

HANSON PLC  
Form 20-F  
March 02, 2005

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

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**FORM 20-F**

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(Mark One)

**REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934  
OR**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2004**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

Commission file number 333-109672

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**HANSON PLC**

**(successor to Hanson Building Materials Limited)**  
(Exact Name of Registrant as Specified in Its Charter)

**n/a**

(Translation of Registrant's name into English)

**England and Wales**

(Jurisdiction of incorporation or organization)

**1 Grosvenor Place**

**London SW1X 7JH, England**

(Address of principal executive offices)

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**Securities registered or to be registered pursuant to Section 12(b) of the Act.**

<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
American Depositary Shares	The New York Stock Exchange, Inc.
Ordinary Shares of £0.10 each	The New York Stock Exchange, Inc.*
5.25% Notes due 2013**	The New York Stock Exchange, Inc.

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\* Listed, not for trading, but only in connection with the registration of American Depositary Shares, pursuant to the requirements of the Securities and Exchange Commission.

\*\* Issued by Hanson Australia Funding Limited, an indirect wholly owned subsidiary of the Registrant, and guaranteed as to certain payments by the Registrant.

**Securities registered or to be registered pursuant to Section 12(g) of the Act.**

None  
(Title of Class)

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**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.**

None  
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

**736,968,849 Ordinary Shares of £0.10 each were outstanding.**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes                  No

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17                  Item 18

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<b>Summary statistics for the year ended December 31, 2004</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
		(restated)**	(restated)**
Turnover (including joint-ventures and associates)	<b>£3,810.2m</b>	£3,956.5m	£4,000.5m
Operating profit (including joint-ventures and associates)	<b>£349.7m</b>	£305.7m	£343.5m
Profit before taxation*	<b>£336.8m</b>	£319.0m	£348.1m
Profit for the financial year (after exceptional items)	<b>£193.6m</b>	£179.2m	£185.2m
Operating cash flow	<b>£559.1m</b>	£536.5m	£585.9m
Free cash flow (operating cash flow after interest and taxation)	<b>£487.6m</b>	£454.2m	£479.3m
Net debt	<b>£695.2m</b>	£942.2m	£1,169.9m
Gearing#	<b>25.5%</b>	34.5%	43.9%
Earnings per share*	<b>35.0p</b>	32.7p	34.9p
Earnings per share	<b>26.4p</b>	24.4p	25.2p
Dividend per share	<b>18.15p</b>	16.95p	15.40p

\* Including joint-ventures and associates and before exceptional items

# Net debt divided by shareholders' funds

For a more detailed description of free cash flow see page 26

\*\* 2003 and 2002 operating profit has been adjusted to reflect the impact of adopting UITF 17 and 38 this year. Further explanation is provided on page 51

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Review of operations

A Scheme of Arrangement (the Scheme) was approved by shareholders of Old Hanson on September 19, 2003, subsequently approved by the Court on October 13, 2003 and became effective on October 14, 2003. Under the Scheme shareholders in Old Hanson received, in substitution for each of their ordinary shares of £2 in nominal value in Old Hanson, one ordinary share of 10p in nominal value in New Hanson, following a reduction in the nominal capital of New Hanson approved by the Court on October 20, 2003 and effective from October 21, 2003.

For the purposes of producing the Annual Report and Form 20-F of New Hanson, unless otherwise expressly specified (a) references to the Company and its subsidiaries or Hanson and its subsidiaries, or the group, refer to Old Hanson and its subsidiaries up to the close of business on October 14, 2003, the effective date of the Scheme (the Scheme Effective Date) and New Hanson (including Old Hanson) and its subsidiaries from that time and (b) references to Hanson or the Company are to Old Hanson up to and including the close of business on the Scheme Effective Date and to New Hanson as from that time. At the Scheme Effective Date New Hanson had no business assets.

Solely for the convenience of the reader, the Annual Report and Form 20-F contains translations of certain amounts in pounds sterling (£) or pence (p) into US dollars (US dollars or \$) or cents (c). The translations of pounds sterling and pence to US dollars and cents appearing in the Annual Report and Form 20-F have been made at the noon buying rate in New York City for cable transfers in pounds sterling as certified for customs purposes by the Bank of New York (the noon buying rate) on the date of the information so translated. These translations should not be construed as representations that the pound sterling amounts actually represent such US dollar amounts or could be converted into US dollars at the rates indicated. On February 22, 2005 the noon buying rate was \$1.91 per £1. For additional information on exchange rates between the pound sterling and the US dollar, see Exchange Rates on page 99 of the Annual Report and Form 20-F.

Each of Hanson, Hanson Aggregates North America, Hanson Building Products North America, Hanson Aggregates UK, Hanson Building Products UK, Hanson Australia & Asia Pacific and Hanson Continental Europe (as such expressions are referred to in the Annual Report and Form 20-F) is either a holding company or divisional entity, and does not itself carry out any of the business activities described on page 99 of the Annual Report and Form 20-F.

References to we, our or us, unless the content otherwise requires, is, in the context of a description of the group's businesses, operational activities or liabilities, a reference to those of the relevant subsidiary company.

The market, industry and product segment data contained in the Annual Report and Form 20-F have been taken from industry and other sources available to Hanson in the relevant jurisdictions and, in some cases, adjusted based on relevant management's knowledge of the industry. Hanson has not independently verified any third-party market information. Similarly, while Hanson believes its internal estimates are reliable, they have not been verified by independent sources.

Some of the information included in the Annual Report and Form 20-F, including documents incorporated by reference, are, or may be deemed to be, forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (United States). Such forward-looking statements are subject to risks, uncertainties and other factors which could cause actual results and developments to differ materially from future results and developments expressed or implied by such forward-looking statements. An investor can identify these statements by the fact that they do not relate strictly to historical or current facts. They use words such as anticipate, estimate, expect, intend, will, project, plan, believe and other words and terms of similar meanings in discussion of future operating or financial performance. Such factors include, but are not limited to, changes in economic conditions, especially in the USA, the UK and Australia; changes in governmental policy or legislation that could effect regulatory compliance and other operating costs; changes in governmental policy or legislation relating to public works expenditure and housing; potential liabilities arising out of former businesses and activities; our inability to achieve success in our acquisition strategy; the competitive market in which we operate; disruption to, or increased costs of, the supply of materials, energy and fuel to our business; inclement weather conditions; exchange rate fluctuations; and ineffective implementation of computer software systems. Hanson does not undertake any obligation to update or revise publicly such forward-looking statements. All written, oral and electronic forward-looking statements attributable to Hanson or persons acting on behalf of Hanson are expressly qualified in their entirety by this cautionary statement.

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**Hanson's business is straightforward.**

**We generate cash. Our aim is to put that cash to work to grow the business and reward investors.**

**In 2004 we delivered £559.1 million of operating cash flow, generated by 27,400<sup>#</sup> people in 15 countries. This comes from our focus on aggregates and building products.**

**In 2004 we increased profit before taxation\* by 6% to £336.8 million, equivalent to earnings per share of 35.0p.**

<sup>#</sup>Including joint-ventures and associates

\*Including joint-ventures and associates and pre-exceptional items

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## Chairman and Chief Executive s overview

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**2004 was a good year for Hanson, thanks to the hard work of our 27,400 people during a period of change.**

I am now going to stand down, having been Chairman since Hanson became a focused building materials company in 1998. I shall be sorry to leave, but am delighted to be handing over to Mike Welton. I know that he will make a big contribution to Hanson in the future.

**Christopher Collins**  
Chairman, Hanson PLC

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**We have a balanced focus on aggregates and building products. We have the strategy and people to invest and grow your business.**

**Alan Murray**  
Chief Executive, Hanson PLC

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## Chairman and Chief Executive s overview continued

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### Summary

2004 was a good year for Hanson. Profit before taxation\* was £336.8m, £17.8m or 6% above last year. Turnover (including joint-ventures and associates) was £3,810.2m, £146.3m or 4% below last year, primarily reflecting adverse foreign exchange translation of £202.0m.

The 6% increase in profit before taxation\* included an increase in property profits of £14.8m offset by increased pension costs of £5.6m and adverse foreign exchange translation of £13.6m.

### Operating highlights

Earnings growth has been delivered through margin increases and improved demand for our products in most of our major markets.

Cost savings and operational improvements from the US aggregates reorganisation initiated in 2003 benefited the 2004 results. A similar reorganisation was commenced by UK aggregates in 2004 and benefits should accrue in 2005. The US building products division has improved second half profits compared with last year, more than recovering significant input cost increases. The UK building products division has also increased year-on-year margins excluding the increased pension charges. Earnings from Australia increased reflecting further volume and margin improvements.

Operating cash flow of £559.1m highlights the group s consistent ability to generate cash from its operations.

### Investing highlights

£198.6m was invested in capital projects to maintain and to enhance our existing operations. Margin enhancing capital expenditure represented approximately 50% of the total invested in 2004. Capital expenditure will remain disciplined and biased towards projects which we believe will have superior risk/return ratios.

### Acquisitions and disposals

Hanson acquired nine new businesses in 2004 for £88.4m, the largest of which was Athens Brick in Texas, USA. At the beginning of 2005 we also acquired Marshalls Clay Products in the UK for £65m. Such bolt-on acquisitions are a key part of our strategy to generate growth.

Proceeds from disposals totalled £55.2m. These included the sale of our operations in Thailand and several non-core UK operations. This reflects our strategy of focusing on core businesses which have strong long-term positions in selected long-term markets.

### Asbestos

The gross cost of asbestos claim resolutions in 2004, before insurance recoveries, was \$59m (2003 \$43m). After tax, and before any insurance recovery, this is equivalent to approximately £20m or 3.6% of our operating cash flow for 2004. Following the increase in annual gross cost, we have increased our gross cost provision for the next eight years to \$480m (2003 \$317m).

We continue to negotiate and litigate with our insurance carriers over the extent of our insurance cover. We support reform at both state and federal level. Details of our claims and cost experience during 2004 are provided on page 66.

### Returns to shareholders

The Board recommends a final dividend of 12.80p (2003 11.95p) per share. This, together with the interim dividend, makes a total of 18.15p (2003 16.95p) for the year, an increase of 7.1%. The Investor information section provides payment details.

We commenced an on-market share buyback programme in 2004. At December 31, 2004, we had spent £26m buying back 6,350,000 shares which are now held as treasury shares.

### Corporate governance

Our reputation is one of our most valuable assets. This requires transparent accounting, clear communications and full commitment to health, safety and environmental standards.

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We became fully compliant with section 404 of the US Sarbanes-Oxley Act in 2004. This is a year ahead of the requirement for foreign US registrants and underlines our commitment to strong financial control and discipline.

### **Board of Directors**

After many years service, Simon Keswick and Kenneth Baker step down from the Board after the AGM. We are extremely grateful to them both for their contributions.

In 2004 we welcomed Jim Leng as a Non-executive Director on to our Board. Mike Welton also joined us as a Non-executive Director in January 2005. Both bring a wealth of experience and business knowledge. Mike Welton will become Chairman in April 2005.

### **Outlook**

Operations in Hanson's major markets in the USA, the UK and Australia are expected to experience stable underlying demand in 2005 and benefit from management initiatives. Price increases are expected to recover input cost increases. Additional cost savings should support margin improvement.

We will continue our focused strategy of organic and acquisitive growth combined with financial discipline. Overall, Hanson anticipates further progress in 2005.

\*Including joint-ventures and associates and pre-exceptional items

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**Our **strategy** remains straightforward. We will stay focused. We intend to generate cash, invest in the business and maintain financial discipline.**

### **Focus**

**aggregates and building products  
strong long-term positions in selected long-term  
markets  
safe, responsible and sustainable operations**

### **Generate cash**

**improve margins  
reduce operating costs and increase efficiency**

### **Invest cash**

**maintain and grow the existing business  
acquire value-adding bolt-on acquisitions**

### **Financial discipline**

**strong balance sheet  
maximise total shareholder return**

**We are committed to creating long-term value for our shareholders.**



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## Description of business

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Hanson is one of the world's leading heavy building materials companies. We are the world's largest producer of aggregates and one of the largest producers of heavy building products such as concrete products and bricks\*. We have operations in North America, the UK, Australia, Asia Pacific and Continental Europe.

Our aggregate divisions include the production of crushed rock and sand and gravel as well as ready-mixed concrete, asphalt and cement operations. We aim to retain ready-mixed concrete and asphalt operations where they are value enhancing and integrate with our aggregate operations. Our strategy does not include a significant emphasis on owning cement operations.

Our building products divisions include brick, roof tile and concrete product operations such as pipes, blocks, and pre-cast concrete structures.

Our products are used across all construction sectors; housing, infrastructure, commercial and industrial. Our customers are primarily from the public and private works sectors of the construction and building materials industry, whilst a portion of our output is consumed internally in the production of downstream products such as asphalt and ready-mixed concrete. We coat aggregate with bitumen to make asphalt; and aggregate, combined with cement and other ingredients, makes ready-mixed concrete.

Our experience in the aggregate and building products businesses is extensive, gained over many years. We operate from over 1,600 facilities in 15 countries around the world (see page 108 for a breakdown by product).

Demographics, economic activity, infrastructure spend and population growth are key drivers of demand for our industry. We recognise the importance of maintaining an appropriate geographic balance and will consider entering selected markets where we anticipate attractive long-term demand growth.

Our main geographic focus is the USA, the UK and Australia. We have a presence in a number of other markets that we believe have good long-term prospects. As well as our international position, we believe it is important to have strong local positions in the markets in which we operate. The weight of our products generally prohibits transporting them over long distances. Therefore strong local market positions provide us with scale to reduce production costs and increase sourcing options to support a reliable and efficient customer service.

The mineral reserves which we own, or have the right to extract, are fundamental to the long-term growth of our business. At December 31, 2004 we believe we had adequate reserves to permit production for a minimum of 20 years in all of our divisions at current production rates. We also have access to considerable aggregate reserves for which we believe we have either not yet requested or not yet received extraction permits. In addition, we plan to maximise the value of our marine based sand and gravel reserves, particularly in the UK.

We use various methods, depending on the type of reserve, to estimate those reserves that are economically extractable. The estimated average selling price for products in a market is a significant factor in deciding whether or not reserves are value adding to extract. Mineral reserves can be difficult to estimate and due to the nature of our operations, some production lives are shorter than others.

We pursue a policy of continual replenishment of our reserves both through the acquisition of new businesses and the development of new sites, performing extensive geological due diligence on all new reserves through drilling, sampling and data collection, as appropriate. We believe we have a strong history of securing planning permission for our sites. This helps to ensure that our reserve base continues to meet long-term future demand.

Our acquisition strategy also helps us to replace and supplement our holdings of mineral reserves. Ever tighter environmental and planning restrictions are making new permits increasingly difficult to obtain. The permits which we have, our ability to renew them and to secure new ones through acquisition provide a vital way of building long-term value.

We intend to invest capital expenditure continually in our existing businesses to maintain plant and equipment, to improve efficiency and to reduce costs.

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Bolt-on acquisitions remain our preferred route for expansion. As well as helping us to build market share, bolt-ons are intended to help minimise operating costs and can provide greater market and product opportunities. The fragmentation of the US market in both aggregates and building products provides opportunities to continue to add value through bolt-ons by building additional volume onto an existing support base. The UK and Australia are largely consolidated in aggregates, but offer opportunities for bolt-on acquisitions in building products. We continue to review selected opportunities in other countries.

All acquisitions are assessed against strict criteria and must pass our due diligence and valuation processes. This means many of the opportunities we review do not result in completed acquisitions, which in turn can result in uneven timing of acquisition expenditure.

We intend to continue to maintain strong financial discipline. We believe we have a strong balance sheet and will continue to seek to maximise the total return to our shareholders.

\*See Competitive position on page 100

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Description of business

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## Summary statistics

### year to December 31, 2004

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**Turnover** (including joint-ventures and associates)
 

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**£3,810.2m**


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**Operating cash flow**


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**£559.1m**


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**Operating profit** (including joint-ventures and associates)
 

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**£349.7m**


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**Free cash flow** (operating cash flow after interest and taxation)
 

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**£487.6m**


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**Operating profit\*** (including joint-ventures and associates)
 

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**£399.5m**


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**Gearing**


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**25.5%**


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**Profit before taxation\***


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**£336.8m**


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**Earnings per share\***


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**35.0p**


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**Profit for the financial year** (after exceptional items)
 

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**£193.6m**


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**Dividend per share**


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**18.15p**


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### North America

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#### By division year to December 31, 2004

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	2004		2003		2002
	£m	% change	£m	% change	£m
<b>Continuing turnover</b>					
Hanson Aggregates	950.7	(0.1)	951.4	(0.7)	958.2
Hanson Building Products	648.3	(1.1)	655.7	(2.1)	669.5
Total	1,599.0	(0.5)	1,607.1	(1.3)	1,627.7



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**Continuing operating profit\***

Hanson Aggregates	117.7	31.1	89.8	(33.2)	134.4
Hanson Building Products	97.6	(12.5)	111.6	(11.8)	126.6
<b>Total</b>	<b>215.3</b>	<b>6.9</b>	201.4	(22.8)	261.0
<b>Operating margin</b>	<b>13.5%</b>		12.5%		16.0%

**Volume/price year to December 31, 2004**

	2004			Volume		Price
	2004	2004	2004	2003	2004	2003
	Imperial	Metric	% change	% change	% change	% change
Aggregates (mt)	151.7	137.6	7.0	8.7	1.4	0.5
Asphalt (mt)	5.4	4.9	20.9	10.6	1.0	3.6
Ready-mixed concrete (m m <sup>3</sup> )	5.5	4.2	2.6	(0.8)	4.6	1.4
Cement (mt)	1.9	1.7	11.6	(0.1)	6.6	(4.1)
Bricks (m)	1,594	1,594	14.5	1.7	2.6	0.6
Concrete products (mt)	3.9	3.6	5.5	6.0	4.2	(0.1)

**UK**

2004		2003		2002
£m	% change	£m	% change	£m

**Continuing turnover**

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Hanson Aggregates	<b>878.5</b>	<b>0.7</b>	872.4	0.1	871.1
Hanson Building Products	<b>305.4</b>	<b>(0.1)</b>	305.8	22.4	249.9
<b>Total</b>	<b>1,183.9</b>	<b>0.5</b>	1,178.2	5.1	1,121.0

**Continuing operating profit\***

Hanson Aggregates	<b>79.7</b>	<b>(18.9)</b>	98.3	6.3	92.5
Hanson Building Products	<b>39.4</b>	<b>(6.0)</b>	41.9	15.4	36.3
<b>Total</b>	<b>119.1</b>	<b>(15.0)</b>	140.2	8.9	128.8

<b>Operating margin</b>	<b>10.1%</b>		11.9%		11.5%
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			Volume		Price
	2004	2004	2003	2004	2003
	<b>Metric</b>	<b>% change</b>	% change	<b>% change</b>	% change
Aggregates (mt)	<b>33.9</b>	<b>(1.9)</b>	(3.5)	<b>2.9</b>	2.4
Marine aggregates (mt)	<b>6.6</b>	<b>(7.6)</b>	(7.5)	<b>1.2</b>	5.2
Asphalt (mt)	<b>4.4</b>	<b>(0.5)</b>	(1.7)	<b>1.0</b>	3.3
Ready-mixed concrete (m m <sup>3</sup> )	<b>5.6</b>	<b>0.8</b>	(1.2)	<b>1.4</b>	1.2
Bricks (m)	<b>762</b>	<b>(10.0)</b>	4.8	<b>6.7</b>	5.2
Concrete blocks (m spu)	<b>7.6</b>	<b>7.7</b>	(7.8)	<b>3.1</b>	4.1



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## Summary statistics continued year to December 31, 2004

### Turnover by region

	£m	%
1 North America	1,599.0	42.3
2 UK	1,183.9	31.3
3 Australia & Asia Pacific	720.7	19.1
4 Continental Europe	277.8	7.3
Sub total	3,781.4	100.0
Discontinued	28.8	
<b>Group total</b>	<b>3,810.2</b>	

### Capital employed by region

	£m	%
1 North America	1,868.9	48.3
2 UK	1,177.0	30.5
3 Australia & Asia Pacific	678.7	17.6
4 Continental Europe	140.3	3.6
<b>Group total</b>	<b>3,864.9</b>	<b>100.0</b>

### Operating profit\* by region

	£m	%
1 North America	215.3	51.2
2 UK	119.1	28.3
3 Australia & Asia Pacific	62.0	14.8
4 Continental Europe	24.0	5.7
Sub total	420.4	100.0
Central costs and discontinued	(20.9)	
<b>Group total</b>	<b>399.5</b>	

### Operating profit\* by product

	£m	%
1 Aggregates	283.4	67.4
2 Building Products	137.0	32.6
Sub total	420.4	100.0
Central costs and discontinued	(20.9)	
<b>Group total</b>	<b>399.5</b>	

### Australia & Asia Pacific

2004		2003	2002
£m	% change	£m	% change

#### Continuing turnover

### Continental Europe

2004		2003	2002
£m	% change	£m	% change

#### Continuing turnover

Hanson Asia  
Pacific



**Australia**

		Aggregates (mt)	
		Asphalt (mt)	
		Ready-mixed concrete (m m <sup>3</sup> )	

**Asia Pacific**


\*Before exceptional items  
 Includes marine dredged aggregates (mt) = millions of tonnes (mm<sup>3</sup>) = millions of cubic metres  
 (m spu) = millions of standard production units  
 Volume/price information includes intercompany sales and Hanson's share of joint-ventures and associates and is based on continuing volumes, and heritage selling prices

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## Operating and financial review

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### Summary

#### *Lines of business, products and locations*

Hanson is one of the world's leading heavy building materials companies. Our core products are aggregates, primarily crushed rock and sand and gravel, and building products, principally concrete pipe and products, and bricks. Our main markets are the USA, the UK and Australia.

#### *Economic factors*

The key drivers of demand for our products are demographics, population growth, economic activity and infrastructure spend. Our products are used in housing, infrastructure and commercial and industrial projects. Our customers are primarily from the public and private sectors of the construction and building materials industry.

#### *Earnings and cash generation*

Our operations generate earnings and produce cash flows by selling products and services to our customers, by closely managing margins and by focusing on operating costs. Part of the operating cash flow is re-invested in the business to maintain plant and equipment, improve efficiency and reduce cost.

#### *Opportunities and risks*

Our cash flow provides the opportunity to grow through bolt-on acquisitions, and to return cash to shareholders through dividends and capital returns as appropriate. Risks include adverse changes to economic conditions, government spending, weather, increased input costs and adverse changes in foreign currency translation. Hanson is also subject to litigation risk, including asbestos claims against several of its US subsidiaries.

#### *2004 performance and 2005 outlook*

Profit before taxation\* was £336.8m in 2004, 5.6% ahead of 2003. Operating cash flow was £559.1m, 4.2% ahead of 2003. Hanson anticipates further progress in 2005 and will continue with a focused strategy of organic and acquisitive growth and financial discipline.

### Regulatory requirements

The Department of Trade and Industry in the UK has proposed new regulations for Operating and Financial Reviews. Hanson intends to adopt the proposed regulations when further clarification is issued.

Our 2004 Annual Report includes certain additional information required by the Securities and Exchange Commission (SEC) from public companies listed in the USA as this document also acts as the group's Form 20-F. Accordingly, this document contains additional disclosure notes to those required under the Companies Act in the UK. In addition, we present a reconciliation of profit prepared under Generally Accepted Accounting Principles (GAAP) as applied in the UK to net income as adjusted to accord with US GAAP. This, along with reconciliations of shareholders' equity, earnings per share and an explanation of the key differences between UK and US GAAP, is disclosed in note 33 of the Notes to the accounts. A cross reference to Form 20-F requirements is provided on page 106.

### Definitions and interpretations

#### *Heritage operations*

References to heritage operations in the Operating and financial review section describe businesses that the group has owned for more than 12 months. Acquisitions in this section refer to businesses which we have owned for less than 12 months. This definition of an acquisition is not the same as that contained within Financial Reporting Standard 3 Reporting Financial Performance (FRS 3), which defines a business as an acquisition only for the financial period in which it is purchased, even if this is only a short time before the end of the financial year. In the profit and loss account and the Notes to the accounts, newly acquired businesses are presented as acquisitions, in accordance with the FRS 3 definition above. We believe that the non-FRS 3 definitions of heritage businesses and acquisitions assist the readers of this document in comparing the year-on-year performance of the group's underlying businesses from contributions of its newly acquired businesses. Hanson also applies these non-FRS 3 definitions internally.

*Exceptional items*

Under UK GAAP, the group is required to report separately items which are considered unusual due to their size or nature. These items are described as exceptional items and the group identifies them clearly on the face of the profit and loss account. Exceptional items are classed as both operating and non-operating in nature. Non-operating items include costs of resolving asbestos claims because they relate to activities of certain US subsidiaries which are no longer undertaken by the current business. The majority of the group's other exceptional items reported in these financial statements are non-cash and non-trading in nature. The group adopts the same presentation when it analyses its results.

\*Including joint-ventures and associates and pre-exceptional items

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## Operating and financial review continued

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### *Free cash flow*

The group's free cash flow determines how much discretionary spend is available for capital expenditure, acquisitions and returning capital to shareholders. Free cash flow is defined as net cash flow arising from operating activities, less net cash flows from returns on investments and servicing of finance and taxation, as disclosed in accordance with FRS 1 Cash flow statements (revised 1996). A summary of cash flow is provided on page 26 of the Operating and financial review, which reconciles free cash flow to net cash inflow from operating activities.

### *Notes to accounts*

References to Notes to the accounts in this document are references to the notes to the consolidated financial statements contained in the Annual Report and Form 20-F on pages 54 to 93.

### **Turnover**

Turnover for the year (including joint-ventures and associates) was £3,810.2m (£3,956.5m, £4,000.5m), a reduction of 3.7% compared with 2003. Acquisitions contributed £27.9m to turnover, with adverse currency movements during the year reducing 2004 turnover by £202.0m. The group's turnover from continuing operations (including joint-ventures and associates) was £3,781.4m (£3,781.6m, £3,688.0m), in line with 2003.

### **Operating profit**

Hanson assesses the performance of its divisions internally using operating profit. This includes income from the sale of surplus properties, but is before interest and corporate costs, which the group does not allocate to its operating divisions. As such, references to divisions' profit in this document under both UK and US GAAP, always refer to operating profit. Operating profit\* was £399.5m (£393.5m, £431.1m).

### *Property disposals*

The group's operating results include £21.4m (£6.6m, £11.5m) of profits from the disposal of properties. The sale of properties surplus to the group's requirements is an ongoing aspect of our business. Property income is included within each division's operating profit and is detailed on page 54.

### *Pensions*

An increase in the group's pension charge of £5.6m was incurred in 2004 consisting mainly of increased costs of £13.8m in the UK and a £8.9m reduction in the USA.

### *Impact of currency movements*

The US dollar rate used by Hanson to translate its North American revenues and profits into sterling moved from \$1.63 in 2003 to \$1.83 in 2004. This had a significant effect on the group's sterling profits. The table below shows the group's profits on a constant currency basis, by restating its 2003 and 2002 profits at the 2004 exchange rates. Currency movements reduced the sterling group operating profit by £20.3m, of which £18.6m relates to the movement in the US dollar.

**\*Including joint-ventures and associates and pre-exceptional items**



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	2004 results	2003 results (as reported)	Impact of exchange from 2003 to 2004	2003 results (at 2004 exchange rates)	2002 results (as reported)	Impact of exchange from 2002 to 2004	2002 results (at 2004 exchange rates)	Constant currency 2004 v 2003	Constant currency 2004 v 2002
	£m	£m	£m	£m	£m	£m	£m	%	%
<b>Impact of currency movements</b>									
<b>Continuing turnover</b>									
North America	1,599.0	1,607.1	(166.9)	1,440.2	1,627.7	(277.2)	1,350.5	11.0	18.4
UK	1,183.9	1,178.2		1,178.2	1,121.0		1,121.0	0.5	5.6
Australia & Asia Pacific	720.7	689.9	(10.0)	679.9	635.8	16.0	651.8	6.0	10.6
Continental Europe	277.8	306.4	(10.5)	295.9	303.5	8.7	312.2	(6.1)	(11.0)
	<b>3,781.4</b>	<b>3,781.6</b>	<b>(187.4)</b>	<b>3,594.2</b>	<b>3,688.0</b>	<b>(252.5)</b>	<b>3,435.5</b>	<b>5.2</b>	<b>10.1</b>
<b>Operating profit</b>									
North America	215.3	201.4	(20.0)	181.4	261.0	(43.9)	217.1	18.7	(0.8)
UK	119.1	140.2		140.2	128.8		128.8	(15.0)	(7.5)
Australia & Asia Pacific	62.0	53.4	(0.3)	53.1	33.1	(0.3)	32.8	16.8	89.0
Continental Europe	24.0	21.9	(0.6)	21.3	17.9	1.2	19.1	12.7	25.7
	<b>420.4</b>	<b>416.9</b>	<b>(20.9)</b>	<b>396.0</b>	<b>440.8</b>	<b>(43.0)</b>	<b>397.8</b>	<b>6.2</b>	<b>5.7</b>
Central and other#	(20.9)	(23.4)	0.6	(22.8)	(9.7)	(1.2)	(10.9)	8.3	(91.7)
<b>Operating profit (including joint-ventures and associates)</b>	<b>399.5</b>	<b>393.5</b>	<b>(20.3)</b>	<b>373.2</b>	<b>431.1</b>	<b>(44.2)</b>	<b>386.9</b>	<b>7.0</b>	<b>3.3</b>
Net interest payable and similar charges	(62.7)	(74.5)	6.7	(67.8)	(83.0)	10.7	(72.3)	7.5	13.3
<b>Profit before taxation</b>	<b>336.8</b>	<b>319.0</b>	<b>(13.6)</b>	<b>305.4</b>	<b>348.1</b>	<b>(33.5)</b>	<b>314.6</b>	<b>10.3</b>	<b>7.1</b>

Before exceptional items

Currency movements reflect both US dollar and Canadian dollar impact

#Includes central expenses and discontinued operations

These are analysed in notes 1 and 5 of the Notes to the accounts

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**Operating and financial review**  
continued  
**Group at a glance**

## **Our core products**

### **Aggregates**

- crushed rock
- sand and gravel
- ready-mixed concrete
- asphalt

### **Building products**

- concrete pipe and products
- bricks

#### **North America**

##### **Hanson Aggregates**

###### **North America**

is headquartered in Dallas, Texas and produces aggregates, asphalt, ready-mixed concrete and cement for markets throughout the USA.

The division was reorganised this year into four operating regions: Western, Southwest, Mideast and Northeast and operates in over 350 locations in North America.

##### **Hanson Building Products**

###### **North America**

is headquartered in Dallas, Texas.

It consists of two sub-divisions: Pipe & Products which produces concrete pipe and products and precast concrete and Hanson Brick & Tile which produces bricks and concrete roofing tiles. Hanson Building Products operates from over 100 locations across North America.

##### **Jim Kitzmiller President and CEO**

Joined Gifford Hill Concrete Pipes in 1971. He has held several operational positions, including Vice President and General Manager, Concrete Products Division. He became President of Hanson Pipe & Products in 1998. He was appointed to his present role

##### **Richard Manning President and CEO**

Joined London Brick in 1971 becoming Managing Director in 1992. In 1993 he also became Managing Director of Butterley Brick and was made Managing Director of Hanson Brick in 1995. In 2002

in 2003.

he transferred to the USA as President and Chief Executive Officer of Hanson Brick & Tile. He was appointed to his present role in 2003.

**Group total** year to December 31, 2004

**Contribution to group** for the year ended December 31, 2004

\*Including joint-ventures and associates and pre-exceptional items  
Percentage calculated on continuing operating profit before central expenses

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Operating and financial review  
Group at a glance

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## Operating and financial review continued Group at a glance

UK	Australia & Asia Pacific	Continental Europe	
<p><b>Hanson Aggregates UK</b></p> <p>is headquartered in Reading, Berkshire. It produces aggregates, ready-mixed concrete and asphalt for the UK market. It runs the largest fleet of marine aggregate dredgers in Europe. The division operates from over 400 locations across the UK.</p>	<p><b>Hanson Australia &amp; Asia Pacific</b></p> <p>is headquartered in Sydney and produces aggregates, ready-mixed concrete, asphalt, concrete products, precast concrete and cement. The division operates from over 450 locations in Australia, Malaysia, Singapore and Greater China.</p>	<p><b>Hanson Continental Europe</b></p> <p>is headquartered in the UK at Hanson's group head office in London. It produces aggregates, ready-mixed concrete and asphalt from over 120 locations in seven countries: Belgium, Czech Republic, France, Germany, Israel, The Netherlands, and Spain.</p>	
<p><b>Patrick O Shea</b> <b>Managing Director</b></p> <p>Joined Hanson in 1990. He held a variety of senior financial and operational roles before becoming Chief Executive of Hanson Pacific in 2001. In 2003 he added responsibility for Continental Europe to his existing role becoming Chief Executive, Hanson Continental</p>	<p><b>David Szymanski</b> <b>Managing Director</b></p> <p>Joined London Brick in 1976. He held several senior management positions before becoming Operations Director of Hanson Aggregates (South) in 1995 and Managing Director of Desimpel Europe in 1996. He was made Managing Director of Hanson Brick UK in 1999 and was</p>	<p><b>Leslie Cadzow</b> <b>Chief Executive</b></p> <p>Joined Hanson Australia (formerly Pioneer International) in 1976. In 1990 he became a Director and was made Chief Executive of Hanson Australia in 2001. He was appointed Chief Executive of Hanson Australia &amp; Asia Pacific, adding Hanson's operations in Asia Pacific to his</p>	<p><b>Justin Read</b> <b>Managing Director</b></p> <p>Joined Hanson in 1994. He was made Group Treasurer in 1998, Head of Risk Management and Treasury in 1999 and Deputy Finance Director in 2001. In 2002 he became responsible for Group Corporate Development and Corporate Affairs. He was appointed to his present role in</p>

Europe & Asia. He was appointed to his present role in June 2004.

appointed to his present role in 2002.

responsibilities, in June 2004.

June 2004. He is also Head of Corporate Development for Hanson PLC.

Operating and financial review  
Group at a glance

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## Operating and financial review continued

### Review of operations North America

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#### 2004 results compared with 2003

Hanson North America reported continuing operating profit\* improvement in 2004 of 6.9%. Continuing turnover was £1,599.0m which was 0.5% below the prior year of £1,607.1m. These results were impacted, as in 2003, by the weakening of the US dollar. In constant currency, 2004 continuing turnover was 11.0% above the prior year. Continuing operating profit\* of £215.3m was £13.9m above last year. This includes an adverse exchange impact of £20.0m and on a constant currency basis the increase was 18.7%. Acquisitions contributed £4.6m. Dollar operating margins have increased from 12.5% to 13.5%.

The division benefited from property profits of £14.3m (£1.7m) and a reduction in the pension charge of £8.9m compared with 2003.

The improved performance is based on significant benefits delivered from the 2003 reorganisation of the aggregates business together with operational improvements across the group. Latterly, price increases have helped to mitigate the impact of significant input cost increases, most notably in the Pipe & Products division, and volumes were generally strong at the end of 2004.

Capital expenditure increased to £110.8m. All acquisitions completed in 2004 have been fully integrated and are ahead of pro-forma expectations. We will continue to pursue acquisition opportunities in 2005.

#### Aggregates

Continuing turnover of £950.7m was 0.1% below the prior year of £951.4m. Margins improved by 2.9ppts and continuing operating profit\* increased by 31.1% to £117.7m (£89.8m), including £14.3m (£1.7m) of property disposal profits. This improvement was achieved despite input cost increases in areas such as fuel and electricity.

The management team has successfully achieved a significant step change in performance. This includes increased operating efficiencies, reduced costs and increased selling prices, based on good underlying demand, for most of the year. All regions have improved profits and the annualised benefits of the reorganisation targeted for 2005 are \$30m.

Heritage aggregates and ready-mixed concrete volumes are up 2.4% and 1.4% respectively this year. This is despite continued delays to the approval of SAFETEA, the successor bill to TEA-21. Our strongest markets in the year have consistently been in the south east, particularly aggregates in North Carolina and Georgia.

Our operations in Texas had a challenging year, having been impacted by wet weather at critical times of the operating season and rail related supply issues in Houston. Notwithstanding these short-term difficulties, year-on-year heritage volumes are flat and we believe market fundamentals in Texas remain good. In California, however, aggregates, ready-mixed concrete and asphalt volumes have declined, mainly due to lack of state funded highway work. Demand in our other markets generally remained robust.

\*Including joint-ventures and associates and pre-exceptional items



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## Operating and financial review continued

### Review of operations North America

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#### *Building Products*

Turnover in the Building Products division increased in the second half of 2004 to recover increases in key input costs in that period. Continuing turnover of £648.3m was 1.1% below the prior year and continuing operating profit\* decreased by 12.5% to £97.6m, including an adverse exchange impact of £10.3m. Whilst, on a constant currency basis, continuing operating profits declined by 3.5%, second half dollar profits exceeded last year by 11.4%. This improvement in performance was driven by a series of price rise initiatives and improvements in operating efficiencies.

Operating profit for Pipe & Products decreased by 19.0% to £68.1m, principally due to increases in key input costs, although in constant currency the reduction was only 9.8%. Volumes in our key markets in Texas, Florida, Arizona and most of the north east were robust throughout the year and the backlog for Pipe & Products has run at near record levels of around \$400m for the whole of the second half.

Capital expenditure in Pipe & Products increased by 131% in 2004. We commenced a number of major plant upgrades and new precast facilities are now under construction in several of our key markets. This programme will continue during 2005 and into 2006, with further projects planned for Texas, California, Arizona, Florida and Ohio.

Brick & Tile had another year with good growth in earnings. Operating profit increased by 7.3% to £29.5m, an increase of £2.0m. On a constant currency basis this increase was £3.8m after absorbing £3.8m in increased natural gas costs. Acquisitions contributed £2.6m during the year. Residential demand has remained strong this year, and in total, heritage brick volumes were up 9.1% and prices by 2.6%. The acquisition of Athens Brick in Texas in March 2004 has been successfully integrated and contributed £2.5m to the earnings increase. In addition, we expanded our presence in roof tiles in Florida with the acquisition of a plant in Fort Myers.

#### **2003 results compared with 2002**

2003 continuing turnover was £1,607.1m which was 1.3% below 2002 of £1,627.7m. Our reported results were impacted significantly in 2003 by the weakening of the US dollar and, whilst 2003 continuing turnover in sterling was behind 2002, in constant currency it was 6.7% above the prior year. Similarly, continuing operating profit\* of £201.4m was £59.6m below 2002, although in constant currency this reduction was £42.2m. Acquisitions contributed £10.8m to operating profit.

Operating margins decreased from 16.0% to 12.5%. Weaker demand in California, a key market for Hanson, was a major contributor to this decline, together with a £24.0m increase in pension charges and provisions of £9.3m, including £6.9m relating to the aggregates reorganisation.

#### *Aggregates*

2003 continuing turnover of £951.4m was 0.7% below 2002. Continuing operating profit\* was down £44.6m to £89.8m compared with 2002. In constant currency the decline was 28.5%. This included a £18.9m reduction in operating profit from our California operations, together with an increase in reorganisation costs of £6.9m and additional pension charge of £14.1m.

2003 heritage aggregate volumes increased 2.2% to 133.4m tons compared with 2002. As a result of a net volume decline in the previous two years, aggregates pricing remained very competitive, particularly in the south east and mid west. Heritage price increases of just 0.5% overall were achieved. Ready-mixed concrete volumes were marginally down on 2002 and total heritage asphalt volumes decreased by 8.7%. Demand for cement in northern California was flat year-on-year but we saw price reductions of 4.1% in 2003 compared with 2002.

#### *Building Products*

2003 continuing turnover of £655.7m was 2.1% below 2002. Underlying heritage gains were achieved in both the Pipe & Products and Brick & Tile businesses, although continuing operating profit\* of £111.6m decreased by £15.0m compared with 2002, principally due to an adverse exchange impact of £8.3m and increased pension charge of £9.9m.

Underlying continuing operating profit\* (excluding corporate cost allocation) for Pipe & Products decreased by 1.3% in 2003 to £91.0m, although in constant currency, continuing operating profit\* for Pipe & Products increased by 7.3%. Acquisitions contributed £2.8m and total heritage volumes increased by 2.0% compared with 2002. Heritage prices were marginally down by 0.1%, which

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included the effect of changes in product mix. Overall margins increased by 0.5% compared with 2002.

In 2003, underlying heritage profits (excluding corporate cost allocation) for Brick & Tile increased by 5.4% to £31.3m compared with 2002 despite the absorption of a £0.8m increase in natural gas costs. Volumes in the north were up by 0.9% and price increases ahead of inflation were achieved in the area.

### Outlook

We expect demand to remain stable. Further cost savings should be achieved, particularly in the aggregates business. Price increases are targeted to at least recover further increases in input costs for all businesses. We remain committed to delivering high quality products and services to our customers and investing to improve and grow our US operations.

\*Including joint-ventures and associates and pre-exceptional items

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Review of operations □ North America

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## Operating and financial review continued

### Review of operations UK

#### 2004 results compared with 2003

Continuing turnover was £1,183.9m which was 0.5% above the prior year of £1,178.2m. Continuing operating profit\* of £119.1m was £21.1m below 2003. An increased pension charge of £13.8m and a restructuring charge in UK Aggregates of £8.1m contributed to this decline. Acquisitions contributed £0.5m and property profits were £5.1m (£5.5m). Operating margins decreased from 11.9% to 10.1%.

#### *Aggregates*

Continuing turnover of £878.5m was 0.7% above the prior year of £872.4m. Operating margins decreased by 2.2ppts and continuing operating profit\* fell by 18.9% to £79.7m (£98.3m). Internally, major management changes were implemented in 2004. A restructuring charge of £8.1m has been taken through 2004 operating profit. Annualised cost savings and efficiency improvements from this charge are targeted at £10m.

Overall our drystone volumes are down 2.3% on the prior year; however, sales of the higher margin single size premium product have increased. Substitution of low grade material, by cheaper recycled products, not subject to the Aggregates Levy, has continued throughout the year contributing to the overall volume decline. Despite lower volumes, drystone prices have moved forward during the year.

Hanson's sand and gravel volume is 1.4% down against the prior year. This is due to both reduced market demand and reserve exhaustion at several sites during the year. Selling prices have increased 4.2% for the year, reflecting our position in this increasingly scarce resource.

Investment in asphalt production facilities continued in 2004 with new plants or upgrades commissioned at Dagenham, West Drayton, Penderyn and Cannock. These plants help service the requirements of our long-term framework and term maintenance contracts, an increasingly important sector of the asphalt market. Volumes were flat but our market share has grown in a declining market and price increases have been delivered.

Ready-mixed concrete volumes also increased overall with a recovery in the second half of the year ensuring that our total volumes were slightly ahead of 2003. However, margins have declined, despite price increases, as a result of higher input costs and increased competition in selected markets.

Increased selling prices during the year were 1% to 4% across our product range and have helped to partially mitigate the impact of input cost increases. Cost reduction measures through productivity and efficiency improvements are expected to impact 2005 margins favourably.

Capital expenditure for the year totalled £35.4m and included expenditure on our asphalt plant expansion and further sand and gravel reserve purchases. The acquisition of Cumbrian Industrials Ltd in September 2004 strengthened our contracting operations in the north. Integration of this business will take place during 2005. Disposals of non-core businesses also continued in 2004, with the disposal of a recycling business at Pinden and a natural stone quarry and masonry works on the Island of Portland in Dorset.

#### *Building Products*

Continuing turnover of £305.4m was 0.1% below the prior year of £305.8m. Operating margins declined from 13.7% to 12.9% and continuing operating profit\* fell from £41.9m to £39.4m representing a decrease of 6.0%. This shortfall primarily reflects increased pension contributions of £6.7m, partially mitigated by increased property income of £1.7m.

With the exception of blocks and concrete flooring, demand was down with signs of caution in the new-build and repair and maintenance markets. Housing starts and completions remain at a relatively high level, but the gap between the two measures has widened, suggesting an increased level of work in progress. Heritage brick volumes finished 10.3% behind last year. Half of the shortfall reflected market activity, the other half the result of lower stock availability. Despite the volume decline, average brick prices improved by 6.7%.

Concrete block volumes were 7.7% ahead of last year as a result of higher production capacity and stronger market demand. Selling prices also improved 3.1%. The positive trends in the precast flooring business have continued with higher volume and

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pricing in 2004. Volumes in our packed products business were below 2003, primarily as a result of weaker demand. Selling prices however have moved forward.

Cost performance during the year was adversely impacted, particularly by steel and gas.

Capital expenditure for the year totalled £16.1m. Specific expenditure was committed to reduce manual handling in the brick operations and increase yields through kiln refurbishment. Integration of Wilnecote Brick, acquired in November 2004, is progressing well and we announced the acquisition of Marshalls Clay Products division during January 2005. We expanded the packed products bagging operations to establish a national production and distribution business. In addition, we completed the disposal of our UK drainage pipe operation.

\*Including joint-ventures and associates and pre-exceptional items

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Operating and financial review  
Review of operations UK

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## Operating and financial review continued

### Review of operations UK

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#### **2003 results compared with 2002**

Continuing turnover of £1,178.2m in 2003 was 5.1% above 2002. Continuing operating profit\* of £140.2m represented an 8.9% improvement on the prior year. Operating margins increased compared with 2002 from 11.5% to 11.9%.

#### *Aggregates*

Continuing turnover of £872.4m was 0.1% above 2002. Continuing operating profit\* increased by 6.3% to £98.3m. Despite reduced volumes and the inclusion of £3.7m of reorganisation costs in 2003, operating profit increased. Operating margins increased from 10.6% to 11.3%.

Heritage volume for aggregates declined 3.5% in total compared with 2002. Heritage asphalt volumes ended 1.7% down on 2002. Heritage ready-mixed concrete volumes declined 1.2% compared with 2002, in line with a fall in the total market. Despite volume pressures in all products, selling prices continued to move forward in 2003 with total aggregates prices increasing 2.4%, asphalt 3.3% and ready-mixed concrete 1.2% compared with 2002.

#### *Building Products*

Continuing turnover of £305.8m was 22.4% above 2002. Continuing operating profit\* increased 15.4% to £41.9m. Operating margins declined from 14.5% in 2002 to 13.7% in 2003 primarily as a result of the expansion of the packed products business.

In 2003 the brick business reported increases in volumes, prices, continuing operating profit\* and operating margins compared with 2002. Strong market demand led to a heritage brick volume increase of 3.4% over the prior year. Selling prices in 2003 improved by 5.2%.

The concrete products business also delivered an improved performance compared with 2002. Increased demand and order intake across the concrete flooring and precast product business added to the improved performance.

The packed products business had continued growth in 2003 and demand for bagged aggregate products continued to increase.

#### **Outlook**

Economic outlook in the UK appears mixed. The government has announced infrastructure and housing initiatives, but to date these have been slow to materialise due to both planning and funding constraints. Aggregates and ready-mixed concrete demand is expected to remain flat whilst we anticipate minor asphalt volume growth. Brick demand is likely to be flat although we expect our volumes to improve as a result of both stock availability and our recent acquisitions.

Recovery of input cost increases through selling price improvements and delivery of rationalisation benefits in our Aggregates division remain the key priorities for 2005. Capital expenditure on margin enhancing and cost saving activities will continue as will the pursuit of bolt-on acquisitions.

\*Including joint-ventures and associates and pre-exceptional items

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## Operating and financial review continued

### Review of operations Australia & Asia Pacific

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#### 2004 results compared with 2003

Improved year-on-year turnover and operating profit has been achieved by all operations within the division, with the exception of Hong Kong and Malaysia. Continuing turnover was £720.7m, up 4.5% on the prior year. Continuing operating profit\* increased by 16.1% to £62.0m. Operating margins have increased from 7.7% in 2003 to 8.6%.

#### *Hanson Australia*

Continuing turnover was £579.7m, up 11.0% on the prior year. Continuing operating profit\* increased by 20.7% to £61.2m. This is after charging £3.3m of re-branding costs to change the name of our Australian business from Pioneer to Hanson. Operating margins have increased from 9.7% in 2003 to 10.6%. The improved performance was due to an increase in demand and improved margins in our key markets. Successful cost control initiatives have also had a positive impact on operating profit.

Heritage volumes for ready-mixed concrete and aggregates have increased 3.8% and 9.1% respectively year-on-year. Price increases of 3%-4% have been achieved in our major product lines. The Australian economy continues to remain robust. Housing demand has softened, but infrastructure, industrial and commercial demand has more than offset this decline.

Building products had a record year driven by strong masonry volumes and price increases in all markets. In addition, the acquisition of Besser Tasmania contributed to the improved year-on-year performance.

Cement Australia suffered from supply chain issues and an unscheduled shutdown at the Railton plant in Tasmania. A number of capital projects are underway which should alleviate the pressure on the supply chain and improve profitability in 2005. Synergy benefits of the joint-venture are being delivered.

Capital expenditure for the year totalled £25.5m, a small decrease on the prior year. Acquisition spend for 2004 was £2.6m and included the acquisition of ready-mixed concrete and aggregates operations in Victoria and South Australia. Also, the January 2005 acquisition of Rescrete in Sydney will expand our building products range to include precast concrete products and flooring.

#### *Hanson Asia Pacific*

Continuing turnover was £141.0m, down 15.9% on the prior year. Continuing operating profit\* decreased by 70.4% to £0.8m. Operating margins have decreased from 1.6% to 0.6%. We disposed of our operations in Thailand in 2004, which were mainly ready-mixed concrete, and a Singapore asphalt joint-venture facility. This is consistent with our strategy of focusing on core businesses which have strong long-term positions in selected long-term markets.

In Hong Kong, trading conditions have been difficult with weak overall market demand. Ready-mixed concrete volumes are down approximately 30% year-on-year which is having a direct impact on aggregate volumes. Despite price improvements, margins have been affected as a result of the order book being delivered at historically low prices. However, significant progress has been achieved to deliver synergies and improvements in the cost base of our joint-venture, Alliance Construction Materials Ltd.

2004 was a difficult year in Malaysia. The construction industry continued to struggle as a result of restrained public sector spending and the slowdown in a number of major projects. Many of these have been deferred by the government, which has committed to reduce the budget deficit. In Singapore, operations have continued to be under pressure from a slow economic performance and continuing downturn in the construction sector.

#### 2003 results compared with 2002

#### *Hanson Australia*

Continuing turnover for 2003 was £522.3m, 18.9% higher than 2002. Continuing operating profit\* increased to £50.7m, 95.0% ahead of 2002 and operating margins increased from 5.9% to 9.7%, principally as a result of continued strong demand, selling price increases and positive acquisition contributions. Despite reduced heritage aggregates volumes of 2.3% in 2003, selling price improvements of 15.7% were achieved for the year. National heritage ready mixed concrete volumes and prices increased 2.3% and 10.7% respectively during 2003. Both volume and price improvements in the building products business resulted in a much

improved performance in 2003 compared with 2002.

*Hanson Asia Pacific*

Continuing turnover from Hanson Asia Pacific for 2003 was £167.6m, down 14.7% on the prior year. Continuing operating profit\* declined £4.4m to £2.7m. Strong year-on-year improvements from Malaysia were unable to offset the decline in Hong Kong and Singapore. Malaysia benefited from price improvements and continuing cost reduction on volumes that remained flat. Hong Kong and Singapore were both significantly affected by reduced market demand which, in very competitive environments, led to selling price reductions during 2003.

**Outlook**

The outlook in Australia remains good and our operations should benefit as infrastructure, industrial and commercial activity continue to underpin the softening housing market. Further price increases have been announced for implementation on April 1, 2005. Improved performance from Cement Australia is a 2005 priority. We intend to continue to invest in capital expenditure and bolt-on acquisitions.

The outlook for our Asian operations is more difficult as demand in Hong Kong and Malaysia remains weak.

\*Including joint-ventures and associates and pre-exceptional items

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## Operating and financial review continued

### Review of operations Continental Europe

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#### 2004 results compared with 2003

Following a restructure in 2004, Hanson's Continental European division is comprised of operations in Belgium, the Czech Republic, France, Germany, Holland, Israel and Spain. Continuing turnover for the division was £277.8m which was 9.3% below the prior year of £306.4m. Continuing operating profit\* of £24.0m was £2.1m above the prior year representing an increase of 9.6% year-on-year. Record operating profits were achieved in Spain, Belgium and the Czech Republic. Operating margins have increased from 7.1% to 8.6%.

Spain has delivered an improved year-on-year operating profit despite reduced product volumes. Aggregate volumes were down principally as a result of delayed infrastructure projects in Madrid. Ready-mixed concrete volumes declined following the disposal or closure of nine plants in late 2003. Margins improved and this, together with cost and efficiency initiatives, contributed to the overall earnings increase.

Our Israel business delivered a positive contribution to earnings despite difficult conditions. Year-on-year earnings were, however, reduced. Considerable time and effort has been focused on customer service initiatives in Israel in an environment where aggregates and asphalt volumes have declined along with ready-mixed concrete margins.

In the Czech Republic and Belgium, continuing strong demand and product selling price increases were the main contributors to the improved performance. Holland also delivered a much improved profit in 2004, though stronger volumes were offset by margin declines as a result of increased competition.

Capital expenditure for the year totalled £6.5m. Cost reduction and efficiency improvements have continued to be delivered.

#### 2003 results compared with 2002

Continuing turnover for 2003 was £306.4m, up 1.0% on 2002. Continuing operating profit\* increased by 22.3% to £21.9m, with operating margins increasing to 7.1% (5.9%). Year-on-year improvements were achieved in all business units. Spain, in particular, enjoyed a strong year with business activity levels remaining high in our key markets of Barcelona and Madrid. Despite extremely difficult trading conditions, Israel delivered year-on-year profit improvement, primarily as a result of continued cost reduction and efficiency improvements. In the Czech Republic, increased profits were due to stronger demand and a favourable contribution from acquisitions.

#### Outlook

The Spanish economy is anticipated to remain strong during 2005 as is demand in the Czech Republic. Aggregate volumes in Spain will reduce in 2005 following exhaustion of reserves at one of our principal quarries. Replenishment of our reserves position, either through acquisitions or mineral reserve purchases, remains a high priority for 2005. Ready-mixed concrete margins within Continental Europe may also come under some pressure in selected markets.

We plan to focus on acquisitions and the sale of non-core assets in 2005. Efficiency improvements and cost reduction will remain a priority.

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\*Including joint-ventures and associates and pre-exceptional items



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## **Operating and financial review** continued **Financial review**

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**We intend to continue to use our strong cash flow to develop our core products and markets with financial discipline.**

**Jonathan Nicholls**  
Finance Director, Hanson PLC

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## Operating and financial review continued

### Financial review

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#### Group profit before tax

The continuing operating profit\* for the six divisions after central expenses totalled £398.2m in 2004 (£394.4m, £425.5m). Discontinued operations during 2004 included the disposal of operations in Thailand. Turnover from discontinued operations\* was £28.8m (£174.9m, £312.5m), with an operating profit\* of £1.3m (loss of £0.9m, profit of £5.6m). Central expenses were £22.2m (£22.5m, £15.3m).

Profit on ordinary activities before exceptional items, interest and similar charges and taxation was £399.5m (£393.5m, £431.1m).

#### Interest and similar charges

Net interest payable before exceptional items in 2004 was £58.2m (£70.9m, £78.5m), which reflected reduced levels of net debt during the period.

The group manages the amount of debt it carries in its balance sheet by using an interest cover ratio, based on operating profit before exceptional items and goodwill amortisation. As goodwill amortisation is a non-cash item, we believe that adding this figure back assists the reader in assessing the ability of our underlying cash flows to cover our interest expense. Based on 2004 operating profit of £452.1m (£450.4m, £492.4m) before exceptional items of £49.8m (£87.8m, £87.6m) and goodwill amortisation of £52.6m (£56.9m, £61.3m), the current level of our interest cover of approximately eight times compared with our target of five times, underlines the group's financial strength.

#### Taxation

The tax rate on pre-exceptional profit was 23.8% (24.7%, 26.3%). The reduction in the tax rate from 2003 to 2004 results primarily from Australia. Under a new tax consolidation regime recently introduced, Australian companies were allowed to book additional capital allowance tax benefits. The decrease from 2002 to 2003 reflects the lower proportion of comparatively higher taxed US profits.

#### Exceptional items

Operating exceptional items totalled a charge of £49.8m (£87.8m, £87.6m) and are mainly comprised of impairment provisions against the carrying value of assets. Such provisions are required to be booked under UK GAAP where the assets' recoverable amounts do not support their carrying values.

Non-operating exceptional items totalled a charge of £76.5m (charge of £94.9m, profit of £11.0m), of which £79.7m relates to the increase in the group's asbestos provision. The disposal of the group's Thailand operations generated a profit of approximately £8.1m.

The exceptional tax credit in the year was £60.4m.

Total exceptional items after tax amounted to a loss of £63.1m (loss of £60.9m, loss of £71.4m).

#### Asbestos

Various of the Company's US subsidiaries are defendants in a number of lawsuits alleging bodily injury due to exposure to asbestos-containing products before 1984. At the end of 2004, outstanding claimants totalled approximately 135,750 (124,200, 81,500). In the USA, claimants can often file claims without illness or product identification. In the absence to date of federal reform, a number of states have introduced reform measures. Despite these state reforms, we continue to believe that the outstanding number of claimants is more likely to rise than fall in the near term.

New claimants were 18,700 for 2004 compared with the 28,900 new claimants received in 2003. The gross cost resolving asbestos claims in 2004 was \$59.3m (\$43.2m, \$37.3m) including legal fees of \$27.4m (\$21.4m, \$16.0m). The net cost of asbestos for the year after insurance was \$12.8m (\$3.8m, \$4.1m). Of the claimants whose cases were resolved during 2004, approximately 80% were dismissed without payment.

The Company's approach to accounting for the asbestos claims against these US subsidiaries is to provide for those costs of resolution which are both probable and reliably estimable. The costs of resolving possible claims are accounted for as contingent liabilities. At present, based on detailed analysis and the assumptions referred to in note 17 of the Notes to the accounts, the provision for those costs which are both probable and reliably estimable equates to approximately eight years of gross cost at current levels. In total, the full year increase in the provision for future asbestos costs was \$222m, taking the gross provision to \$480m before the impact of discounting, which has reduced the provision by \$79m. Offsetting this is approximately \$26m of remaining insurance cover. Our assumption at this stage is that most of this remaining insurance will be used over the next four years. We continue to use a combination of litigation and negotiation to maximise this insurance cover. The net cost of resolution is allowable for US tax at a rate of 39%. Going forward, therefore, a gross cost of \$60m is equivalent to approximately \$36m post-tax, or £20m, compared with our operating cash flow of £559.1m.

#### **Earnings per share**

Earnings per share before exceptional items in 2004 were 35.0p (32.7p, 34.9p), up 7.0% on last year.

#### **Dividends**

Dividends paid and proposed total 18.15p (16.95p, 15.40p) an increase of 7.1% on 2003. The sustained increase in dividend payout reflects our confidence in the underlying strength of the group and its ability to generate strong cash flows.

\*Including joint-ventures and associates and pre-exceptional items

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## Operating and financial review continued

### Financial review

#### Summary of cash flows £m

	2004	2003	2002
Operating cash flow	559.1	536.5	585.9
Taxation	(18.3)	(18.4)	(19.7)
Interest	(53.2)	(63.9)	(86.9)
Free cash flow	487.6	454.2	479.3
Capital expenditure	(198.6)	(208.2)	(143.2)
Acquisition of businesses	(88.4)	(153.2)	(152.7)
Disposal of businesses	55.2	132.0	41.9
Sale of fixed assets	18.5	24.5	32.5
Dividends	(127.3)	(116.3)	(103.8)
Share buyback	(26.1)	–	–
Exchange and other	126.1	94.7	105.8
Net cash flow	247.0	227.7	259.8
Opening borrowings	(942.2)	(1,169.9)	(1,429.7)
Closing borrowings	(695.2)	(942.2)	(1,169.9)

#### Cash flow

Operating cash flow for 2004 was £559.1m (£536.5m, £585.9m). As well as enabling us to increase our investment in capital projects and acquisitions we used cash flow to make returns to our shareholders through dividends and an on-market share buyback programme.

#### Capital expenditure

Capital expenditure for continuing operations in both new and replacement plant and equipment during the year, totalling £196.7m (£205.7m, £135.1m), was incurred. This represented 127.3% of continuing depreciation. Over half of this amount has been spent in North America. Capital expenditure has been financed out of group cash flow and bank facilities. A further £28.5m of capital expenditure had been committed as at December 31, 2004.

The group continues to identify and invest in projects which are intended to reduce operating costs and expand and enhance the performance of our divisions.

#### Capital expenditure £m

	Capex	Depreciation	Capex % of depreciation
North America	110.8	79.7	139.0
UK	51.5	39.3	131.0
Australia & Asia Pacific	27.9	27.7	100.7
Continental Europe	6.5	7.8	83.3
Total	196.7	154.5	127.3

Continuing operations only

### Acquisitions and disposals

Hanson invested £88.4m in acquiring nine new businesses in 2004. In North America, we purchased Athens Brick, strengthening our presence in Texas and enhancing earnings and we have expanded our UK brick operations with the purchase of Wilnecote in November 2004 and Marshalls Clay Products in January 2005. These acquisitions have extended our product range and should strengthen our customer offering. We intend to maintain our strategy of focusing on bolt-on acquisitions to enhance existing operations in our key markets.

Disposal proceeds have totalled £55.2m for the year and included the sale of our operations in Thailand and several non-core UK operations. We have sought to improve the overall returns for our shareholders by disposing of businesses which were not expected to generate our target returns through the medium-term.

### Net debt

At the end of 2004 the group's net debt of £695.2m (£942.2m, £1,169.9m) was represented by gross debt of £2,089.5m offset by cash and securities of £1,394.3m.

The maturity profile of the group's cash and debt, excluding undrawn balances on committed bank facilities, is set out in the table below.

### Maturing net cash/(debt) £m

	Gross cash	Debt	Net debt	Cumulative net debt
2005	1,394.3	(1,031.2)	363.1	363.1
2006		(1.2)	(1.2)	361.9
2007		(82.2)	(82.2)	279.7
2008		(200.1)	(200.1)	79.6
2009		(0.3)	(0.3)	79.3
2010		(388.1)	(388.1)	(308.8)
2011		–	–	(308.8)

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2012		–	–	(308.8)
2013		(386.4)	(386.4)	(695.2)
2014		–	–	(695.2)
Total	1,394.3	(2,089.5)	(695.2)	

In line with the group's financial risk policies, the amount of net debt and foreign exchange contracts denominated in US dollars was increased during the year to £834.7m, representing 120% (102%) of net debt. The table below shows the effect on US dollar denominated profits and net debt of a 10% fall in the US dollar.

In US dollars only	Total for 2004 £m	10% fall £m
Operating profit*	187.2	(17.0)
Net debt and foreign exchange	(834.7)	75.9

\*Including joint-ventures and associates and pre-exceptional items  
 For further details see note 30 on page 81 of the Notes to the accounts.

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## Operating and financial review continued

### Financial review

#### Hanson share price 2004 pence

#### Capital structure and share buyback programme

The group continually reviews its level of debt and equity taking into account cash flow and the outlook for capital expenditure and acquisitions. Following a four year period of debt reduction, Hanson commenced an on-market share buyback programme during October 2004. As at December 31, 2004 £26m had been spent buying back 6,350,000 shares which are held as treasury shares. There are now 730,618,849 ordinary shares in issue excluding those held in treasury. The share buyback programme is a rolling return of capital which we believe is in excess of our medium-term requirements.

#### Balance sheet and provisions

Shareholders' funds were £2,725.1m (£2,729.3m) at December 31, 2004. The transfer to reserves from the profit and loss account after the deduction of amounts for dividends paid and proposed was £57.4m. The effect of currency movements decreased shareholders' funds by £39.1m. Provisions totalled £584.5m (£590.2m) (excluding Koppers' liabilities) at December 31, 2004. The utilisation against these provisions in 2004 was £63.6m (£72.7m). £87.6m (£33.0m) was charged against provisions in 2004. The potential exposure of the group's US subsidiaries to asbestos claims in excess of those provided for is discussed in note 27 of the Notes to the accounts.

#### Off balance sheet arrangements

The group's off balance sheet arrangements consist of the following, as referred to in the Notes to the accounts:

- operating leases (notes 3 and 28)
- commitments to capital expenditure (note 11)
- guarantees, letters of credit and surety bonds (note 27)
- derivative contracts as accounted for in accordance with UK GAAP (note 30)
- pensions (note 29)

Other than as disclosed, there are no off balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on the group's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditure or capital resources.

#### Capital and financial obligations

The table below sets out Hanson's capital and financial obligations due by period. Due to the nature of the group's trading activities there are no significant purchase obligations.

#### Payments due by period £m

	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Capital and financial obligations at December 31, 2004					
Short-term debt (note 16)	1,031.2	1,031.2	–	–	–
Long-term debt (note 16)	1,058.3	–	83.4	200.4	774.5

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Operating leases (note 28)	218.9	24.3	36.9	25.1	132.6
Pension commitments (note 29)	42.0	8.4	16.8	16.8	–
Capital expenditure contracted (note 11)	28.5	28.5	–	–	–
Total	2,378.9	1,092.4	137.1	242.3	907.1

Notes to the accounts

**Risk management**

The group Risk Committee, which includes all of the Executive Directors of the Company, is responsible, under delegated authority from the Board, for reviewing the group risk position and ensuring appropriate risk mitigation is in place. In carrying out this role, the Risk Committee reviews audit reports, risk assessment returns, including those for Turnbull, as well as regular management reports.

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## Operating and financial review continued

### Financial review

#### Funding, liquidity and treasury management

The group's financial risk policy identifies risks and sets out a control framework for managing exposures. This policy is approved by the Board and covers interest rate, foreign exchange and credit risks. It also sets out policies for funding and liquidity management. The Risk Committee has delegated authority from the Board to monitor and review these issues, approve the adoption of new instruments in accordance with group policy and approve any changes to policy implementation. Operating within the strict controls of these policies, the Treasury department manages these financial risks, ensuring in particular that sufficient funding and liquidity is available to meet the needs of the group.

In addition to the high level of free cash flow of the group, Hanson operates a prudent approach to liquidity management using a mixture of long-term debt together with short-term cash and investments.

The group's core funding is provided by three US bond issues each of \$750m, maturing in September 2005, September 2010 and March 2013. The group also has substantial committed bank facilities which total £970.8m, the principal component of which is a £519.2m facility which expires in March 2006. During the year we entered into a new \$475m five year committed bank facility and three facilities denominated in Australian dollars totalling A\$500m. The Australian dollar facilities have terms of between one and three years. At the balance sheet date, £244.0m of committed bank facilities was utilised by way of letters of credit and cash drawings. The level of unused facilities, together with other resources available to the group, is such that we believe that the group has sufficient funding to satisfy its working capital requirements in the near to medium-term.

#### Committed bank facilities £m

	Expiring	Remaining
2004		970.8
2005	122.5	848.3
2006	519.2	329.1
2007	81.7	247.4
2008		247.4
2009	247.4	

Group credit facilities contain a financial covenant broadly consistent with, but less restrictive than, the group's interest cover target. The group does not, therefore, anticipate that this covenant will restrict funding or investment strategies in the foreseeable future.

#### Credit risk

The Board's policy is that credit risk for financial transactions should be restricted to counterparties with a minimum A-/A3 credit rating for long-term transactions and F2/P2/A2 for short-term transactions. In addition, there are individual counterparty and country limits for cash and short-term investments.

The credit ratings of the group, which are a key determinant of the terms on which the group can issue debt, were unchanged during the year as shown below:

	Short term	Remaining
Fitch	F2	BBB+
Moody s	P2	Baa1
Standard & Poor s	A2	BBB+

#### *Interest rate risk*

The group s policy for interest rate risk is designed to limit the group s exposure to fluctuating interest rates. This is achieved by limiting the level of floating interest rate exposure to a maximum determined by both the level of debt and the level of operating profit (pre-exceptional items and goodwill amortisation) of the group at any point in time. This approach, which is consistent with our target for leverage, will mean, other things being equal, that for any given level of debt, a higher level of operating profit (pre-exceptional items and goodwill amortisation) will result in a higher limit on the level of floating rate debt in the group (and vice versa). Consistent with this policy, at December 31, 2004 the group held 77% of net debt at fixed rates, 10% higher than in 2003. For further details see note 30 of the Notes to the accounts.

#### *Foreign exchange risk*

Due to the nature of the group s products, which are generally uneconomic to transport long distances, there are few foreign exchange transaction exposures in the course of the group s day-to-day business. The group does, however, have the majority (70%) of its net assets in overseas locations, all denominated in foreign currencies, principally US dollars (48%). As a consequence, changes in exchange rates affect both reported profit and asset values. The exposure of asset values to foreign exchange rates is controlled to an extent by matching a proportion of currency assets with currency liabilities using both debt and foreign exchange contracts. This means that falling overseas exchange rates will give rise to both falling asset values and lower levels of net debt in sterling terms. The interest cost of currency liabilities also provides a partial hedge for foreign currency income.

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## Operating and financial review continued

### Financial review

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#### **Critical accounting policies**

The following section explains where, in these financial statements, we have exercised judgement in applying the group's key accounting policies and critical estimates in areas which are by their nature inherently uncertain. Although we have used all of the information currently available to us in making such critical estimates, changes to our assumptions in these areas could materially affect the financial results and position shown in this document. Hanson's significant accounting policies in accordance with UK GAAP are set out on pages 51 to 53 of the Annual Report and Form 20-F. Where estimates have been used, it is possible that over time the actual results upon which the judgement was based could differ from those estimates.

The group considers the following are the critical policies where assumptions and judgements could have a significant impact on the consolidated financial statements.

#### *Legal and other disputes*

Various of the group's subsidiaries are subject to a number of legal disputes, the most significant being asbestos claims against a number of its US subsidiaries. Provisions for anticipated settlement costs and associated expenses arising from legal and other disputes are made where a reliable estimate can be made of the probable outcome of the dispute. Where it is not possible to make such an estimate, no provision is made. Our approach to providing for asbestos is explained in note 17 of the Notes to the accounts.

#### *Environmental obligations*

Various of the group's subsidiaries are also subject to environmental obligations for clean up and remediation costs, pursuant to environmental laws and regulations. Provisions are made for environmental obligations and related costs which are probable and reliably estimable and where a legal or contractual obligation to remedy known exposures exists. The ultimate requirement for such actions, and their costs is inherently difficult to estimate and is based on current information on costs and expected plans for remediation. Actual costs can differ from estimates over time because of changes in existing laws and regulations, public expectations, new sites arising and unknown conditions being encountered.

#### *Impairment*

The group has adopted FRS 11 Impairment of fixed assets and goodwill under UK GAAP and SFAS 121 Accounting for the impairment of long lived assets and for long lived assets to be disposed of together with SFAS 142 Goodwill and other intangible assets under US GAAP.

Under UK GAAP, the group compares the carrying value of goodwill and tangible assets, with the higher of their net realisable value and value in use (explained below), to determine whether impairment exists.

Under US GAAP, the group assesses the fair value and recoverability of goodwill by comparing the implied fair value of goodwill with the actual goodwill attributable to a reporting unit.

Value in use is calculated by discounting the cash flows expected to be generated by the asset/group of assets, being tested for evidence of impairment. The use of different estimates, assumptions and judgements, in particular those involved in (a) determining a value based on our current expectations of future industry conditions and the associated cash flows from the group's operations, but also those involving our future intentions for assets which are currently non-operational, (b) our determination of the level at which groups of assets can be reasonably tested for impairment separately from other parts of the business and (c) our treatment of centrally held assets, could each result in materially different carrying values of assets and assessments of impairment.

#### *Pensions and other post-retirement benefits*

Under UK GAAP, the group currently applies SSAP 24 Accounting for pension costs in its consolidated financial statements. In the Notes to the accounts the group has also included additional disclosures showing, inter alia, the effect that the proposed accounting standard FRS 17 Retirement Benefits would have had on the Company, had it been adopted. Under US GAAP, the Company applies SFAS 87 Employers Accounting for Pensions and SFAS 106 Employers Accounting for Post-retirement Benefits Other Than Pensions.



These accounting standards require the group to make assumptions including, but not limited to, future asset returns, rates of inflation, discount rates and health care costs. The use of different assumptions, in any of the above calculations, could have a material effect on the relative accounting values of the relevant assets and liabilities which could result in a material change to the cost of such liabilities as recognised in the profit and loss account over time. These assumptions are subject to periodic review. See note 29 of the Notes to the accounts for additional information regarding the group's pension and other post-retirement benefits.

**International Financial Reporting Standards**

The results presented in this document are prepared in accordance with UK GAAP and Companies Act requirements. This is the last year that the group's results will be prepared in accordance with UK GAAP. Next year, and thereafter, the group's results will be prepared in accordance with International Financial Reporting Standards (IFRS). The 2004 results presented in these financial statements will be restated in accordance with IFRS in June 2005 and will form the basis of the comparatives included in the group's 2005 financial statements.

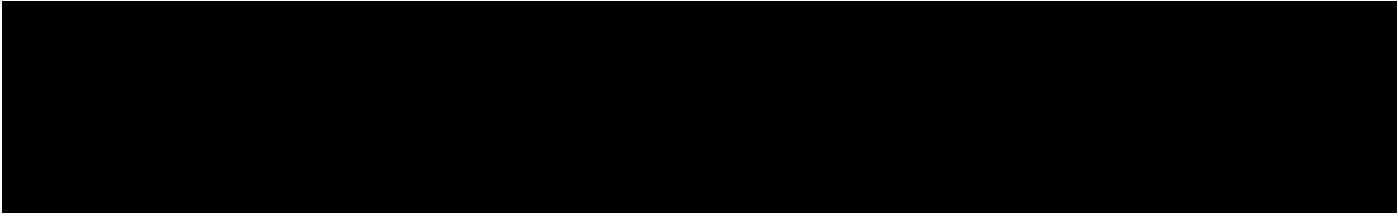
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**Aggregates and building products** are a central part of our lives, providing the basis for housing, employment, transportation and leisure.

We are committed to improving our environmental, health and safety in the workplace and community programmes.

We are also committed to ensuring we recognise and manage the impact of our operations on the communities in which we operate and on the environment.

We believe our approach will make a positive contribution to Hanson's economic performance in the future.



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## Corporate responsibility continued

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### Corporate responsibility

We recognise the need to act in a responsible manner and to demonstrate our corporate responsibility in many ways: the way in which we trade, develop new products and manage and restore our sites and in the way we treat and respect our employees, neighbours and customers. Corporate responsibility is integral to good business management.

More detailed information on our corporate policies and practices are available within the corporate responsibility publications produced in 2003: an overview for the group and reports for our two largest markets, North America and the UK. Updated information has been posted on our website. In future, our website will be the principal vehicle for corporate responsibility reporting.

### Health and safety

We continue to consider health and safety to be one of our highest priorities and a fundamental element of being a successful business. We are committed to achieving the highest reasonably practicable standards of health, safety and welfare for our employees, contractors, customers and visitors. Hanson companies around the world actively engage with government agencies, trade associations and other similar bodies to promote the benefits of a safe and healthy working environment and develop best practice.

Our divisional Chief Executives/Managing Directors are responsible for establishing formal policies, for ensuring that arrangements are made for the fulfilment of those policies and for monitoring their implementation and effectiveness. They are supported by a network of safety professionals, who share information and best practice to ensure that lessons learnt from accident investigations are applied across the group. We collect data, which is reported quarterly to the Board, on the number, type and frequency of accidents and of the amount of time which is lost as a result of workplace accidents. We analyse this information to help us to identify where we need to focus particular attention and to assess the effectiveness of our initiatives.

To prevent injuries and other incidents from occurring we:

- train our employees to work safely and to eliminate the causes of unsafe behaviour
- seek to provide safe systems of work and encourage a safe production culture
- continually strive for improved safety performance
- look to adopt best practice and to commit to industry improvement initiatives and targets

In 2004 we saw continued improvement in our overall safety statistics for the fifth consecutive year. Regrettably this record was marred by an employee work related fatality. The Report of the Directors on page 34 of the Annual Report and Form 20-F has further information on Hanson's safety performance for 2004.

### The environment

Hanson understands that its reputation for managing environmental issues carefully and limiting the impact of our activities on the environment is a valuable asset. As such, it is an integral part of our business strategy. We seek continued improvement in environmental performance and endeavour to make a positive contribution to society through our products and our land management and marine programmes. Significant environmental issues legislative, risk, performance, product development and opportunities are reported quarterly to the Board.

Our environmental policy provides the framework for setting and reviewing environmental objectives and targets. It is applied as the minimum standard across our business. Where businesses identify a need for additional, more stretching requirements, they are encouraged to build upon this policy.

### Community relations

Hanson operates internationally but is focused locally. Our products, because of a high weight to value ratio, do not travel far, so our businesses are closely connected with the communities in which they are located. Many of our sites are in rural areas where, often as the largest commercial enterprise within the area, we contribute to the local economy, through the goods and services we purchase and the people we employ.

Local management teams have overall responsibility for engagement with the communities in which we are located. This ensures that we respond appropriately to the differing needs and interests of communities.

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We closely identify with our neighbourhoods and our staff often initiate regular meetings with local people. These meetings provide a forum for discussing and resolving any issues and concerns at an early stage.

We encourage organised school groups to visit our sites and also hold open days for members of the community, including the families of our employees.

### **Charitable donations and sponsorship**

We get involved in fundraising and sponsorship and make donations and gifts in kind to the communities in which we operate. Our products are such an essential part of our modern lives that we are often asked to support charities by donating materials for a wide variety of projects. We have a general policy of supporting community projects in this way, particularly close to our operations.

Along with many people around the world, we were shocked and dismayed by the Asian tsunami on December 26, 2004. In addition to employee-organised fundraising events and individual donations made by Hanson employees throughout the world, Hanson donated £50,000 to help support those affected by the catastrophe.

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Corporate responsibility

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## Board of Directors

**1. Christopher Collins, Chairman (65) #**

Joined Hanson PLC in 1989 and was appointed to the Board of Hanson in 1991 as Director responsible for corporate development. Appointed Vice-Chairman in 1995 and Chairman in 1998. He is Chairman of Hanson's Nominations Committee. He will stand down as Chairman and from the Board of Hanson after the 2005 AGM. He is also the Non-executive Chairman of Forth Ports PLC and a Non-executive Director of Old Mutual plc, The Go-Ahead Group plc and Alfred McAlpine PLC.

**2. Alan Murray, Chief Executive (51) #**

Joined Hanson PLC in 1988. He held various senior divisional financial roles and became Assistant Finance Director in 1995 and Finance Director in 1997. He was appointed Chief Executive of Hanson Building Materials America in June 1998 and Chief Executive of Hanson in April 2002. He serves on the Board of the National Stone, Sand and Gravel Association in the USA.

**3. Jonathan Nicholls, Finance Director (47)**

Joined Hanson PLC in 1996 as Group Treasurer. He was appointed to the position of Finance Director of Hanson in June 1998. He previously worked for Abbey National plc where he held several treasury and financial roles from 1985-96. He is a Non-executive Director of Man Group plc.

**4. Graham Dransfield, Legal Director (53)**

Joined Hanson PLC as a Solicitor in 1982 from Slaughter and May where he qualified in 1976. He became Company Secretary in 1986 and, after serving as Senior Solicitor from 1987, was appointed to the Board of Hanson in 1992.

**5. Simon Keswick, Senior Non-executive Director (62) #**

Non-executive Director since 1991 and Senior Independent Director. He is a Director of Jardine Matheson Holdings Ltd, Matheson & Co Ltd, Jardine Lloyd Thompson Group plc, Jardine Motors Group plc and The Fleming Mercantile Investment Trust plc. He is the Chairman of Dairy Farm International, Hong Kong Land and Mandarin Oriental.

**6. The Rt Hon. Lord Baker of Dorking CH, Non-executive Director (70) #**

Non-executive Director since 1992 and Chairman of the Remuneration Committee. Formerly Secretary of State for the Environment 1985-86, Secretary of State for Education and Science 1986-89, Chairman of the Conservative Party 1989-90 and Home Secretary 1990-92. He is currently Chairman of Business Serve Plc, Monsternob Group plc and Teather & Greenwood Plc, and a Non-executive Director of Stanley Leisure plc as well as being President of The Royal London Society for the Blind.

**7. W Frank Blount, Non-executive Director (66) #**

Non-executive Director since 2000 and previously a Non-executive Director of Pioneer International Ltd. He is currently Chairman and Chief Executive of JI Ventures, Inc. and TTS Management Corporation and a Non-executive Director of Caterpillar, Inc., Entergy Corporation, Adtran, Inc. and Alcatel, Inc. He has also served as Chief Executive and a Director of Telstra Corporation, Ltd from 1992-99 and as Chief Executive Officer and Chairman of Cypress Communications, Inc. from 2000-2002. He was Group President of AT&T Corp. from 1988-91.

**8. Sam Laidlaw, Non-executive Director (49) # \***

Non-executive Director since 2003. Currently Executive Vice President of ChevronTexaco Corporation. He is also a member of the United Kingdom Council of INSEAD and a trustee of the medical charity RAFT. He previously served as President and Chief Operating Officer of Amerada Hess Corp. and Chief Executive Officer of Enterprise Oil plc.

**9. Jim Leng, Non-executive Director (59) #\***

Non-executive Director since June 2004. Currently Chairman of Corus PLC, he is also a Non-executive Director of Pilkington plc, IMI plc and Alstom SA. From 1995-2001 he was Chief Executive of Laporte plc and before that Chief Executive of Low & Bonar plc.

**10. The Baroness Noakes DBE, Non-executive Director (55) \*#**

Non-executive Director since 2001 and Chairman of the Audit Committee. Formerly a Partner in accountants KPMG, she is a Non-executive Director of Imperial Chemical Industries plc, the Senior Independent Director of Carpetright Plc and a Trustee of the Reuters Founders Share Company. She was formerly the Senior Non-executive Director of the Court of the Bank of England. She is a Fellow of the Institute of Chartered Accountants in England and Wales and was President of that institute in 1999-2000. She is a Director of the English National Opera.

**11. Mike Welton, Non-executive Director (58) #**

Non-executive Director since January 2005. He will succeed Christopher Collins as Chairman of Hanson after the 2005 AGM. From 1995 to December 2004 he was Chief Executive of Balfour Beatty plc, which he joined in 1978. He is a chartered civil engineer, a Fellow of the Royal Academy of Engineering and a Fellow of the Institution of Civil Engineers. He is a past UK Chairman of the Turkish/British Business Council and was appointed Chairman of the UK Government's Railway Sector Advisory Group in August 2001.

**Paul Tunnacliffe FCIS**

**Company Secretary (42)**

Remuneration Committee member

\*Audit Committee member

#Nominations Committee member

Proposed for election/re-election at the AGM

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## Report of the Directors

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The Directors submit their report together with the consolidated accounts of Hanson and its subsidiary undertakings for the year ended December 31, 2004.

### **Incorporation and name**

The Company ( New Hanson ) was incorporated in England and Wales (No. 4626078) on December 31, 2002 as Broadcast Sales Limited, changed its name to Hanson Building Materials Limited on June 4, 2003, re-registered as a public limited company, Hanson Building Materials PLC, on July 10, 2003 and changed its name to Hanson PLC on October 14, 2003. The Company, formerly known as Hanson PLC ( Old Hanson ), re-registered as a private limited company and changed its name to Hanson Building Materials Limited on October 14, 2003.

Following shareholder approval on September 19, 2003 and Court sanction on October 13, 2003 and October 20, 2003, a scheme of arrangement (the Scheme ) and share capital reduction were implemented whereby shareholders in Old Hanson received, in substitution for each ordinary share of £2, one ordinary share of 10p in New Hanson. The Scheme became effective on October 14, 2003 and the reduction in nominal value of the new ordinary shares to 10p each became effective on October 21, 2003.

The Scheme and the reduction in nominal value were implemented in order to increase the distributable reserves available to the Company.

### **Results and dividends**

The profit after exceptional items and taxation for the year was £193.6m. An interim dividend of 5.35p per ordinary share was paid on September 17, 2004. The Directors recommend a final dividend of 12.80p per ordinary share which will, if approved at the AGM, be paid on April 29, 2005, to ordinary shareholders on the register at close of business (London time) on April 8, 2005. After providing for cash dividends of £136.2m, the retained profit transferred to reserves was £57.4m (note 20 of the Notes to the accounts). A financial review of 2004 and prospects for the year 2005 are included within the Chairman and Chief Executive s overview and the Operating and financial review.

### **Activities**

Hanson is a focused heavy building materials company with operations in North America, the UK, Australia, Asia Pacific and Continental Europe. Note 1 of the Notes to the accounts gives an analysis of operating profit including joint-ventures and associated undertakings, turnover and capital employed by activity and by geographical location.

### **Acquisitions and disposals**

During the year Hanson acquired businesses at a total cost of £88.4m. Net proceeds from the disposal of subsidiaries and investments during the year totalled £73.4m. Further information is contained in note 21 of the Notes to the accounts.

### **Fixed assets**

Details of movements in Hanson s fixed assets are shown in note 11 of the Notes to the accounts.

### **Subsequent events**

Material post balance sheet events are described in note 32 of the Notes to the accounts.

### **Research and development**

The development and improvement of new and existing products is an essential continuing process in our companies. Expenditure is written off in the year in which it is incurred.

### **Share capital**

Details of changes in share capital during the year and the number of ordinary shares reserved for issue at December 31, 2004 are shown in note 19 of the Notes to the accounts. Details of shares purchased by the Company are shown in note 20 of the Notes to the accounts.



**Substantial shareholdings**

Details of substantial interests (3% or more) in Hanson's share capital, as notified to Hanson, are shown in the Investor information section.

**Annual General Meeting**

The AGM will be held at 11.00am on April 20, 2005, at the Royal Aeronautical Society, 4 Hamilton Place, London W1J 7BQ. Shareholders being sent this document will also be sent a separate notice of the AGM incorporating explanatory notes of the resolutions to be proposed at the meeting.

**Shareholder communications**

Hanson values its dialogue with both institutional and private investors. Based on publicly available information, constructive two-way communication with fund managers, institutional investors and analysts is promoted and encouraged. The views of major shareholders are reported to the Board, with independent surveys undertaken by the Company's brokers on specific issues of relevance to the Company. Arrangements are also in place for the Senior Independent Director and other Non-executive Directors to meet with major shareholders, if they so request. Additional forms of communication include the interim and annual results presentations and the AGM - see details of meeting above - where shareholders are invited to participate.

The Hanson website at [www.hanson.biz](http://www.hanson.biz) provides access to information on the Company and its businesses. Further details of the website can be found in the Investor information section. It is not intended for the website address to be an active link or to otherwise incorporate the contents of the website into this document.

At the AGM, the Chief Executive will present a review of the results and current business activity. Shareholders are invited to ask questions on items of business put before the meeting and will have the opportunity to vote separately on each resolution. The Chairman will indicate the level of proxy votes lodged in respect of each resolution following each vote on a show of hands. Details of those abstaining from voting will also be disclosed. After the meeting the Directors will also be available to meet with shareholders.

**Directors**

The present Directors of Hanson are:

C D Collins, Chairman

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A J Murray, Chief Executive

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The Rt Hon. Lord Baker of Dorking CH\*

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W F Blount\*

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G Dransfield

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S L Keswick\*

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W S H Laidlaw\*

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J W Leng\*

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J C Nicholls

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The Baroness Noakes DBE\*

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M W Welton\*

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\*Independent Non-executive Director

J W Leng and M W Welton were appointed to the Board on June 1, 2004 and January 4, 2005 respectively.

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G Dransfield, J C Nicholls and The Baroness Noakes will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming AGM. J W Leng and M W Welton, having been appointed since the last AGM, will seek election to the Board.

C D Collins, S L Keswick and Lord Baker will retire immediately after the AGM and not seek re-election. M W Welton will succeed C D Collins as Chairman.

Brief biographical details of the Directors are given on page 32 and accompany the notice of the AGM.

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## Report of the Directors continued

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### Directors interests

The interests of the Directors, in office at December 31, 2004, in the ordinary shares of Hanson appear in the Remuneration report on pages 38 to 43.

In addition to providing indemnification pursuant to Hanson's Articles of Association or the articles of association, charter or by-laws of Hanson's subsidiaries, Hanson maintains directors' and officers' liability insurance for Directors and officers of Hanson and its subsidiaries. Except for such indemnification and insurance and except for the respective terms of service of such Directors and officers, no Director or officer of Hanson or any of their respective relatives or spouses either had an interest in any contract or transaction which was material to Hanson or such related party or unusual in its nature or conditions or had any outstanding indebtedness of a material nature owing to Hanson at any time during the last three years.

### Employees and employment policies

The success of the business ultimately rests upon the people working for it. The better the understanding among employees of their part in achieving the objectives of the business the greater the opportunity for success.

Group policies are framed for adaptation to local legislation by the divisions. In addition to matters of compliance, the policies centre around business improvement and creating an environment where employees can reach their full potential. This includes employment practices relating to disabled persons.

Wide ranging employment policies are in place throughout the group, covering areas such as role and goal clarity, performance management, employee development, succession planning, recruitment, health and safety and equal opportunity in employment.

Employment communication and involvement through a range of media and meetings allows employees to have a better understanding of the business performance, as well as important information on operational news, health and safety, the environment, employee news and community activities. Two-way communication is encouraged and employees are able to make valuable contributions to improvement in business processes.

Divisional companies all play their part in informing employees of the financial and economic factors affecting the Company's performance and the actual results.

### Health and safety

The progress of the safety performance throughout the businesses worldwide is tracked and reported quarterly to the Board using standard measures. P D Tunnacliffe, the Company Secretary, is responsible to the Board for health and safety.

Hanson uses the following indicators to provide a consistent measure of its performance. According to best international practice the measures are per 200,000 hours worked:

- Lost time incidence rate: this is the frequency rate of injuries resulting in an employee being absent for one or more shifts.
- Lost day incidence rate: this is the frequency rate for days lost as a result of accidents.

The overall safety statistics for the group showed continued improvement in 2004. Although the number of lost work days (shifts) per lost time incident remained at the same level as 2003, the incidence of lost time injuries was reduced by 20%.

However, during 2004, there was one employee work related fatality. Although this is the lowest recorded annual number of fatalities since consolidated safety records were maintained in 2000, the only acceptable number is zero.

Further information on Hanson's policies and procedures can be found on page 31 and within the Company's separate corporate responsibility publications and updates accessible on the Company's website.

### The environment

The progress of Hanson's environmental performance is tracked and reported quarterly to the Board. P D Tunnacliffe, the Company Secretary, is responsible to the Board for environmental matters.

Further information on the Company's approach to environmental matters can be found on page 31 and within the Company's separate corporate responsibility publications and updates accessible on the Company's website.

#### **Charitable and political donations**

During the year, the group made worldwide charitable donations of £321,000 (2003 £484,000), including £183,000 (2003 £152,000) in the UK. As in the previous year, no political donations were made.

#### **Policy on payment of suppliers**

The holding company, Hanson PLC, has no trade creditors. The policy of Hanson companies is to agree payment terms with their suppliers and abide by those terms, subject to satisfactory performance by the supplier.

#### **Auditors**

Ernst & Young LLP are the independent auditors of Hanson and, having expressed their willingness to continue in office, a resolution proposing their re-appointment will be submitted at the AGM. The Auditors' reports on the accounts are on page 46.

#### **Corporate governance**

The Directors are committed to high standards of corporate governance, recognising that Hanson's good reputation is one of the Company's most valuable assets. To maintain this reputation Hanson's subsidiaries will strive to act in accordance with the laws and customs of each country in which they operate; adopt proper standards of business practice and procedure; operate with integrity; and observe and respect the culture of each country in which they operate. Within adopted business principles, divisional codes of conduct and supporting policies are in place. A code of ethics for the purposes of the Sarbanes-Oxley Act of 2002 (US) (SOX), which applies to Hanson as a company listed on the NYSE, covering Hanson's Chief Executive, Finance Director, Legal Director, Divisional Chief Executives and other identifiable persons in the group, including those performing senior accounting and controller functions, is in place. This code is available on request from the Company Secretary or on Hanson's website.

The Board is accountable to shareholders for good business governance. The way in which Hanson applies the principles set out in the Combined Code on Corporate Governance issued by the Financial Reporting Council in July 2003 (the Code) is described within this Report of the Directors and in the Remuneration report. Hanson has been in full compliance with this Code throughout the year under review, save where otherwise identified.

As well as being subject to UK legislation and practice Hanson, as a company listed on the NYSE, is subject to the listing requirements of the NYSE and the rules of the SEC. Compliance with the provisions of SOX, as it applies to foreign issuers, is continually monitored. Whilst the Directors believe that the group's corporate governance policies are robust, changes have been and will continue to be made to ensure compliance with the rules that are in place at any point in time. Hanson follows UK corporate governance practice, which does not differ significantly from the NYSE corporate governance standards, except that the Nominations Committee is required to be comprised of a majority, rather than entirely, of independent directors and there is no requirement in the UK for a comprehensive code of business conduct and ethics.

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## Report of the Directors continued

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### The Board of Directors

The Board currently comprises the Chairman, the Chief Executive, two other Executive Directors and seven Non-executive Directors. There is a clear separation of the roles of the Chairman and Chief Executive. As Chairman, C D Collins has the responsibility for the running of the Board and for ensuring that all Directors are fully informed of matters relevant to their roles. As Chief Executive, A J Murray has responsibility for implementing the strategy agreed by the Board and for managing the group.

During the year, there was no change in the Chairman's other commitments. He remains a Non-executive Director of four other public companies as described on page 32, including the role of Non-executive Chairman of Forth Ports PLC.

All of the Non-executive Directors are, in the opinion of the Board, considered to be independent of management and free from any business or other relationships which affect their ability to exercise independent judgement. In the case of S L Keswick and The Rt Hon. Lord Baker of Dorking, the Board considers their effective appointment date as February 24, 1997, being the date of the final demerger which resulted in the current business focused on heavy building materials. S L Keswick is the Senior Independent Director.

The Board considers that the current Non-executive Directors bring a wide range of business and financial experience required for the successful direction of Hanson as an international force in the heavy building materials industry and provide a solid foundation for good corporate governance, ensuring that no individual or group dominates the Board's decision making. Through the Nominations Committee, the Board ensures that plans are in place for the succession of Executive and Non-executive Directors.

There were six Board and strategy meetings held during the year and the attendance records of individual Directors is set out below:

	Attendance
C D Collins	6
A J Murray	6
G Dransfield	6
J C Nicholls	6
The Rt Hon. Lord Baker of Dorking	6
W F Blount	6
S L Keswick	4
W S H Laidlaw	4
J W Leng (appointed June 1, 2004)	4
The Baroness Noakes	6

The Board manages overall control of the Company's affairs with reference to the schedule of matters reserved for its authorisation and approval, review and responsibility. Matters reserved for authorisation and approval include long-term strategy, financial statements and significant changes in accounting policy, dividend recommendations, treasury activities, major acquisitions and disposals, major capital projects or expenditure, appointment of Directors, risk management policies and major changes in the group's pension arrangements. Matters for which the Board has responsibility include compliance with the group's environmental and health and safety policies and, as set out below, the group's system of internal control. Matters which the Board reviews

include quarterly results, the group's management resource planning, charitable donations and the effectiveness of the group's system of internal control, as set out below.

All Directors are equally accountable for the proper stewardship of the Company's affairs. The Non-executive Directors have a particular responsibility for ensuring that the business strategies proposed are fully discussed and critically reviewed. This enables the Directors to act in the best long-term interest of shareholders, whilst taking account of the interests of employees, customers, suppliers and the communities in which the businesses operate. The Non-executive Directors also oversee the operational performance of the whole group. To do this they have full and timely access to all relevant information, with updates also provided on governance and regulatory matters affecting the Company. In addition, senior executives below Board level are invited, as appropriate, to Board and strategy meetings to make presentations on their areas of responsibility.

As part of the initial induction process for those Non-executive Directors newly appointed, documents describing the Company and its activities are provided. Site visits are arranged, with all Directors provided with the opportunity and encouragement for training to ensure they are kept up to date on relevant new legislation and best practice and changing commercial and other risks. In order to fulfil their duties, procedures are in place for Directors to seek both independent advice and the advice and services of the Company Secretary who is responsible for advising the Board, through the Chairman, on all governance matters.

During the year, an evaluation of the Board's effectiveness, including the effectiveness of committees of the Board, was undertaken by the Chairman by way of a written questionnaire to, and individual meetings with, all Directors. The responses were subject to review by the Board and identified improvements will be introduced in 2005, during which year a further evaluation process will be undertaken.

As part of the evaluation process, the Chairman considered the performance, including time commitments, of each individual Non-executive Director and concluded that the performance of each continues to be effective.

Also during the year and in the absence of the Chairman, the Non-executive Directors, led by S L Keswick, met to consider the performance of the Chairman. It was concluded that the performance of the Chairman was effective. Similarly, during the year, the Chairman met with the Non-executive Directors to consider the performance of the Chief Executive in the discharge of his duties. Again, it was concluded that the performance of the Chief Executive continues to be effective.

The Non-executive Directors fulfil a key role in corporate accountability. The remits and membership of the Remuneration, the Nominations and the Audit Committees of the Board are set out below.

#### **Remuneration Committee**

The Remuneration Committee comprises three independent Non-executive Directors; The Rt Hon. Lord Baker of Dorking (Chairman), W F Blount and The Baroness Noakes. Its role is described in the Remuneration report.

The terms of reference of the Committee are available on request from the Company Secretary or on Hanson's website.

#### **Nominations Committee**

The Nominations Committee consists of C D Collins as Chairman, A J Murray and all the independent Non-executive Directors. The Committee's terms of reference include the review of the structure, size and composition of the Board, with recommendations to the Board on any changes, and planning for the orderly succession of Executive and Non-executive Directors. S L Keswick chaired meetings when the appointment of a successor to C D Collins was being reviewed.

During this year, on behalf of the Committee, S L Keswick led an extensive process to identify a successor to C D Collins which resulted in a recommendation to the Board that M W Welton succeed C D Collins as Chairman of the Company. On behalf of the Board, the Committee also undertook searches for the appointment of new Non-executive Directors.

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## Report of the Directors continued

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In conducting these searches, the Committee appointed an external search consultancy and met with candidates prior to making a recommendation to the Board, which resulted in the appointments of J W Leng and M W Welton as Non-executive Directors of the Company on June 1, 2004 and January 4, 2005, respectively. A candidate profile for the searches was agreed. It is anticipated that, for the appointment of further Non-executive Directors, a similar procedure will be adopted.

During the year the Committee met twice formally in full, other than on one occasion when J W Leng and W S H Laidlaw were unable to attend, and on a number of other occasions, principally in the search for new Non-executive Directors and in relation to the succession of the Chairman.

Following appointment by the Board, new Directors must submit themselves for election by the shareholders at the AGM following their appointment. Thereafter, subject to the Articles of Association in relation to the re-election of Directors, all Directors are subject to re-election every three years. Recommendations to shareholders on the re-appointment of the Directors is not automatic and is subject to consideration by the Committee, prior to approval by the Board.

The terms of reference of the Committee are available on request from the Company Secretary or on Hanson's website.

### Audit Committee

The Audit Committee comprises three independent Non-executive Directors; The Baroness Noakes (Chairman), W S H Laidlaw and J W Leng. C D Collins was a member of the Audit Committee but ceased to act as a member of the Committee on the appointment of J W Leng. For the period up to C D Collins ceasing to act as a member of the Committee, Hanson was not in compliance with the Combined Code in respect of all members being independent Non-executive Directors.

The Chairman, Finance Director, Head of Internal Audit and the external auditors attend meetings of the Committee by invitation.

The Committee's duties include recommendations on the appointment of, and an assessment of the independence and objectivity of, the auditors; pre-approval of audit, review and attest services and permitted non-audit services; ensuring the objectivity and independence of the auditors is maintained; review of the internal audit programme; the establishment of whistleblowing procedures; review of the effectiveness of systems for internal financial control, financial reporting and risk management; the review and monitoring of the Company's accounting policies, financial and other reporting procedures; and the review of the Company's statement on internal control prior to endorsement by the Board.

The Committee meets at least four times a year. During the year the Committee met five times, which all of the then current Committee members attended, other than on one occasion when W S H Laidlaw was unable to attend.

The Baroness Noakes is identified as the Audit Committee financial expert for the purposes of SOX.

The Committee discharges its responsibilities through a series of Committee meetings throughout the year at which detailed reports are presented for review. The Committee commissions reports either from the external auditors, the Head of Internal Audit or Company management, after consideration of the Company's major risks or in response to developing issues. The Committee meets privately with the external auditors and the Head of Internal Audit as appropriate and liaises with Company management in considering areas for review by the Committee.

During the year, the Committee's meetings considered or addressed, as appropriate, the following principal matters: the interim and full year financial results prior to consideration by the Board; the scope and cost of the external audit; any non-audit work carried out by the auditors, confirming it was in line with the Committee's policy for the provision of audit and non-audit services by the auditors to ensure the safeguarding of audit independence and objectivity; the annual internal audit plan and its resourcing; the auditors' interim and full year reports, including the auditors' own report on their independence and objectivity; an evaluation of the effectiveness of the auditors and consideration of their reappointment; the establishment of whistleblowing procedures; the auditors' report to management; review of the group's internal control framework and identification and control of major risks; monitoring compliance with the group's code of ethics; corporate governance developments in the UK and the USA; the monitoring of the group's International Financial Reporting Standards conversion exercise; changes to the group's accounting policies; the overseeing of the group's SOX compliance work; and the Committee's own terms of reference and evaluation of its effectiveness.

The terms of reference of the Committee are available on request from the Company Secretary or on Hanson's website.

### **Internal control**

The Board recognises that it is responsible for the group's system of internal control and for reviewing its effectiveness. The Code requires the Board to review the effectiveness of the system of internal control, including financial, operational, compliance and risk management, at least annually. In addition, Internal Control: Guidance for Directors on the Combined Code was published in September 1999, to provide guidance to Directors in respect of this requirement.

The Board confirms that procedures, which accord with the guidance, have been in place for the year to December 31, 2004 and up to the date of approval of the Annual Report and Form 20-F by the Board. These procedures ensure that the Board is aware of the key risks facing the group and that the system of internal control is regularly reviewed for effectiveness and adequacy. However, such a system can only provide reasonable and not absolute assurance against material misstatement or loss, as it is designed to manage rather than eliminate the risk of failure to achieve business objectives. In seeking to achieve these objectives, many of which are already features of the existing processes and procedures within the Company, the Board has specifically instituted the following processes, which have been in effect throughout the reporting period and up to the date of approval of the Annual Report and Form 20-F by the Board.

#### *Policies*

- A planning framework which incorporates a four year plan approved by the Board, with objectives for each business unit.
- A mechanism for reporting weaknesses in internal control systems and for monitoring corrective action.

#### *Processes*

- Appointment of experienced and professional staff, both by recruitment and promotion, of the necessary calibre to fulfil their allotted responsibilities.
- A comprehensive system of financial reporting to the Board, based on an annual budget with monthly reports against actual results, analysis of variances, scrutiny of key performance indicators and regular re-forecasting.
- Formal business risk reviews performed by management which evaluate the potential financial and non-financial impacts of identified risks and possible new risk areas, set control, mitigation and monitoring procedures and review actual occurrences identifying lessons to be learnt.
- Regular treasury reports to the Board which analyse the funding requirements of each class of assets, track the generation and use of capital and the volume of liquidity, measure the group's exposure to interest and exchange rate movements and record the level of compliance with the group's funding objectives.
- Well defined procedures governing the appraisal and approval of investments, including detailed investment and divestment approval procedures incorporating appropriate levels of authority and regular post investment reviews.



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## Report of the Directors continued

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### *Verification*

- An internal audit function within the business operations which undertakes periodic examination of business units and processes and recommends improvements in controls to management.
- The external auditors who are engaged to express an opinion on the accounts.
- An Audit Committee of the Board, consisting of Non-executive Directors, which considers significant control matters and receives reports on internal controls from both the internal and external auditors on a regular basis.
- A Risk Committee of the Board, consisting of the Chief Executive, Finance Director, Legal Director and other senior financial executives, which monitors and reviews significant financial and non-financial risk.

### **Evaluation of disclosure controls and procedures**

In accordance with the requirements of section 302 of the US Sarbanes-Oxley Act of 2002, the Chief Executive and Finance Director, together with Hanson's management, have evaluated the effectiveness, as at December 31, 2004, of the group's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the US Securities Exchange Act of 1934). Based on this evaluation, the Chief Executive and the Finance Director concluded that the disclosure controls and procedures are effective in all material respects to ensure that material information relating to the group would be made known to them by others within the group.

### **Management's annual report on internal control over financial reporting**

In accordance with the requirements of section 404 of the US Sarbanes-Oxley Act of 2002, the following report is provided by management in respect of the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the US Securities Exchange Act of 1934):

- Hanson's management is responsible for establishing and maintaining adequate internal control over financial reporting for the group.
- Hanson's management has used the Committee of Sponsoring Organizations of the Treadway Commission ( COSO ) framework to evaluate the effectiveness of our internal control over financial reporting. Management believes that the COSO framework is a suitable framework for its evaluation of our internal control over financial reporting because it is free from bias, permits reasonably consistent qualitative and quantitative measurements of our internal controls, is sufficiently complete so that those relevant factors that would alter a conclusion about the effectiveness of our internal controls are not omitted and is relevant to an evaluation of internal control over financial reporting.
- Management has assessed the effectiveness of our internal control over financial reporting, as at December 31, 2004, and has concluded that such internal control over financial reporting is effective. There are no material weaknesses in Hanson's internal control over financial reporting that have been identified by management.
- Ernst & Young LLP, which has audited the consolidated financial statements of the group for the year ended December 31, 2004, has also audited management's assessment of the effectiveness of internal control over financial reporting under Auditing Standard No. 2 of the Public Company Accounting Oversight Board (United States). See the Auditors' report on page 46.

### **Changes in internal control over financial reporting**

There have been no significant changes in the group's internal controls or in other factors that have occurred during the period that have materially affected, or are reasonably likely to materially affect, the group's internal control over financial reporting.

### **Internal Audit**

Each major operating division has internal audit capability and these are co-ordinated centrally by the Head of Internal Audit under the guidance of the Audit Committee. During 2004 the Board required internal audit to be dedicated to meeting the requirements of SOX and was pleased that this resulted in Hanson being able to report under section 404 ahead of other UK dual listed companies listed in the USA. The Board believes that internal audit is now well placed to deliver assurance on a broader basis and that further development of the internal audit capability will continue, necessitated in part by the growing demands of the regulatory environment.

### **Going concern**

The Directors confirm that, after making appropriate enquiries, they have a reasonable expectation that Hanson has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the accounts.

### **Directors' responsibilities for the accounts**

Company law requires the Directors to prepare accounts for each financial year which give a true and fair view of the state of affairs

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of the Company and of the group and of the profit or loss of the group for that year. In preparing these accounts, the Directors consider that they have: selected suitable accounting policies, and applied them consistently; made judgements and estimates that are reasonable and prudent; and followed applicable UK accounting standards.

The Directors are responsible for ensuring that the group keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and enable them to ensure that the accounts comply with the Companies Act 1985. They are responsible for taking reasonable steps to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

A copy of the Annual Report and Form 20-F of the Company is placed on the Company's website. The Directors are responsible for the maintenance and integrity of statutory and audited information on the Company's website. Information published on the internet is accessible in many countries with different legal requirements. Legislation in the UK governing the preparation and dissemination of accounts may differ from legislation in other jurisdictions.

By order of the Board

**Paul Tunnacliffe**

Company Secretary

February 24, 2005

Registered office

1 Grosvenor Place

London SW1X 7JH

Registered in England and Wales (No. 4626078)

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## Remuneration report

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### Remuneration Committee membership and terms of reference

The Remuneration Committee (the Committee) is comprised exclusively of Independent Non-executive Directors and its members are: The Rt Hon. Lord Baker of Dorking CH (Chairman), W F Blount and The Baroness Noakes DBE.

The role of the Committee is to consider and make recommendations on the framework of executive remuneration (the policy) for approval by the Board. In accordance with the policy, the Committee will consider, recommend as appropriate and approve the conditions of service of the Chairman, the Executive Directors and the Company Secretary, including the duration of any service agreements, and the emoluments and other benefits payable under such agreements, including pension entitlements and participation in incentive arrangements. The Committee also recommends and monitors the level and structure of remuneration for senior management and oversees the Company's and Old Hanson's long-term incentive plans and option schemes. During the year under review, other than from its independent advisor, the Committee also sought the assistance of the Chairman, the Chief Executive and the Company Secretary on matters relating to remuneration.

There were two formal meetings held by the Committee during the year and all members attended each meeting. The Committee also dealt with other matters under its terms of reference by written correspondence. The Chairman, Chief Executive and the Company Secretary were present at meetings of the Committee but the Chief Executive and the Company Secretary were respectively excluded when their own performance and remuneration were being discussed.

Committee members receive fees as Non-executive Directors, including a fee for acting as a Committee member, but do not receive any pension entitlements nor any short and long-term performance related incentives. No member of the Committee has any personal financial interest, other than as a shareholder in the Company, in the matters to be decided or for the day-to-day management of the business.

The fees payable to Non-executive Directors are determined by the Board as a whole within the limits set by the articles of association. The Non-executive Directors do not participate in or vote on any discussion relating to their own remuneration.

The Committee has appointed Mercer Human Resource Consulting ( Mercer) to act on behalf of the Committee in providing independent market information and remuneration advice on an ongoing basis. Mercer also provides actuarial and consulting services to the Company.

### Remuneration policy

Hanson operates in competitive and international markets. To continue to compete successfully it is essential that the Company attracts, develops, retains and motivates talented high-calibre Executive Directors and senior executives in the best interests of shareholders. To ensure that its remuneration rates are competitive, whilst not being excessive, the Committee keeps remuneration under regular review in light of emerging best practice.

The remuneration policy is designed to provide packages, which take account of individual performance:

- i) in the knowledge of what comparable, in terms of size and complexity, UK and international companies are paying;
- ii) in the context of packages offered throughout the Hanson group; and
- iii) to include short and long-term performance related elements, potentially a significant portion of total rewards, to motivate the highest performance and to align the interests of the Executive Directors and shareholders.

Share incentives are considered to be an important part of the incentive policy for Executive Directors. While there is no specific shareholding requirement for Executive Directors, shares arising from share based incentive plans are expected to be retained.

As shareholder approval for conditional awards to be made under the Company's long-term incentive arrangements expires in 2006, the Company will undertake a review in 2005 of its long-term incentive arrangements with a view to submitting proposals to shareholders at the annual general meeting to be held in 2006.

### Basic salary

In setting the basic salary for each Executive Director, the Committee reviews relevant market data and considers the Director's experience, performance and responsibilities. Basic salaries are generally reviewed on an annual basis or following a significant change in responsibilities.

Increases in basic salary of 4% have been granted to the Executive Directors for the year commencing January 1, 2005.

**Annual bonus scheme**

The annual bonus scheme for the Executive Directors and other senior executives is aligned with changes in shareholder value through the economic value added methodology. The main principle of economic value added is to recognise that over time a company should generate returns in excess of its operating costs and the cost of capital – the return that lenders and shareholders expect of the Company each year.

The annual bonus scheme is calibrated by reference to target levels of bonus. Each year the participant receives one-third of an accumulated bonus bank, which is updated for the year's performance compared with target. The bonus bank has two main functions; firstly it ensures that individuals do not make short-term decisions such as deferring essential expenditure from one year to the next and receive a bonus for doing so; and secondly, the bonus bank can act as a retention tool.

For 2004, the target level of bonus for A J Murray was 62.5% of basic salary, for J C Nicholls 50% of basic salary and for G Dransfield 37.5% of basic salary.

The group's overall economic value added performance determined the bonus bank addition for the Executive Directors in 2004 and will also determine the bonus bank addition or deduction for them in 2005. The bonuses paid in respect of the year to December 31, 2004 to the Executive Directors are set out in the table of Directors' remuneration on page 42.

Performance targets under the annual bonus scheme, based on improvements in economic value added, are set by the Committee, after taking advice from Mercer.

Bonuses payable to Executive Directors are not pensionable.

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## Remuneration report continued

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### Long Term Incentive Plan ( LTIP )

Executive Directors and certain senior executives and managers from the Company's worldwide operations participate in the LTIP. Under this plan, participants are conditionally awarded shares in the Company at nil cost with the proportion of those shares which may vest subject to the achievement of performance targets over a performance period set by the Committee.

In 2004 a conditional award of shares was made to A J Murray of 150% of basic salary and to the other Executive Directors of 100% of basic salary. The conditional awards made in 2004 are subject to performance criteria and the Committee determined that 50% of the conditional award should be subject to the attainment of an economic value added target and 50% to a total shareholder return ( TSR ) target. TSR is the aggregate of share price growth and dividends paid, on the assumption that such dividends are reinvested in Hanson shares during the performance period. The Committee selected these performance measurements as it believes they correlate clearly with the creation of shareholder value.

For the conditional award made in 2004, the economic value added target requires an improvement in economic value added over a period of three years based on the results for the year to December 31, 2003. For this measurement, a linear vesting schedule applies in order that only a small proportion of the award will vest at the minimum performance level with the maximum award vesting only on the achievement of substantial performance improvement. A similar economic value added target is in place for the awards made in 2002 and 2003. On attaining the minimum economic value added improvements of £8.8m for the 2002 award, £13.4m for the 2003 award and £14.0m for the 2004 award, 25% of the respective awards, subject to the economic value added measurement criteria, will vest. 100% of the awards subject to this measurement will vest on the attainment of economic value added improvements of £23.4m, £35.6m and £37.2m for the 2002, 2003 and 2004 awards, respectively.

For the TSR measurement in 2004 (and similarly for the awards made in 2002 and 2003), the conditional awards made will vest only if Hanson achieves a TSR over the three-year performance period, from the date of the award in March 2004, which is greater than the TSR achieved by at least 50% of the members of a comparator group of international building materials companies at the date of the award (the comparator group) over the same period. If so, 30% of the award will vest. All of the award will vest if the Company achieves a TSR over the performance period which is greater than that achieved by 80% of the comparator group. Between these two points the award will vest in the proportion of 2.33% of the award for each 1% improvement in the Company's ranking.

In 2001, the comparator group consisted of 22 companies, including Hanson. These included 10 UK building materials companies in the FTSE350 Index (Aggregate Industries, BPB, Hanson, Hepworth, Novar, Pilkington, RMC, Travis Perkins, Ultraframe and Wolsley), six European building materials companies in the Euro Top 300 Index (CRH, Dyckerhoff, Heidelberger, Holcim, Lafarge and Wienerberger), four US businesses (Florida Rock, Martin Marietta, Texas Industries and Vulcan) and two Australian building materials companies (Boral and CSR).

In 2002, 2003 and 2004, Hepworth was removed from the comparator group following its takeover. Additionally, following the demerger of Rinker Group Limited from CSR in March 2003, the performance measurement of the comparator group for the 2002 and 2003 awards has been modified to substitute Rinker for CSR using the methodology of re-investing a notional holding of CSR shares in Rinker from April 1, 2003 onwards. Rinker replaced CSR in the comparator group for the 2004 award.

There is no retesting of performance under either the economic value added measurement or the TSR measurement.

The table below shows the conditional interests in shares of Executive Directors relating to awards made under the LTIP in 2001, 2002, 2003 and 2004. For the conditional award made in 2001 to Executive Directors, 53.34% of the award subject to a TSR performance measurement criteria and 25% of the award subject to an EVA performance measurement criteria vested following the end of the three-year performance period. This resulted in a total vesting of 39.17% of the maximum number of shares under the conditional awards.

For the conditional award made in 2002, it is anticipated that none of the award subject to a TSR performance measurement and 50% of the award subject to an EVA performance measurement criteria will vest following the end of the three year performance period. This would result in a total vesting of 25% of the maximum number of shares under the conditional awards.

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Balance at	Awarded	Lapsed	Vested	Balance at
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	Date of award	Jan 1, 2004	during year	during year	during year <sup>1</sup>	Dec 31, 2004
A J Murray	May 15, 2001	172,220		104,762	67,458	
	March 1, 2002	194,806				194,806
	March 1, 2003	278,926				278,926
	March 1, 2004		204,732			204,732
G Dransfield	May 15, 2001	61,272		37,272	24,000	
	March 1, 2002	64,970				64,970
	March 1, 2003	103,306				103,306
	March 1, 2004		70,974			70,974
J C Nicholls (note 2)	May 15, 2001	61,272		37,272	24,000	
	March 1, 2002	69,302				79,860
	March 1, 2003	127,410				146,780
	March 1, 2004		88,718			102,794

**Notes**

- 1) The Directors elected to satisfy their liabilities to income tax and national insurance contributions, arising on the vesting of shares under LTIP, out of the share award. A J Murray retained 39,800 shares and G Dransfield and J C Nicholls both retained 14,160 shares.
- 2) J C Nicholls conditional interest in shares under the LTIP increased by 44,004 shares, in total, following his marriage on May 22, 2004 due to his wife being a participant in the LTIP.
- 3) A J H Dougal and S N Vivian, former Executive Directors of the Company, left on May 14, 2002 and June 30, 2003, respectively. They retained certain entitlements to the conditional shares awarded to them under the LTIP. Under the 2001 Award, which vested on May 15, 2004 as detailed above, 33,103 ordinary shares and 22,344 ordinary shares vested to A J H Dougal and S N Vivian, respectively.
- 4) The relevant market prices at the time of the conditional awards in 2001, 2002, 2003 and 2004 were 473.3p, 461.75p, 290.4p and 439.6p, respectively.
- 5) During the period January 1, 2005 to February 24, 2005 there was no change in the interests of Executive Directors in the LTIP.

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## Remuneration report continued

Conditional awards under the LTIP will usually be made annually. In 2005 it is proposed that the conditional award to A J Murray will not exceed 150% of basic salary and for the other Executive Directors will not exceed 100% of basic salary.

Awards vesting under the LTIP are not pensionable.

### Share Option Plan

Executive Directors and a selected number of senior executives from the Company's worldwide operations participate in the Share Option Plan. Under this Plan, participants are granted options over a number of shares but the proportion of those shares under option which may be exercised is subject to the achievement of performance targets over a three-year performance period set by the Committee. To the extent an option or part of an option becomes capable of being exercised at the end of the three-year performance period it will ordinarily remain exercisable at any time up to 10 years from the date of grant.

The economic value added and TSR performance targets for the conditional options granted to Executive Directors in the years ending December 31, 2001, 2002, 2003 and 2004 were the same as for the awards made in 2001, 2002, 2003 and 2004 under the LTIP, as detailed above, with no retesting. Consequently for the grant made in 2002, it is anticipated that 25% of the number of shares under option will become exercisable following the end of the three year performance period.

The numbers of shares under conditional option granted to Executive Directors under the Share Option Plan are shown below:

	Date of grant	Balance at Jan 1, 2004	Granted during year	Lapsed during year	Vested during year	Balance at Dec 31, 2004	Exercise price (p)	Range of exercise dates
A J Murray	March 1, 2003	232,438				232,438	290.4	03/06-02/13
	March 1, 2004		170,610			170,610	439.6	03/07-02/14
G Dransfield	May 15, 2001	61,272		37,272	24,000	24,000	473.3	05/04-05/11
	March 1, 2002	64,970				64,970	461.75	03/05-02/12
	March 1, 2003	103,306				103,306	290.4	03/06-02/13
	March 1, 2004		70,974			70,974	439.6	03/07-02/14
J C Nicholls	May 15, 2001	61,272		37,272	24,000	24,000	473.3	05/04-05/11
	March 1, 2002	69,302				69,302	461.75	03/05-02/12
	March 1, 2003	127,410				127,410	290.4	03/06-02/13
	March 1, 2004		88,718			88,718	439.6	03/07-02/14

### Notes

- Following the end of the three year performance period a total of 39.17% of the shares under the conditional options granted on May 15, 2001 became capable of being exercised.
- A J H Dougal and S N Vivian, former Executive Directors of the Company, left Hanson on May 14, 2002 and June 30, 2003, respectively. The option grants made to them and outstanding at the date of leaving remained subject to the performance criteria as outlined above. Following the end of the three year performance period 39.17% of the shares under the conditional

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options granted on May 15, 2001 became capable of being exercised. In respect of the grant on May 15, 2001, A J H Dougal and S N Vivian hold exercisable options over 33,103 and 22,344 shares, respectively, at an exercise price of 473.3p per share. These options must be exercised by close of business on May 14, 2005 or they will lapse.

- 3) During the period January 1, 2005 to February 24, 2005 there were no changes in the interests of Executive Directors in options under the Share Option Plan.

Under the Black-Scholes option valuation model, on the basis of the Company's three-year share price performance, the value of an option over a share at the date of grant was equal to approximately 35% of the share's current market value. On this basis, with no discount to the Black-Scholes value because of the application of performance conditions on exercise, the conditional options granted during 2002, 2003 and 2004 at 100% of basic salary had a value, at the date of grant, of about 35% of basic salary in each case. The market price at December 31, 2004 was 447.25p per share, which compares to the exercise prices of the conditional options granted in 2002, 2003 and 2004 at prices of 461.75p, 290.4p and 439.6p per share, respectively.

Grants of conditional options under the Share Option Plan are considered annually in conjunction with the awards to be made under the LTIP. In 2005 it is proposed that the conditional option grant to A J Murray will not exceed 125% of basic salary and to the other Executive Directors will not exceed 100% of basic salary.

Any gains made under the Share Option Plan are not pensionable.

### Executive Share Option Schemes

Options to subscribe for Hanson ordinary shares granted to Directors under the Executive Share Option Schemes are shown below. No performance conditions apply to the right to exercise the options granted. No grants have been made under these schemes since 1998 and no further grants will be made under these schemes.

	Date of grant	Balance at Jan 1, 2004	Lapsed during year	Exercised during year	Market price at date of exercise (p)	Balance at Dec 31, 2004	Exercise price (p)	Range of exercise dates	Gain on exercise (£)
C D Collins	December 21, 1995	39,872		39,872	456.75		356.4	12/98-12/05	40,012
	December 16, 1994	80,383		80,383	456.75		412.3	12/97-12/04	35,730
	January 14, 1994	42,685	42,685				482.6	01/97-01/04	
A J Murray	December 21, 1995	72,834				72,834	356.4	12/98-12/05	
	December 16, 1995	26,054		26,054	428.5		412.3	12/97-12/04	4,221
	January 14, 1994	21,065	21,065				482.6	01/97-01/04	
G Dransfield	December 21, 1995	69,112				69,112	356.4	12/98-12/05	
	December 16, 1994	87,035		87,035	428.5		412.3	12/97-12/04	14,100
	January 14, 1994	28,272	28,272				482.6	01/97-01/04	
J C Nicholls (note1)	September 14, 1998					6,000	331.25	09/01-09/08	
	December 21, 1995					5,846	356.4	12/98-12/05	





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## Remuneration report continued

### Notes

- 1) J C Nicholls acquired an interest in 11,846 shares under the Executive Share Option Schemes following his marriage on May 22, 2004.
- 2) During the period January 1, 2005 to February 24, 2005 there were no changes in the interests of Directors in options under the Executive Share Option Schemes.

Any gains made under the Executive Share Option Schemes are not pensionable.

### Sharesave Scheme

Many Hanson employees in the UK have built up an equity interest in the Company through the UK Inland Revenue approved savings related Sharesave Scheme. Options may be granted at a discount of up to 20% to the market price at the date of grant. The term of options granted could be from three to seven years and any option is conditional on a commitment by the participant to make regular savings from pay. The savings are held by an independent Sharesave provider to buy shares at the end of the option period. The exercise of options under the Sharesave Scheme can be satisfied by the issue of new shares or the transfer of existing shares. At December 31, 2004, there were approximately 3,000 participants in the Sharesave Scheme. The number of shares under options granted to Executive Directors under the Sharesave Scheme are shown in the table below:

	Balance at Jan 1, 2004	Granted during year	Exercised during year	Balance at Dec 31, 2004	Exercise price (p)	Range of exercise dates	Gain on exercise during the year (£)
A J Murray	2,971			2,971	318	12/05-05/06	
G Dransfield	3,099	1,993		3,099 1,993	318 328	12/05-05/06 12/07-05/08	
J C Nicholls (note 1)	2,263			2,263 1,188	428 318	12/04-05/05 12/05-05/06	

### Notes

- 1) J C Nicholls' interest in shares under the Sharesave Scheme increased by 1,188 shares following his marriage on May 22, 2004.
- 2) Options granted under the Sharesave Scheme during the year were at an exercise price of 328p per share, being a 20% discount to the market price on March 18, 2004.
- 3) During the period January 1, 2005 to February 24, 2005 there were no changes in the interests of Executive Directors in options under the Sharesave Scheme.

Any gains made under the Sharesave Scheme are not pensionable.

The range of the market quotations for Hanson shares, as derived from the London Stock Exchange Daily Official List, during the period January 1 to December 31, 2004 was 360p to 451.5p.

### Gains on exercise

The total gains made by Directors on options exercised or exercised for cash under the Share Option Plan, the Executive Share Option Schemes, and the Sharesave Scheme was £94,063 (£3,680).

### Performance review

The following graph shows the TSR performance of the Company and that of the FTSE Construction & Building Materials Index over the five-year period to December 31, 2004. This index has been selected as it is a broad equity index of which Hanson is a constituent company.

**Service contracts**

The Chairman has been employed on a service contract which will terminate on his retirement following the AGM on April 20, 2005.

The Executive Directors are all employed on rolling service contracts which are terminable at any time by Hanson on giving 52 weeks' notice or by the Director giving twenty-six weeks' notice. Termination payments are limited to the Director's normal compensation, including basic salary, annual incentives and benefits, for the unexpired portion of the notice period. Pensionable service will also accrue for the unexpired portion of the notice period. In the event that Hanson terminates a service contract without notice the unexpired portion of the notice period will count towards the calculation of entitlements under the Company's LTIP and Share Option Plan; these awards would still remain subject to their respective performance conditions.

Apart from the Chairman, no Non-executive Director has a service contract with Hanson. Each is appointed at the will of the Company and the Non-executive Director concerned under the terms of an appointment letter. The terms and conditions of employment of the Non-executive Directors are available on request from the Company Secretary.

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## Remuneration report continued

### External appointments

The Company acknowledges that its Executive Directors may be invited to become Non-executive Directors of other leading companies and that such non-executive duties can broaden experience and knowledge to the benefit of Hanson. Executive Directors are limited to one such non-executive position and the policy is that fees may be retained. J C Nicholls was appointed a Non-executive Director of Man Group plc on March 24, 2004, in respect of which he received fees of £56,250 in 2004. No other such positions are held by any of the other Executive Directors.

### Pensions

The Chairman and the Executive Directors are members of a defined benefit plan (the pension plan) which, in accordance with Inland Revenue limits, provides them with a maximum pension of two-thirds of basic salary on retirement. The pension plan is contributory until such time as the Director has completed the maximum pensionable service allowed under the pension plan. Along with other members of the pension plan, for service accruing after July 1, 2004, the Executive Directors had a choice to retain the same accrual rate in the pension plan by paying an increased contribution of 7.5%, previously 5%, of pensionable salary (which does not include bonuses). The Executive Directors have a normal retirement age of 60, with the right to receive early retirement pensions to be paid from age 55 in certain circumstances.

The following table gives details for each Executive Director of:

the increase in the accrued pension attributable to service since December 31, 2003.

the increase in the accrued pension net of inflation attributable to service since December 31, 2003.

the annual accrued pension payable from normal retirement age, calculated as if he had left service at December 31, 2004.

the transfer value of the increase of the accrued pension net of inflation and the Director's contributions calculated in accordance with actuarial guidance note GN11.

the transfer value of the accrued pension at December 31, 2003, calculated in accordance with actuarial guidance note GN11.

the transfer value of the accrued pension at December 31, 2004, calculated in accordance with actuarial guidance note GN11.

the change in the transfer value over the year net of the Director's contributions. It includes the effect of fluctuations in the transfer value due to factors beyond the control of Hanson and the Directors, such as market movements.

These amounts exclude any benefits attributable to additional voluntary contributions.

	Gross increase in accrued pension	Increase in accrued pension net of inflation	Accrued pension at Dec 31, 2004	Transfer value of net increase in accrued pension earned in year	Transfer value as at Dec 31, 2003	Transfer value as at Dec 31, 2004	Change in transfer value	FURBS contribution (see note 2 below)
	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000
A J Murray	41	26	337	434	5,745	6,617	835	
G Dransfield (note 3)	8	(2)	208	(41)	3,988	4,214	226	
J C Nicholls	4	3	29	39	421	511	84	143

### Notes

- 1) No additional pension accrued to C D Collins, who reached his normal retirement age under the pension plan prior to the start of the year.
- 2) Executive Directors and employees who joined the pension plan after May 1989 are subject to the earnings cap (currently £102,000) on Inland Revenue approved pension plans. It is Hanson's current policy to provide executives with appropriate benefits outside the pension plan in relation to that part of their salary which exceeds the cap. The contributions made during

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the year were subject to income tax as a benefit in kind and the Executive Director concerned (J C Nicholls) was liable to settle the tax liability himself.

- 3) G Dransfield has completed the maximum pensionable service allowed under the pension plan and did not accrue any further pension over the year.
- 4) In anticipation of the implementation of the UK Government's proposed simplification of the taxation of pensions, the Committee has reviewed the impact of the proposals on all employees, including the Executive Directors. The approach to be adopted, following recommendations from the independent advisor to the Committee, is for solutions which are essentially cost neutral to the Company with no compensation for changes in tax legislation. All affected individuals will be given the opportunity to receive independent financial advice at the Company's cost.

### Directors remuneration

Remuneration of each Director, excluding pensions, during the year ending December 31, 2004:

					2004	2003		
	Salary/fees	Annual bonus	Benefits (see note 1 below)	Termination payments	2004 Total	2003 Total	LTIP vested (see note 2 below)	LTIP vested
	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000
C D Collins	175		19		194	186		
A J Murray	600	370	58		1,028	940	273	494
G Dransfield	312	128	19		459	423	97	
J C Nicholls	390	214	78		682	616	97	
The Rt Hon. Lord Baker of Dorking CH	47				47	46		
W F Blount	40				40	39		
S L Keswick	47				47	51		
W S H Laidlaw	40				40	10		
The Baroness Noakes DBE	52				52	51		
J W Leng (note 3)	23				23			
<b>Total</b>	<b>1,726</b>	<b>712</b>	<b>174</b>		<b>2,612</b>	2,362	<b>467</b>	494

### Notes

- 1) Benefits include the provision of a company car (or cash allowance), health insurance, life cover, accommodation allowance (for A J Murray) and cash in lieu of pension allowance (for J C Nicholls). For A J Murray, in accordance with the Company's policy of tax equalisation for executives posted overseas, this also includes partial reimbursement of the tax paid by Mr Murray to the Internal Revenue Service of the United States as a consequence of his membership of the UK pension plan.
- 2) The value of shares vesting under the LTIP in 2004 is based on the share price on the day of vesting, May 15, 2004, of 404p.
- 3) J W Leng was appointed to the Board on June 1, 2004.



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## Remuneration report continued

Other than as shown under the LTIP and Share Option Plan on pages 39 and 40, no remuneration or other benefit was paid to former Directors during the year to December 31, 2004.

### Directors' interests in ordinary shares

The interests of the Directors, who held office at December 31, 2004, in Hanson shares on January 1, 2004 (or date of appointment, if later) and December 31, 2004 (excluding options granted under the Share Option Plan, the Executive Share Option Schemes and the Sharesave Scheme, details of which are shown on pages 40 to 41) are as set out below.

	Conditional interest under LTIP			
	Dec 31, 2004	Jan 1, 2004*	Dec 31, 2004	Jan 1, 2004
C D Collins	149,651	133,069		
A J Murray	239,052	198,661	678,464	645,952
G Dransfield	134,968	118,834	239,250	229,548
J C Nicholls	78,017	55,715	329,434	257,984
The Rt Hon. Lord Baker of Dorking CH	3,625	3,625		
W F Blount	1,000	1,000		
S L Keswick	5,000	5,000		
W S H Laidlaw	20,000	20,000		
J W Leng	10,000			
The Baroness Noakes DBE	7,600	7,600		

\*Or appointment if later

The Company is not aware of any changes in these interests since December 31, 2004 and no Director had any other notifiable interest in the securities of Hanson or any subsidiary undertaking during the year. The Register of Directors' Interests (which is open to inspection at the Company's registered office) contains full details of Directors' share and share option interests.

The cumulative shareholdings of the Directors represent less than 1% of the Company's outstanding shares.

### Auditable information

The information in the Remuneration report subject to audit is limited to that in the tables and related notes included in the sections on Directors' remuneration, LTIP, share options and pensions.

By order of the Board  
**Paul Tunnacliffe**  
Company Secretary  
February 24, 2005

Remuneration report

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## Risk factors

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Our business, financial condition and results of operations, and consequently the price of the Hanson shares and the amount and timing of any dividends that we pay, will be influenced by a range of factors, many of which are beyond the control of Hanson and its Board. The risk factors set out below and the other information in this Annual Report and Form 20-F should be considered carefully. There may be other risks which are not known to the Company or which may not be material now but could turn out to be material.

*Changes in economic conditions could have a material adverse effect on the level of demand for Hanson's products.*

Our performance is affected significantly by changes in economic conditions, both globally and in the particular countries in which we conduct our operations, especially in the USA, the UK and Australia where we have our most significant operations. The demand for our products, which are mainly aggregates, concrete products, ready-mixed concrete, asphalt and clay bricks, is closely linked to general economic conditions in each of the territories in which we operate. As a result, depressed economic conditions could have an adverse effect on demand for, and pricing of, our products, which could result in reduced sales and reduced profits.

*Changes in government policy or legislation could significantly affect Hanson's regulatory compliance and other operating costs and Hanson's ability to establish additional aggregates reserves.*

Our performance is affected significantly by national and/or local government policy and legislation in the regions and territories in which we operate.

Many of our products are subject to government regulation in various jurisdictions regarding their production and sale, and our operating units are subject to extensive regulation by national and local agencies concerning such matters as zoning and environmental and health and safety compliance. Numerous governmental permits and approvals are required for our operations. We believe that our operating units are currently operating in substantial compliance with, or under approved variances from, various national and local regulations in all applicable jurisdictions. In the past, our subsidiaries have made significant capital and maintenance expenditures to comply with zoning, water, air and solid and hazardous waste regulations, and these subsidiaries may be required to do so in the future.

The existence of these national and local regulations in many jurisdictions in which we operate also means that it is often difficult to establish new greenfield aggregates reserves and brick manufacturing plants with clay reserves in areas where demand would justify the capital expenditure required.

Changes in government regulations and the imposition of industry related taxes such as the Aggregates Levy and the Climate Change Levy in the UK could increase our operating costs.

*Changes in government policy or legislation relating to public works expenditure and housing could have a material adverse effect on the levels of demand for Hanson's products.*

National governments' policies with regard to the development of transport infrastructure and housing, both in terms of funding and planning requirements, have a significant effect on demand for our products and, as a result, our profitability. For instance, the US Federal Government has yet to approve SAFETEA, the successor to TEA-21, which earmarks federal funds to be supplemented by state funds in the USA to improve the highway network. We expect these funds to contribute to demand for our products in the USA, but we cannot be certain as to how much, if any, of these funds will be deployed for improvements to the highway network. Decreases in governmental funding or in the allocation of those funds for transport infrastructure and housing projects could reduce the amount of money available for spending on our products, potentially thereby reducing sales and profits.

*Hanson is subject to potential liabilities arising out of former businesses and activities.*

Former and existing subsidiaries have engaged in businesses and activities, unrelated to the business and activities presently being carried on by our group, which give rise to bodily injury and property damage claims concerning environmental and health issues. Claims and lawsuits have been filed against these subsidiaries, either directly or as a result of indemnity obligations, relating to products incorporating asbestos, coal by-products and chemicals, in particular for the wood treating industry.

With respect to asbestos related claims, the Company's approach to accounting for the asbestos claims against its US subsidiaries is to provide for those costs of resolution which are both probable and reliably estimable. The costs of resolving possible claims are accounted for as contingent liabilities. At present, based on detailed analysis and the assumptions contained in note 17 of the Notes to the accounts, the provision for those costs which are both probable and estimable equates to approximately eight years of gross cost at current levels. Whilst further claims are likely to be resolved beyond this eight year period, the associated costs of resolution are not able to be reliably estimated and hence no provision has been made to cover these possible liabilities.

Factors which could cause actual results to differ from these estimates and expectations include: (i) adverse trends in the ultimate number of asbestos claims filed against the Company's US subsidiaries; (ii) increases in the cost of resolving current and future asbestos claims as a result of adverse trends relating to settlement costs, dismissal rates, legal fees and/or judgment sizes; (iii) decreases in the amount of insurance available to cover asbestos claims as a result of adverse changes in the interpretation of insurance policies or the insolvency of insurers; (iv) the emergence of new trends or legal theories that enlarge the scope of potential claimants; (v) the impact of bankruptcies of other companies whose share of liability may be imposed on the Company's US subsidiaries under certain state liability laws; (vi) the unpredictable aspects of the US litigation process; (vii) adverse changes in the mix of asbestos-related diseases with respect to which asbestos claims are made against the Company's US subsidiaries, and (viii) potential legislative changes.

In light of such factors, the liability of the Company's US subsidiaries for resolving asbestos claims may be materially different from current estimates and the impact of such claims might have a material adverse effect on the Company's consolidated financial condition, results of operations and cash flow. However, assuming that current trends continue, the Company does not expect that the liability and costs associated with these asbestos claims will have such a material adverse effect and, even assuming a material deterioration in current trends, on the evidence available to it the Company does not expect that such claims would impact the ability of the Company to continue as a going concern.

With respect to claims involving coal by-products and chemicals, the US subsidiary involved has not entered into a material settlement or been subject to a material adverse judgment since the demergers as described below. Nevertheless, in light of the uncertainties involved in litigation and in particular in the USA, where there is the added potential for punitive damages, our subsidiary may be required to participate in settlements or be subject to judgments in future, the impact of which may be material on our financial condition, results of operations and cash flow.

Four companies into which former Hanson businesses were demerged agreed in connection with their respective demergers to indemnify us against liabilities of the businesses transferred to these companies. We have not incurred any liability in respect of any claim that related to the above-mentioned businesses demerged by it, any such liability being borne by the relevant demerged company without liability to us. The Energy Group plc, one of the demerged companies, was acquired by TXU Corp. in 1998. In November 2002, TXU Corp. announced that several of TXU Corp.'s UK subsidiaries had been placed under the administrative process in the UK (similar to bankruptcy proceedings in the USA), including The Energy Group. The Energy Group is, therefore, unlikely to be able to fulfil its indemnification obligations to Hanson if it were required to do so. We are, however, not aware of any claim against us or our subsidiaries that would give rise to an indemnity obligation on the part of The Energy Group.

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## Risk factors continued

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*Hanson's acquisition strategy may be unsuccessful due to an inability to identify suitable acquisition targets and to integrate acquired companies into its business.*

We plan to continue making selective acquisitions to strengthen, develop and expand our existing aggregates, concrete products, ready-mixed concrete, asphalt and clay brick activities.

The successful implementation of our acquisition strategy depends on a range of factors, including our ability to identify appropriate opportunities, complete acquisitions and achieve an acceptable rate of return from those acquisitions, including past acquisitions.

There may also be substantial challenges or delays in integrating and adding value to the businesses which we acquire. In addition, the costs of integration, which are not presently capable of being estimated, could be material and the projected synergies resulting from such acquisitions may not be realised. Material costs or delays in connection with the integration of the operations that we acquire or the inability to realise synergies from those acquisitions could result in increased expenditure and, consequently, reduced profitability and rates of return for us from such acquisitions.

*Hanson operates in an extremely competitive market.*

Most, if not all, of the markets in which we operate are extremely competitive. The competitive environment in which we operate can be significantly affected by local factors, such as the number of competitors and production capacity in the local market, the proximity of natural resources to the local market and economic conditions and product demand in the local market. The pricing policies of competitors and the entry of new competitors in the local markets in which we operate can have an adverse effect on demand for our products and on the results of our operations and profitability.

*Disruption to or increased costs of the supply of materials, energy and fuel to Hanson and the supply of finished products to Hanson's customers could significantly reduce Hanson's profitability.*

We are a significant purchaser of materials, including cement for use in our ready-mixed concrete and concrete products operations, steel for use in our concrete product operations, bitumen for use in our asphalt activities, gas and other energy supplies for use in our cement and brick manufacturing operations and fuel for the processing and transport of our products. The non-availability of power can materially disrupt our operations. The cost of such materials, energy and fuel fluctuates, sometimes by material amounts, and increases in the costs of such materials, energy and fuel or their non-availability, could significantly impact our operating costs and consequently reduce profitability.

Transport logistics play an important part in the Company's supply chain, whether by road, rail, sea or river and any material disruption/or non-availability of such transport support, could significantly impact on operating costs and reduce profitability.

*Inclement weather conditions could significantly impact levels of construction activity and hence demand for Hanson's products.*

Extended periods of inclement weather, especially periods of heavy or sustained rainfall during peak construction periods during the year, can result in a material reduction in demand for our products at important times, as well as impact our ability to produce our products, and consequently result in reduced revenues and profits.

*Hanson is subject to risks relating to changes in exchange rates.*

In the year ended December 31, 2004, approximately 75% of our pre-exceptional operating profit (including joint-ventures and associates) was earned in currencies other than pounds sterling and a significant portion of our revenue is denominated in US dollars. At December 31, 2004, approximately 70% of our capital employed was located outside the UK and approximately 173% of our net debt and foreign exchange contracts was denominated in currencies other than pounds sterling.

Since our results are reported in pounds sterling, exchange rate movements affect our reported profits, assets, cash and debt balances. This effect may be positive or negative depending on the nature of the actual exchange rate movement and the nature of any currency hedging instruments that we have put in place. Fluctuations in exchange rates could have a material adverse effect on our financial condition and results of operations to the extent that we have not effectively hedged against those exchange rate movements.

*Ineffective implementation of computer software systems could significantly reduce Hanson's profitability.*

The implementation of software to improve the efficiency and effectiveness of various business processes is an important

contributor to our ongoing operations and growth strategy. Failure to design, select appropriate suppliers or implement such systems effectively could result in unplanned costs or reduced levels of customer satisfaction which could adversely affect the results of our operations and profitability.

*If Hanson is characterised as a passive foreign investment company, US persons who hold Hanson's ordinary shares or ADSs ( US shareholders ) may suffer adverse tax consequences.*

If, for any taxable year, our passive income, or assets which produce passive income, exceed specified levels, we may be characterised as a passive foreign investment company, or PFIC, for US federal income tax purposes. This characterisation could result in adverse US tax consequences for our US shareholders, which may include having gains realised on the sale of our ordinary shares or ADSs treated as ordinary income, rather than as capital gains income and having potentially punitive interest charges apply to the proceeds of sales of our ordinary shares or ADSs. We believe we were not a PFIC for the year ended December 31, 2004. However, the tests for determining PFIC status are applied annually and it is difficult to make accurate predictions of future income and assets, which are relevant to this determination. Accordingly, we cannot assure US shareholders that we will not become a PFIC. In particular, depending on the composition of our assets and other factors, including our market capitalisation, there is a possibility that we may become a PFIC for the year which commenced in January 1, 2005. A more detailed discussion of the consequences of Hanson being classified as a PFIC, is set out under the heading "Taxation information for US shareholders" referred to in ancillary information. US shareholders are urged to consult with their own US tax advisors with respect to the US tax consequences of investing in Hanson's ordinary shares or ADSs.

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## Auditors reports

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### **Independent auditors report To the members of Hanson PLC**

We have audited the group's financial statements for the year ended December 31, 2004 which comprise the consolidated profit and loss account, consolidated balance sheet, company balance sheet, consolidated cash flow statement, statement of total recognised gains and losses, reconciliation of shareholders' funds and the related notes 1 to 33. These financial statements have been prepared on the basis of the accounting policies set out therein. We have also audited the information in the directors remuneration report that is described as having been audited.

#### *Respective responsibilities of Directors and auditors*

The Directors are responsible for preparing the Annual Report and Form 20-F, including the financial statements which are required to be prepared in accordance with applicable United Kingdom law and accounting standards as set out in the statement of Directors' responsibilities in relation to the financial statements.

Our responsibility is to audit the financial statements and the part of the Directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Report of the Directors is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions with the group is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 FRC Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and Form 20-F and consider whether it is consistent with the audited financial statements. This other information comprises the Report of the Directors (including the corporate governance statement), Chairman's statement, unaudited part of the Directors' Remuneration report and the Operating and financial review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

#### *Basis of audit opinion*

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration report to be audited.

#### *Opinion*

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and of the group as at December 31, 2004 and of the profit of the group for the year then ended; and
- the financial statements and the part of the Directors' Remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP, Registered Auditor, London, England, February 24, 2005

**Report of independent registered public accounting firm  
To the Board of Directors and shareholders of Hanson PLC**

We have audited the accompanying consolidated balance sheets of Hanson PLC as of December 31, 2004 and 2003, and the related consolidated profit and loss account, consolidated cash flow statement, statement of total recognised gains and losses and reconciliation of movements in shareholders' funds for each of the three years in the period ended December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with United Kingdom auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hanson PLC at December 31, 2004 and 2003, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in the United Kingdom which differ in certain respects from those generally accepted in the United States of America (see note 33 of the Notes to the accounts).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Hanson PLC's internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 24, 2005 expressed an unqualified opinion thereon.

Ernst & Young LLP, London, England, February 24, 2005

**Report of independent registered public accounting firm  
To the Board of Directors and shareholders of Hanson PLC**

We have audited management's assessment, included in the accompanying Management's Annual Report on internal control over financial reporting, that Hanson PLC maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Hanson PLC's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorisations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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In our opinion, management's assessment that Hanson PLC maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Hanson PLC maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on the COSO criteria.

We also have audited, in accordance with United Kingdom auditing standards and the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Hanson PLC as of December 31, 2004 and 2003, and the related consolidated profit and loss account, consolidated cash flow statement, statement of total recognised gains and losses and reconciliation of movements in shareholders' funds for each of the three years in the period ended December 31, 2004 and our report dated February 24, 2005 expressed an unqualified opinion thereon.

Ernst & Young LLP, London, England, February 24, 2005

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**Consolidated profit and loss account**  
for the 12 months ended December 31, 2004

2004	2004	2004	2003	2003	2003	2002	2002	2002
Before exceptional Items	Exceptional items	Total	Before exceptional items	Exceptional items	Total	Before exceptional items	Exceptional items	Total