Regulatory Story

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Hill & Smith Hldgs PLC - HILS Final Results
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# Hill & Smith Holdings PLC

**AUDITED RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016**

**Record results**
**Positive 2017 outlook in major end markets**

Hill & Smith Holdings PLC, the international group with leading positions in the manufacture and supply of infrastructure products and galvanizing services to global markets, announces its audited results for the year ended 31 December 2016.

**Financial results**

| | **31 December 2016** | 31 December 2015 | *Change* *Reported %* | *Constant ** currency %* |
|---|---|---|---|---|
| Revenue | **£540.1m** | £467.5m | *+16* | *+9* |
| Underlying*: | | | | |
| Operating profit | **£70.6m** | £56.0m | *+26* | *+17* |
| Operating margin | **13.1%** | 12.0% | *+110bps* | *+90bps* |
| Profit before taxation | **£68.0m** | £53.0m | *+28* | *+18* |
| Earnings per share | **65.9p** | 51.7p | *+27* | *+18* |
| Reported: | | | | |
| Operating profit | **£51.8m** | £37.3m | *+39* | |
| Profit before taxation | **£48.3m** | £33.2m | *+45* | |
| Basic earnings per share | **43.0p** | 30.9p | *+39* | |
| | | | | |
| Dividend per share | **26.4p** | 20.7p | *+28* | |
| Net debt | **£112.0m** | £91.5m | | |

**Key points:**

- Record revenue and underlying earnings performance
- Improved returns driven by strong end markets and active portfolio management:
  - Underlying operating margin 13.1%, up 110bps on prior year
  - Return on invested capital increased to 19% (2015: 18%)
- Underlying profit before taxation up 28% to £68.0m:
  - Roads continued to benefit from the UK Road Investment Strategy. International operations gaining traction
  - Non-US Pipe Supports restructuring complete, ahead of planned timing and cost
  - Galvanizing strong performance in the UK and US, France better than expected
- Five acquisitions completed during the year to extend and complement the product offer
- Another strong cash generation performance with net debt at £112.0m (2015: £91.5m), after funding £37.4m of acquisitions expenditure
- Proposed 32% increase in final dividend of 17.9p giving a full year dividend of 26.4p, up 28% and the fourteenth successive year of increases

**Derek Muir, Chief Executive, said:**

"Hill & Smith has delivered its best ever trading performance in 2016 with infrastructure spending in our key UK and US markets remaining strong.

"Our performance continues to be underpinned by our tried and tested strategy of international diversity together with the leading positions our businesses hold in their respective markets. Rising infrastructure investment, together with our focus on active portfolio management to drive shareholder value, resulted in record returns.

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

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

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

***Notes to Editors***
*Hill & Smith Holdings PLC is an international group with leading positions in the design, manufacture and supply of infrastructure products and galvanizing services to global markets. It serves its customers from facilities principally in the UK, France, USA, Sweden, Norway, India and Australia.*

*The Group's operations are organised into three main business segments:*

***Infrastructure Products - Roads**, supplying products and services such as permanent and temporary road safety barriers, hostile vehicle mitigation products, street lighting columns, bridge parapets, temporary car parks, variable road messaging solutions and traffic data collection systems.*

***Infrastructure Products - Utilities****, supplying products and services such as pipe supports for the power and liquid natural gas markets, energy grid components, composite "GRP" railway platforms and flood prevention barriers, plastic drainage pipes, industrial flooring, handrails, access covers and security fencing.*

***Galvanizing Services*** *which provides zinc and other coatings for a wide range of products including fencing, lighting columns, structural steel work, bridges, agricultural and other products for the infrastructure and construction markets.*

*Headquartered in the UK and quoted on the London Stock Exchange (LSE: HILS.L), Hill & Smith Holdings PLC employs some 4,150 staff, principally in 7 countries.*

## Chairman's Statement

**Overview**

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

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

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

- In January, we acquired E.T. Techtonics, Inc., a US-based designer of composite bridge products that complements our existing US composites business, Creative Pultrusions.

- In April, we acquired FMK Trafikprodukter AB ('FMK'), a Swedish producer of safety barriers, noise reduction screens and bridge parapets for the Scandinavian roads markets. FMK has been integrated with our existing ATA business, providing an expanded suite of traffic management products.

- In May, we acquired Safety and Security Barrier Holdings Limited, the parent company of Hardstaff Barriers Limited ('Hardstaff Barriers'). Hardstaff Barriers, based in Nottingham, UK, specialises in temporary and permanent concrete safety barriers for site and vehicle protection.

- In July, we acquired Technocover Limited ('Technocover'). Technocover specialises in the development, manufacture, installation and maintenance of high security access products for the utilities markets.

- In August, we acquired Signature Limited ('Signature'). Signature develops, manufactures, installs and maintains street lighting columns, road sign and traffic management systems and has been integrated into our existing Mallatite business.

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

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

**Performance highlights**

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

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

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

**Dividends**

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

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

**Governance and the Board**

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

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

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

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

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

**Brexit**

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

**AGM**

We will hold our AGM on 11 May 2017 and it is an excellent opportunity for shareholders to meet the Board and certain senior executives of the Group. If you are able to attend my colleagues and I will be delighted to see you.

**People**

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

**Outlook**

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

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

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

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

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

Bill Whiteley
Chairman

8 March 2017

## Operational and Financial Review

**2016 overview**

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

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

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

**Infrastructure Products**

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

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

*Roads*

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

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

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

*UK*

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

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

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

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

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

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

*Non-UK*

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

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

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

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

*Utilities*

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

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

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

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

Our composite material business experienced a disappointing year with the absence of large one-off contracts impacting performance. On 20 January 2016 we completed the acquisition of the trade and assets of E.T. Techtonics, Inc. ('ETT'), a leading designer of composite bridges for pedestrian, equestrian and light vehicle applications. Trading ahead of expectations, ETT has been integrated into our existing composites business and enhances our product offering to end users within infrastructure markets.
Encouragingly, overall results in our US Pipe Supports business were ahead of last year. We experienced higher demand for our engineered pipe supports in both the petrochemical and power markets and we completed three projects under a master supply agreement with Bechtel Power. Demand for our industrial hangers also increased as construction activity in our key north east markets improved. To provide new impetus, a new leadership team was installed mid-year. Following a strategic review, a cost reduction programme was implemented in the fourth quarter resulting in the closure of three of the seven existing branches and the consolidation of their operations into one strategically located service centre between New York and Philadelphia to serve the eastern region. The rationalisation was completed in February 2017 and we expect to see the benefits of a lower cost base and more efficient operation in an improved performance in 2017.

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

*UK*
In the UK the performance of our utilities businesses was mixed and, as expected, results were lower than the strong performance in the prior year. Our plastic pipe business fell below expectations as anticipated orders from Asset Management Period 6 ('AMP6') for the water industry failed to materialise despite numerous projects in design phase. As the programme enters year three of the five-year investment cycle we

do expect a significant upturn in the number of projects being released. Demand for storm attenuation tanks for flood alleviation in the UK housing market was strong and is expected to continue in 2017.

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

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

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

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

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

**Galvanizing Services**

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

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

| | £m | |
|---|---|---|
| | **2016** | 2015 |

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

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

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

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

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

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

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

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

**Financial review**

**Income statement phasing**

| | First half | Second half | Full year |
|---|---|---|---|
| **2016** | | | |
| **Revenue £m** | 259.3 | 280.8 | 540.1 |
| **Underlying operating profit £m** | 32.0 | 38.6 | 70.6 |
| **Underlying operating margin %** | 12.3 | 13.7 | 13.1 |
| **Reported operating profit £m** | 21.2 | 30.6 | 51.8 |

| | | | |
|---|---|---|---|
| 2015 | | | |
| Revenue £m | 233.0 | 234.5 | 467.5 |
| Underlying operating profit £m | 26.3 | 29.7 | 56.0 |
| Underlying operating margin % | 11.3 | 12.7 | 12.0 |
| Reported operating profit £m | 9.1 | 28.2 | 37.3 |

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

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

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

**Cash generation and financing**

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

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

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

The Group measures its operating cash flow performance based on its underlying cash conversion rate, defined as the ratio of underlying operating cash flow less capital expenditure to underlying operating profit. In 2016 the Group achieved an underlying cash conversion rate of 93% (2015: 100%). Over the past eight years the Group has achieved an average rate of over 90%.

| | Reported £m | Non-Underlying Items £m | Underlying £m |
|---|---|---|---|
| Operating profit | 51.8 | 18.8 | 70.6 |
| Non-cash items | 26.5 | (6.7) | 19.8 |

| | | | |
|---|---|---|---|
| Net movement in working capital | (0.1) | (3.9) | (4.0) |
| Cash generated by operations | 78.2 | 8.2 | 86.4 |
| Capital expenditure (net) | (18.1) | (2.8) | (20.9) |
| Operating cash flow | 60.1 | 5.4 | 65.5 |
| Operating profit | 51.8 | | 70.6 |
| Cash conversion % | 116% | | 93% |

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

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

**Change in net debt**

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

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

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

**Maturity profile of debt facilities**

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

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

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

The results of the covenant calculations at 31 December 2016 were:

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

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

**Net finance costs**

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

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

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

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

**Exchange rates**

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

**Non-underlying items**

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

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

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

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

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

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

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

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

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

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

The net cash impact of the above items was an outflow of £3.3m in the year, a further £2.1m outflow expected in 2017 and a non-cash element therefore amounting to £13.4m. The Directors continue to believe that the classification of these items as 'non-underlying' aids the understanding of the underlying business performance.

**Tax**

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

The Group's net deferred tax liability is £7.8m (2015: £7.9m). An £8.9m (2015: £7.0m) deferred tax liability is provided in respect of brand names, customer relationships and other contractual arrangements acquired, while a further £1.1m (2015: £1.2m) is provided on the fair value revaluation of French properties acquired as part of the Zinkinvent acquisition in 2007. These liabilities do not represent future cash tax payments and will unwind as the brand names, customer relationships, contractual arrangements and properties are amortised.

**Earnings per share**

The Board believes that underlying earnings per share ('UEPS') gives the best reflection of performance in the year as it strips out the impact of non-underlying items (as described in note 3). UEPS for the period under review increased by 27% to 65.9p (2015: 51.7p), driven by organic revenue growth in the Group's core markets, continuing improvements in underlying operating margins, currency translation benefits and the impact of active management of the Group's portfolio. The diluted UEPS was 65.1p (2015: 51.3p). Basic earnings per share was 43.0p (2015: 30.9p). The weighted average number of shares in issue was 78.5m (2015: 78.1m) with the diluted number of shares at 79.3m (2015: 78.8m) adjusted for the outstanding number of dilutive share options.

**Pensions**

The Group operates a number of defined contribution and defined benefit pension plans in the UK, the USA and France. The IAS19 deficit of the defined benefit plans as at 31 December 2016 was £27.3m, significantly higher than the £14.6m reported at 31 December 2015. The deterioration in the deficit relates principally to the UK scheme and was largely driven by a reduction in the discount rate, in line with substantial falls in UK corporate bond yields particularly towards the end of the year, and was exacerbated by an increase in future inflation assumptions reflecting current expectations of higher UK inflation in the medium term.

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

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

**Acquisitions**

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

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

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

The Group also completed two smaller acquisitions during the year:

- In January we acquired E.T. Techtonics, Inc., a US-based designer of composite bridge products that complements our existing US composites business, Creative Pultrusions. Consideration for the acquisition was £1.5m.

- In April we acquired FMK Trafikprodukter AB, a Swedish producer of equipment for the Scandinavian roads markets. FMK has been integrated with our existing ATA business, providing an expanded suite of traffic management products. Consideration for the acquisition was £4.0m, of which £0.8m is deferred and contingent on future performance and product development targets.

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

**Treasury management**

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

| **Derek Muir** | **Mark Pegler** |
|---|---|
| Group Chief Executive | Group Finance Director |

8 March 2017

**Consolidated Income Statement**
Year ended 31 December 2016

| | | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|---|
| | Notes | **Underlying £m** | **Non-underlying* £m** | **Total £m** | Underlying £m | Non-underlying* £m | Total £m |
| **Revenue** | 2 | **540.1** | **-** | **540.1** | 467.5 | - | 467.5 |
| | | | | | | | |
| **Trading profit** | | **70.6** | **-** | **70.6** | 56.0 | - | 56.0 |
| Amortisation of acquisition intangibles | 3 | **-** | **(2.6)** | **(2.6)** | - | (1.6) | (1.6) |
| Business reorganisation costs | 3 | **-** | **(10.5)** | **(10.5)** | - | (0.3) | (0.3) |
| Pension settlement gains | 3 | **-** | **0.2** | **0.2** | - | - | - |
| Impairment of intangible assets | 3 | **-** | **(4.1)** | **(4.1)** | - | (15.7) | (15.7) |
| Acquisition costs | 3 | **-** | **(1.8)** | **(1.8)** | - | (1.0) | (1.0) |
| Loss on sale of properties | | **-** | **-** | **-** | - | (0.1) | (0.1) |
| **Operating profit** | 2 | **70.6** | **(18.8)** | **51.8** | 56.0 | (18.7) | 37.3 |
| Financial income | 4 | **0.4** | **-** | **0.4** | 0.5 | - | 0.5 |
| Financial expense | 4 | **(3.0)** | **(0.9)** | **(3.9)** | (3.5) | (1.1) | (4.6) |
| **Profit before taxation** | | **68.0** | **(19.7)** | **48.3** | 53.0 | (19.8) | 33.2 |
| Taxation | 5 | **(16.3)** | **1.8** | **(14.5)** | (12.6) | 3.5 | (9.1) |
| **Profit for the year attributable to owners of the parent** | | **51.7** | **(17.9)** | **33.8** | 40.4 | (16.3) | 24.1 |
| | | | | | | | |
| **Basic earnings per share** | 6 | **65.9p** | | **43.0p** | 51.7p | | 30.9p |
| Diluted earnings per share | 6 | **65.1p** | | **42.5p** | 51.3p | | 30.6p |
| Dividend per share - Interim | 7 | | | **8.5p** | | | 7.1p |
| Dividend per share - Final proposed | 7 | | | **17.9p** | | | 13.6p |
| **Total** | | | | **26.4p** | | | 20.7p |

* The Group's definition of non-underlying items is included in note 1 to the Financial Statements.

**Consolidated Statement of Comprehensive Income**
Year ended 31 December 2016

| | **2016 £m** | 2015 £m |
|---|---|---|
| **Profit for the year** | **33.8** | 24.1 |
| **Items that may be reclassified subsequently to profit or loss** | | |
| Exchange differences on translation of overseas operations | **36.5** | 1.8 |
| Exchange differences on foreign currency borrowings denominated as net investment hedges | **(9.5)** | (0.4) |

| | | |
|---|---|---|
| Effective portion of changes in fair value of cash flow hedges | **-** | (0.1) |
| Transfers to the income statement on cash flow hedges | **0.2** | 0.4 |
| Taxation on items that may be reclassified to profit or loss | **-** | (0.1) |
| **Items that will not be reclassified subsequently to profit or loss** | | |
| Actuarial (loss)/gain on defined benefit pension schemes | **(14.1)** | 5.0 |
| Taxation on items that will not be reclassified to profit or loss | **2.1** | (1.2) |
| **Other comprehensive income for the year** | **15.2** | 5.4 |
| **Total comprehensive income for the year attributable to owners of the parent** | **49.0** | 29.5 |

## Consolidated Statement of Financial Position

Year ended 31 December 2016

| | Notes | **2016**<br>**£m** | 2015<br>£m |
|---|---|---|---|
| **Non-current assets** | | | |
| Intangible assets | | **166.5** | 126.4 |
| Property, plant and equipment | | **149.7** | 129.2 |
| | | **316.2** | 255.6 |
| **Current assets** | | | |
| Assets held for sale | | **1.1** | - |
| Inventories | | **71.6** | 57.7 |
| Trade and other receivables | | **112.9** | 98.8 |
| Cash and cash equivalents | 9 | **15.6** | 12.9 |
| | | **201.2** | 169.4 |
| **Total assets** | | **517.4** | 425.0 |
| **Current liabilities** | | | |
| Trade and other liabilities | | **(105.1)** | (87.8) |
| Current tax liabilities | | **(11.2)** | (8.7) |
| Provisions for liabilities and charges | | **(2.6)** | (0.2) |
| Interest bearing borrowings | 9 | **(0.3)** | (0.3) |
| | | **(119.2)** | (97.0) |
| **Net current assets** | | **82.0** | 72.4 |
| **Non-current liabilities** | | | |
| Other liabilities | | **(0.4)** | (0.2) |
| Provisions for liabilities and charges | | **(3.2)** | (2.7) |
| Deferred tax liability | | **(7.8)** | (7.9) |
| Retirement benefit obligation | | **(27.3)** | (14.6) |
| Interest bearing borrowings | 9 | **(127.3)** | (104.1) |
| | | **(166.0)** | (129.5) |
| **Total liabilities** | | **(285.2)** | (226.5) |
| **Net assets** | | **232.2** | 198.5 |
| | | | |
| **Equity** | | | |
| Share capital | | **19.7** | 19.6 |
| Share premium | | **33.5** | 32.8 |
| Other reserves | | **4.8** | 4.6 |
| Translation reserve | | **29.3** | 2.3 |
| Hedge reserve | | **-** | (0.2) |

| | | |
|---|---|---|
| Retained earnings | **144.9** | 139.4 |
| **Total equity** | **232.2** | 198.5 |

**Consolidated Statement of Changes in Equity**
Year ended 31 December 2016

| | Notes | Share capital £m | Share premium £m | Other reserves† £m | Translation reserves £m | Hedge reserves £m | Retained earnings £m | Total equity £m |
|---|---|---|---|---|---|---|---|---|
| At 1 January 2015 | | 19.5 | 31.7 | 4.5 | 0.9 | (0.4) | 125.3 | 181.5 |
| **Comprehensive income** | | | | | | | | |
| Profit for the year | | - | - | - | - | - | 24.1 | 24.1 |
| Other comprehensive income for the year | | - | - | - | 1.4 | 0.2 | 3.8 | 5.4 |
| **Transactions with owners recognised directly in equity** | | | | | | | | |
| Dividends | 7 | - | - | - | - | - | (14.1) | (14.1) |
| Credit to equity of share-based payments | | - | - | - | - | - | 0.9 | 0.9 |
| Satisfaction of long term incentive payments | | - | - | - | - | - | (1.8) | (1.8) |
| Own shares held by employee benefit trust | | - | - | - | - | - | 0.9 | 0.9 |
| Transfers between reserves | | - | - | 0.1 | - | - | (0.1) | - |
| Tax taken directly to the Consolidated Statement of Changes in Equity | 5 | - | - | - | - | - | 0.4 | 0.4 |
| Shares issued | | 0.1 | 1.1 | - | - | - | - | 1.2 |
| **At 31 December 2015** | | **19.6** | **32.8** | **4.6** | **2.3** | **(0.2)** | **139.4** | **198.5** |
| **Comprehensive income** | | | | | | | | |
| Profit for the year | | **-** | **-** | **-** | **-** | **-** | **33.8** | **33.8** |
| Other comprehensive income for the year | | **-** | **-** | **-** | **27.0** | **0.2** | **(12.0)** | **15.2** |
| **Transactions with owners recognised directly in equity** | | | | | | | | |
| Dividends | **7** | **-** | **-** | **-** | **-** | **-** | **(16.2)** | **(16.2)** |
| Credit to equity of share-based payments | | **-** | **-** | **-** | **-** | **-** | **1.1** | **1.1** |
| Satisfaction of long term incentive payments | | **-** | **-** | **-** | **-** | **-** | **(1.4)** | **(1.4)** |
| Own shares held by employee benefit trust | | **-** | **-** | **-** | **-** | **-** | **(0.6)** | **(0.6)** |
| Transfers between reserves | | **-** | **-** | **0.2** | **-** | **-** | **(0.2)** | **-** |
| Tax taken directly to the Consolidated | **5** | **-** | **-** | **-** | **-** | **-** | **1.0** | **1.0** |

| Statement of Changes in Equity | | | | | | | |
|---|---|---|---|---|---|---|---|
| Shares issued | **0.1** | **0.7** | **-** | **-** | **-** | **-** | **0.8** |
| **At 31 December 2016** | **19.7** | **33.5** | **4.8** | **29.3** | **-** | **144.9** | **232.2** |

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

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

## Consolidated Statement of Cash Flows

Year ended 31 December 2016

| | **2016** | | 2015 | |
|---|---|---|---|---|
| | **£m** | **£m** | £m | £m |
| Profit before tax | | **48.3** | | 33.2 |
| Add back net financing costs | | **3.5** | | 4.1 |
| Operating profit | | **51.8** | | 37.3 |
| Adjusted for non-cash items: | | | | |
| Share-based payments | **1.6** | | 0.9 | |
| Gain on disposal of non-current assets | **(0.2)** | | - | |
| Depreciation | **17.3** | | 15.5 | |
| Amortisation of intangible assets | **3.7** | | 2.5 | |
| Impairment of non-current assets | **4.1** | | 15.7 | |
| | | **26.5** | | 34.6 |
| Operating cash flow before movement in working capital | | **78.3** | | 71.9 |
| (Increase)/decrease in inventories | **(4.3)** | | 1.1 | |
| Increase in receivables | **(0.6)** | | (3.0) | |
| Increase/(decrease) in payables | **4.8** | | (0.6) | |
| Decrease in provisions and employee benefits | **-** | | (3.3) | |
| Net movement in working capital | | **(0.1)** | | (5.8) |
| Cash generated by operations | | **78.2** | | 66.1 |
| Income taxes paid | | **(15.7)** | | (12.6) |
| Interest paid | | **(3.2)** | | (3.5) |
| **Net cash from operating activities** | | **59.3** | | 50.0 |
| Interest received | **0.4** | | 0.5 | |
| Proceeds on disposal of non-current assets | **3.6** | | 1.2 | |
| Purchase of property, plant and equipment | **(19.9)** | | (14.8) | |
| Purchase of intangible assets | **(1.8)** | | (1.2) | |
| Acquisitions of subsidiaries | **(36.9)** | | (16.6) | |
| Deferred consideration in respect of prior year acquisitions | **(0.5)** | | - | |
| **Net cash used in investing activities** | | **(55.1)** | | (30.9) |
| Issue of new shares | **0.8** | | 1.2 | |

| | | | | |
|---|---|---|---|---|
| Purchase of shares for employee benefit trust | **(2.0)** | | (0.9) | |
| Dividends paid | **(16.2)** | | (14.1) | |
| Costs associated with refinancing of revolving credit facility | **(1.0)** | | - | |
| New loans and borrowings | **46.1** | | 46.0 | |
| Repayment of loans and borrowings | **(31.7)** | | (45.0) | |
| Repayment of obligations under finance leases | **-** | | (0.1) | |
| **Net cash used in financing activities** | | **(4.0)** | | (12.9) |
| **Net increase in cash** | | **0.2** | | 6.2 |
| Cash at the beginning of the year | | **12.9** | | 6.7 |
| Effect of exchange rate fluctuations | | **2.5** | | - |
| **Cash at the end of the year** | | **15.6** | | 12.9 |

## Notes to the Consolidated Financial Statements

### 1. Basis of preparation

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

**New IFRS standards and interpretations adopted during 2016**

In 2016 the following amendments had been endorsed by the EU, became effective and therefore were adopted by the Group:

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

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

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

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

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

**Exchange rates**

The principal exchange rates used were as follows:

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

**Non-underlying items**

Non-underlying items are disclosed separately in the Consolidated Income Statement where the quantum, nature or volatility of such items would otherwise distort the underlying trading performance of the Group. The following are included by the Group in its assessment of non-underlying items:

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

The tax effect of the above is also included.

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

**2. Segmental information**

**Business segment analysis**

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

- The Infrastructure Products - Utilities segment contains a group of businesses supplying products characterised by a degree of engineering expertise, to public and private customers involved in the construction of facilities serving the Utilities markets or in the maintenance of such facilities;

- The Infrastructure Products - Roads segment contains a group of companies supplying permanent and temporary safety products to customers involved in the construction or maintenance of national roads infrastructure; and

- The Galvanizing Services segment contains a group of companies supplying galvanizing and related materials coating services to companies in a wide range of markets including construction, agriculture and infrastructure.

**Income Statement**

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

| | | | | |
|---|---|---|---|---|
| **Profit after taxation** | **33.8** | **51.7** | 24.1 | 40.4 |

* Underlying result is stated before non-underlying items as defined in note 1, and is the measure of segment profit used by the Chief Operating Decision Maker, who is the Chief Executive. The Result columns are included as additional information.

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

**Geographical analysis**

**Revenue (irrespective of origin)**

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

**Total assets**

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

### 3. Non-underlying items

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

- Business reorganisation costs of £10.5m (2015: £0.3m) relating to the closure or reorganisation of three of the Group's businesses as set out below.

    - On 9 March 2016 the Group announced its intention to exit its non-US Pipe Supports business, involving cessation of manufacturing in the UK and Thailand, the closure of its sales office in China and the transfer of work to its facility in India. An initial provision of £9.2m was made in respect of the estimated costs of closure. Subsequently £1.4m of this provision has been released following the favourable settlement of certain matters resulting in a net charge to the income statement of £7.8m.

    - Following the acquisition of Signature Limited on 3 August 2016, the Group has commenced a reorganisation of the business as part of its integration with Mallatite Limited, the Group's existing lighting column operation. The cost of the reorganisation and restructuring plan is £0.8m. The plan includes a reduction in the number of operating sites of the integrated business from five to three.

    - In December 2016 the Group committed to the closure of Hill & Smith Infrastructure Products India Pvt. Limited, our Roads business in India. The cost of the closure is expected to be £1.9m, which has been provided for in full in the year to 31 December 2016. Closure is expected to be completed in the first quarter of 2017.

- An impairment charge of £4.1m (2015: £15.7m). In recent years CA Traffic Limited has generated levels of profitability that are below those anticipated when the business was acquired in 2006. The current and forecast financial performance of the business (part of the Infrastructure Products - Roads segment) is below that assumed in the impairment reviews performed at 31 December 2015 and 30 June 2016. As a result, a further impairment review was performed at the end of the year based on the Board's revised expectation of future profitability and cash generation. The impairment review concluded that the carrying values of the assets of the business were less than their recoverable amount (determined by reference to the Value in Use) by £4.1m, representing the value of the goodwill arising on acquisition. The basis for determining the Value in Use, including the discount rate, was consistent with that used in the annual impairment review performed as at 31 December 2015.

- Amortisation of acquired intangible fixed assets of £2.6m (2015: £1.6m).

- Acquisition expenses of £1.8m (2015: £1.0m) principally relating to acquisitions made by the Group during the year.

- A gain of £0.2m relating to the settlement of certain defined benefit pension obligations during the year.

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

## 4. Net financing costs

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

## 5. Taxation

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

| | | |
|---|---|---|
| **Tax on items taken directly to Other Comprehensive Income** | **(2.1)** | 1.3 |
| **Current tax** | | |
| Relating to share-based payments | **(0.6)** | (0.3) |
| **Deferred tax** | | |
| Relating to share-based payments | **(0.4)** | (0.1) |
| **Tax taken directly to the Consolidated Statement of Changes in Equity** | **(1.0)** | (0.4) |

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

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

**6. Earnings per share**

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

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

* Non-underlying items as detailed in note 3.

**7. Dividends**

Dividends paid in the year were the prior year's interim dividend of £5.5m (2015: £5.0m) and the final dividend of £10.7m (2015: £9.1m). Dividends declared after the year end date are not recognised as a liability, in accordance with IAS10. The Directors have proposed the following interim dividend and final dividend for the current year, subject to shareholder approval:

| **2016** | 2015 |
|---|---|

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

### 8. Acquisitions

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

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

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

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

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

| **Technocover Limited** | Pre acquisition carrying amount £m | Policy alignment and fair value adjustments £m | Total £m |
|---|---|---|---|
| Intangible assets | 0.1 | 5.9 | 6.0 |
| Property, plant and equipment | 2.4 | (0.1) | 2.3 |
| Inventories | 0.5 | - | 0.5 |

| | | | |
|---|---|---|---|
| Current assets | 1.7 | - | 1.7 |
| Cash and cash equivalents | 1.0 | - | 1.0 |
| **Total assets** | **5.7** | **5.8** | **11.5** |
| Current trade and other liabilities | (1.7) | - | (1.7) |
| Current tax liabilities | (0.2) | - | (0.2) |
| Deferred tax liabilities | (0.1) | (1.1) | (1.2) |
| **Total liabilities** | **(2.0)** | **(1.1)** | **(3.1)** |
| **Net assets** | **3.7** | **4.7** | **8.4** |
| **Consideration** | | | |
| Consideration in the year | | | **10.2** |
| **Goodwill** | | | **1.8** |
| **Cash flow effect** | | | |
| Consideration | | | **10.2** |
| Cash and cash equivalents acquired with the business | | | **(1.0)** |
| **Net cash consideration shown in the Consolidated Statement of Cash Flows** | | | **9.2** |

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

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

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

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

| | |
|---|---|
| Consideration | **12.0** |
| Refund of consideration due | **0.4** |
| Net overdraft acquired with the business | **0.2** |
| **Net cash consideration shown in the Consolidated Statement of Cash Flows** | **12.6** |

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

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

The Group has also made two other smaller acquisitions during the year:

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

Details of these acquisitions are set out below:

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

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

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

## 9. Cash and borrowings

| | **2016 £m** | 2015 £m |
|---|---|---|
| **Cash and cash equivalents in the Consolidated Statement of Financial Position** | | |
| Cash and bank balances | **15.6** | 12.9 |
| **Cash** | **15.6** | 12.9 |
| **Interest bearing loans and borrowings** | | |
| Amounts due within one year | **(0.3)** | (0.3) |
| Amounts due after more than one year | **(127.3)** | (104.1) |
| **Net debt** | **(112.0)** | (91.5) |

| | | |
|---|---|---|
| **Change in net debt** | | |
| Operating profit | **51.8** | 37.3 |
| Non-cash items | **26.5** | 34.6 |
| Operating cash flow before movement in working capital | **78.3** | 71.9 |
| Net movement in working capital | **(0.1)** | (2.5) |
| Changes in provisions and employee benefits | **-** | (3.3) |
| **Operating cash flow** | **78.2** | 66.1 |
| Tax paid | **(15.7)** | (12.6) |
| Net financing costs paid | **(2.8)** | (3.0) |
| Capital expenditure | **(21.7)** | (16.0) |
| Proceeds on disposal of non-current assets | **3.6** | 1.2 |
| **Free cash flow** | **41.6** | 35.7 |
| Dividends paid | **(16.2)** | (14.1) |
| Acquisitions | **(37.4)** | (16.6) |
| Amortisation of costs associated with refinancing revolving credit facilities | **(0.4)** | (0.4) |
| Purchase of shares for employee benefit trust | **(2.0)** | (0.9) |
| Issue of new shares | **0.8** | 1.2 |
| **Net debt (increase)/decrease** | **(13.6)** | 4.9 |
| Effect of exchange rate fluctuations | **(6.9)** | (0.4) |
| Net debt at the beginning of the year | **(91.5)** | (96.0) |
| **Net debt at the end of the year** | **(112.0)** | (91.5) |

**Notes:**

1. The financial information previously set out does not constitute the Company's statutory accounts for the years ended 31 December 2016 or 2015 but is derived from those accounts. Statutory accounts for 2015 have been delivered to the registrar of companies, and those for 2016 will be delivered in due course. The auditors have reported on those accounts; their report was:

   i. unqualified;
   ii. did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their report; and
   iii. did not contain a statement under Section 498(2) or (3) of the Companies Act 2006.

2. The Annual Report will be posted to shareholders on or before 7 April 2017 and will be displayed on the Company's website at www.hsholdings.com. Copies of the Annual Report will also be available from the registered office at Westhaven House, Arleston Way, Shirley, Solihull, B90 4LH.

3. Events Calendar:

    i. The Annual General Meeting will be held on Thursday 11 May at 11.00 a.m. at The Village Hotel, The Green Business Park, Shirley, Solihull, B90 4GW.
    ii. The proposed final dividend for 2016 will be paid on 3 July 2017 to shareholders on the register on 26 May 2017 (ex-dividend date 25 May 2017).
    iii. The last date for receipt of Dividend Reinvestment Plan elections is 12 June 2017.
    iv. Interim results announcement for the period to 30 June 2017 due August 2017.
    v. Payment of the 2017 interim dividend due January 2018.

4. This preliminary announcement of results for the year ended 31 December 2016 was approved by the Directors on
8 March 2017.

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



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Final Results - RNS