HANSON PLC
Form 6-K
February 23, 2006

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

Pursuant to Rule 13a - 16 or 15d - 16 of

The Securities and Exchange Act of 1934

For the Month of February, 2006

HANSON PLC

(Translation of registrant s name into English)

1 Grosvenor Place, London, SW1X 7JH, England

(Address of principal executive office)

[Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40F.]

Form 20-F x Form 40-F ¨

[Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.]

Yes ¨ No x

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorised.

HANSON PLC

By: /s/ Graham Dransfield

Graham Dransfield
Legal Director

Date: February 23, 2006

February 23, 2006

Hanson PLC Preliminary Results 2005

Group turnover* £3,715.7m (£3,383.0m), up 9.8%

Operating profit before impairments £488.8m (£423.4m), up 15.4%

Profit before taxation £429.3m (£347.3m), up 23.6%

Profit for the year £387.6m (£264.2m), up 46.7%

Net cash inflow from operating activities £471.2m (£507.5m)

Net debt £989.6m (£695.2m)

Earnings per share basic 53.2p (36.0p)

Earnings per share continuing operations before impairments 55.5p (46.7p)

Dividend per share 20.0p (18.15p)

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* Excluding joint-ventures and associates
Continuing operations
interim dividend paid and final dividend recommended

Alan Murray, Chief Executive, said: I am very pleased with the performance we have delivered in 2005. We have achieved double digit earnings growth, with operating profit before impairments growing from £423.4m to £488.8m. We have completed eleven acquisitions for a cash cost of £342.9m and we have increased our returns to shareholders.

Mike Welton, Chairman, added: During 2005 we achieved excellent progress against our primary objective, which is to create sustainable, long-term value for our shareholders.

Overview

Group turnover increased by 9.8% to £3,715.7m (£3,383.0m), of which 4.2% was due to the acquisitions we made in 2005. Excluding acquisitions, most of the 5.6% increase was due to increases in selling prices. Price increases have been necessary to recover those higher input costs that could not be absorbed through cost initiatives. Cost control is an integral part of our operational culture and we continue to strive to be the lowest cost producer.

In total, group operating margin increased by 0.3ppts, despite the significant increase in costs, and the operating profit before impairments increased by 15.4% to £488.8m. Excluding acquisitions and property income, operating profit before impairments from the existing business grew by 13.6%. The majority of our six divisions contributed to this growth with a 38.8% increase from the UK Aggregates division, 25.1% from Australia & Asia Pacific, 20.2% from US Aggregates and 8.7% from US Building Products. These are excellent results and more than offset the difficult markets for our UK Building Products and Continental Europe divisions in 2005.

Costs and overheads increased by £284.6m, or 9.5%, during the year. £126.7m of the increase was due to acquisitions. The remaining £157.9m, or 5.3%, represents the increase in costs relating to our existing operations. Energy costs, namely electricity, fuel and gas, increased by over 20% in 2005. In addition, significant raw material increases were incurred for cement, bitumen and steel.

The share of joint-ventures and associates profit after taxation increased by 74.6% to £40.5m and includes a one-off tax credit of £6.6m. Excluding this item, the 46.1% increase reflects the strong performance from our 25% interest in Cement Australia.

Operating profit before impairments increased by £65.4m, or 15.4% to £488.8m in 2005. Acquisitions contributed £17.1m, property profits reduced by £6.5m and foreign exchange movements increased profits by £6.4m.

Profit before taxation increased by £82.0m, or 23.6% to £429.3m (£347.3m). Net finance costs were £55.5m (£46.8m).

Profit after taxation increased by £74.7m, or 23.3% to £394.9m (£320.2m). The group tax charge for 2005 was £34.4m (£27.1m). This includes an underlying effective tax charge of £58.4m, equivalent to a rate of 14.9% (15.6%), and a reduction of £29.6m relating to a net release of tax provisions following successful settlement of a number of issues.

Discontinued items totalled a loss after taxation of £7.3m (£56.0m), of which £13.7m related to asbestos. The gross cost of asbestos, before insurance, was US$43.2m (US$59.3m). At this stage, our estimate of the average annual cost before insurance over the next eight years is $60.0m, equivalent to approximately £21.0m after tax. In February 2006, a settlement was reached with insurers covering approximately 20% of the group s present asbestos costs. Profit for the year was £387.6m (£264.2m), an increase of 46.7%.

Dividend

The Board recommends a final dividend of 14.15p (12.80p) per share. This, together with the interim dividend, makes a total of 20p (18.15p) for the year, an increase of 10.2%.

Consolidated balance sheet

Net debt increased by £294.4m to £989.6m (£695.2m) and included an increase of £95.7m due to foreign exchange. Total equity at the end of 2005 was £2,672.3m (£2,411.0m) and gearing at the year end was 37.0% (28.8%).

Consolidated cash flow statement

The net cash inflow from operating activities was £471.2m (£507.5m), a decrease of £36.3m. This is after net payments of £64.3m (£53.2m) for interest and £54.1m (£18.3m) for taxation.

Capital expenditure totalled £191.8m (£198.6m) and £342.9m was spent on 11 acquisitions. Dividends paid were £136.2m in 2005, and a total of 8,335,000 shares were bought back for £46.7m, of which £45.1m was paid in 2005.

Investing highlights

£191.8m of capital expenditure was invested in capital projects to maintain and to enhance our existing operations. In line with our ongoing capital expenditure policy, we aim to remain disciplined and biased towards projects which will have superior risk/return ratios.

In the USA, construction has begun on replacement pipe and precast manufacturing plants in Texas, Arizona and Florida and the construction of a new greenfield roof tile plant near Jacksonville in Florida. In addition, we completed the quarry replant at Bridgeport, Dallas and secured further mineral reserves in California. In the UK, capital expenditure includes kiln refurbishment, plant automation and information technology projects. Plant upgrades were completed in Australia and additional mineral reserves have been secured in Spain.

Acquisitions and disposals

Our strategy to enhance shareholder value includes the acquisition of companies which extend our existing operations or geographies. In addition, our aggregates acquisition strategy helps maintain our long-term mineral reserves and resources position, which totalled 15.9bn tonnes at the end of 2005.

Eleven transactions were completed in 2005 for a cash cost of £342.9m (£88.4m) and included the acquisition of Mission Valley Rock, which secured over 54m tonnes of reserves in the San Francisco Bay area. The acquisition of Sherman Pipe expanded our presence in the southeast region of the USA. In the UK, the acquisitions of Thermalite and Marshalls Clay Products have extended our building product ranges.

Disposal proceeds received in 2005 totalled £50.3m in the year and included the sale of Hanson s 50% interest in Campbell Concrete and Materials in Texas and 19 ready-mixed concrete plants in Spain.

Operating outlook

Demand in the US is expected to remain strong but may decline in the UK and Australia. The increase in energy costs incurred in the latter part of 2005 will impact our annual cost base in 2006, despite our cost reduction initiatives. We will work closely with our customers to deliver premium products and services whilst remaining disciplined on selling prices. We expect to make further progress during 2006 based on strong market positions, value adding acquisition opportunities and continued financial discipline.

Review of operations

Hanson Aggregates North America

	2005	2004	%
Group turnover*	£ 980.6m	£ 897.3m	9.3
Group operating profit before impairments*	£ 138.1m	£ 126.7m	9.0
Group operating margin*	14.1%	14.1%	
Share of joint-ventures and associates profit after tax	£ 0.3m	£ 0.9m	(66.7)
Operating profit before impairments	£ 138.4m	£ 127.6m	8.5
Property profit (included in operating profit)	£ 2.4m	£ 14.3m	(83.2)

* Excluding joint-ventures and associates

Group turnover increased to £980.6m in 2005 (£897.3m), an increase of 9.3%. £23.7m, or 2.6%, of this increase was due to acquisitions made in 2005. Group operating margin was held at 14.1%. Excluding property profits, the margin increased by 1.3ppts, from 12.5% to 13.8%.

Operating profit before impairments increased by 8.5% to £138.4m (£127.6m). Excluding property profits and acquisition earnings, this increase was £22.9m, or 20.2%.

Average price increases of 7.8% were achieved in aggregates, which offset increases in input costs, in particular fuel and power. The price increases ranged from 5.8% in the Mideast to 13.9% in the West.

Total market demand across the USA is estimated to have increased in 2005 compared to 2004. There can, however, be significant variation in regional demand patterns. In our markets in 2005, aggregates volumes in California in 2005 were below those in 2004, while Arizona and south Texas showed strong demand, driven by high levels of residential construction and a recovery in industrial and commercial activity. Reduced activity was experienced, however, in parts of the Mideast and Northeast regions, most notably in New York, Pennsylvania, Ohio and Indiana. In certain markets, we selectively declined to compete for high volume contracts at low margins. In addition, a number of operations were closed as part of our optimisation strategy which further reduced volumes. As a result of this combination of varying regional demand patterns, selectively declining low margin work and plant closures, total heritage aggregates volumes declined by 4.4% for the year.

Raw material cost pressures were significant in the downstream ready-mixed concrete and asphalt operations. Average selling price increases of 12.8% in ready-mixed concrete recovered cost increases, in particular higher cement costs. Average selling price increases of 11.5% in asphalt in part offset increases in the cost of bitumen and aggregate raw materials.

In common with aggregates, similar regional variations in demand were experienced in those markets where we have downstream products, except for ready-mixed concrete volumes in Arizona which were adversely affected by shortages of cement in the second half of the year. As a consequence, heritage ready-mixed concrete volumes for the year declined by 5.3% and heritage asphalt volumes declined by 5.8%.

Demand for cement in California remained strong in 2005 and volumes increased by 6.3%. Operational efficiencies at the plant offset part of the significant increases in the cost of fuel and power. A number of major one off repair and maintenance programmes were undertaken in 2005. Average price increases of 15.4% were achieved which, together with the volume increases, offset the increase in costs.

Capital expenditure initiatives progressed well in 2005, with total spend of £69.4m (£74.6m). Projects included a processing upgrade at Sylvania, Ohio, which should increase productivity and reduce costs. In addition, we completed the replant, including the construction of a new rail terminal, at our Bridgeport quarry near Dallas, Texas and acquired land in Arizona which should allow us to expand operations in the Phoenix market.

Good progress was made this year with our acquisition strategy. The integration of the Mission Valley Rock acquisition, bought in June 2005, is proceeding according to plan. This acquisition significantly strengthens Hanson s position in the strategically important San Francisco Bay area, with an additional 54m metric tonnes of reserves/resources secured in this market. In addition, the division acquired a group of aggregates operations in southern Indiana in December, providing access to over 115m metric tonnes of reserves/resources and strengthening our position in the Louisville, Kentucky, market area. An additional 80m metric tonnes of mineral reserves/resources were secured in Irwindale, California, in 2005.

Outlook

Market demand is expected to remain strong in 2006. Further real price increases for 2006 were notified to customers in late 2005. Such increases are required to recover higher input costs and to recognise the increasing scarcity of well-located mineral reserves and long-term history of below inflation price increases in previous years. We intend to continue our growth initiatives in 2006, through a combination of capital investment to improve operating cost profiles and acquisitions to improve the asset portfolio and to ensure the supply of high quality product to our customers.

Hanson Building Products North America

	2005	2004	%
Group turnover*	£ 753.7m	£ 647.4m	16.4
Group operating profit before impairments*	£ 124.4m	£ 111.2m	11.9
Group operating margin*	16.5%	17.2%	(0.7)ppts
Share of joint-ventures and associates profit after tax	£ 1.3m		
Operating profit before impairments	£ 125.7m	£ 111.2m	13.0
Property profit (included in operating profit)	£ 0.5m		

* Excluding joint-ventures and associates

Group turnover increased to £753.7m in 2005 (£647.4m), an increase of 16.4%. £28.8m, or 4.4%, of this increase was due to acquisitions made in 2005. Group operating margin reduced from 17.2% to 16.5%. This decline is due to changes in product mix through expansions of our precast operations, the impact of acquisitions and increases in costs and turnover, which reduce calculated margin, even when earnings have increased.

Operating profit before impairments increased by 13.0% to £125.7m (£111.2m). £4.3m, or 3.9%, of this increase was due to acquisitions, mainly the Sherman Pipe facilities in Alabama and Georgia. Excluding acquisitions and property profit of £0.5m (£nil), the increase was 8.7%. The impact of foreign exchange was a benefit of £2.6m.

Operating profit before impairments for Pipe & Precast increased by £14.7m, or 19.3%, to £90.8m (£76.1m), of which £4.3m was due to acquisitions. Average price increases of 12.0% combined with effective cost control and good operating efficiencies offset input cost inflation in steel, cement and energy.

Heritage volumes for concrete products increased by 3.1% during 2005. The strongest markets for concrete products in 2005 were in the south east (principally Florida) and the north east (principally South Virginia, Washington DC and Ontario). Volumes in key Texas markets were disrupted by the most active hurricane season on record and by delays on several major pipe projects in south Texas in the second half.

Operating profit before impairments for the Brick & Tile group decreased by 0.6% to £34.9m (£35.1m). Heritage brick volumes declined by 8.2% largely due to a weakening of demand in Canada where volume declined by 16.1%. By contrast, volumes in Texas increased by 10.3% as residential demand remained strong in this market. Further operating and commercial synergies were extracted from the combination of our heritage brick operations with the Athens factories that were acquired in 2004. Average selling prices increased by 6.0%. Price increases of 12.8% were realised in roof tiles. Demand for tiles has outstripped supply in the eastern USA (principally in Florida), but was offset by lower demand in California.

The division achieved notable success in 2005 with its acquisition growth initiatives, completing three acquisitions in the year and one in early 2006. The largest of the three acquisitions was Sherman Pipe which has ten facilities in Alabama and Georgia. These plants are an excellent strategic fit with the existing heritage facilities in the south east region. Two smaller strategic acquisitions were completed in Ohio and Rhode Island to complement the heritage facilities in the north east region. Initial integration of these acquisitions has gone very well and all three are performing ahead of pro forma expectations. In January 2006, the division acquired PaverModule which is one of the top two suppliers of concrete pavers in Florida.

Building Products other major growth initiative is a significant programme of greenfield capital investment and upgrades to existing pipe and precast and brick and tile facilities. Capital expenditure in 2005 was £40.7m (£38.2m). Three new precast plants were successfully commissioned in 2005, two in Texas and one in California, which have enhanced our existing product offerings in key markets. Approval has recently been given for the construction of three new concrete products facilities in Texas, Arizona and Florida, and for the construction of a new greenfield roof tile plant near Jacksonville in Florida. Commissioning of these facilities should occur during the second half of 2006 and the first half of 2007.

Outlook

Demand is expected to remain robust overall during 2006. The order backlog remains strong, at good prices, and was $450m at December 31, 2005 ($400m). The approval of the SAFETEA programme in August 2005 is expected to support new infrastructure projects which, together with industrial and commercial demand, is likely to help to counteract any decline in the residential sector. Input costs, in particular for fuel and energy, are expected to be above 2005 levels. It is anticipated that price increases and continued improvement in operational efficiencies, including further major capital investments in Texas, Florida and Arizona in particular, will help to recover these increases.

Hanson Aggregates UK

	2005	2004	%
Group turnover*	£ 811.5m	£ 771.9m	5.1
Group operating profit before impairments*	£ 96.9m	£ 62.2m	55.8
Group operating margin*	11.9%	8.1%	3.8ppts
Share of joint-ventures and associates profit after tax	£ 11.9m	£ 12.3m	(3.3)
Operating profit before impairments	£ 108.8m	£ 74.5m	46.0
Property profit (included in operating profit)	£ 8.0m	£ 1.9m	321.1

* Excluding joint-ventures and associates

Group turnover increased to £811.5m in 2005 (£771.9m), an increase of 5.1%. Group operating margin increased by 3.8ppts to 11.9% (8.1%). Excluding property profits, the margin increased by 3.2ppts, from 7.8% to 11.0%.

Operating profit before impairments increased by 46.0% to £108.8m (£74.5m). Excluding property profits, this increase was 38.8%, consisting of a small decline in the joint-ventures and associates profit after tax offset by an improvement in the existing operations.

The earnings improvement, achieved despite reduced volumes, illustrates our commitment to pricing discipline, our initiative to increase premium product output and the delivery of operational efficiency and overhead cost reduction benefits.

Total market demand across the UK for aggregates is estimated to have declined by approximately 3% in 2005. Much of the reduction is due to a slow down in major infrastructure activity, and lower crushed rock volumes as recycled materials compete at the low-value end of the sector. As a result of planned site closures and our initiative to increase production yields and reduce low-margin, non-premium products, our total heritage aggregates volumes have declined

8.1%, with crushed rock the major contributor to the decline. Average selling prices increased by 6.3%, offsetting input cost increases for fuel and electricity. Royalty rates and the cost of regulation have also continued to increase.

Our asphalt volumes increased by 2.5% in 2005 which was broadly in line with estimated national market growth trends. We continue to benefit from the capital investment programme to replace our asphalt plants with more fuel efficient and environmentally friendly units which are capable of utilising recycled materials. Average selling prices increased by 4.9% as our strategy of introducing higher value-added branded products came into effect and offset the increased cost of fuel oil and bitumen.

The total demand for ready-mixed concrete in the UK is estimated to have fallen by approximately 2% in 2005, against a decline of 6.0% in our volumes. The relative reduction in our volume is due in part to the regional location of the work and in part to our pricing discipline at the expense of lower margin volume. Selling prices increased by 6.2% during 2005 offsetting higher input costs, particularly for cement, fuel and electricity.

Commercially, significant progress has been made during 2005 in securing long-term maintenance contracts. These are used as a procurement route by both the UK Highways Agency and by UK local authorities. Innovative partnering arrangements with service level guarantees have also been introduced with a number of customers. Both these approaches help underpin the long-term nature of our order book and support our capital investment programmes.

Capital expenditure during 2005 was £23.1m (£35.6m) and included one new ready-mixed concrete plant, aggregate and asphalt plant upgrades and modifications and additional mineral reserves and resources. We are continuing to upgrade our facilities to make them more efficient. In particular, initiatives are being pursued to increase the proportion of high-quality aggregates as opposed to lower-value by-product.

Managing our reserves, particularly sand and gravel, is a high priority for the division. During 2005 additional sand and gravel reserves and resources were secured in a number of locations, most notably in the south east, east of England and east midlands. In early 2006 additional mineral reserve licences were secured for our marine dredging operations.

Restructuring cost savings of £10m were achieved as planned and have resulted in a flatter and more customer responsive organisation.

The share of joint-ventures and associates profit after tax primarily consists of the 50% interests in Midland Quarry Products and United Marine Holdings. Hanson s share of net profit after tax of £11.9m (£12.3m) was broadly in line with the prior year.

Outlook

Demand is expected to remain subdued in 2006. Input cost inflation, in particular for cement, bitumen and energy, is expected to continue. In addition, the use of recycled fuel oil was prohibited from the beginning of 2006 which will increase the cost burden for our asphalt operations. We are seeking to offset these increases through cost reduction and efficiency initiatives. However, achievement of our notified selling price increases will be key to the successful delivery of earnings growth in 2006.

In the medium-term, we would expect demand to recover in response to the UK s infrastructure needs and preparations for the London Olympics.

Hanson Building Products UK

	2005	2004	%
Group turnover*	£ 368.2m	£ 300.7m	22.4
Group operating profit before impairments*	£ 37.8m	£ 36.8m	2.7
Group operating margin*	10.3%	12.2%	(1.9)ppts
Share of joint-ventures and associates profit after tax			
Operating profit before impairments	£ 37.8m	£ 36.8m	2.7
Property profit (included in operating profit)	£ 3.0m	£ 3.2m	(6.3)

* Excluding joint-ventures and associates

Group turnover increased to £368.2m in 2005 (£300.7m), an increase of 22.4%. £76.7m, of this increase was due to acquisitions made in 2005. Group operating margin declined by 1.9ppts to 10.3% (12.2%).

Operating profit before impairments increased by 2.7% to £37.8m (£36.8m). £12.3m, or 33.4%, was due to acquisitions which offset a decline attributable to the existing operations of £11.3m, or 30.7%.

The majority of the £11.3m reduction in earnings from existing operations was due to lower brick volumes. Whilst our total brick volumes increased by 8.5%, excluding acquisitions, the heritage brick volumes declined by 12.4%. The reduction has been predominately within the repair, maintenance and improvement (RMI) sector of the housing market. Despite the reduction, increases in selling prices of 6.8% were achieved for the year.

Aggregate block volumes, excluding Thermalite, declined 3.0% whilst average selling prices increased 2.2%. Precast product volumes, including flooring, remained strong during 2005. Packed product average selling prices increased in 2005 despite lower volumes in the RMI market.

Input costs, in particular energy, continued to increase although the earnings impact was partly mitigated by forward hedging of gas prices.

In late 2005 and early 2006, we made the difficult but necessary decision to reduce production capacity, in response to low market demand and high energy costs. Production was substantially reduced at four brick factories and temporary lay-offs were implemented during January 2006 at five brick factories and three Thermalite factories. In addition, five factories have been closed across our product range in late 2005 and early 2006.

Capital expenditure in 2005 totalled £16.8m (£16.1m) with an emphasis on projects which will reduce production costs, increase efficiency and automate manual handling activities. Included in these was the introduction of a robotic setting programme at our brick factory at Whittlesey, as well as kiln rebuilds which form part of an ongoing upgrading of this site.

Four acquisitions were completed during 2005, for a total of £194.1m, as part of the division s strategy of supplying a broad product range to customers. Marshalls Clay Products has been integrated and is performing broadly in line with expectation. Thermalite, which has experienced difficult market conditions since its acquisition in March 2005, performed below expectation but within our acquisition criteria. Mid Essex Sand and Gravel, a bagging operation which complements our packed products range, and Cradley Special Brick are progressing well. The acquisition of Red Bank Manufacturing was completed in early January 2006. Improved customer service and product offering remain key priorities. Multi-product deliveries are an example of the customer service improvements trialled following the extension of our product range.

Outlook

Overall market demand is expected to remain subdued in 2006. Input costs will be significantly higher in 2006 than 2005. We are working to mitigate these factors by reducing capacity, improving productivity through capital expenditure and hedging costs such as gas, where economic. Despite these measures, it is anticipated that significant price increases will be necessary in 2006 to recover our earnings.

In the medium-term, we expect demand to respond to the need for additional houses, particularly in the south east. Our production capacity is sufficiently flexible to be able to respond to any such increase in volume. We intend to continue to grow this division through product range extension and ongoing improvements to the service we offer to our increasingly consolidated customer base.

Hanson Australia & Asia Pacific

	2005	2004	%
Australia and Asia Pacific total			
Group turnover*	£ 573.0m	£ 537.7m	6.6
Group operating profit before impairments*	£ 62.7m	£ 62.1m	1.0
Group operating margin*	10.9%	11.5%	(0.6)ppts
Share of joint-ventures and associates profit after tax	£ 27.0m	£ 10.0m	170.0
Operating profit before impairments	£ 89.7m	£ 72.1m	24.4
Property profit (included in operating profit)	£ 1.0m	£ 1.7m	(41.2)

Operating profit before impairments increased by £17.6m, or 24.4%, to £89.7m (£72.1m). £15.1m of this increase was due to Australia and £2.5m due to Asia Pacific. Excluding acquisition earnings of £0.6m and property profit of £1.0m (£1.7m), the increase was 25.1%.

Hanson Australia

Group turnover increased to £464.6m in 2005 (£413.2m), an increase of 12.4%. Of this increase, £14.6m, or 3.5%, was due to acquisitions made in 2005. Group operating margin reduced by 1.3ppts to 12.3% (13.6%), although group operating profit before impairments increased by 2.3%.

Operating profit before impairments increased by £15.1m, or 22.7%, to £81.6m (£66.5m), including £2.8m of benefit due to foreign exchange translation. £13.8m, or 20.8%, of the £15.1m improvement was due to the joint-ventures and associates profit after tax and included £6.6m of non-recurring tax benefit. Excluding this tax benefit, foreign exchange and acquisition earnings of £0.6m, the existing operations improved by £5.1m, or 7.7% against a very strong 2004.

Our heritage aggregates volumes decreased by 3.4% in 2005, due largely to significant non-recurring secondary aggregate sales in Queensland in 2004. Victoria and Western Australia performed well during 2005, offsetting weaker demand in New South Wales and Queensland.

Average selling prices for aggregates increased 6.8%, in part due to changes in product mix. Heritage ready-mixed concrete volumes increased by 1.3%, with a reduction in Sydney from previously buoyant levels being offset by increases in all other regions. Average selling prices in ready-mixed concrete improved by 3.3%, in part offsetting higher raw material costs. Operating profit for Building Products declined due to increased input costs and a highly competitive pricing environment.

The operational improvement in the joint-ventures and associates was due largely to improved volume, price and delivery of synergy benefits in Cement Australia.

Three acquisitions were made in 2005 for £12.6m, including a basalt quarry at Molong in New South Wales, and the acquisition of two Sydney based precast concrete companies, Rescrete and Abbey Precast, both of which expanded our building products range.

Capital expenditure totalled £31.6m (£26.4m) and consisted of replacement ready-mixed concrete and aggregates delivery vehicles, new ready-mixed concrete plants in south east Queensland and aggregates plant upgrades to increase capacity and efficiency.

Hanson Asia Pacific

The group operating profit before impairments in this region declined primarily due to lower market demand following a reduction in public sector expenditure in Malaysia. Average selling price increases of between 3.6% and 7.3% were offset by a decline in aggregates and asphalt product volumes and higher input costs. Ready-mixed concrete volume and prices were broadly in line with the prior year. In Singapore, the operating performance marginally declined following a further downturn in construction sector volumes.

The share of joint-ventures and associates profit after tax increased due largely to improved earnings from our Hong Kong operations. Despite a lack of new public sector work, our Hong Kong concrete volumes have increased year-on-year whilst selling prices have also improved. Synergy benefits have been delivered in line with our expectations.

Outlook

The Australian market is forecast to decline during 2006 from its current peak, while difficult trading conditions are expected to continue in Asia throughout the year. Further gains are anticipated from operational cost savings. Increased selling prices will be required to recover the continuing rise in input costs.

Hanson Continental Europe

	2005	**2004**	**%**
Group turnover*	£ 228.7m	£ 228.0m	0.3
Group operating profit before impairments*	£ 19.9m	£ 23.9m	(16.7)
Group operating margin*	8.7%	10.5%	(1.8)ppts
Share of joint-ventures and associates profit after tax			
Operating profit before impairments	£ 19.9m	£ 23.9m	(16.7)
Property profit (included in operating profit)		£ 0.3m	

* Excluding joint-ventures and associates

Group turnover increased by 0.3% to £228.7m in 2005 (£228.0m). Group operating margin reduced by 1.8ppts to 8.7% (10.5%). Operating profit before impairments reduced by £4.0m, or 16.7%, to £19.9m (£23.9m).

The £4.0m reduction in operating profit before impairments was due to difficult market conditions in Israel and The Netherlands, which persisted throughout 2005, and to quarry closures, which impacted results in Spain. Market conditions in the Czech Republic and Belgium were more positive. Both these countries increased their operating profit before impairments, as did Germany, despite its difficult market conditions. Total heritage aggregates and asphalt volumes declined by 8.9% and 1.9% respectively across the division, whilst concrete volumes increased by 0.4%.

In Spain, both group turnover and operating profit before impairments decreased in 2005. Aggregate volumes were below last year due to lower demand in Madrid and Zaragoza and to the closure of two quarries, although increases in average selling prices were achieved. During the year we disposed of 19 underperforming ready-mixed concrete plants. Excluding these disposals, ready-mixed concrete volumes were ahead of last year, as were average selling prices.

Weak trading conditions have continued in 2005 for our Israel operations. Productivity improvements were not sufficient to counter a decline in volume and the impact of higher energy costs. In the Benelux region, the ready-mixed concrete markets were difficult, resulting in lower prices and volumes. Efficiency improvements were achieved in our aggregate operations which helped to offset a reduced operating profit before impairments.

Outlook

The Spanish economy is anticipated to remain strong during 2006, although further reserve exhaustion is expected to lead to a lower operating profit before impairments. Elsewhere, the market in Israel is likely to remain difficult, ready-mixed concrete margins in The Netherlands may improve slightly and volumes in the Czech Republic may decline slightly as a major road building contract concludes.

Replenishment of our reserves position, either through acquisition or mineral reserve purchases, remains a high priority for 2006. We will continue to focus on both acquisitions and margin improving capital expenditure activities.

Operating profit before impairments

Operating profit before impairments was £488.8m (£423.4m), an increase of £65.4m or 15.4%. This consists of the operating profit before impairments for each of the six divisions as described in the operating review, which totalled £520.3m (£446.1m), less central expenses of £31.5m (£22.7m). The increase in central expenses of £8.8m includes £4.4m relating to a bodily injury claim in the USA, which is self-insured centrally by the company.

Operating impairments

Operating impairments in the period were £4.0m compared with £29.3m in the previous year. The net charge for the year consists of £23.6m of impairment charges, offset by a reversal of £19.6m. The charges relate primarily to the US and UK aggregates divisions. The reversal follows an economic improvement in the supply arrangements at certain operations in the US aggregates division and additional disposal proceeds at certain UK aggregates sites.

Exchange impact

Foreign exchange translation increased group turnover by £35.2m, operating profit before impairments by £6.4m and profit before tax by £6.0m.

The US dollar year end exchange rate moved from $1.9199 at December 31, 2004 to $1.7168 at December 31, 2005. The net impact of foreign exchange movements resulted in an increase in sterling translated net debt from December 31, 2004 to December 31, 2005 of £95.7m.

Finance costs and income

Net finance costs were £55.5m (£46.8m).

Interest payable on loans totalled £119.0m (£92.2m) against interest receivable of £60.1m (£40.0m), resulting in a net interest cost of £58.9m (£52.2m). The main reason for the increase in the net interest charge was an increased level of net debt following the acquisitions made in 2005.

Interest cost on the pension plan liabilities and other post-retirement benefits was £103.2m (£99.2m), offset by an expected return on pension assets of £108.7m (£111.2m), to give a net pension finance income of £5.5m (£12.0m). The reduction in income resulted primarily from a reduction in interest rates.

The unwind of the discounting relating to long-term provisions was a charge of £2.5m (£6.6m), and included the impact of a change in discount rates.

Taxation on continuing operations

Taxation on continuing operations was £34.4m (£27.1m). The 2005 charge consisted of an underlying tax charge, excluding the tax relating to joint-ventures and associates, of £58.4m, a net release from provisions of £29.6m and a charge of £5.6m relating to impairments. The 2004 tax charge has been restated by £49.6m following a change in the interpretation of the deferred tax accounting requirements under IFRS. The restatement resulted in a charge of £27.1m for 2004, which consists of an underlying tax charge, excluding the tax relating to joint-ventures and associates, of £55.1m, one-off deferred tax credit after restatement of £21.7m and a tax credit on impairments of £6.3m.

The underlying tax charge of £58.4m (£55.1m) was equivalent to an underlying effective tax rate of 14.9% (15.6%) on the profit before tax and impairments, excluding joint-ventures and associates, of £392.8m (£353.4m).

The net provision release in 2005 of £29.6m resulted from the successful resolution of a number of issues with the relevant tax authorities.

Discontinued operations

Current year loss after taxation of discontinued operations was £7.3m (£56.0m).

The profit after tax earned by operations in 2005 prior to their disposal was £2.8m. Hanson Aggregates North America sold its 50% interest in the joint-venture Campbell Concrete and Materials, a ready-mixed concrete business operating in Houston, Texas on June 17. Hanson Continental Europe disposed of 19 ready-mixed concrete sites on May 13, and has subsequently restructured its Spanish operations. Seagoe, a drainage business based in Northern Ireland, was included in discontinued as a disposal group held for sale. Seagoe was sold in January 2006.

The profit after tax arising from the sale of the above operations was £2.3m.

A loss after tax of £12.4m (£50.0m) resulted from operations that were discontinued prior to 2004. The main item in this category was an asbestos charge of £22.4m (£79.7m) before tax and £13.7m (£40.6m) after tax.

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. New claimants were 10,350 for 2005 compared with the 18,700 new claimants received in 2004. At the end of 2005, outstanding claimants totalled approximately 131,350 (135,750). Of the 14,750 (7,150) claimants whose cases were resolved during 2005, over 90% were dismissed without payment.

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. Although outstanding claimants decreased at the end of 2005 compared to 2004, this does not mean we believe this is the start of a downward trend in the number of claimants.

The gross cost of resolving asbestos claims in 2005 was $43.2m ($59.3m) including legal fees of $26.3m ($27.4m). The net cost of asbestos for the year after insurance was $31.7m ($12.8m).

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 disclosed as contingent liabilities. At present, based on detailed analysis and assumptions, the provision for those costs which are both probable and reliably estimable equates to approximately eight years of gross cost assuming annual gross costs of $60.0m. The full year increase in the provision for future asbestos costs was $60.0m ($222.5m), taking the gross provision to $496.8m ($480.0m) before the impact of discounting, which has reduced the provision to $398.6m ($401.2m), or £232.2m (£209.0m).

Offsetting this is approximately $14.6m ($26.1m) of remaining insurance cover at December 31, 2005. The insurance settlement reached in February 2006 will result in an additional insurance asset of approximately $60m being recognised on January 1, 2006. In addition to this settlement, we will continue to use a combination of litigation and negotiation to maximise further insurance cover.

The net cost of resolution is allowable for US tax at a rate of 39%. Following the recent insurance settlement, the estimated net cost of approximately $48.0m is equivalent to approximately $29.0m post-tax, or £16.0m, 3.4% of net cash inflow from operating activities of £471.2m (£507.5m.)

Dividends

The 2005 interim dividend paid and final dividend recommended total 20.0p (18.15p), an increase of 10.2% on 2004. The sustained increase in our dividend payout reflects our confidence in the underlying strength of the group and its ability to generate strong cash flows.

Earnings per share

Basic earnings per share in 2005 were 53.2p (36.0p), up 47.8% on last year. EPS on continuing operations before impairments were 55.5p (46.7p), up 18.8% on last year.

Cash flow

Net cash inflow from operating activities for 2005 was £471.2m (£507.5m). This includes £10.6m (£4.3m) paid for asbestos costs, net of insurance. Taxation paid was £54.1m (£18.3m) compared to the tax charge of £34.4m (£27.1m). The increase in tax payment results from increased earnings and reduced first year capital allowances in the USA. Net interest paid was £64.3m (£53.2m) compared to a net finance cost of £55.5m (£46.8m).

Capital expenditure

Capital expenditure for the purchase of property, reserves, new and replacement plant and equipment during the year totalled £196.1m (£201.1m) of which £191.8m (£198.6m) was paid in 2005. This represented 122.0% of continuing depreciation. Over half of this amount has been spent in North America. A further £123.1m of capital expenditure had been committed as at December 31, 2005 primarily for new building products plants in the USA. These capital expenditures are expected to be financed out of group cash flows and bank facilities.

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.

Acquisitions

Total cash acquisition spend for 2005 was £342.9m (£88.4m). On January 4, 2005, Hanson Building Products UK acquired the assets of UK brick manufacturer Marshalls Clay Products for £64.7m and Thermalite, a market leader in aircrete blocks, on March 7 for £124.2m. On June 17, Hanson Aggregates North America acquired the assets of Mission Valley Rock, Berkeley Ready Mix and Berkeley Asphalt, and Hanson Building Products North America acquired the assets of Sherman Pipe, a concrete pipe and precast concrete products business for a total of £108.0m. Other acquisitions made in the year consisted of three quarries in Southern Indiana by Hanson Aggregates North America in December, and a further six acquisitions totalling £46.0m.

Capital structure and share buyback programme

The capital structure of the group takes account of the needs of our equity shareholders to maximise return on equity whilst recognising that to do so requires access to the debt capital markets. Our debt ratings are carefully managed and we maintain an inclusive relationship with the major rating agencies to ensure consistent ratings over the medium-term. Key credit ratios are closely monitored and reviewed as part of our planning process.

The group continually reviews its level of debt and equity. Following a four year period of debt reduction, Hanson commenced an on-market share buyback programme during October 2004. During the year ended December 31, 2005 8,335,000 shares were bought back and held as treasury shares for £46.7m, of which £45.1m was paid in 2005. At December 31, 2005 there were 14,685,000 ordinary shares in issue which are held in treasury. The share buyback programme is a rolling return of that capital which we believe is in excess of our medium-term requirements and which is reviewed on a continuing basis in the context of our cash flow, capital expenditure and acquisition plans.

Net debt

At the end of 2005, the group s net debt of £989.6m (£695.2m) was represented by borrowings of £2,072.6m (£2,089.5m), offset by cash of £1,083.0m (£1,394.3m).

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continuing operations
* including joint-ventures and associates and before exceptional items

Further information about Hanson can be found at www.hanson.biz

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