Group and the Trustees undertook an investment review of the Scheme. The intention of the revised strategy for the Scheme is to reduce a proportion of interest rate and inflation risk by investing a portion of the Scheme's assets in Liability Driven Investment funds. This strategy resulted in an initial shift between bonds and LDI funds in the asset categories in 2017. Continuation of the strategy in the year to 31 December 2018 has resulted in a further increase in LDI funds and a reduction in equities.

Assets in the bonds, equities and LDI funds categories, which account for approximately 97% of total Scheme assets, have quoted market prices in active markets.

Total expense recognised in the Consolidated Income Statement

	2018			2017		
	Defined contribution schemes £m	**Defined benefit schemes £m**	**Total £m**	Defined contribution schemes £m	Defined benefit schemes £m	Total £m
Current service costs	**1.3**	**-**	**1.3**	1.2	-	1.2
Past service cost	**-**	**1.0**	**1.0**	-	-	-
Expenses	**0.2**	**0.3**	**0.5**	0.2	0.4	0.6
Charge to operating profit	**1.5**	**1.3**	**2.8**	1.4	0.4	1.8
Interest on net Scheme deficit	**-**	**0.5**	**0.5**	-	0.5	0.5
Total charged to profit before tax	**1.5**	**1.8**	**3.3**	1.4	0.9	2.3

Change in the present value of the defined benefit obligations

	2018 £m	2017 £m
Opening defined benefit obligations	**81.9**	90.9
Past service cost	**1.0**	-
Interest cost	**1.9**	2.2
Actuarial (gain)/loss arising from:		
Financial assumptions	**(3.5)**	1.2
Demographic assumptions	**(0.3)**	0.7
Experience adjustment	**(0.3)**	0.5
Benefits paid	**(7.9)**	(13.6)
Closing defined benefit obligations	**72.8**	81.9

Notes to the Consolidated Financial Statements (continued)

23. Pensions continued

Changes in fair values of Scheme assets

	2018 £m	2017 £m
Opening fair value of assets	**61.1**	68.5
Interest income	**1.4**	1.7
Return on plan assets excluding interest income	**(2.1)**	1.9
Employer contributions	**2.7**	2.6
Benefits paid	**(7.9)**	(13.6)
Closing fair value of assets	**55.2**	61.1
Actual return on Scheme assets	**(0.7)**	3.6
Expected employer contributions in the following year		
Defined benefit scheme	**2.9**	2.9
Defined contribution schemes	**1.1**	1.0

Amounts recognised in the Consolidated Statement of Comprehensive Income

	% of Scheme assets/ liabilities %	2018 £m	% of Scheme assets/ liabilities %	2017 £m	% of Scheme assets/ liabilities %	2016 £m
Return on plan assets excluding interest income	**(4)**	**(2.1)**	3	1.9	3	2.0
Experience gain/(loss) on Scheme obligations	**-**	**0.3**	(1)	(0.5)	-	-
Changes in assumptions underlying the present value of Scheme obligations	**5**	**3.8**	(2)	(1.9)	(17)	(15.5)
Annual amount recognised	**3**	**2.0**	(1)	(0.5)	(14)	(13.5)
Total amount recognised		**(41.0)**		(43.0)		(42.5)

	% of Scheme assets/ liabilities %	2015 £m	% of Scheme assets/ liabilities %	2014 £m
Return on plan assets excluding interest income	(1)	(0.4)	4	3.1
Experience gain on Scheme obligations	3	2.2	-	-
Changes in assumptions underlying the present value of Scheme obligations	1	3.2	(7)	(6.1)
Annual amount recognised	6	5.0	(3)	(3.0)
Total amount recognised		(29.0)		(34.0)

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 2018	Increase in pensions payment (+0.1% p.a.) £m	Discount rate (-0.1% p.a.) £m	Inflation rate (+0.1% p.a.) £m	Life expectancy (+1 year) £m
Value of funded obligations	(72.8)	(73.2)	(73.8)	(73.3)	(75.8)
Fair value of plan assets	55.2	55.2	55.2	55.2	55.2
Deficit	(17.6)	(18.0)	(18.6)	(18.1)	(20.6)

A formal actuarial valuation of the Scheme as at April 2016 was finalised during the prior year, following which the Group agreed a deficit recovery plan with the Trustees that requires cash contributions amounting to £2.5m per annum until September 2027.

The Group has considered the requirements of IFRIC 14. The terms of the Scheme give the Group the right to recover any surplus assets in the Scheme upon wind up and therefore management have 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 £1.3m (2017: £0.8m).

The Consolidated Income Statement for the year includes a pension charge within operating profit of £1.7m (2017: £1.1m), 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 2018.

The principal assumptions used by the actuaries

	2018 USA	**2018 France**	2017 USA	2017 France	2016 USA	2016 France
Rate of increase in salaries	**0.00%**	**2.00%**	0.00%	2.00%	0.00%	2.00%
Discount rate	**4.15%**	**1.6%/1.45%**	3.50%	1.6%/1.45%	4.15%	1.40%
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	2014 SOA	TH 00-02, TF 00-02

	2015 USA	2015 France	2014 USA	2014 France
Rate of increase in salaries	0.00%	2.00%	0.00%	2.00%
Discount rate	4.60%	2.00%	4.75%	2.50%
Inflation	0.00%	2.00%	0.00%	2.00%
Mortality table	2014 SOA	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 2018 £m	Market value 2017 £m	Market value 2016 £m	Market value 2015 £m	Market value 2014 £m
Assets					
Cash and other insured fixed interest assets	**2.9**	3.0	3.2	2.6	2.7
Total fair value of scheme assets	**2.9**	3.0	3.2	2.6	2.7
Present value of scheme funded obligations	**(8.0)**	(7.6)	(7.9)	(6.0)	(5.9)
Present value of scheme unfunded obligations	**(0.3)**	(0.2)	(0.2)	(0.1)	(0.2)
Retirement benefit obligation	**(5.4)**	(4.8)	(4.9)	(3.5)	(3.4)

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

	2018			2017		
	Defined contribution schemes £m	Defined benefit schemes £m	Total £m	Defined contribution schemes £m	Defined benefit schemes £m	Total £m
Current service cost	1.3	0.3	1.6	0.8	0.3	1.1
Past service cost	-	0.1	0.1	-	-	-
Charge to operating profit	1.3	0.4	1.7	0.8	0.3	1.1
Interest on net pension scheme deficit	-	0.1	0.1	-	0.2	0.2
Total charged to profit before tax	1.3	0.5	1.8	0.8	0.5	1.3

Change in the present value of the defined benefit obligation

	2018 £m	2017 £m
Opening defined benefit obligation	7.8	8.1
Current service costs	0.2	0.3
Past service cost	0.1	-
Interest cost on scheme obligations	0.2	0.3
Actuarial (gains)/losses arising from:		
Financial assumptions	0.2	(0.2)
Demographic adjustments	(0.1)	-
Benefits paid	(0.4)	(0.3)
Exchange adjustments	0.3	(0.4)
Closing defined benefit obligation	8.3	7.8

Changes in fair values of scheme assets

	2018 £m	2017 £m
Opening fair value of assets	3.0	3.2
Return on plan assets excluding interest income	(0.2)	0.3
Interest on plan assets	0.1	0.1
Admin expenses	(0.1)	(0.1)
Benefits paid	(0.2)	(0.2)
Exchange adjustments	0.3	(0.3)
Closing fair value of assets	2.9	3.0
Actual return on scheme assets	(0.1)	0.4
Expected employer contributions in the following year		
Defined benefit schemes	-	-
Defined contribution schemes	1.3	0.8

23. Pensions continued

Amounts recognised in the Consolidated Statement of Comprehensive Income

	% of scheme assets/ liabilities %	**2018 £m**	% of scheme assets/ liabilities %	2017 £m	% of scheme assets/ liabilities %	2016 £m
Experience gain/(loss) on scheme obligations	**1**	**0.1**	5	0.4	(2)	(0.2)
Return on plan assets excluding interest income	**(7)**	**(0.2)**	10	0.3	-	-
Changes in assumptions underlying the present value of scheme obligations	**(2)**	**(0.2)**	(1)	(0.1)	(5)	(0.4)
Exchange rate adjustment on assets and liabilities	**-**	**-**	(2)	(0.1)	(12)	(0.6)
Amount recognised in the period	**(4)**	**(0.3)**	6	0.5	(15)	(1.2)
Total amount recognised		**(2.6)**		(2.3)		(2.8)

	% of scheme assets/ liabilities %	2015 £m	% of scheme assets/ liabilities %	2014 £m
Experience gain on scheme obligations	4	0.2	-	-
Return on plan assets excluding interest income	-	-	-	-
Changes in assumptions underlying the present value of scheme obligations	(4)	(0.2)	(10)	(0.6)
Exchange rate adjustment on assets and liabilities	-	-	-	-
Amount recognised in the period	-	-	(10)	(0.6)
Total amount recognised		(1.6)		(1.6)

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 judgements, estimates and assumptions

The principal accounting judgements, estimates and related assumptions 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 set out below.

Actuarial assumptions on pension obligations

Estimates
In determining the valuation of the defined benefit pension deficit, certain estimates and 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 influenced by wider macro-economic factors that are largely outside of the Group's control. A sensitivity analysis of the impact of changes in key assumptions is set out in note 23.

Impairment of goodwill

Estimates
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, including sensitivity analysis, is included in note 10.

Taxation

Judgements
Liabilities for uncertain tax positions require management judgements in respect of tax audit issues and exposures in each of the jurisdictions in which the Group operates. Where management judges that a tax position is uncertain, a current tax liability is held for anticipated taxes that are considered to be 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.

Notes to the Consolidated Financial Statements (continued)

24. Accounting judgements, estimates and assumptions continued

Estimates
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 uncertain tax positions also require management estimates in respect of the amount of tax that may become payable. 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. Included in the current tax payable is a liability of £8.3m (2017: £7.8m) for uncertain tax positions.

The liability includes an amount of £4.6m (2017: £4.2m) relating to the pricing of intercompany goods and services between subsidiaries in different countries. Depending on the conclusions of any tax audits conducted by the tax authorities in the various jurisdictions in which the Group operates, management estimate the range of possible outcomes to be between £nil and £10.0m (2017: £nil to £7.7m) and therefore it is possible that, if the outcomes are different to those estimated by management, the difference may materially impact the income tax charge / (credit) in the year in which the matter is concluded. Management does not believe that the range of possible outcomes for the other items included in the liability for uncertain tax positions could have a material effect on the financial statements in the next 12 months. Further information is set out in note 7 and note 13.

25. Contingent liability

In October 2017, the European Commission opened a state aid investigation into the Group Financing Exemption in the UK controlled foreign company legislation. In common with other UK-based international companies, the Group may be affected by the outcome of this investigation and is therefore monitoring developments. If the preliminary findings of the European Commission's investigations into the UK legislation are upheld, we have estimated the Group's maximum potential liability to be £2.5m as at 31 December 2018 (2017: £1.7m). Based on the current status of the investigation, we have concluded that no provision is required in relation to this amount.

26. 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 73 to 82 and in note 4 to the financial statements on page 117.

27. Subsequent events

On 10 January 2019, the Group completed an amendment to its principal UK revolving credit facility, extending the term to January 2024 and increasing the size of the facility by £50m to c. £280m. Further details are set out in note 20.

On 22 February 2019, the Group announced the acquisition of 100% of the share capital of Cobaco Holdings Limited, the parent company of ATG Access Limited ("ATG") for a cash consideration of £22.5m. Based in the UK and exporting to over 30 countries, ATG specialises in the development, manufacture and installation of hostile vehicle mitigation perimeter security solutions including bollards, road blockers, barriers and gates. The combination of our existing security products with those of ATG provides a strong platform to accelerate the expansion of both our existing UK and international roads businesses. Under IAS 10 'Events After the Reporting Period', this has been treated as a non-adjusting event as no conditions existed at the end of the reporting period. There is no impact to the going concern basis of accounting due to this event. This transaction will be treated as a business combination under IFRS 3 and full details of the financial effects will be included in the Group's next set of financial statements, as the Group have yet to finalise the initial accounting and to agree this with the vendors.

Year ended 31 December 2018

Company Balance Sheet

	Notes	2018 £m	2017 £m
Fixed assets			
Tangible assets	3	**-**	0.1
Investments	4	**325.0**	324.9
		325.0	325.0
Current assets			
Debtors	5	**87.4**	77.8
Cash and cash equivalents		**0.1**	-
		87.5	77.8
Creditors: amounts falling due within one year			
Bank loans and overdrafts	6, 7	**(0.5)**	(6.9)
Other creditors	6	**(52.5)**	(57.6)
		(53.0)	(64.5)
Net current assets		**34.5**	13.3
Total assets less current liabilities		**359.5**	338.3
Creditors: amounts falling due after more than one year	7	**(61.9)**	(44.0)
Provisions for liabilities and charges			
Pension liabilities	9	**(0.4)**	(0.4)
Other provisions		**-**	(0.1)
Net assets		**297.2**	293.8
Share capital and reserves			
Called up share capital	10	**19.8**	19.7
Share premium		**35.5**	34.1
Capital redemption reserve		**0.2**	0.2
Profit and loss account		**241.7**	239.8
Equity shareholders' funds		**297.2**	293.8

Approved by the Board of Directors on 6 March 2019 and signed on its behalf by:

D W Muir
Director

M Pegler
Director

Company Number: 671474

Year ended 31 December 2018

Company Statement of Changes in Equity

	Called up share capital £m	Share premium account £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
Balance at 1 January 2017	19.7	33.5	0.2	242.6	296.0
Comprehensive income					
Profit for the year	-	-	-	19.2	19.2
Other comprehensive income for the year	-	-	-	0.1	0.1
Transactions with owners recognised directly in equity					
Dividends	-	-	-	(20.7)	(20.7)
Credit to equity of share-based payments	-	-	-	1.3	1.3
Satisfaction of long term incentive awards	-	-	-	(2.5)	(2.5)
Own shares acquired by employee benefit trust	-	-	-	(0.1)	(0.1)
Tax taken directly to the Statement of Changes in Equity	-	-	-	(0.1)	(0.1)
Issue of shares	-	0.6	-	-	0.6
At 31 December 2017	**19.7**	**34.1**	**0.2**	**239.8**	**293.8**
Adoption of new accounting standards	-	-	-	1.1	1.1
At 1 January 2018 (restated)	**19.7**	**34.1**	**0.2**	**240.9**	**294.9**
Comprehensive income					
Profit for the year	**-**	**-**	**-**	**26.5**	**26.5**
Other comprehensive income for the year	**-**	**-**	**-**	**(0.3)**	**(0.3)**
Transactions with owners recognised directly in equity					
Dividends	**-**	**-**	**-**	**(23.6)**	**(23.6)**
Credit to equity of share-based payments	**-**	**-**	**-**	**1.1**	**1.1**
Satisfaction of long term incentive awards	**-**	**-**	**-**	**(2.9)**	**(2.9)**
Own shares held by employee benefit trust	**-**	**-**	**-**	**0.2**	**0.2**
Tax taken directly to the Statement of Changes in Equity	**-**	**-**	**-**	**(0.2)**	**(0.2)**
Shares issued	**0.1**	**1.4**	**-**	**-**	**1.5**
At 31 December 2018	**19.8**	**35.5**	**0.2**	**241.7**	**297.2**

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.

Profit for the year of £26.5m includes a credit of £9.7m reflecting amounts receivable from subsidiary undertakings in relation to defined benefit pension scheme deficit payments. In previous years the Company had recognised a charge in its income statement for the total deficit recovery payments made to the scheme during that year. This treatment has been corrected in the current year by the recognition of a receivable from subsidiary undertakings representing the amounts that should have been reimbursed by participating employers of the scheme.

Distributable reserves

The Company maintains a policy of recognising gains arising from intra-group transactions as distributable only once a formal legal opinion has been sought to confirm the position, after all steps required to execute a transaction have been duly completed. The legal opinions required under this policy will be sought no later than the point at which the reserves in question are required to be accessed for the purposes of distribution. In line with this policy the Company has available to it distributable reserves of not less than £50.5m, representing 2.1 times cover of the current year proposed dividend. When required the Company can receive dividends from its subsidiaries to further increase its distributable reserves; the Company's UK trading subsidiaries currently have reserves of approximately £40m available for distribution at 31 December 2018. Further reserves are available for distribution from trading subsidiaries located overseas, subject to local regulations.

Company Statement of Cash Flows

	Notes	2018 £m	2018 £m	2017 £m	2017 £m
Profit before tax			25.4		17.8
Less dividends received			(29.0)		(22.5)
Loss before tax and dividends received			(3.6)		(4.7)
Add back net financing costs			1.8		1.6
Operating loss			(1.8)		(3.1)
Adjusted for non-cash items:					
Share-based payments		1.1		1.3	
Depreciation		0.1		-	
Loss on disposal of subsidiary		-		2.8	
Impairment of investments		-		0.7	
			1.2		4.8
Operating cash flow before movement in working capital			(0.6)		1.7
(Increase)/decrease in receivables		(0.1)		0.8	
(Decrease)/increase in payables		(1.5)		1.0	
Decrease in provisions		(0.4)		(0.1)	
Change in amounts due to/from Group undertakings		(8.1)		9.0	
Net movement in working capital			(10.1)		10.7
Cash (used in)/generated from operations			(10.7)		12.4
Income taxes paid			(3.2)		(3.3)
Interest paid			(1.7)		(1.6)
Net cash (used in)/generated from operating activities			(15.6)		7.5
Interest received		-		-	
Dividends received		29.0		22.5	
Disposal of subsidiaries		-		2.5	
Investments in subsidiaries		10.6		-	
Repayment of capital in subsidiaries		(10.5)		-	
Net cash from investing activities			28.9		25.0
Issue of new shares	10	1.5		0.6	
Purchase of shares for employee benefit trust		(2.7)		(2.6)	
Dividends paid	2	(23.6)		(20.7)	
Costs associated with refinancing of revolving credit facility		-		-	
New loans and borrowings		33.0		26.0	
Repayment of loans and borrowings		(15.0)		(34.0)	
Net cash used in financing activities			(6.8)		(30.7)
Net increase in cash			6.5		1.8
Cash at the beginning of the year			(6.9)		(8.7)
Cash at the end of the year			(0.4)		(6.9)

Strategic Report
Governance Report
Financial Statements
Shareholder Information

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').

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 available 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 152 to 154 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 fair value through other comprehensive income, 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.

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 before taxation

	2018 £m	2017 £m
The profit 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 £7.4m (2017: £6.7m) and the final dividend of £16.2m (2017: £14.0m). 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:

	2018		2017	
	Pence per share	£m	Pence per share	£m
Equity shares				
Interim	**10.0**	**7.9**	9.4	7.4
Final	**21.8**	**17.2**	20.6	16.4
Total	**31.8**	**25.1**	30.0	23.8

3. Tangible fixed assets

	Short leasehold properties £m	Plant, machinery and vehicles £m	Total £m
Cost or valuation			
At 31 December 2017	0.1	0.4	0.5
Additions	-	-	-
At 31 December 2018	**0.1**	**0.4**	**0.5**
Depreciation			
At 31 December 2017	-	0.4	0.4
Charge for the year	0.1	-	0.1
At 31 December 2018	**0.1**	**0.4**	**0.5**
Net book value			
At 31 December 2018	**-**	**-**	**-**
At 31 December 2017	0.1	-	0.1

4. Fixed asset investments

	Shares in subsidiary undertakings £m	Total £m
Cost		
At 31 December 2017	337.7	337.7
Reclassification	0.3	0.3
Additions	10.6	10.6
Repayment of capital	(10.5)	(10.5)
At 31 December 2018	**338.1**	**338.1**
Provisions		
At 31 December 2017	12.8	12.8
Reclassification	0.3	0.3
At 31 December 2018	**13.1**	**13.1**
Net book value		
At 31 December 2018	**325.0**	**325.0**
At 31 December 2017	324.9	324.9

During the year Hill & Smith (France) Limited, a direct subsidiary, repaid capital previously given to it by the Company following an extension of its external debt facilities and a restructuring of the entity.

A list of the businesses owned by the Company is given in note 13. All of the Company's subsidiaries are wholly owned.

Notes to the Company Financial Statements (continued)

5. Debtors

	2018 £m	2017 £m
Amounts owed by subsidiary undertakings	**83.7**	72.5
Corporation tax	**2.7**	4.0
Deferred tax (note 8)	**0.3**	0.7
Other debtors	**0.5**	0.4
Prepayments and accrued income	**0.2**	0.2
	87.4	77.8

6. Creditors: amounts falling due within one year

	2018 £m	2017 £m
Bank loans and overdrafts (note 7)		
Bank overdrafts	**0.5**	6.9
	0.5	6.9
Other creditors		
Trade creditors	**1.8**	1.8
Other taxation and social security	**0.1**	0.1
Accruals and deferred income	**3.1**	4.7
Other creditors	**0.7**	0.6
Amounts owed to subsidiary undertakings	**46.8**	50.4
	52.5	57.6

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

The Company's interest bearing loans and borrowings are detailed below. Further information on the Company's exposure to interest rate and foreign currency risk is provided in note 20 of the Group Financial Statements.

	2018 £m	2017 £m
Long term bank loans	**61.9**	44.0
	61.9	44.0

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

	2018 £m	2017 £m
Bank loans and overdraft		
Amounts due within one year (note 6)	**0.5**	6.9
Amounts due after more than one year:		
Between one and two years	**-**	-
Between two and five years	**61.9**	44.0
	61.9	44.0
	62.4	50.9

8. Deferred tax

	2018 £m	2017 £m
At 1 January	**(0.7)**	(0.8)
Adoption of new accounting standards	**0.1**	-
At 1 January (restated)	**(0.6)**	(0.8)
Charged for the year in the Income Statement	**0.1**	-
Charged for the year directly in equity	**0.2**	0.1
At 31 December	**(0.3)**	(0.7)
Other timing differences	**(0.3)**	(0.7)

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 Company's profit for the year includes a pension charge of £0.3m (2017: £2.9m), which includes the costs of the defined contribution schemes and the defined benefit schemes.

Profit for the year of £26.5m includes a credit of £9.7m reflecting amounts receivable from subsidiary undertakings in relation to defined benefit pension scheme deficit payments. In previous years the Company had recognised a charge in its income statement for the total deficit recovery payments made to the Scheme during that year. This treatment has been corrected in the current year by the recognition of a receivable from subsidiary undertakings representing the amounts that should have been reimbursed by participating employers of the Scheme.

10. Called up share capital

	2018 £m	2017 £m
Allotted, called up and fully paid		
79.0m Ordinary Shares of 25p each (2017: 78.7m)	**19.8**	19.7

In 2018 the Company issued 0.3m shares under its various share option schemes (2017: 0.2m), realising £1.5m (2017: £0.6m). 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 (2017: £nil).

The Company guarantees the bank loans and overdrafts of certain subsidiary undertakings. The amount outstanding at 31 December 2018 was £121.6m (2017: £88.8m).

(b) Operating lease commitments
Annual commitments under non-cancellable operating leases expire in the periods as detailed below:

	2018		2017	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Within one year	**0.1**	**-**	0.1	-
Between one and two years	**0.1**	**-**	0.1	-
Between two and five years	**0.2**	**-**	0.3	-
After five years	**0.3**	**-**	0.5	-
	0.7	**-**	1.0	-

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 2018 £m**	Highest during the year £m	Balance at 31 December 2017 £m
Amounts due from subsidiaries	**83.7**	**83.7**	77.3	72.5
Amounts due to subsidiaries	**(46.8)**	**(46.8)**	(75.0)	(50.4)

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

	2018 £m	2017 £m
Dividends received	**29.0**	22.5
Recharge of operating expenses	**7.8**	7.5
Net interest income	**0.3**	0.3

13. Subsidiaries

Incorporated in the UK

Access Design & Engineering Limited
ALSIPI Limited
Ash & Lacy Limited (H)*
Ash & Lacy Manufacturing Limited
Ash & Lacy Overseas (Holdings) Limited
Ash & Lacy Services Limited
Ash Plastic Products Limited
Asset International Limited
A W Thorne Limited (D)*
Bainbridge Engineering Limited (D)*
Barkers Engineering Limited (U, G)
Bergen Pipe Supports Group Limited (U)*
Bergen Pipe Supports Limited (H)
Berry Safety Systems Limited (D)*
Bipel Group plc (D)
Bipel Limited (D)
Birtley Group Limited (U, G)
Bowater Doors Limited (U)
Bromford Steel Limited (D)
Bytec Limited (D)
C.I.C. Ralphs Limited (D)
Carrington Packaging Limited (D)
Cooper Securities (Dudley) Limited (D)
Cooper Securities Limited (D)
Dee Organ Limited (D)
Eurogrid Access Design Limited (D)
Expamet Building Products Limited (D)
Expamet Limited (D)
Hawkshead Properties Limited (H)
Hardstaff Barriers Limited (R)
Hill & Smith (Americas) Limited (H)
Hill & Smith (Americas) 2 Limited
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)**
J. & F. Pool Limited (D)
Jevons Tools Limited (D)
Jones of Oswestry Limited (D)
Joseph Ash Limited (G)
Lionweld Kennedy Flooring Limited (U)*
Mallatite Limited (R)*
MB Tech Limited (D)
Medway Galvanising Company Limited (G)
Pipe Supports Overseas Limited (H)*
Post & Column Limited (D)
Premier Galvanizing Limited (G)
Redman Architectural Metalwork Limited (D)
Redman Fisher Engineering Limited (U)
Royston Steel Fencing Limited (D)
Safety and Security Barrier Holdings Limited (H)
Signature Limited (D)
Technocover Limited (U)
Tegrel Limited (R)
The Global Tank and Foundry (Wolverhampton) Limited (D)
Variable Message Signs Limited (D)
Varley & Gulliver Limited (R)
Vista Galvanizing (UK) Limited (D)
Western Galvanizers Limited (D)
Wombwell Foundry Limited (D)

All of the above subsidiaries have a year end date of 31 December 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

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 Jersey
Vista Limited [H]
Second Floor, No. 4 The Forum,
Grenville Street, St. Helier

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 [D]
574, 3rd Floor, Main Road, Chirag Delhi, New Delhi, 110017

Incorporated in Ireland
Redman Fisher Limited [U]
Naas Industrial Estate, Naas,
Co Kildare, 496407

Hill & Smith (Ireland) Unlimited Company
Custom House Plaza, Block 6
International Financial Services Centre
Dublin

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 the USA
Bergen Pipe Supports, Inc. [U]
Carpenter & Paterson, Inc. [U]
Creative Pultrusions, Inc. [U]
CPK Manufacturing LLC [U]
CPCA Manufacturing LLC [U]
Hill & Smith Group Holdings, Inc. [H]
Hill & Smith Holdings LLC [H]
Hill & Smith, Inc. [R]
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.

Five Year Summary

	2018 £m	2017 £m	2016 £m	2015 £m	2014 £m
Revenue	**637.9**	585.1	540.1	467.5	454.7
Underlying operating profit	**80.1**	81.3	70.6	56.0	49.2
Underlying profit before taxation	**76.3**	78.5	68.0	53.0	46.0
Shareholders' funds	**293.2**	258.6	232.2	198.2	181.5

	Pence	Pence	Pence	Pence	Pence
Underlying earnings per share	**77.8**	75.9	65.9	51.7	45.0
Proposed dividends per share	**31.8**	30.0	26.4	20.7	18.0

ATG Access, acquired by the Group on 22 February 2019, has developed "Surface Guard"; a high security, fast deployed vehicle barrier to protect temporary sporting, music and special events. The barriers have been deployed at more than 300 events in the last 18 months and the picture shows the barriers being used in Belgravia Street, London.

Shareholder Information

Top: Zoneguard and crash cushion on M1 Gateway project, Brisbane, Australia.

Bottom: The Rampion windfarm consists of 116 turbines and is located 8 miles off the Sussex Coast. Lionweld Kennedy Flooring were specified on the project and supplied the steel gratings and handrail systems.

Financial Calendar

Annual General Meeting 2019	16 May 2019
Trading Update	16 May 2019
Ex-dividend date for 2018 final dividend	23 May 2019
Record date 2018 final dividend	24 May 2019
Dividend Reinvestment Plan – last date for election	10 June 2019
Final 2018 ordinary dividend payable	1 July 2019
Announcement of 2019 interim results	7 August 2019
Trading Update	21 November 2019
Payment of 2019 interim dividend	3 January 2020

Shareholder Information

Shareholder base

Holdings of ordinary shares at 1 March 2019

Range of Shares	Number of holders	%	Number of shares	%
1 - 500	750	31.29	166,584	0.21
501 - 1,000	419	17.48	318,976	0.40
1,001 – 5,000	686	28.62	1,585,290	2.00
5,001 – 50,000	388	16.19	5,730,592	7.24
50,001 – 100,000	40	1.67	3,023,084	3.82
100,001 – 500,000	79	3.29	18,119,332	22.90
500,001 – 1,000,000	17	0.71	12,224,394	15.45
Above 1,000,000	18	0.75	37,965,280	47.98
Totals	**2,397**	**100.00**	**79,133,532**	**100.00**

Shareholder type

	Number of holders	%	Number of shares	%
Individuals	1,480	61.74	3,971,715	5.02
Institutions	912	38.05	75,153,070	94.97
Other corporate	5	0.21	8,747	0.01
Totals	**2,397**	**100.00**	**79,133,532**	**100.00**

Dividend History – proposed dividends per share

	2018	2017	2016	2015	2014
Interim	**10.0**	9.4	8.5	7.1	6.4
Final	**21.8**	20.6	17.9	13.6	11.6
Total	**31.8**	30.0	26.4	20.7	18.0

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 16 May 2019 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 10 June 2019)
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 Ltd. (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 Safety Systems Ltd. (D)
Car park and industrial barriers, spring steel barriers, protection bollards, speed ramps and handrail panels
www.berrysystems.co.uk

Brifen (D)
Wire rope safety fence vehicle restraints and hostile vehicle mitigation products.
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

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

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

Work Area Protection Corp (D)
Provides smart, safe, innovative solutions for the traffic safety and highway infrastructure businesses
www.workareaprotection.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) composite profiles
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

Kenway Composites (D)
Advanced custom composite manufacturing and professional field services for various industries
www.kenway.com

Tower Tech (D)
Manufactures cooling tower products that effectively bridge the gap between sustainability and energy efficiency
www.towertechinc.com

Composite Advantage (D)
A leading manufacturer for Fibre Reinforced Polymer composite bridge, waterfront and rail infrastructure markets

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
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France

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Fax: +33 (0) 3 86 43 82 29
contact@francegalva.fr
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Notes:

The above lists the Company's subsidiary undertakings, except for some intermediate holding companies and certain other undertakings of minor importance. Except where indicated, the undertakings are subsidiaries incorporated in Great Britain and the share capital consists of ordinary shares only.

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

Directors, Contacts & Advisors

Directors

J F Lennox LLB, CA
(Chairman and Non-executive)

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

M Pegler BCom, FCA
(Group Finance Director)

A C B Giddins FCA
(Senior Independent Non-executive)

A M Kelleher MSc, BA
(Non-executive)

M J Reckitt BCom, CA
(Non-executive)

Contacts

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Registration Details
Registered in England and Wales
Company Number: 671474

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C A Henderson FCIS

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Brokers and Financial Advisors
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