HANSON PLC
Form 20-F
March 01, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 20-F

(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, 2005

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

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)

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

Title of each class	Name of each exchange on which registered
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.

* 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)

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.

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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 at the close of business on October 14, 2003 (the Scheme Effective Date). 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 the Scheme Effective Date and to New Hanson (including Old Hanson) and its subsidiaries as from that time and (b) references to Hanson or the Company are to Old Hanson up to 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 dollar 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 21, 2006 the noon buying rate was $1.74 per £1. For additional information on exchange rates between the pound sterling and the US dollar, see Exchange Rates on page 133 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 53 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. References to Hanson or the Company should, where appropriate, be construed as a reference to the group or one or more of the Company s subsidiaries.

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 i 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 relating to public works expenditure and housing; inclement weather conditions; the competitive market in which we operate; changes in governmental policy or legislation that could effect regulatory compliance and other operating costs; disruption to, or increased costs of, the supply of materials, energy and fuel to our business; pension and post-retirement healthcare costs; ineffective implementation of computer software systems; our inability to achieve success in our acquisition strategy; exchange rate fluctuations; potential liabilities, including asbestos, arising out of former businesses and activities; adequacy of Koppers environmental insurance and US litigation exposure. Hanson does not undertake any obligation to update or revise publicly such forward-looking statements. All written, oral or other tangible 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.

Front cover:
Hanson Aggregates North America the New
Bridgeport plant, near Dallas, Texas, USA.

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Financial highlights

Summary statistics for the year ended December 31, 2005

		2005	2004	% change
Group turnover*		**£3,715.7m**	£3,383.0m	9.8
Operating profit before impairments		**£488.8m**	£423.4m	15.4
Profit before taxation		**£429.3m**	£347.3m	23.6
Profit for the year		**£387.6m**	£264.2m	46.7
Net cash inflow from operating activities		**£471.2m**	£507.5m	(7.2)
Net debt		**£989.6m**	£695.2m	42.3
Gearing#		**37.0%**	28.8%	8.2ppts
Earnings per share	basic	**53.2p**	36.0p	47.8
Earnings per share	continuing operations	**54.2p**	43.6p	24.3
Earnings per share	continuing operations before impairments	**55.5p**	46.7p	18.8
Dividend per share	paid in the year	**18.65p**	17.30p	7.8
Dividend per share		**20.0p**	18.15p	10.2

Group turnover

Up 9.8%

Dividend per share

Up 10.2%

Operating profit before impairments

Up 15.4%

Earnings per share basic

Up 47.8%

Cash spend on acquisitions in 2005

£342.9m

Group turnover by Region

Operating profit before impairments by Region

		£m	%
North America			
1	Hanson Aggregates	980.6	26.4
2	Hanson Building Products	753.7	20.3
		1,734.3	46.7
UK			
3	Hanson Aggregates	811.5	21.8
4	Hanson Building Products	368.2	9.9
		1,179.7	31.7
Australia & Asia Pacific			
5	Hanson Australia	464.6	12.5
6	Hanson Asia Pacific	108.4	2.9
		573.0	15.4
7	Hanson Continental Europe	228.7	6.2
Group Total		3,715.7	100.0

		£m	%
North America			
1	Hanson Aggregates	138.4	26.6
2	Hanson Building Products	125.7	24.2
		264.1	50.8
UK			
3	Hanson Aggregates	108.8	20.9
4	Hanson Building Products	37.8	7.3
		146.6	28.2

Australia & Asia Pacific			
5	Hanson Australia	81.6	15.7
6	Hanson Asia Pacific	8.1	1.5
		89.7	17.2
7	Hanson Continental Europe	19.9	3.8
Sub Total		520.3	100.0
Central		(31.5)	
Group Total		488.8	

*Excluding joint-ventures and associates
#Net debt divided by total equity
Continuing operations
2005 interim dividend paid and final dividend recommended

1 Financial highlights

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Chairman s statement

During 2005, the group once again achieved excellent progress against its primary objective, which is to create sustainable, long-term value for our shareholders.
Mike Welton
Chairman, Hanson PLC

2005 has been my first year as Chairman of Hanson PLC, having been appointed to the role in April 2005. I am pleased to be able to report that during 2005 the group once again achieved excellent progress against its primary objective, which is to create sustainable, long-term value for our shareholders.

We have grown the group turnover, earnings and margins of our existing businesses in 2005 and have added further value through a number of significant acquisitions. We have increased our dividend and share buyback programme.

Our operating environment has continued to change during the year, including further consolidation of our customer and competitor base. Both at a strategic and at an operational level, Hanson believes it is meeting these challenges.

Returns to shareholders

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%. The Investor information section of this report provides payment details.

Hanson has continued the on-market share buyback programme begun in 2004. During the year ended December 31, 2005, we bought back 8,335,000 shares (6,350,000 shares) for £46.7m (£26.1m), equivalent to 1.1% (0.9%) of outstanding shares.

Board of Directors

After the AGM in 2005, Chris Collins stepped down as Chairman. On your behalf, I thank Chris for his tremendous contribution, initially as an Executive Director of Hanson and then as Chairman. We are also grateful for the contributions over many years of Simon Keswick and Kenneth Baker as Non-executive Directors, who also stepped down following the AGM.

In August 2005, we welcomed John Brady to our Board as a Non-executive Director. John brings with him a wide experience gained in his years at McKinsey, latterly as a Director working on board strategy.

Corporate governance

Although plans to introduce a mandatory Operating and Financial Review have been shelved by the UK government, we are required to produce the equivalent of an Operating and Financial Review to satisfy US regulatory requirements.

We have expanded this to give stakeholders in the group an insight into the way in which the Board of Hanson PLC analyses its environment and operating activities.

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

Corporate responsibility

Hanson is committed to a programme of ongoing improvement in all areas of its corporate responsibility.

I am happy to report that for the fifth consecutive year we saw an overall improvement in our safety statistics. We promote a culture of continuous improvement in our safety awareness across all of our operations, with the Board monitoring formally the group s safety performance on a quarterly basis. The information obtained from these quarterly reports and from presentations to the Board is used to identify where particular attention should be focused and to assess the effectiveness of our approach.

Environmental issues are also reported quarterly to the Board. Our careful management of environmental issues is an integral part of our overall business strategy.

Hanson people

The Hanson team of highly motivated people is one of Hanson s greatest assets. We are dedicated to delivering increased value to all our constituents (including shareholders, customers, suppliers, fellow employees and the communities in which we operate). The introduction, some two years ago, of the Hanson guiding principles for employees is one of the drivers of a high performance corporate culture. I have been surprised and delighted by the level of expertise and enthusiasm I have encountered since assuming the role of Chairman and would like to thank Alan Murray and the rest of his team for their efforts and achievements during 2005.

Looking forward

We expect to make further progress during 2006 based on strong market positions, value adding acquisition opportunities and continued financial discipline. I believe we have the assets and the people to realise our objective and create sustainable value for all our stakeholders.

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Chief Executive s overview

In 2005, we have achieved double digit earnings growth, completed a significant number of valuable acquisitions and increased our returns to shareholders.
Alan Murray
Chief Executive, Hanson PLC

Our customers

Throughout 2005 as previously, a key aim has been, and will continue to be to make Hanson a truly customer focused company. We believe we should treat our customers in the same way we would expect to be treated ourselves with courtesy and respect.

2005 performance summary

I am very pleased with the performance we have delivered in 2005. We have achieved double digit earnings growth, completed a significant number of valuable acquisitions and increased our returns to shareholders.

Operating highlights

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.

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.

Safety

We continued to improve the safety of our employees. For the first time since the group safety records were maintained there were no employee work related fatalities in 2005. Our focus in 2006 is to reduce the number of accidents and unsafe acts.

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.

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Summary financial results

Group turnovehas increased by £332.7m and operating profit before impairments has increased by £65.4m.
Jonathan Nicholls
Finance Director, Hanson PLC

Consolidated income statement

Group turnover increased by £332.7m, or 9.8%, in 2005 to £3,715.7m. £143.8m of the increase was due to acquisitions made in the year, with the majority of the balance of £188.9m, or 5.6%, due primarily to the increases in selling prices achieved by the operations. Excluding acquisitions, product sales volumes were generally at or below 2004 levels.

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 £21m 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%. Basic earnings per share before impairments increased by 18.8% to 55.5p (46.7p). Interim dividend paid and final dividend recommended for 2005 totalled 20.0 pence per share, 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.

Pensions

We continue to make progress in managing our exposure to pension liabilities. All defined benefit plans are now closed to new members, other than those covered by pre-existing collective bargaining arrangements. The net deficit under International Financial Reporting Standards (IFRS) decreased to 1.0% of liabilities or £20.8m (2.7%, £48.5m). 58.3% (53.7%) of assets are held in bonds,

property or cash.

4 Summary financial results	Continuing operations

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Review of operations

Top: On site at the Old Bullring, Barcelona, Spain. Bottom: Box culverts at Grand Prairie plant, Texas, USA.

Industry and markets

Our industry

We supply heavy building materials and services to the public and private construction sectors. Our key products include aggregates, ready-mixed concrete, asphalt, cement, concrete and steel pipe, precast concrete products, bricks and roof tiles.

End use markets and demand drivers

The end use of our products and services may be categorised into residential, infrastructure, and industrial and commercial construction applications.

Residential includes public and private housing, and comprises both new build and repair, maintenance and improvement (RMI). The level of new housing spend in this sector is driven by population growth and demand for new housing offset by supply constraints such as house prices and planning permissions. Statistics for housing starts and completions are published in several of our major markets, including the US and UK. RMI work includes DIY spend and is often linked to consumer confidence.

Infrastructure includes transport (such as road, rail and airports) and utilities (including water transmission, sewage, power and communications). Typically, infrastructure spend on both new projects and RMI is government funded, for example through the SAFETEA programme in the USA. Infrastructure demand is driven by demographics, namely population growth, along with government fiscal policy and priorities and planning constraints.

Industrial and Commercial includes offices and factories as well as schools and hospitals. This category of construction is funded by both the public and private sectors and may include public finance initiatives (PFI). Drivers for private spending include economic growth. Typically, public spending is driven by political priorities.

Competitive position

Our aim is to establish Hanson as one of the leading suppliers in each of the local markets in which we operate. This requires a network of well-located operations which can be used to optimise customer service and transport costs and to leverage economies of scale. These competitive positions can be strengthened through acquisitions. Acquisitions can add value through the realisation of operating and cost saving synergies in areas such as increased asset utilisation and reduced administrative overheads.

Vertical integration in aggregates

In some markets, aggregates producers are integrated downstream into ready-mixed concrete and asphalt production. In addition, asphalt producers may undertake maintenance contracts and surfacing work. Ready-mixed concrete producers may have upstream cement operations.

Our focus is on aggregates, but we own and operate ready-mixed concrete, asphalt and cement operations where this is desirable.

Economic characteristics

Transportation costs are significant

In general, our products have a low-value to weight ratio. This means the cost of transport is a significant element of the total cost of our products to our customers. For example, in some markets the maximum economic road delivery distances for aggregates

may be as little as 20 miles. Consequently, the proximity of our operations to our customers is important to our overall competitive position in each market. Delivery to the final destination is principally by road, but we do use alternative transport such as rail or marine to move products in certain markets. Building products may have longer economic delivery distances, depending on market dynamics.

Barriers to entry

Access to mineral reserves, and the ability to obtain the necessary legal permissions to extract them, is one of the main barriers to entry for our aggregates and brick operations. These barriers to entry are increasing in the mature markets in which we operate as planning and environmental controls become more onerous. We aim to work with planning authorities and local communities to ensure we comply with all regulatory requirements and maintain a strong reserve position.

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Review of operations continued

Top: Criggion hard rock quarry, Shropshire, UK. Bottom: Ready-mixed concrete being delivered in Barcelona, Spain.

Our building products operations have barriers to entry due to the significant scale, capital and expertise requirements. For example, concrete pipe and precast products are produced for engineered applications where significant technical expertise is required in design, manufacturing and sales. Technological advances afford us the opportunity for continuous reinvestment and upgrading of manufacturing facilities.

Low substitution threat and low price elasticity

The threat of substitution for most of our products is low. Recycled aggregate materials are used in certain applications, particularly in the UK, following the introduction by the UK government of an aggregates levy. We continue to increase the proportion of high value aggregates produced in our plants.

Service and quality

The service and quality elements of our product offering are essential components of our product positioning. Examples of important factors in creating value for our customers in our Aggregates divisions include the technical strength specification in ready-mixed concrete, the grip and durability of asphalt and the on-time delivery to site and consistency of size and grade of aggregates. Examples in our Building Products divisions include colour matching of bricks, strength and precision of construction of pipes and product availability during peak demand periods for bagged aggregates products.

Our products

Aggregates

Hanson is one of the world s largest producers of aggregates. Excluding joint ventures and associates, we sold over 221m tonnes of aggregates in 2005, from more than 380 quarries in North America, the UK, Australia and Asia Pacific and Continental Europe. Aggregates (sand, gravel and crushed rock) are used in a wide variety of applications, including as a base material for road building, in the construction of rail lines, laying of water transmission and drainage pipeline and as landfill. When mixed with cement and other additives, ready-mixed concrete or concrete products are produced which are used in a wide variety of building-related applications. When mixed with bitumen they become asphalt, which is used as a surface material for roads, airport runways and car parks.

Hanson uses aggregates primarily from three sources; land quarried sand and gravel; marine dredged sand and gravel; and land quarried crushed rock.

The process to extract crushed rock may require stripping which is the removal of overburden material such as top soil and clay from above the mineral deposit. Rock is blasted in predetermined extraction patterns and hauled to mechanical crushers by truck or by conveyor belt. Depending on the geological properties of the deposit, the crushers may be arranged in multiple crushing circuits which separate the rock into different sizes whilst minimising waste or by-product. The finished rock is shipped to customers, by road, rail or water or collected by customers from the plant.

The process for sand and gravel is similar, although reserves tend to be shallower than for crushed rock, and extraction generally does not require blasting.

Ready-mixed concrete

Ready-mixed concrete is made from aggregates, cement, water and chemical admixtures. The ready-mixed concrete is mixed at the plant to ensure it meets the specified technical requirements, particularly strength, and is transported to site in a truck which agitates the mixture to keep it homogeneous. Ready-mixed concrete is used in a wide variety of applications in the construction sector. We supply to a wide variety of customers of varying sizes, ranging from major international construction companies to

do-it-yourself enthusiasts.

Excluding joint-ventures and associates, Hanson sold over 20m cubic metres of ready-mixed concrete from 637 sites in eight different countries.

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The new asphalt plant at Pottal Pool quarry, near Cannock, UK serves Staffordshire and the west midlands.

Cement

Cement is a fine powder that is produced by mixing calcium carbonate, silica, alumina and iron ore and grinding them to produce a raw meal . This raw meal is then heated and calcined in a kiln at a temperature of around 1500ºC, then rapidly cooled down to produce an intermediate product in the form of a hard pellet called clinker . The clinker is mixed with gypsum and finely ground to produce cement. Other materials can also be added at this stage such as slag and fly ash to improve certain characteristics of the cement.

We sold 1.8m tonnes of cement at our San Francisco (USA) plant during 2005. We also own 25% of Cement Australia, which produces cement at its plants in Queensland, New South Wales and Tasmania.

Asphalt

Asphalt is made from a mixture of 90% to 95% of dried aggregates, combined with 5% to 10% of heated liquid bitumen. Bitumen is a by-product of the petroleum refining process and the price of bitumen is, in general, governed by the price of oil. Asphalt is used as a surfacing material for roadways and airport runways by the construction sector. Different types of asphalt surface can be produced depending on the grade of aggregates used, which will give the surface differing qualities such as improved grip for vehicles or quieter tyre noise. In certain markets, including the UK, Hanson also enters into long-term contracts under term maintenance agreements with local authorities for highway upkeep and maintenance. In other areas of the world, asphalt is sold directly to the end user at a local level.

Excluding joint-ventures and associates, Hanson sold 11.7m metric tonnes of asphalt in 2005 from 141 plants in six different countries.

Bricks

Bricks are made from clay, which is extracted from the ground, processed, shaped and then fired in kilns. Different types of clay produce bricks with differing qualities. Bricks can be produced in a wide variety of colours and textures and are used primarily in the housing segment of the construction sector. Bricks are used for their attractive appearance, efficient insulation characteristics, low maintenance and durability. Automation in brick manufacturing is increasing, including the the use of robotics to improve brick handling.

In 2005, Hanson produced over 2.3bn bricks at 44 factories in the UK, the USA and Canada.

Concrete roof tiles

Concrete roof tiles are made by extruding a sand-based concrete mix onto individual moulds. Oxides and pigments can be added to the body or on the surface of tiles to obtain a variety of colours. In addition, different surface textures may be added to the weather side of the tiles. The tiles are cured, a process which dries and hardens the product, for a period of approximately one week. They are then ready for installation.

We manufacture tiles at eight locations across the USA.

Concrete pipes and steel pipes

Concrete pipes consist of gravity flow pipes and pressure pipes, with usage dependent on the strength requirement of the applications. They are produced by embedding a reinforcing steel structure within concrete, and range in diameter from 25 centimetres to over 3.5 metres. The large-scale structures are used in a wide variety of construction engineering applications,

primarily infrastructure, including uses such as drainage systems and water transmission.

Gravity and pressure pipes are manufactured to rigorous US and international technical specifications.

Steel pipes are used primarily in water transmission applications and we produce a range of steel pipes from 45 centimetres to 3 metres in diameter.

We manufacture a wide range of large-scale concrete precast pipes and other similar structures at 76 locations in the USA and Canada. Steel pressure pipes are manufactured at one location in Dallas, Texas.

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Review of operations continued

Skyway Project, Oakland Bay Bridge,
California, USA.

Precast concrete structures

Hanson s North American precast products are used for roadway drainage, airport drainage, stormwater management and utility construction. In addition, we manufacture highway noise barriers and railroad level grade crossings.

The UK precast range includes a variety of flooring systems such as hollowcore and solid composite beam and block, stairs and landings, culverts, and a comprehensive range of bespoke precast products.

In Australia, the precast range includes a variety of walling, flooring and architectural precast products.

Blocks

Aggregate blocks are produced using dense and lightweight aggregates. They are available in a variety of densities, strengths, configurations and finishes. Aerated concrete blocks are produced under the Thermalite brand and are much lighter than aggregate blocks. They are used by builders and specifiers for wall, floor and below ground construction, offering added properties of heat insulation, moisture resistance, strength and ease of handling.

In 2005, Hanson produced 7.3m standard production units of aggregate blocks at nine UK plants and 850k m^3 of aerated concrete blocks at three UK plants.

Our customers

Hanson supplies its products and services to a broad range of customers, ranging from large multinational construction companies to DIY enthusiasts. Key customers for our aggregates products include heavy construction and paving contractors, residential and commercial building contractors, concrete products manufacturers, state, county and municipal governments and railroads.

Customer service principles

One of Hanson s guiding principles is that we are customer focused and strive to provide premium quality products and services to all our customers. Contact with customers is through our divisions, at local, regional and national levels. Dedicated sales teams are the principal day-to-day support for our customer base, with strong management structures to ensure that strategy, controls and disciplines are adhered to. We aim to be best in class in everything we do and our commercial strategy and performance is critical to this objective.

Our mineral reserves and resources

The mineral reserves and resources which we own, or have the right to extract, are fundamental to the long-term growth of our business. We estimate that our total mineral reserve and resources position including Hanson s share of joint-ventures and associates as at December 31, 2005 is 15.9bn metric tonnes.

The table following details our mineral reserve and resource position as at December 31, 2005. Reserves and resources are defined as follows:

A Mineral Resource is a concentration or occurrence of material of economic interest in or on the earth s crust in such form, quality and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, grade, continuity and other geological characteristics of a Mineral Resource are known, estimated or interpreted from specific geological evidence and knowledge.

A Mineral Reserve is the economically mineable part of a Measured and/or Indicated Mineral Resource. It includes diluting materials and allowances for losses, which may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, and include consideration of, and modification by, realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction is justified.

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Top: Valdilecha limestone quarry, Madrid, Spain.
Bottom: Concrete products at Grand Prairie plant, Texas, USA.

Mineral Reserves and Resources as at December 31, 2005

	Reserve	Resource	Total	Reserve	Total
Reserves and resources	bn tonnes	bn tonnes	bn tonnes	Years	Years
US Aggregates	7.0	4.1	11.1	52	82
US Building Products	0.1	0.0	0.1	46	46
UK Aggregates	1.7	0.5	2.2	48	62
UK Building Products	0.1	0.1	0.2	41	88
Australia	0.8	0.5	1.3	34	57
Asia	0.2	0.1	0.3	22	34
Europe	0.5	0.2	0.7	21	25
Total Group	10.4	5.5	15.9	44	67

	Crushed rock	Sand and gravel	Clay	Total
Reserve type	bn tonnes	bn tonnes	bn tonnes	bn tonnes
US Aggregates	6.4	0.6		7.0
US Building Products			0.1	0.1

UK Aggregates	1.1	0.6		1.7
UK Building Products			0.1	0.1
Australia	0.7	0.1		0.8
Asia	0.2			0.2
Europe	0.5			0.5
Total Group	8.9	1.3	0.2	10.4

Reserve ownership	Owned	Leased/Option
US Aggregates	68%	32%
US Building Products	95%	5%
UK Aggregates	49%	51%
UK Building Products	95%	5%
Australia	90%	10%
Asia	6%	94%
Europe	35%	65%
Total Group	64%	36%

Reserve years and total years are calculated by dividing the tonnes of reserve and total tonnes respectively by the volume produced in 2005.

0.2bn tonnes of the reserves are clay reserves, held by the Building Products divisions, which are used to make bricks.

64% of the total reserves at December 31, 2005 are owned. The balance is either leased, or subject to an option to buy or lease.

Maps showing the locations of our aggregates and brick operations are provided on pages 16 to 36.

Objectives and strategy

Our business objectives

Our primary objective is to create sustainable, long-term value for our shareholders. We believe this can be achieved only by working in partnership with our customers and other stakeholders in a responsible manner.

We aim to enhance the value of our existing assets and market positions by growing group turnover, earnings and group margins through the business cycle, assisted by the appropriate combination of maintenance, greenfield and value adding capital expenditure.

Additional value is sought through acquisitions, primarily targeting products or locations which can be bolted-on to our existing operations to complement or extend our business.

We believe there is an opportunity to significantly add value in the medium term and to reinforce our position as one of the world s leading suppliers of heavy building materials.

9 Review of operations

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Review of operations continued

Our strategy

We operate with a straightforward strategy.

1 We plan to focus on growing our core products in selected markets

- We plan to continue to grow both our aggregates business and our heavy building products business
- We do not plan to participate in manufacturing light-side building products or in distribution
- We prefer to operate in markets which we consider to be mature, which have good demand drivers, high entry barriers and in which we believe we have the opportunity to establish and retain a strong competitive position.

Group strategy

1 Focus on core products in selected markets
2 Generate margin improvement
3 Invest in capital expenditure
4 Invest in acquisitions
5 Dispose of underperforming or non-core operations
6 Financial discipline

2 We aim to generate margin improvement

- We intend to notify our customers routinely and in a timely manner of price increases
- We operate continuous efficiency and cost saving programmes.

3 We intend to continue to invest in capital expenditure to maintain and enhance the performance of our operations

- We aim to maintain capital expenditure at or above our annual depreciation charge
- The balance is used to improve health and safety standards, ensure environmental compliance and replace ageing plant and equipment.

4 We intend to continue to generate value adding growth through our acquisition programme

- We aim to continue to invest in acquisitions over the medium-term
- Potential targets are evaluated on a discounted cash flow basis against our cost of capital, taking into account strategic fit, risk and return targets.

5 We are prepared to make disposals of underperforming or non-core operations if required

- We are prepared to sell operations if they do not meet our medium-term ownership criteria although we believe that, at present, we have completed most of the required disposals.

6 We intend to continue to enforce strong financial discipline in order to create long-term shareholder value

- We plan to continue our progressive dividend policy
- We plan to continue our routine and gradual share buyback programme
- We plan to maintain our investment grade debt ratings
- We will continue to be disciplined in our operating, investing and financing decisions
- We will not target short-term benefits to the detriment of the longer-term performance of the business.

Performance indicators

Background

The Board of Hanson PLC has key performance indicators to measure the progress of the Company against both its business objectives and its strategy. The Board reviews performance against these measures on a regular basis.

Key performance indicators

– Group turnover represents the total amount charged to customers for our products and services, including delivery but excluding joint-ventures and associates, inter-company sales, property sales and sales taxes such as VAT.

Our aim is to increase turnover each year through a combination of price and volume growth from our existing market positions and assets, and additional turnover from acquisitions.

In 2005, we increased our group turnover by 9.8% to £3,715.7m. Acquisitions made in 2005 contributed 4.2% of this growth. The increase from the existing operations of 5.6% was due primarily to increases in selling prices rather than volume growth.

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- Group operating margin represents the group operating profit before impairments, divided by group turnover. The word group designates that it excludes our share of joint-ventures and associates profit after tax. Group operating profit before impairments is therefore group turnover less group operating costs.

  Our overall aim is to grow or maintain margin each year. This is an indicator of our ability to offset any cost inflation through productivity initiatives, including value adding capital expenditure, and through selling price increases. The margin may be shown before property profits if such profits are significant in any given year. The group operating margin may reduce due to either a change in the mix of business, or because of a significant increase in both costs and group turnover which has the effect of lowering margin even if profit is maintained.

  In 2005, our group operating margin was 12.1% (11.8%), an increase of 0.3ppts. Excluding property income of £14.9m (£21.4m), the margin in 2005 was 11.7% (11.2%), an increase of 0.5ppts.

- Operating profit before impairments represents group operating profit before impairments (as defined above and before finance costs and taxation) plus our share of profit after tax from joint-ventures and associates. Operating profit before impairments provides a measure of our success in growing group turnover and managing costs and overheads for the group companies, as well as the contribution after tax from our joint-ventures and associates.

  Our aim is to increase operating profit before impairments each year, through a combination of margin improvement initiatives, improvements to our joint-ventures and associates and through acquisitions. The increase may be shown before property profits if such profits are significant.

  In 2005, our operating profit before impairments increased by 15.4% to £488.8m, and by 17.9%, excluding property profits. Operating profit from acquisitions made in 2005 contributed 4.3% of the 17.9% increase. The share of joint-ventures and associates profit after tax added a further 4.3%, and the balance of 9.3% was due to an improvement in the existing group operating profit before impairments.

- Profit before taxation is defined as operating profit after impairments, less finance costs. Finance costs consist of interest payable and receivable on borrowings and deposits, the expected return on assets, and unwind of discounts, on pensions and other post retirement benefits, discounting and any net change in the fair value of financial assets and liabilities.

  Our aim is to increase profit before tax in line with the increase in operating profit before impairments. This may not always be possible however, given the potential volatility of the non-cash impairment amount, and the finance costs due to pensions and the requirement to fair value financial assets and liabilities.

  In 2005, our profit before tax increased by 23.6% to £429.3m, compared to a 15.4% increase in operating profit before impairments.

- Profit for the year is defined as profit before taxation, less tax and discontinued operations. Tax includes current and deferred tax. Discontinued operations include the cost of asbestos, shown as a loss on disposals in prior years, after tax.

  Our aim is to manage our underlying tax rate, and reduce the annual cost of discontinued operations. In this way, we aim to increase our profit after tax in line with the increase in operating profit before impairments. Taxation includes full deferred tax accounting and charges and releases relating to tax provisions, some of which may vary significantly from year to year.

  In 2005, our profit for the year increased by 46.7% to £387.6m, compared to a 15.4% increase in operating profit before impairments.

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Review of operations continued

- Earnings per share (EPS) on basic, continuing operations before impairments This is our preferred measure of earnings per share, defined as profit for the year, adding back impairments and discontinued operations, divided by the average number of shares in issue during the period (thus excluding shares held in treasury).

  Our aim is to increase EPS in line with the increase in operating profit before impairments, although the potential volatility in the tax charge may affect our achievement.

  In 2005, our basic EPS on continuing operations before impairments increased by 18.8% to 55.5p per share, compared to an increase in operating profit before impairment of 15.4%.

- Net cash inflow from operating activities is defined as the cash flow generated by the operations, including dividends from joint-ventures and associates and payments for discontinued items such as asbestos. It is stated after receipts and payments for interest and tax but before investing and financing activities.

  Our aim is to increase net cash inflow from operating activities in line with the increase in operating profit before impairments. This is an indicator of our ability to convert earnings into cash. For items such as finance costs and tax, the cash impact may be a more meaningful measure than the complex accounting in the income statement.

  In 2005, our net cash flow from operating activities reduced by £36.3m, or 7.2%, to £471.2m, compared to a 15.4% increase in operating profit before impairments. The reduction included an increase in payments for tax of £35.8m (unusually low in 2004), and an increase of £11.1m for net interest paid.

- Acting responsibly within our communities, with our customers and our employees is a key objective for Hanson. The Board monitors a variety of performance indicators relating to communities, including charitable donations and environmental performance. We aim to comply with all relevant requirements in all jurisdictions in which we operate.

- Employee KPIs include labour turnover and skills gap monitoring to ensure we develop and retain the appropriate skills set within the organisation. We also monitor the lost time incidence rate (LTI) (a lost time injury is one which results in the injured person being absent for one or more shifts) and the lost day incidence rate (LDI). The number of days lost per accident is affected by the severity of the accident but also by the effectiveness of case handling and return to work programmes. From 2006, we will also monitor the total case incidence rate which will provide a more sensitive measure as we drive down the number of accidents.

  Our incidence rates are per 200,000 work hours (approximating to 100 people working for a year). This is an internationally used standard. We use incidence rates as they adjust for changes in the level of production. The lost time and lost day incidence rates for the last five years are shown in the following graphs.

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LTI Comparison by year (Jan-Dec)

LDI Comparison by year (Jan-Dec)

Other performance indicators

In addition to the key performance indicators detailed above, Hanson uses a number of other financial and non-financial performance indicators. These include commercial indicators such as changes in market share, volume and selling price together with on-time delivery rates and customer satisfaction measures. Cost control is supported by ratios such as tonnes per manhour and overheads as a percentage of turnover. Investment decisions are based on risk versus return evaluation using cash flow projections discounted at a weighted average cost of capital. Assets, including mineral reserves, are monitored for quality, age and replacement need. Financing indicators include interest cover ratios, gearing and cash flow to net debt. Return on capital and economic value added calculations are used to measure and incentivise value creation.

Our operations

Hanson operates through six divisions on a multi-national basis within the construction and building materials markets. These divisions are as follows: Hanson Aggregates North America, Hanson Building Products North America, Hanson Aggregates UK, Hanson Building Products UK, Hanson Australia & Asia Pacific and Hanson Continental Europe.

The Chief Executive of each of these divisions reports directly to the Chief Executive of Hanson PLC and is responsible for the performance of their division.

	Hanson PLC Alan Murray, Chief Executive					
	Hanson Aggregates North America Jim Kitzmiller	Hanson Building Products North America Richard Manning	Hanson Aggregates UK Patrick O Shea	Hanson Building Products UK David Szymanski	Hanson Australia & Asia Pacific Leslie Cadzow	Hanson Continental Europe Justin Read
Number of employees*	5,600	6,800	3,200	3,100	4,200	1,200
Group turnover* 2005	£980.6m	£753.7m	£811.5m	£368.2m	£573.0m	£228.7m
Operating profit before impairments	£138.4m	£125.7m	£108.8m	£37.8m	£89.7m	£19.9m
Countries of operation	US Mexico	US Canada	UK	UK	Australia Greater China Hong Kong Malaysia Singapore	Belgium Czech Republic Germany Spain The Netherlands Israel
Products	Asphalt Cement	Bricks Concrete pipe	Asphalt Crushed rock	Bricks	Asphalt Cement	Asphalt Crushed rock

	Crushed rock Ready-mixed concrete Sand and gravel	and products Precast concrete Roofing tiles	Ready-mixed concrete Sand and gravel Recycled material	Aggregate blocks Thermalite blocks Precast concrete Packed products	Concrete products Crushed rock Precast concrete Ready-mixed concrete Sand and gravel	Ready-mixed concrete Sand and gravel

*Excluding joint-ventures and associates
Continuing operations

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Review of operations continued
Hanson Aggregates North America

Shown at the New Bridgeport facility are Jim Kitzmiller, President and Chief Executive, Hanson Aggregates North America (left), Thomas Eyeington, Project Engineering Manager (centre) and Tim McHugh, Vice-President Chief Financial Officer (right).

Investment in a fully automated stone crushing facility at this plant will help meet the demands of the growing Dallas/Fort Worth area.

Hanson Aggregates North America is one of the leading aggregates producers in the USA, operating in 17 states and Mexico. The division is subdivided into four regions, namely the West, Southwest, Mideast and Northeast, each reporting into the divisional head office based in Dallas, Texas.

The largest state by group turnover in this division is California. In 2005, California, Texas and Arizona accounted for around half of the division s group turnover. In addition, approximately one-third of 2005 group turnover was attributable to New York, Pennsylvania, Ohio and Indiana.

The division sold 129m metric tonnes of aggregates in 2005, and has approximately 11.1bn metric tonnes of mineral reserves and resources, either owned or leased, available for future extraction. All major aggregates operations have at least 10 years of remaining mineral reserve life based on current production levels.

Performance

		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

Hanson Aggregates North America delivered another year of earnings improvement based on sustained operational performance enhancement and real price growth.

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.

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Operations Hanson Aggregates North America*

	Crushed rock quarries	Sand and gravel quarries	Asphalt plants	Marine dredging	Ready-mixed concrete plants	Cement plants	Distribution depots	Recycling/ landfill sites	Misc.
Arizona (AZ)		7	3		14				5
Arkansas (AR)		3							1
California (CA)	9	8	10	4	18	1	12	14	9
Georgia (GA)	9								3
Indiana (IN)	16	2							9
Kentucky (KY)	9								4
Louisiana (LA)							3		1
Michigan (MI)									1
New Jersey (NJ)		5					1		2
New Mexico (NM)	1								
New York (NY)	18	10	19		15				16
North Carolina (NC)	9	2							6
Ohio (OH)	10	3			7				12
Oklahoma (OK)	1	1							2
Pennsylvania (PA)	20	5	10	1			2		9
South Carolina (SC)	6	2							
Texas (TX)	8	10					8		10
Mexico (MEX)	1	1					1		
Total	**117**	**59**	**42**	**5**	**54**	**1**	**27**	**14**	**90**

*Including joint-ventures

Please note that the maps are for illustrative purposes only and are not to scale. Please refer to operations table for detailed disclosure by operation type. Please note that due to the scale of the map and proximity of operations, one non-quarry symbol may indicate more than one operation.

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Review of operations continued
Hanson Aggregates North America

Top: Each work day our trucks of ready-mixed concrete leave our plants for construction sites across North America.
Bottom: New Bridgeport plant, Texas, USA.

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.

Volume/price summary

Volume for the 12 months ended December 31, 2005 and % movement against prior year

	2005 Volume Continuing	Volume 2005 v 2004 % change Continuing	Volume 2005 v 2004 % change Heritage	Price 2005 v 2004 % change
Aggregates (mt)	**129.1**	(3.7)	(4.4)	7.8
Asphalt (mt)	**4.9**	(1.3)	(5.8)	11.5
Ready-mixed concrete (m m^3)	**3.2**	(0.3)	(5.3)	12.8
Cement (mt)	**1.8**	6.3	6.3	15.4

Volumes include intercompany sales and exclude Hanson s share of joint-ventures and associates
(mt) = millions of metric tonnes
(m m3) = millions of cubic metres
Heritage volumes exclude acquisitions owned for less than 12 months

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Review of operations continued
Hanson Building Products North America

Richard Manning, President and Chief Executive, Hanson Building Products North America (right), Rick Amigh, Senior Vice-President W M Lyles Company (centre) and Rick Wegis, President, Board of Directors of Semitropic Water Storage District (left) photographed during an on-site meeting at the Shafter plant.

The Shafter plant, near Bakersfield, California, has been upgraded to meet the needs of a major construction project. Hanson has produced large scale concrete pipes to enable water to be held underground for the Semitropic Groundwater Banking Programme. This programme is designed to help irrigation of farmland, avoid water evaporation and reduce the amount of land required for reservoirs.

Hanson Pipe & Precast, a division of Hanson Building Products North America, is part of the programme s design-build team which is headed by general contractor W M Lyles Company.

Hanson Building Products North America is a leading producer of pipe and precast concrete, and bricks and tiles, with operations in 25 states and Canada.

The division is subdivided into four Pipe & Precast regions, and the Brick & Tile group, each reporting into the divisional head office based in Dallas, Texas.

Texas is the largest state for this division by group turnover, followed by Florida, Ontario (Canada) and California. In total, these four areas accounted for approximately 60% of the division s group turnover.

Performance

		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

This division had a good year in 2005, building further on growth and earnings improvement initiatives.

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.

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Operations Hanson Building Products North America*

	Pipe and products factories	Roofing tile plants	Brick factories
Alabama (AL)	10		
Arizona (AZ)	3	1	
Arkansas (AR)	4		
California (CA)	6	3	
Florida (FL)	10	4	
Georgia (GA)	4		
Illinois (IL)	1		
Indiana (IN)	1		
Kentucky (KY)			2
Louisiana (LA)	3		1
Maryland (MD)	2		
Michigan (MI)			1
Minnesota (MN)	2		
Mississippi (MS)	7		
North Carolina (NC)			5
Ohio (OH)	6		
Oklahoma (OK)	1		
Oregon (OR)	3		
Pennsylvania (PA)	1		
Rhode Island (RI)	1		
South Carolina (SC)	1		4
South Dakota (SD)	1		

Texas (TX)	19	1	7
Virginia (VA)	11		
Washington (WA)	1		
Ontario (Canada)	5		4
Quebec (Canada)			1
Total	**103**	**9**	**25**

*Including joint-ventures

Please note that the maps are for illustrative purposes only and are not to scale. Please refer to operations table for detailed disclosure by operation type.

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Review of operations continued
Hanson Building Products North America

Top: Steel cage reinforcements for gravity pipes, Shafter plant, California, USA.
Bottom: Finished large-scale pipes, the steel cages now encased in concrete. Shafter plant, California, USA.

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.

Volume/price summary

Volume for the 12 months ended December 31, 2005 and % movement against prior year

	Volume			Price
	2005	2005 v 2004	2005 v 2004	2005 v 2004
	Volume	% change	% change	% change
	Continuing	Continuing	Heritage	
Concrete products (mt)	**4.1**	14.5	3.1	12.0
Bricks (m)	**1,477**	(7.3)	(8.2)	6.0
Roof tiles(ts)	**1,982**	(0.1)	(2.0)	12.8

Volumes include intercompany sales and exclude Hanson s share of joint-ventures and associates
(mt) = millions of metric tonnes
(m) = millions
(ts) = thousands of squares [squares = 100 square feet]
Heritage volumes exclude acquisitions owned for less than 12 months

Bricks ready for delivery at the Aldershot brick factory, Ontario, Canada.

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Review of operations continued

Hanson Aggregates UK

Hanson Aggregates UK Managing Director Patrick O Shea pictured at the new aggregates and concrete depot at Kings Cross in central London with Commercial Director Rob Sindel (top) and Operations Director Phil Schacht (bottom).

The division s aggregates depot and ready-mixed concrete plant at King s Cross in central London is playing a key role in supplying materials to a major inner-city redevelopment centred around the new international rail terminus for Eurostar, which will link London with Paris and Brussels via the Channel Tunnel. The depot forms part of a network of strategically located Hanson supply facilities in the capital.

Hanson Aggregates UK is one of the leading suppliers of aggregates, ready-mixed concrete and asphalt in the UK. Our extensive network of quarries and distribution links provides national coverage and is complemented by our marine dredging operations. These aggregates locations are complemented in turn by a network of ready-mixed concrete and asphalt plants which are strategically located to service key markets.

Excluding joint-ventures and associates, the division sold 33m metric tonnes of aggregate in 2005. It has long-term mineral reserves with approximately 2.2bn metric tonnes of reserve and resources, owned, leased or under option, available for future extraction. This includes a strong reserve position in sand and gravel, both land and marine based.

Performance

	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

An excellent year-on-year improvement was delivered by the division in 2005.

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.

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Operations Hanson Aggregates UK*

					Operations not illustrated		
	Crushed rock quarries	Sand and gravel quarries	Asphalt plants	Ready-mixed concrete plants	Marine dredging	Rail depots/ marine wharves/ distribution depots	Recycling/ landfill sites
Total	**40**	**46**	**45**	**234**	**13**	**35**	**2**

*Including joint-ventures

Please note that the maps are for illustrative purposes only and are not to scale. Please refer to operations table for detailed disclosure by operation type. Please note that due to the scale of the map and proximity of operations, one non-quarry symbol may indicate more than one operation.

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Review of operations continued
Hanson Aggregates UK

Top: Kings Cross aggregates and ready-mixed concrete depot, London, UK.
Bottom: Marine dredger, North Sea, off UK coast.

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.

Volume/price summary

Volume for the 12 months ended December 31, 2005 and % movement against prior year

		Volume		Price
	2005	2005 v 2004	2005 v 2004	2005 v 2004
	Volume	% change	% change	% change
	Continuing	Continuing	Heritage	
Aggregates (mt)	**33.3**	(8.1)	(8.1)	6.3
Asphalt (mt)	**3.9**	2.5	2.5	4.9
Ready-mixed concrete (m m^3)	**5.3**	(6.0)	(6.0)	6.2

Volumes include intercompany sales and exclude Hanson s share of joint-ventures and associates
(mt) = millions of metric tonnes
(m m^3) = millions of cubic metres
Heritage volumes exclude acquisitions owned for less than 12 months

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Review of operations continued

Hanson Building Products UK

David Szymanski, Managing Director of Hanson Building Products UK (centre), Jon Morrish, Commercial Director (left) and Wendy Trott, Trading Director (right), were photographed during an inspection of the robotic setting facility at Kings Dyke. The robots can be seen in the background of this photograph.

The commissioning of the robotic setting at Hanson Building Products UK s Kings Dyke brick factory in Whittlesey, Cambridgeshire, marks the first of several integrated phases in Hanson s investment at the site.

Hanson Building Products UK has a market leading position in bricks, including London Brick and Butterley Brick. In addition, it produces aggregate blocks, Thermalite blocks, a range of precast concrete structures, and packed products.

Bricks accounted for nearly half of the division s group turnover in 2005, and blocks for around a quarter. The precast concrete range includes a variety of flooring systems, stairs and landings, and culverts. Packed products sells a range of materials for general building and landscaping.

Performance

	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

Difficult trading conditions were experienced by this division, particularly in the second half of the year.

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.

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Operations Hanson Building Products UK

	Brick factories	Block factories	Concrete flooring & precast concrete sites	Packed products sites
Total	**18**	**12**	**5**	**18**

Please note that the maps are for illustrative purposes only and are not to scale. Please refer to operations table for detailed disclosure by operation type.

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Review of operations continued
Hanson Building Products UK

Top: Production line at Tilmanstone brick factory, Kent, UK.
Bottom: Precast concrete stairs,
Hoveringham floors and precast concrete works, Nottinghamshire, UK.

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.

Volume/price summary

Volume for the 12 months ended December 31, 2005 and % movement against prior year

	Volume			Price
	2005	2005 v 2004	2005 v 2004	2005 v 2004
	Volume	% change	% change	% change
	Continuing	Continuing	Heritage	
Bricks (m)	**827**	8.5	(12.4)	6.8
Aggregate blocks (m spu)	**7.3**	(3.0)	(3.0)	2.2

Volumes include intercompany sales and exclude Hanson s share of joint-ventures and associates
(m) = millions
(m spu) = millions of standard production units
Heritage volumes exclude acquisitions owned for less than 12 months

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Review of operations continued

Hanson Australia & Asia Pacific

Leslie Cadzow, Chief Executive, Hanson Australia & Asia Pacific (right), was photographed on the steps of Sydney Opera House with two members of the Building Products management team, Malcolm Pointon, General Manager Building Products (centre) and

Steve James, Precast Manager (left).

Sydney Opera House has undergone its first major structural change since it opened in 1973, with Hanson Australia & Asia Pacific playing a major role. An extensive prototype programme was undertaken to ensure the precast concrete elements supplied by Hanson precisely matched the honed and etched granite finish originally used on the Opera House.

Hanson Australia is one of the leading heavy building material companies in Australia. In addition to aggregates and ready-mixed concrete, the operations are vertically integrated with a 25% associate in cement (Cement Australia) and a 50% joint-venture in asphalt (Pioneer Road Services). It also operates an expanding Building Products group.

Hanson Asia Pacific is one of the market leaders in aggregates, ready-mixed concrete and asphalt in Malaysia. It is the market leader in aggregates and ready-mixed concrete in Hong Kong through a 50% joint-venture (Alliance Construction Materials). The division also has operations in Singapore and mainland China. Both regions report to the divisional head office based in Sydney, Australia.

Performance

	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)
Australia			
Group turnover*	**£464.6m**	£413.2m	12.4
Group operating profit before impairments*	**£57.3m**	£56.0m	2.3
Group operating margin*	**12.3%**	13.6%	(1.3)ppts
Share of joint-ventures and associates profit after tax	**£24.3m**	£10.5m	131.4
Operating profit before impairments	**£81.6m**	£66.5m	22.7
Property profit (included in operating profit)	**£1.0m**	£1.7m	(41.2)
Asia Pacific			
Group turnover*	**£108.4m**	£124.5m	(12.9)
Group operating profit before impairments*	**£5.4m**	£6.1m	(11.5)
Group operating margin*	**5.0%**	4.9%	0.1ppts
Share of joint-ventures and associates profit after tax	**£2.7m**	£(0.5)m	n/a
Operating profit before impairments	**£8.1m**	£5.6m	44.6

Property profit (included in operating profit)

*Excluding joint-ventures and associates

A strong performance was delivered by the Australia and Asia Pacific division. 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.

'Continuing operation

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Operations Hanson Australia & Asia Pacific*

	Crushed rock quarries	Sand and gravel quarries	Asphalt plants	Ready-mixed concrete plants	Cement plants	Rail depots/ marine wharves/ cement distribution	Recycling/ landfill sites	Pipe & products factories	Concrete flooring & precast	Misc.
Australia										
Canberra (ACT)	1			1				1		
New South Wales	9	7	10	76	1	4			3	
Queensland	7	10	11	57	2	18		8		
South Australia	2	2	1	10		1				
Western Australia	6	1	2	28			1			
Tasmania	1	1		11	1			2		2
Victoria	11	8	6	52		4	3			1
Northern Territory			2	3						
Total Australia	37	29	32	238	4	27	4	11	3	3
Asia Pacific										
Malaysia	20		18	48						
Singapore			1						1	
Hong Kong	5			6						
Greater China				2						
Total Asia Pacific	25		19	56					1	
Total	**62**	**29**	**51**	**294**	**4**	**27**	**4**	**11**	**4**	**3**

* Including joint-ventures

Please note that the maps are for illustrative purposes only and are not to scale. Please refer to operations table for detailed disclosure by operation type.

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Review of operations continued
Hanson Australia & Asia Pacific

Top: Wolffdene hard rock quarry, Brisbane, Queensland, Australia.
Bottom: Lidcome precast concrete wall panel plant, Sydney, New South Wales, Australia.

Sungei Buloh hard rock quarry and asphalt plant, Kuala Lumpur, Malaysia.

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.

Volume/price summary

Volume for the 12 months ended December 31, 2005 and % movement against prior year

	Volume			Price
	2005	2005 v 2004	2005 v 2004	2005 v 2004

	Volume	% change	% change	% change
	Continuing	Continuing	Heritage	
Australia				
Aggregates (mt)	**20.9**	(3.4)	(3.6)	6.8
Ready-mixed concrete (m m^3)	**5.4**	1.3	1.3	3.3
Asia Pacific				
Aggregates (mt)	**10.7**	(2.2)	(2.2)	n/a
Asphalt (mt)	**2.4**	(16.0)	(16.0)	n/a
Ready-mixed concrete (m m^3)	**2.2**	(13.7)	(13.7)	n/a

Volumes include intercompany sales and exclude Hanson s share of joint-ventures and associates
(mt) = millions of metric tonnes
(m m3) = millions of cubic metres
Heritage volumes exclude acquisitions owned for less than 12 months

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Review of operations continued
Hanson Continental Europe

From right to left: General Manager Ian Peters and Continental Europe Managing Director Justin Read, were photographed reviewing work in progress at the Old Bullring, Barcelona, Spain, with Enrique Gibert, Regional Manager, Hanson Catalonia and

Levante and Marcel Lopez Pinto, Sales Manager, Hanson Barcelona Concrete.
The Old Bullring in Barcelona, Spain, is being transformed into a shopping and commercial centre. Hanson is supplying over 50,000m^3 of ready-mixed concrete for the project, some of which has been used to construct the new concrete columns which now support the building.

This division operates across Belgium, the Czech Republic, Germany, Spain, The Netherlands and Israel. The largest country of operation is Spain.

Performance

	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.

Volume summary

Volume for the 12 months ended December 31, 2005 and % movement against prior year

	Volume		
	2005	2005 v 2004	2005 v 2004
	Volume	% change	% change
	Continuing	Continuing	Heritage
Aggregates (mt)	**27.7**	(8.9)	(8.9)
Asphalt (mt)	**0.5**	(1.9)	(1.9)
Ready-mixed concrete (m m^3)	**4.0**	0.4	0.4

Volumes include intercompany sales and exclude Hanson s share of joint-ventures and associates
(mt) = millions of tonnes
(m m^3) = millions of cubic metres
Heritage volumes exclude acquisitions owned for less than 12 months

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Operations Hanson Continental Europe*

	Crushed rock quarries	Sand and gravel quarries	Asphalt plants	Ready-mixed concrete plants	Marine/ Rail depots
Belgium				3	4
Czech Republic	4	4	1		
Germany	3	4			
Israel	4		2	23	
The Netherlands				3	1
Spain	9	3		26	
Total	**20**	**11**	**3**	**55**	**5**

*Including joint-ventures

Please note that the maps are for illustrative purposes only and are not to scale. Please refer to operations table for detailed disclosure by operation type.

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Financial review

The following section provides the financial review for 2005.

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.

Foreign currency exchange rates

	2005	2004
Average rates		
£/$US	**1.8196**	1.8294
£/euro	**1.4621**	1.4738
£/$AUS	**2.3871**	2.4858
Year end		
£/$US	**1.7168**	1.9199
£/euro	**1.4554**	1.4125
£/$AUS	**2.3404**	2.4491

Impact of currency movements

	2005 results	2004 results	Impact of exchange from 2004 to 2005	2004 results (at 2005 exchange rates)	Constant currency 2005 v 2004
	£m	£m	£m	£m	%

Group turnover					
Hanson Aggregates North America	980.6	897.3	4.8	902.1	8.7
Hanson Building Products North America	753.7	647.4	9.8	657.2	14.7
Hanson Aggregates UK	811.5	771.9		771.9	5.1
Hanson Building Products UK	368.2	300.7		300.7	22.4
Hanson Australia & Asia Pacific	573.0	537.7	18.4	556.1	3.0
Hanson Continental Europe	228.7	228.0	2.2	230.2	(0.7)
	3,715.7	3,383.0	35.2	3,418.2	8.7
Operating profit before impairments					
Hanson Aggregates North America	138.4	127.6	0.7	128.3	7.9
Hanson Building Products North America	125.7	111.2	2.6	113.8	10.5
Hanson Aggregates UK	108.8	74.5		74.5	46.0
Hanson Building Products UK	37.8	36.8		36.8	2.7
Hanson Australia & Asia Pacific	89.7	72.1	2.8	74.9	19.8
Hanson Continental Europe	19.9	23.9	0.3	24.2	(17.8)
Central	(31.5)	(22.7)		(22.7)	(38.8)
Operating profit before impairments	488.8	423.4	6.4	429.8	13.7
Operating impairments	(4.0)	(29.3)		(29.3)	86.3
Net finance cost	(55.5)	(46.8)	(0.4)	(47.2)	(17.6)
Profit before taxation	429.3	347.3	6.0	353.3	21.5

Currency movements reflect both US dollar and Canadian dollar impact

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Financial review continued

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.

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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 the assumptions referred to in note 21 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 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 and detailed in note 31 of the Notes to the accounts 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.

Summary of cash flows £m

	2005	2004
Group operating profit before impairments	**448.3**	400.2
Amortisation	**3.0**	2.5
Depreciation and depletion	**194.6**	191.4
Dividends from joint-ventures and associates	**27.9**	19.9
Movement in working capital	**(22.2)**	(0.7)
Net provision utilisation	**(34.3)**	(19.2)
Pensions and post-retirement benefits	**(20.0)**	(16.3)
Other	**(5.1)**	1.2
Net cash inflow from operating activities before interest and tax	**592.2**	579.0
Taxation paid	**(54.1)**	(18.3)
Net interest paid	**(64.3)**	(53.2)

Premium paid on redemption of borrowings	**(2.6)**	
Net cash flow from operating activities	**471.2**	507.5
Capital expenditure	**(191.8)**	(198.6)
Sale of property, plant and equipment	**29.0**	18.5
Acquisition of operations	**(342.9)**	(88.4)
Disposal of operations, fixed and current asset investments	**50.3**	77.8
Dividends	**(136.2)**	(127.3)
Purchase of own shares held in treasury	**(45.1)**	(26.1)
Exchange movements in net debt	**(95.7)**	101.8
Other	**(33.2)**	(18.2)
Movement in net debt	**(294.4)**	247.0
Opening net debt	**(695.2)**	(942.2)
Closing net debt	**(989.6)**	(695.2)

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Financial review continued

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.

Capital expenditure

	Capex	Depreciation	Capex % of depreciation
	£m	£m	
Hanson Aggregates North America	69.4	59.5	116.6
Hanson Building Products North America	40.7	26.3	154.8
Hanson Aggregates UK	23.1	30.0	77.0
Hanson Building Products UK	16.8	11.6	144.8
Australia & Asia Pacific	32.6	26.8	121.6
Continental Europe	13.3	6.5	204.6
Central	0.2	0.1	
Total	196.1	160.8	122.0

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.

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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).

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

	Cash	Borrowings	Net debt	Cumulative net debt
2006	1,083.0	(911.0)	172.0	172.0
2007		(86.2)	(86.2)	85.8
2008		(200.5)	(200.5)	(114.7)
2009		(0.2)	(0.2)	(114.9)
2010		(460.3)	(460.3)	(575.2)
2011		–	–	(575.2)
2012		–	–	(575.2)
2013		(414.4)	(414.4)	(989.6)
Total	1,083.0	(2,072.6)	(989.6)	

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 £1,090.1m (£834.7m), representing 110% (120%) 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 2005 £m	10% fall £m
Operating profit before impairments	232.5	(21.1)
Net debt and foreign exchange	(1,090.1)	99.1

For further details, see note 29 of the Notes to the accounts.

Balance sheet and provisions

Total equity is £2,672.3m (£2,411.0m) at December 31, 2005. The transfer to reserves from the income statement was £387.6m less amounts for dividends paid of £136.2m. The effect of currency movements increased total equity by £56.8m.

Provisions totalled £552.3m (£541.8m) at December 31, 2005.

Pensions and other post retirement benefits

During 2005 Hanson, together with the relevant trustees, continued to monitor the funding and asset allocation policies of the main UK and US defined benefit plans. The group has adopted a funding policy that targets the accrued benefit obligation, which is higher than applicable statutory minimum funding levels in each country. Total contributions by the group for its pension and other

post retirement obligations were £68.1m, principally in the USA, Canada, the UK and Australia. As at December 31, 2005, the net liability in relation to defined benefit pension plans was £20.8m (£48.5m) and the net liability relating to post-employment medical benefits was £103.3m (£80.4m). Over recent years, movements in market value apart, the group s defined benefit plans have generally moved toward asset allocations with lower levels of risk. At the end of 2005, 58.3% (53.7%) of defined benefit plan assets were in bonds, property and cash. Details of contributions to the pension plans, market value of assets and amounts recognised in the balance sheet can be found in note 28 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 27)
- commitments to capital expenditure (note 13)
- guarantees, letters of credit and surety bonds (note 26)

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.

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Financial review continued

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, 2005					
Borrowings (note 20)#	2,072.6	911.0	286.9	460.3	414.4
Operating and finance leases (note 27)#	239.4	31.5	47.8	31.6	128.5
Pension commitments (note 28)#	25.2	8.4	16.8	–	–
Capital expenditure contracted (note 13)#	123.1	123.1	–	–	–
Total	2,460.3	1,074.0	351.5	491.9	542.9

\# Notes to the accounts

Risk management

The group Risk Committee, which includes all of the Executive Directors of the Company and other senior managers, 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.

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 policies, approve the adoption of new instruments in accordance with group policies 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 expected 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.

Our core funding is provided by two US bond issues, each of $750m, maturing in September 2010 and March 2013, respectively. A third US bond of $750m matured in September 2005. The group also has substantial committed bank facilities which total £947.7m, the principal components of which are a new £500m facility expiring in 2010 and a $475m facility expiring in 2009. The new £500m facility replaced a five year £519.2m facility due to expire in March 2006. At the balance sheet date, £244.2m of committed bank facilities were 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 we have sufficient funding to satisfy our working capital requirements in the near to medium-term.

Committed bank facilities £m

	Expiring	Remaining

2005		947.7
2006	85.5	862.2
2007	85.5	776.7
2008		776.7
2009	276.7	500.0
2010	500.0	

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.

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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/P-2/A2 for short-term transactions. In addition, there are individual counterparty and country limits for cash and short-term investments.

Hanson s credit ratings, 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	P-2	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 of the group at any point in time. This approach, which is consistent with our target for ongoing leverage, will mean, other things being equal, that for any given level of debt, a higher level of operating profit 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, 2005, the group held 56% (77%) of net debt at fixed rates. For further details, see note 29 of the Notes to the accounts.

Foreign exchange risk

Due to the nature of our products, which are generally uneconomic to transport long distances, there are few foreign exchange transaction exposures in the course of our day-to-day business. However, the majority (67%) of our capital employed is in overseas locations and is denominated in foreign currencies, principally US dollars (42%). 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.

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 IFRS are set out on pages 74 to 77 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 26 of the Notes to the accounts.

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Financial review continued

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 constructive 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 applies IAS 36 Impairment of Assets under IFRS and SFAS 144 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 IFRS, 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 an 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 IFRS, the group applies IAS 19 Employee benefits . 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, life expectancies and health care costs. The use of different assumptions, in any of the above calculations, could have a material effect on the 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 income statement over time. These assumptions are subject to periodic review. See note 28 of the Notes to the accounts for additional information regarding the group s pension and other post-retirement benefits.

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Principal risks and uncertainties

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 the 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.

Risk management

The Board of Hanson PLC reviews the effectiveness of the system of internal control, covering, inter alia financial, operational, compliance and risk management, at least annually.

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 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 have a significant effect on demand for our products and, as a result, our profitability. 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.

For example, the move towards inner-city residential development in the UK, and consequently an increase in the number of apartments being built in place of houses, has reduced the demand for bricks.

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 and other acts of nature such as hurricanes, 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 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 the demand for, and price of, our products and on the results of our operations and profitability.

Changes in government policy or legislation relating to planning, the environment, health and safety and industry related tax could significantly affect Hanson s industry related regulatory compliance and other operating costs and Hanson s ability to establish additional 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 planning 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

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Principal risks and uncertainties continued

national and local regulations in all applicable jurisdictions. In the past, our subsidiaries have made significant capital and maintenance expenditures to comply with planning, water, air and solid and hazardous waste regulations, and these subsidiaries may be required to do so in the future in order to ensure business continuity.

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 factories with clay reserves in areas where demand would justify the capital expenditure required.

The imposition of industry related taxes such as the Aggregates Levy and the Climate Change Levy in the UK increase our costs and encourage imports of competing products and product substitution.

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, energy and fuel, including cement for use in our ready-mixed concrete and concrete product operations, steel for use in our concrete product and steel pipe 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 cost of such materials, energy and fuel fluctuates, sometimes by material amounts. Increases in the costs of such materials, energy and fuel or their non-availability, can significantly impact our costs and disrupt our operations. The profitability of our operations could be adversely affected if we are not able to recoup such costs in the prices of our products.

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

Increased employment costs could significantly reduce Hanson s profitability.
We are a significant employer of labour and any increased costs of employment, including pension and post-retirement healthcare costs, could significantly

impact operating costs and consequently reduce profitability. The group has several funded defined benefit pension plans, which cover a majority of the group s employees who participate in the group s pension plans. Hanson also provides benefits from unfunded non-qualified plans in the USA and post-retirement employee benefits in the USA and Canada. Various assumptions are made in calculating our assets and obligations under our pension plans which, if incorrect, could have a material adverse effect on our financial condition.

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.

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, clay bricks and related heavy building material 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.

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

In the year ended December 31, 2005, approximately 76% of our operating profit before impairments was earned in currencies other than pounds sterling, and a significant portion of our revenue is denominated in US dollars.

At December 31, 2005, approximately 67% of our capital employed was located outside the UK, and approximately 148% of our net debt and foreign exchange contracts were 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 movements.

Adverse changes in tax legislation may affect Hanson s ability to maintain its tax rate below the UK statutory rate.

The underlying effective group tax rate for 2005 was 14.9% compared to a UK statutory rate of 30%. Hanson s tax charge is subject to changes in legislation. Such changes in legislation may be implemented at short notice and may affect Hanson s ability to maintain its underlying tax rate below the UK statutory rate of 30%.

We are unable to reliably estimate all costs associated with asbestos-related claims.

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 disclosed as contingent liabilities. At present, based on detailed analysis and the assumptions contained in note 21 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, assuming a cost level of $60m per annum. Whilst further claims are likely to be resolved beyond this eight year period, the associated costs of resolution cannot 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, based 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.

Hanson s insurance may be insufficient to cover its obligations related to Koppers environmental liabilities.

Koppers environmental clean-up/ remediation obligations and related costs refer primarily to certain former US discontinued chemical and related operations carried on by the Koppers company. Members of the group remain contractually and statutorily liable for certain environmental clean-up/ remediation costs relating to these discontinued operations. The Company considers current insurance cover to be sufficient to meet the related future costs of this liability, on the basis of its estimates and assumptions regarding future developments. Factors which could cause actual costs to differ from these estimates and assumptions

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Principal risks and uncertainties continued

include: (i) unknown adverse conditions arising at sites; (ii) third party claims in excess of estimates; (iii) changes to regulatory requirements; (iv) changes in remediation techniques and; (v) any other significant variations to assumptions made in support of these estimates. Should the current insurance cover be insufficient to meet the related future costs this could have a material impact on our financial condition, results of operations and cash flow.

As a consequence of its significant present and former activities in the USA, the group is subject to litigation claims arising out of both former businesses and activities, (in addition to those relating to asbestos and Koppers environmental liabilities referred to above) as well as its existing operations. Former and existing subsidiaries have engaged in businesses and activities, unrelated to the business and activities presently carried on by our group, which give rise to bodily injury and property damage claims concerning environmental and health issues. In particular, claims and lawsuits have been filed against our US subsidiaries, either directly or as a result of indemnity obligations, relating to products incorporating coal by-products and other chemicals, in particular for the wood treating industry. With respect to those claims involving coal by-products and other 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.

In addition, existing operations suffer, from litigation claims which may be uninsured or fall within deductible levels. In many cases the relevant subsidiary believes it has good defences against these claims. 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, which may not be covered by insurance and consequently have a material impact on our financial condition, results of operations and cash flow.

Demergers

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 those companies. We have not incurred any liability in respect of any claim that related to the above mentioned businesses; any such liability being borne by the relevant demerged company. 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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Corporate responsibility

Managing the environment is an integral part of our business strategy.

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.

Health and safety

We continue to consider health and safety to be a top priority 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.

In 2006, the Board will formally endorse its approach to health and safety with a group policy statement. Our divisional Chief Executives/Managing Directors will remain responsible for establishing formal policies and procedures, for ensuring that arrangements are made for the fulfilment of those policies and for monitoring their implementation and effectiveness.

The divisional Chief Executives/ Managing Directors 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.

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 safety culture
- continually strive for improved safety performance
- look to adopt best practice and to commit to industry improvement initiatives and targets.

In 2005, recognising that the improvement in group statistics was probably optimised based on traditional training and evaluating methods, we increased our focus on identifying and eliminating unsafe behaviour. This is being implemented through programmes of training and performance monitoring against targets. We believe that, working interdependently with our employees, we can change their perception and acceptance of risk. The message we have used is that no job is so important for safety to be compromised.

A key tool, supported and led by Alan Murray, Chief Executive and the director responsible for health and safety, and the divisional Chief Executives/Managing Directors, is a sustained exercise in safety observations by managers. We believe that we will only communicate the importance of creating a safe working environment with visibility on site of senior managers and Directors.

In a safety observation, a manager observes employees working and then discusses the safety aspects of their work. In this conversation the manager:

- seeks the employee s comments on safety in his/her own workplace and his/her ideas on how to improve this
- praises the employee for safe working practices which have been observed
- ensures that any unsafe acts are discussed and action taken to prevent their reoccurrence.

Data is collected 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 identify where we need to focus particular attention and to assess the effectiveness of our management of health and safety.

The progress of safety performance throughout our businesses worldwide is tracked and reported quarterly to the Board using standard measures.

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Corporate responsibility continued

Hanson uses the following indicators to provide a consistent measure of its performance. According to best international practice the frequency 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 2005 for the sixth consecutive year since consolidated records began in 2000. There were no employee work-related fatalities and, although the incidence of lost time injuries remained the same as for 2004, the number of lost work days (shifts) per lost time incident was reduced slightly (see page 12 for data). Over the past six years, the incidence of lost time injuries has reduced by 37% and the number of lost work days per lost time incident has reduced by 55%. Regrettably, however, there was one contractor fatality during the year.

We encourage people to become safety representatives from all areas of our business. They receive training to assist them in their roles. We were delighted that Colin Evans, a safety representative from Penderyn Quarry in South Wales, received a well deserved MBE for his contribution to health and safety in the quarrying industry.

The environment

Hanson understands that its reputation for managing environmental issues carefully and managing 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 continual improvement in environmental performance and endeavour to make a positive contribution to society through our products and our land and marine management 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 actively build upon this policy.

Our environmental management in the UK was developed through the publication, on August 30, 2005, of the Hanson UK biodiversity and geodiversity action plan. This was devised in consultation with English Nature and the Countryside Council for Wales.

Additionally, under an earlier memorandum of understanding, Hanson committed to work to improve standards of conservation management in its quarries with the aim of maintaining and enhancing its sites of special scientific interest (SSSIs). We are currently responsible for 60 such sites in the UK. Our bio and geo-diversity plans are a development of this work.

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.

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.

We have developed educational packs and other supporting material for teachers to use in conjunction with a visit to one of our quarries.

50 Corporate responsibility

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Criggion hard rock quarry, Shropshire, UK.

The workplace

Employees, franchise workers and contractors are all key players in delivering our business performance in a safe, efficient and socially responsible manner.

We therefore ensure that they understand their part in achieving the objectives of the business.

To ensure we have an ongoing pipeline of managers capable of taking on larger job roles, attention is given to the development of employees.

Communications, training and the development of our business management capability through basic skills/vocational training, in-house management development and leadership programmes ensures we have a committed and focused work force.

We have a quarterly employee magazine called Foundation which is available to each employee. This provides commercial and operational news; information about our local communities and our health, safety and environmental management as well as news about our employees achievements.

We also use a range of meetings to encourage our employees to contribute to improving our business. These include regular safety groups; works councils; employer/union work parties and Euro forum meetings are also held seeking input and comment from our UK and Continental European employees. Additional meetings are held locally and regionally to inform employees of company performance and how they can improve this.

Employee surveys have also been undertaken during the year, covering areas such as communication, safety, job clarity and satisfaction, customer service and the understanding of the Hanson guiding principles. Feedback was given to the employees and follow-up actions were agreed. It is our intention to undertake further employee surveys during 2006.

Additionally, in our aim to create a better and safer workplace, an anonymous incident reporting system, MySafeWorkplace, provides employees with a confidential, easy-to-use tool to report workplace incidents. All concerns, covering a wide range of issues that can be reported, are brought to the attention of the Head of Internal

Audit and handled with appropriate concern and attention according to Company policies.

Recruiting the right people into the organisation is an important part of development management. During 2005, the Hanson careers website was developed for e-recruitment as a further means of attracting people to work for Hanson.

Group employment policies include those which cover role and goal clarity, performance management, employee development, succession planning and recruitment. Hanson requires each of the divisions to have an Equal Opportunities Policy which complies with group expectations and local legislation. Full consideration is given to applications for employment, the continuing employment, training and career development of disabled persons.

Remuneration and terms and conditions of employment are maintained at a competitive level in the areas in which we operate. The Company operates with low levels of employee turnover. Hanson recognises the value of diversity.

Performance management based on our people having a clear understanding of their roles and goals has also been a key area of focus for the year.

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 local projects by donating materials. 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 impact of Hurricane Katrina on New Orleans where a number of our employees were affected. Hanson donated $100,000 to the Red Cross to help support those affected by the catastrophe. In addition, employees of the Company and suppliers established a relief fund for Hanson employees affected by the hurricane, with the Company matching donations made.

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Board of Directors

1. Mike Welton
Chairman (59)#

Appointed Chairman in April 2005 having served as a Non-executive Director since January 2005. 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 Chairman of both the Turkish/British Business Council and the UK government s Railway Sector Advisory Group. He is also the Chairman of Global Solutions Ltd and in October 2005 was appointed to the advisory board of Montrose Associates.

2. Alan Murray
Chief Executive (52)#

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 National Stone, Sand and Gravel Association Board in the USA.

3. Jonathan Nicholls
Finance Director (48)

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 and sits on the Advisory Board of the Oxford University Centre for Business Taxation.

4. Graham Dransfield
Legal Director (54)

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 Hanson s Board in 1992.

5 Frank Blount
Non-executive Director (67) #

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, SA. He has also served as Chief Executive and a Director of Telstra Corporation, Ltd from 1992-99 and as Chief Executive and Chairman of Cypress Communications, Inc. from 2000-2002. He was Group President of AT&T Corp. from 1988-91.

6. John Brady
Non-executive Director (54) #

Appointed a Non-executive Director in August 2005. He is also a Non-executive Director of Greene King plc. From 1994 until 2004 he was a Director of McKinsey & Company, which he joined in 1980.

7. Sam Laidlaw
Non-executive Director (50) # *

Non-executive Director since 2003 and Chairman of the Remuneration Committee. Currently Executive Vice President of Chevron Corporation. He is Chairman 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 Corporation and Chief Executive Officer of Enterprise Oil plc.

8. Jim Leng
Senior Non-executive Director (60)# *

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

9. The Baroness Noakes DBE
Non-executive Director (56) # *

Non-executive Director since 2001 and Chairman of the Audit Committee. Formerly a Partner at KPMG, she is a Non-executive Director of Imperial Chemical Industries plc, the Senior Independent Director of Carpetright Plc and SThree 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.

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

The Directors submit their report together with the consolidated accounts of Hanson PLC and its subsidiary undertakings for the year ended December 31, 2005.

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 for the year was £387.6m.

An interim dividend of 5.85p per ordinary share was paid on September 16, 2005. The Directors recommend a final dividend of 14.15p per ordinary share which will, if approved at the AGM, be paid on May 5, 2006, to ordinary shareholders on the register at close of business (London time) on April 7, 2006.

Dividends of £136.2m were paid during the year.

A financial review of 2005 and prospects for the year 2006 are included within the Chairman s statement, the Chief Executive s overview, the Review of operations and the Financial review.

Activities

Hanson is a focused heavy building materials company with operations in North America, the UK, Australia, Asia Pacific and Continental Europe. A detailed description of the group s industry, market and products is set out on pages 5 to 8 of the Review of operations.

Property, plant and equipment

Details of movements in Hanson s property, plant and equipment are shown in note 13 of the Notes to the accounts.

Subsequent events

Material post balance sheet events are described in note 31 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 that does not meet the capitalisation criteria of an intangible asset is expensed as occurred. Research costs are also expensed as occurred.

Share capital

Details of changes in share capital during the year and the number of ordinary shares reserved for issue at December 31, 2005 are shown in note 23 of the Notes to the accounts.

Details of shares purchased by the Company are shown in note 24 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 26, 2006, at the Institute of Electrical Engineers, 2 Savoy Place, London WC2R 0BL.

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.

Directors

The names and biographical details of the Directors are given on page 52.

During the year, C D Collins retired as a Director and Chairman at the conclusion of the AGM in 2005 and M W Welton became Chairman from that time, having been appointed to the Board on January 4, 2005. S L Keswick and the Rt Hon. Lord Baker of Dorking also retired from the Board at the conclusion of the AGM.

C J Brady was appointed to the Board on August 1, 2005.

A J Murray, W F Blount and W S H Laidlaw will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming AGM. C J Brady, having been appointed since the last AGM, will seek election to the Board.

Directors interests

Details of the Directors service contracts, emoluments and share interests at December 31, 2005, appear in the Remuneration report on pages 61 to 67.

Following the introduction of the Companies (Audit, Investigations and Community Enterprise) Act 2004 in April 2005, at the AGM held in 2005, shareholders passed a resolution to a change in the Articles of Association of Hanson in relation to the indemnification of Directors. The new article expanded the circumstances in which a Director can be indemnified by the Company. The terms of appointment of the Directors in office at the time of the AGM in 2005 have been changed to entitle them to benefit from the provisions contained in the new article.

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Report of the Directors continued

In addition to providing this indemnification and any other indemnification pursuant to 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.

Charitable and political donations

During the year, the group made worldwide charitable donations of £309,000 (2004 £321,000), including £93,000 (2004 £183,000) 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 pages 68, 69 and 140.

By order of the Board

Paul Tunnacliffe

Company Secretary

February 23, 2006

Registered Office

1 Grosvenor Place

London SW1X 7JH

Registered in England and Wales (No 4626078)

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Corporate governance

The Board is accountable to shareholders for good business governance and is committed to high standards of corporate governance, recognising that Hanson s good reputation is one of the Company s most valuable assets.

To maintain and enhance this reputation Hanson requires its officers and employees to act in accordance with the laws and customs of each country in which we do business; be honest and act ethically; operate with integrity; observe and respect the culture and traditions of each country in which we operate; and not to offer, pay or accept bribes or favours in any form whatsoever.

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 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 Corporate governance section and in the Remuneration report. The Board considers that Hanson has been in full compliance with the Code throughout the year under review.

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.

The Board of Directors

The Board currently comprises the Chairman, the Chief Executive, two other Executive Directors and five Non-executive Directors.

There is a clear separation of the roles of the Chairman and Chief Executive. The division of responsibilities between Chairman and the Chief Executive is set out in writing and has been agreed by the Board. As Chairman, M W Welton 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 and following his appointment as Chairman, M W Welton was appointed to the advisory board of Montrose Associates. His other commitments did not change.

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. J W Leng 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.

The Chairman and the Company Secretary work closely together in planning the annual programme and agendas for meetings. During the year, there were six Board and strategy meetings held. The attendance records of individual Directors is set out below:

	Attendance
M W Welton	6/6

A J Murray	6/6
G Dransfield	6/6
J C Nicholls	6/6
W F Blount	5/6
C J Brady	4/4
W S H Laidlaw	5/6
J W Leng	6/6
The Baroness Noakes	6/6
C D Collins (retired April 20, 2005)	1/1
The Rt Hon. Lord Baker of Dorking (retired April 20, 2005)	1/1
S L Keswick (retired April 20, 2005)	/1

There are clearly occasions when circumstances arise which prevent Directors from attending meetings. It is the usual practice in these circumstances for the Director concerned to review the Board papers with the Chairman and convey any views.

All Directors then in office attended the AGM in 2005.

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Corporate governance continued

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. This schedule was reviewed and updated during the year.

Matters reserved for authorisation and approval include the Company s objectives and long-term strategy, the annual operating budget, financial statements and significant changes in accounting policy, dividend recommendations, treasury activities, major acquisitions and disposals, major capital projects or expenditure, appointment and removal of Directors and the Company Secretary, 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 corporate responsibility policies, including environmental and health and safety and, as set out below, the group s system of internal control.

Matters which the Board reviews include quarterly results and performance against budget, the group s management resource planning and development, charitable donations, the Company s corporate governance arrangements 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. An element of the induction focuses on relevant corporate responsibility matters and management resource planning and development. 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. A report was prepared for the Board by the Chairman. The results of the evaluation showed a high level of satisfaction that the Board and its Committees were operating effectively. The Board s focus was on identifying improvements in such areas as the process for developing strategy; the balance between strategic and operational issues at meetings; the process for reporting Committee work to the Board and inter-meeting information to the Non-executive Directors. Identified improvements will be introduced in 2006.

The Board plans to conduct evaluations on an annual basis and may use alternative approaches in future years.

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 J W Leng, conducted a review of and discussed the performance of the Chairman taking into account the views of the Executive Directors. The conclusion reached, which was fed back to the Chairman by J W Leng, was that the Chairman s performance was effective. Similarly, during the year, the Chairman met separately with the Non-executive Directors to consider the performance of the Chief Executive in the discharge of his duties. 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.

The terms of reference of the Committees are available on request from the Company Secretary, who acts as secretary to all of these Committees, or on Hanson s website.

Remuneration Committee

The Remuneration Committee comprises four independent Non-executive Directors; W S H Laidlaw (Chairman), W F Blount, The Baroness Noakes and C J Brady. Its role is described in the Remuneration report.

In 2005, the annual fees for chairing the Committee and for acting as a member were £12,500 and £5,500, respectively. There has been no change to the fee arrangements for 2006.

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Nominations Committee

The Nominations Committee consists of M W Welton as Chairman, A J Murray and 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.

There were no fees payable for chairing or acting as a member of the Committee in 2005. There has been no change to the fee arrangements for 2006.

During the year, on behalf of the Board, the Committee undertook a search for the appointment of a new Non-executive Director. Having considered the balance of skills and experience on the Board, a candidate profile for the search was agreed. The Committee then appointed an external search consultancy and met with candidates prior to making a recommendation to the Board, which resulted in the appointment of C J Brady as a Non-executive Director of the Company on August 1, 2005. It is anticipated that, for the appointment of further Non-executive Directors, a similar procedure will be adopted.

During the year the Committee met once formally in full, and on a number of other occasions, principally in the search for a new Non-executive Director and in order to make recommendations to the Board on membership of the Remuneration Committee.

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.

Audit Committee

The Audit Committee comprises three independent Non-executive Directors; The Baroness Noakes (Chairman), W S H Laidlaw and J W Leng.

In 2005, the annual fees for chairing the Audit Committee and for acting as a member of the Committee were £20,000 and £5,500, respectively. There has been no change to the fee arrangements for 2006.

Regular attendees at Committee meetings, at the invitation of the Committee, include the Chairman, the Finance Director, the Head of Internal Audit, the Group Financial Controller, the Group Chief Accountant and representatives from the external auditors.

The Committee s duties include:

- review of the effectiveness of systems for internal financial control, financial reporting and risk management
- the review and monitoring of the Company s financial statements, accounting policies, financial and other reporting procedures
- the review of the Company s statement on internal control prior to endorsement by the Board
- review of the internal audit programme
- the establishment of whistleblowing procedures
- 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; and
- ensuring the objectivity and independence of the auditors is maintained.

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 Board considers that each of the members of the Committee has experience of corporate financial matters. The Baroness Noakes, who is a Chartered Accountant, is considered by the Board to have recent and relevant financial experience and is also 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. It has authority to seek any information it requires from any employee, authority to obtain outside legal or other independent professional advice on any matter within its terms of reference and to secure the attendance of outsiders with relevant experience and expertise if it considers it necessary. There were no occasions during the year when it considered the attendance of such outsiders was necessary.

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During the year, the Committee s meetings considered or addressed, as appropriate, the following principal matters:

- the interim and full year financial results, including monitoring their integrity, prior to consideration by the Board
- the annual internal audit plan and its resourcing
- the auditors interim and full year reports
- the auditors report to management
- compliance with the group s code of ethics
- 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
- the overseeing of the whistleblowing programme
- minutes of the Risk Committee, which monitors and reviews significant financial and non-financial risk, as well as reviewing and reporting on the effectiveness of the group s system of internal control
- the proposed introduction by UK government of an Operating and Financial Review, subsequently withdrawn
- the scope and cost of the external audit
- any non-audit work carried out by the auditors; and
- an evaluation of the effectiveness of the auditors, which included feedback from management on the quality of the audit and the working relationship between management and the auditors, and consideration of their reappointment.

The Committee also undertook a review of its terms of reference and its own work and effectiveness, and reported back to the Board.

Having overseen the establishment of a groupwide whistleblowing programme, MySafeWorkplace, through which employees may in confidence raise concerns about possible wrongdoing in financial reporting or other matters, the Committee received reports during the year to ensure proportionate and independent investigation of such matters with appropriate follow-up action.

Additionally, to safeguard the objectivity and independence of the auditors and to ensure that the independence of the audit work undertaken by the auditors is not compromised, the Committee considered the auditors own assessment of independence and compliance with relevant professional and regulatory requirements. The views of management were also taken into consideration.

The Committee also has a policy for the provision of non-audit services by the auditors. The policy defines services which can be provided by the auditors and requires all non-audit services to be approved in advance by the Committee, which has delegated this task to the Head of Internal Audit. The approval process requires full disclosure of the objective and the scope of services to be performed in addition to the fee structure. The Committee reviews all approved services and level of expenditure at subsequent meetings. The auditors are permitted to perform non-audit services only if the scope of work is within the terms of the policy and there is a business benefit to the group in these services being performed by them rather then an alternative supplier.

The Committee considered that the independence and objectivity of the auditors was unimpaired and that Ernst & Young LLP were effective in conducting the audit and work on SOX compliance during the year.

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. Revised guidance for Directors, which comes into effect for financial years commencing on or after January 1, 2006, has been issued and the Company will take this guidance into consideration during 2006.

The Board confirms that procedures, which accord with the original guidance, have been in place for the year to December 31, 2005 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. 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.

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– 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.

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 executives, which monitors and reviews significant financial and non-financial risk.

Evaluation of disclosure controls and procedures

The Company has a Disclosure Committee, which includes amongst its members, the Chief Executive, the Finance Director and the Legal Director. The Committee monitors and reviews the group s disclosure controls and procedures to ensure these are satisfactory for the purpose. The review includes the evaluation of the effectiveness as at December 31, 2005 of these disclosure controls and procedures to permit the signing of the certifications required by the Chief Executive and the Finance Director in accordance with the requirements of section 302 of the US Sarbanes-Oxley Act of 2002. 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 Organisations 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, 2005, and has concluded that such internal control over financial reporting is effective.
– Ernst & Young LLP, which has audited the consolidated financial statements of the group for the year ended December 31, 2005, 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 69.

Changes in internal control over financial reporting

During the period management has continued to improve its control environment to respond, in particular, to changes in accounting practice (IFRS) and to reflect enhancements to information systems and procedures. There have been no changes in the group s internal controls or in other factors 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. The Audit Committee reviews internal audit reports and considers the overall effectiveness of the function. Priority in 2005 has once again been on financial statement risks identified through existing risk management procedures and through the assessment of internal control over financial reporting, required by SOX. The Board is once again pleased that this has resulted in Hanson being able to report fully under section 404 of SOX this year. Planning for 2006 will, however, continue to broaden the agenda and expand the scope of internal audit. A greater emphasis on operational risks, as the SOX requirements become further embedded in the organisation, will help to promote the overall effectiveness of the group s risk management and internal controls.

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Shareholder communications

Hanson values its dialogue with both institutional and private investors and, 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.

Following his appointment as Chairman, M W Welton met with the Company s major shareholders. 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 presentations of the interim and annual results, and of the trading statements.

The Hanson website at 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 (see page 53 for details), 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 and details of those abstaining from voting will also be disclosed. As for the prior year, this information will also be posted on the Hanson website after the meeting. Following the meeting, the Directors will be available to meet with shareholders.

Going concern

The Directors confirm that, after meeting 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 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 international 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 www.hanson.biz. 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 23, 2006

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Remuneration report

Remuneration Committee membership and terms of reference

The Remuneration Committee (the Committee) is comprised exclusively of Independent Non-executive Directors and its members are: W S H Laidlaw (Chairman), W F Blount, The Baroness Noakes DBE and C J Brady. WSH Laidlaw was appointed to the Committee as Chairman on May 11, 2005, replacing The Rt Hon. Lord Baker of Dorking, and C J Brady was appointed as a member on November 16, 2005.

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, the Company Secretary and the Head of Corporate Human Resources on matters relating to remuneration.

There were three formal meetings held by the Committee during the year and all the then members attended each meeting, other than C J Brady, who, having been appointed to the Committee on November 16, 2005 was unable to change his commitments to attend the Committee meeting on November 22, 2005. 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 all the meetings of the Committee but each were respectively excluded when their own performance and remuneration were being discussed.

The Committee also undertook a review of its terms of reference and its own work and effectiveness, and reported back to the Board.

Committee members receive fees as Non-executive Directors, including a fee for acting as a Committee member as outlined in the Corporate governance section on page 56, but do not receive any pension entitlements nor any short- or 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 and for the year ending December 31, 2005 the basic fee was £36,000. In 2006, this will be £40,000. 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 secure the long-term performance of the business it is essential that the Company implements an integrated system of remuneration which rewards sustained high performance well enough to attract and retain high-performing executives and directors. 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.

As shareholder approval for conditional awards to be made under the Company s long-term incentive arrangements expires in 2006, the Company undertook a review in 2005 of its long-term incentive arrangements and proposals on these new arrangements will be submitted to shareholders at the forthcoming AGM. Details of the proposed new arrangements are outlined in a separate letter to shareholders.

Share incentives are considered to be an important part of the incentive policy for Executive Directors.A shareholding requirement has been introduced for the Executive Directors. For the Chief Executive this will be to hold shares to the value of two times salary and for the other Executive Directors to the value of one times salary. For any new Chief Executive or Executive Director, the expectation would be that the shareholding requirement would be achieved within five years of the individual becoming a Director. The current Chief Executive and other Executive Directors already satisfy these shareholding requirements.

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Remuneration report continued

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 between 4-5% have been granted to the Executive Directors for the year commencing January 1, 2006.

The Committee also determines the fee for the Chairman and undertook a full review prior to the appointment of M W Welton as Chairman, whose fee as Chairman is £220,000 per annum.

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 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 and, for the Executive Directors and other senior executives, works on a bonus banking arrangement whereby each year the improvement in the group s overall economic value added for that year determines whether there is a bonus bank addition or deduction. Following the addition or deduction, the participant receives one-third of the accumulated bonus bank. There is neither a cap (maximum addition into the bonus bank each year) nor a floor (maximum deduction from the bonus bank each year).

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 2005, 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.

Improvement in the group s overall economic value added for the year to December 31, 2005 determined the bonus bank addition for the Executive Directors. The strong operating and profit performance in 2005 led to significant improvement in the group s economic value added and resulted in additions to the bonus bank of 118% of basic salary for A J Murray, 95% of basic salary for J C Nicholls and 71% of basic salary for G Dransfield.The bonuses paid in respect of the year to December 31, 2005 to the Executive Directors were £511,680 for A J Murray, £276,486 for J C Nicholls and £165,994 for G Dransfield.

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.

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 2005, 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 2005 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 believed they correlated clearly with the creation of shareholder value.

For the conditional award made in 2005, 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, 2004. For this measurement, a linear vesting schedule

applies in order that 25% 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 2003 and 2004. On attaining the minimum economic value added improvements of £13.4m for the 2003 award, £14.0m for the 2004 award and £14.5m for the 2005 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 £35.6m, £37.2m and £38.8m for the 2003, 2004 and 2005 awards, respectively.

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For the TSR measurement in 2005 (and similarly for the awards made in 2003 and 2004), 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 2005, 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 2003, the comparator group consisted of 21 companies, including Hanson. These included nine UK building materials companies in the FTSE 350 Index (Aggregate Industries, BPB, Hanson, Novar, Pilkington, RMC, Travis Perkins, Ultraframe and Wolseley), six European building materials companies in the Euro Top 300 Index (CRH, Dyckerhoff, Heidelberger, Holcim, Lafarge and Wienerberger), four North American businesses (Florida Rock, Martin Marietta, Texas Industries and Vulcan) and two Australian building materials companies (Boral and CSR).

Following the demerger of Rinker Group Limited from CSR in March 2003, the performance measurement of the comparator group for the 2003 award 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. In addition, the Committee removed Novar, Aggregate Industries, RMC, BPB, Heidelberger and Dyckerhoff following changes of control or takeover of these companies.

For the 2004 award, the comparator group consists of 15 companies, including Hanson. These include five UK building materials companies in the FTSE 350 Index (Hanson, Pilkington, Travis Perkins, Ultraframe and Wolseley), four European building materials companies in the Euro Top 300 Index (CRH, Holcim, Lafarge and Wienerberger), four North American businesses (Florida Rock, Martin Marietta, Texas Industries and Vulcan) and two Australian building materials companies (Boral and Rinker).

For the 2005 award, the comparator group consists of 16 companies, including Hanson. These include four UK building materials companies in the FTSE 350 Index (Hanson, Pilkington, Travis Perkins and Wolseley), five European building materials companies in the Euro Top 300 Index (Buzzi Unicem, CRH, Holcim, Lafarge and Wienerberger), four North American businesses (Florida Rock, Martin Marietta, Vulcan and Cemex) and three Australian building materials companies (Boral, Rinker and James Hardie).

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 2002, 2003, 2004 and 2005. For the conditional award made in 2002 to Executive Directors, none of the award subject to a TSR performance measurement criteria and 50% of the award subject to an economic value added performance measurement criteria vested following the end of the three year performance period. This resulted in a total vesting of 25% of the maximum number of shares under the conditional awards.

For the conditional award made in 2003, it is anticipated that 47% of the award subject to a TSR performance measurement and 65% of the award subject to an economic value added performance measurement criteria will vest following the end of the three year performance period. This would result in a total vesting of 56% of the maximum number of shares under the conditional awards.

	Date of award	Balance at Jan 1, 2005	Awarded during year	Lapsed during year	Vested during year	Balance at Dec 31, 2005
A J Murray	March 1, 2002	194,806		146,105	48,701	
	March 1, 2003	278,926				278,926
	March 1, 2004	204,732				204,732
	March 1, 2005		181,994			181,994
G Dransfield	March 1, 2002	64,970		48,728	16,242	
	March 1, 2003	103,306				103,306
	March 1, 2004	70,974				70,974
	March 1, 2005		63,192			63,192

J C Nicholls	March 1, 2002	79,860		59,896	19,964	
	March 1, 2003	146,780				146,780
	March 1, 2004	102,794				102,794
	March 1, 2005		91,454			91,454

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 28,733 shares, J C Nicholls retained 11,778 shares and G Dransfield retained 9,582 shares.
2) The figures in the table above for J C Nicholls include those of his wife, an employee, who also participates 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 2002 Award, which vested on March 1, 2005 as detailed above, 24,364 shares and 13,059 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 2002, 2003, 2004 and 2005 were 461.75p, 290.4p, 439.6p and 514.3p, respectively.
5) During the period January 1, 2006 to February 23, 2006 there was no change in the interests of Executive Directors in the LTIP.

Conditional awards under the LTIP will usually be made annually. The awards to be made in 2006 will be subject to shareholder approval of revised long-term incentive arrangements.

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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 participated 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, 2002, 2003, 2004 and 2005 were the same as for the awards made in 2002, 2003, 2004 and 2005 to the Executive Directors under the LTIP, as detailed above, with no retesting. Consequently, for the grant made in 2003, it is anticipated that 56% of the number of shares under option will become exercisable following the end of the three-year performance period.

The table below shows the numbers of shares under option of Executive Directors relating to conditional grants made under the Share Option Plan.

	Date of grant	Balance at Jan 1, 2005	Granted during year	Lapsed during year	Vested during year	Balance at Dec 31, 2005	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
	March 1, 2005		155,552			155,552	514.3	03/08-02/15
G Dransfield	May 15, 2001	24,000				24,000	473.3	05/04-05/11
	March 1, 2002	64,970		48,728	16,242	16,242	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
	March 1, 2005		63,192			63,192	514.3	03/08-02/15
J C Nicholls	May 15, 2001	24,000				24,000	473.3	05/04-05/11
	March 1, 2002	69,302		51,977	17,325	17,325	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
	March 1, 2005		78,942			78,942	514.3	03/08-02/15

Notes

1) Following the end of the three year performance period a total of 25% of the shares under the conditional options granted on March 1, 2002 became capable of being exercised.
2) 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 25% of the shares under the conditional options granted on March 1, 2002 became capable of being exercised. In respect of the grant on March 1, 2002, A J H Dougal and S N Vivian became entitled to options over 24,364 and 13,059 shares, respectively, at an exercise price of 461.75p per share. They exercised their options on November 23 and 21, 2005, respectively.
3) During the period January 1, 2006 to February 23, 2006 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 in 2005 was equal to approximately 30% 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 2005 at 100% of basic salary had a value, at the date of grant, of about 30% of basic salary. The market price at December 31, 2005 was 639p per share, which compares to the exercise prices of the conditional options granted in 2003, 2004 and 2005 at prices of 290.4p, 439.6p and 514.3p per share, respectively.

No further grants of option will be made under the Share Option Plan.

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

Executive Share Option Schemes

Options to subscribe for Hanson ordinary shares granted to Executive 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, 2005	Lapsed during year	Exercised during year	Market price at date of exercise (p)	Balance at Dec 31, 2005	Exercise price (p)	Range of exercise dates	Gain on exercise (£)
A J Murray	December 21, 1995	72,834		72,834	514.5		356.4	12/98-12/05	115,151
G Dransfield	December 21, 1995	69,112		69,112	514.5		356.4	12/98-12/05	109,266
J C Nicholls	September 14, 1998	6,000		4,000	516.75	2,000	331.25	09/01-09/08	7,420
	December 21, 1995	5,846		5,846	514.5		356.4	12/98-12/05	9,243

Notes

1) During the period January 1, 2006 to February 23, 2006 there were no changes in the interests of Directors in options under the Executive Share Option Schemes.

2) The figures shown in the table above for J C Nicholls are those of his wife, an employee who participates in the Executive Share Option Schemes.

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

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Sharesave Scheme

Many Hanson employees in the UK have built up an equity interest in the Company through the UK HM Revenue & Customs approved savings related Sharesave Scheme where 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, 2005, there were approximately 2,600 participants in the Sharesave Scheme and the number of shares under options granted to Executive Directors under the Sharesave Scheme are shown in the table below:

	Balance at Jan 1, 2005	Granted during year	Exercised during year	Market price at date of exercise(p)	Balance at Dec 31, 2005	Exercise price (p)	Range of exercise dates	Gain on exercise during the year (£)
A J Murray	2,971	–	2,971	604	–	318	12/05-05/06	8,497
G Dransfield	3,099	–	–	–	3,099	318	12/07-05/08	–
	1,993	–	–		1,993	328	06/09-11/09	–
J C Nicholls	2,263	–	2,263	469.25	–	428	12/04-05/05	933
	1,188	–	1,188	604	–	318	12/05-05/06	3,398
	–	2,398	–	–	2,398	395	06/08-11/08	–
	–	1,439	–	–	1,439	395	06/08-11/08	–

Notes

1) Options granted under the Sharesave Scheme during the year were at an exercise price of 395p per share, being a 20% discount to the market price on March 17, 2005.
2) The figures shown in the table above for J C Nicholls include those of his wife, an employee, who also participates in the Sharesave Scheme.
3) During the period January 1, 2006 to February 23, 2006 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, 2005 was 451.5p to 640p.

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 were £253,908 (£94,063).

Performance review

The following graph shows the TSR performance of the Company and that of the FTSE 100 Index and the FTSE 350 Construction & Materials Index over the five-year period to December 31, 2005. The FTSE 100 Index was selected due to its broad range of constituents of a large capitalisation, of which Hanson is a constituent company, and the FTSE 350 Construction & Materials Index was selected as it contains the closest peer group to Hanson in terms of activity and size, and Hanson is also a constituent company of this index.

Total shareholder return (2001-2005)

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Remuneration report continued

Service contracts

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 26 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.

The Chairman and Non-executive Directors do not have service contracts with Hanson. Each is appointed at the will of the Company and the Chairman and Non-executive Director concerned under the terms of an appointment letter. The terms and conditions of employment of the Chairman and the Non-executive Directors are available on request from the Company Secretary.

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 is a Non-executive Director of Man Group plc, in respect of which he received fees of £75,000 in 2005. No other such positions are held by any of the other Executive Directors.

Pensions

The Executive Directors are members of a defined benefit plan (the pension plan) which, in accordance with HM Revenue & Customs 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, 2004.
- the increase in the accrued pension net of inflation attributable to service since December 31, 2004.
- the annual accrued pension payable from normal retirement age, calculated as if he had left service at December 31, 2005.
- 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, 2004, calculated in accordance with actuarial guidance note GN11.
- the transfer value of the accrued pension at December 31, 2005, 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. A large part of the increase in the transfer value over the year has been as a result of a lower discount rate applied to the pension plan s liabilities.

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, 2005	Transfer value of net increase in accrued pension earned in year	Transfer value as at Dec 31, 2004	Transfer value as at Dec 31, 2005	Change in transfer value	FURBS contribution (see note 1 below)
	£000	£000	£000	£000	£000	£000	£000	£000
A J Murray	32	16	369	232	6,617	8,105	1,441	

G Dransfield (note 2)	7	(2)	217	(39)	4,214	4,887	673	
J C Nicholls	4	2	33	33	511	681	165	150

Notes

1) Executive Directors and employees who joined the pension plan after May 1989 are subject to the earnings cap (currently £105,600) on HM Revenue & Customs 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 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.
2) G Dransfield has completed the maximum pensionable service allowed under the pension plan and did not accrue any further pension over the year.
3) 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 have been given the opportunity to receive independent financial advice at the Company s cost.

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Directors remuneration

Remuneration of each Director, excluding pensions, during the year ending December 31, 2005:

	Salary/fees	Annual bonus	Benefits (see note 1 below)	2005 Total	2004 Total	2005 LTIP vested (see note 2 below)	2004 LTIP vested
	£ 000	**£ 000**	**£ 000**	**£ 000**	£ 000	**£ 000**	£ 000
M W Welton (note 3)	**164**	–	–	**164**	–	–	–
A J Murray	**624**	**512**	**47**	**1,183**	1,028	**249**	273
G Dransfield	**325**	**166**	**19**	**510**	459	**83**	97
J C Nicholls	**406**	**276**	**81**	**763**	682	**88**	97
W F Blount	**42**	–	–	**42**	40	–	–
C J Brady (note 4)	**16**	–	–	**16**	–	–	–
W S H Laidlaw	**49**	–	–	**49**	40	–	–
J W Leng	**49**	–	–	**49**	23	–	–
The Baroness Noakes DBE	**62**	–	–	**62**	52	–	–
C D Collins (notes 5 and 6)	**62**		**5**	**67**	194		
The Rt Hon. Lord Baker of Dorking CH (note 5)	**15**	–	–	**15**	47	–	–
S L Keswick (note 5)	**15**	–	–	**15**	47	–	–
Total	**1,829**	**954**	**152**	**2,935**	2,612	**420**	467

Notes

1) Benefits include the provision of a company car (or cash allowance), health insurance, life cover and cash in lieu of pension allowance (for J C Nicholls). For A J Murray, with extensive US business commitments and 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 2005 is based on the share price on the day of vesting, March 1, 2005, of 510.625p.
3) M W Welton was appointed to the Board on January 4, 2005 and as Chairman on April 21, 2005.
4) C J Brady was appointed to the Board on August 1, 2005.
5) C D Collins, the Rt Hon. Lord Baker of Dorking and S L Keswick retired from the Board on April 20, 2005.
6) Following his retirement as Chairman, C D Collins was permitted to retain his company car. The deemed value of the car was £23,250.
7) There were no termination payments made during the year.

Other than as shown under the LTIP and Share Option Plan on pages 63 and 64, no remuneration or other benefit was paid to former Directors during the year to December 31, 2005.

Directors interests in ordinary shares

The interests of the Directors, who held office at December 31, 2005, in Hanson shares on January 1, 2005 (or date of appointment, if later) and December 31, 2005 (excluding options granted under the Share Option Plan, the Executive Share Option Schemes and the Sharesave Scheme, details of which are shown on pages 64 to 65) are as set out below.

	Ordinary shares	Ordinary shares	**Conditional interest under LTIP**	Conditional interest under LTIP
	Dec 31, 2005	Jan 1, 2005*	**Dec 31, 2005**	Jan 1, 2005
M W Welton	**5,000**	–	–	–
A J Murray	**270,756**	239,052	**665,652**	678,464
G Dransfield	**144,549**	134,968	**237,472**	239,250
J C Nicholls	**92,058**	78,017	**341,028**	329,434
W F Blount	**1,000**	1,000	–	–
C J Brady	–	–	–	–
W S H Laidlaw	**20,000**	20,000	–	–
J W Leng	**10,000**	10,000	–	–
The Baroness Noakes DBE	**7,600**	7,600	–	–

*Or date of appointment if later

There are no non-beneficial interests included in the table above.

The Company is not aware of any changes in these interests since December 31, 2005 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 23, 2006

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Auditors reports

Independent auditors report to the shareholders of Hanson PLC

We have audited the group financial statements of Hanson PLC for the year ended December 31, 2005 which comprise the consolidated income statement, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of recognised income and expense and the related notes 1 to 33. These group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of Hanson PLC for the year ended December 31, 2005 and on the information in the Directors Remuneration report that is described as having been audited.

This report is made solely to the Company s members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company s members those matters we are required to state to them in an auditors report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company s members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

The Directors are responsible for preparing the Annual Report and the group financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union as set out in the statement of Directors responsibilities for the accounts.

Our responsibility is to audit the group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the group financial statements give a true and fair view and whether the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you if, in our opinion, the Directors report is not consistent with the group financial statements, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Director s remuneration and other transactions is not disclosed.

We review whether the Corporate governance statement reflects the Company s compliance with the nine provisions of the 2003 FRC Combined 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 consider whether it is consistent with the audited group financial statements. The other information comprises only the Directors report, the Chairman s statement, the Review of operations, Financial review and the Corporate governance statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the group financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the group financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the group 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 group financial statements 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 group financial statements.

Opinion

In our opinion, the group financial statements:

- give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group s affairs as at December 31, 2005 and of its profit for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

Ernst & Young LLP, Registered auditor, London, February 23, 2006

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, 2005 and 2004, and the related consolidated income statements, consolidated cash flow statements and consolidated statements of recognised income and expense for each of the two years in the period ended December 31, 2005. 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 International Standards on Auditing (UK and Ireland) 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, 2005 and 2004, and the consolidated results of its operations and its cash flows for each of the two years in the period ended December 31, 2005, in accordance with International Financial Reporting Standards as adopted by the European Union which differ in certain respects from accounting principles 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, 2005, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organisations of the Treadway Commission and our report dated February 23, 2006 expressed an unqualified opinion thereon.

Ernst & Young LLP, London, England, February 23, 2006

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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 on page 59, that Hanson PLC maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organisations 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.

In our opinion, management s assessment that Hanson PLC maintained effective internal control over financial reporting as of December 31, 2005, 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, 2005, based on the COSO criteria.

We also have audited, in accordance with International Standards on Auditing (UK and Ireland) and the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Hanson PLC as of December 31, 2005 and 2004, and the related consolidated income statements, consolidated cash flow statements and consolidated statements of recognised income and expense for each of the two years in the period ended December 31, 2005 and our report dated February 23, 2006 expressed an unqualified opinion thereon.

Ernst & Young LLP, London, England, February 23, 2006

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Consolidated income statement

for the 12 months ended December 31, 2005

	Notes	**2005** £m	2004 £m
Continuing operations:			
Group turnover*	2a	**3,715.7**	3,383.0
Costs and overheads	3	**(3,267.4)**	(2,982.8)
Group operating profit before impairments*	2b	**448.3**	400.2
Share of joint-ventures and associates profit after tax	2c	**40.5**	23.2
Operating profit before impairments	2b	**488.8**	423.4
Operating impairments	2b and 6	**(4.0)**	(29.3)
Operating profit	2b	**484.8**	394.1
Finance costs	7	**(224.7)**	(198.0)
Finance income	7	**169.2**	151.2
Net finance costs		**(55.5)**	(46.8)
Profit before taxation		**429.3**	347.3
Taxation on continuing operations before impairments	8	**(28.8)**	(33.4)
Taxation on impairments	8	**(5.6)**	6.3
Taxation on continuing operations		**(34.4)**	(27.1)
Profit after taxation continuing operations		**394.9**	320.2
Discontinued operations:			
Current year profit/(loss) after tax of discontinued operations	9a	**2.8**	(16.4)
Profit on disposals in the current year, after tax	9b	**2.3**	10.4
Loss on disposals in prior years, after tax	9c	**(12.4)**	(50.0)

Loss after taxation discontinued operations		**(7.3)**	(56.0)
Profit for the year		**387.6**	264.2
Profit for the year attributable to:			
Equity holders of the Company		**387.3**	264.3
Minority interests		**0.3**	(0.1)
		387.6	264.2
Dividends			
Paid in the year (£m)	10	**136.2**	127.3
Paid in the year (pence per share)	10	**18.65p**	17.30p
Earnings per ordinary share (pence)			
Basic	11	**53.2p**	36.0p
Basic continuing operations	11	**54.2p**	43.6p
Diluted	11	**52.6p**	35.6p
Diluted continuing operations	11	**53.6p**	43.2p

*The use of the word Group reflects that the results of joint-ventures and associates that are accounted for under the equity method are excluded

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Consolidated balance sheet

at December 31, 2005

	Notes	2005 £m	2004 £m
Assets			
Non-current assets			
Intangible assets	12	**974.2**	724.6
Property, plant and equipment	13	**2,735.4**	2,438.6
Investments	14	**302.3**	311.9
Receivables	17	**182.2**	159.1
Pension plan surpluses	28	**26.9**	27.6
Deferred tax assets	22	**0.7**	1.9
		4,221.7	3,663.7
Current assets			
Inventories	15	**382.4**	295.8
Trade and other receivables	17	**774.8**	788.0
Tax receivable	22	**6.3**	6.2
Cash and cash equivalents	18	**1,083.0**	1,394.3
		2,246.5	2,484.3
Assets held for sale	16	**8.5**	12.6
Total assets		**6,476.7**	6,160.6
Liabilities			
Non-current liabilities			
Payables	19	**(84.0)**	(31.9)
Borrowings	20	**(1,161.6)**	(1,058.3)
Provisions	21	**(448.0)**	(442.1)
Pension and post-retirement plan deficits	28	**(151.0)**	(156.5)
Tax payable	22	**(101.4)**	(94.9)
Deferred tax liabilities	22	**(256.8)**	(240.0)

		(2,202.8)	(2,023.7)
Current liabilities			
Trade and other payables	19	**(578.5)**	(561.9)
Borrowings	20	**(911.0)**	(1,031.2)
Provisions	21	**(104.3)**	(99.7)
Tax payable	22	**(7.8)**	(33.1)
		(1,601.6)	(1,725.9)
Total liabilities		**(3,804.4)**	(3,749.6)
Net assets		**2,672.3**	2,411.0
Equity			
Called-up share capital	23	**73.7**	73.7
Own shares	24	**(73.3)**	(30.1)
Cash flow hedge reserve	24	**(3.0)**	
Cumulative translation reserve	24	**44.7**	(12.1)
Retained earnings	24	**1,655.5**	1,405.0
Other reserves	24	**972.4**	972.4
Attributable to equity holders of the Company		**2,670.0**	2,408.9
Minority interests	24	**2.3**	2.1
Total equity		**2,672.3**	2,411.0

Approved by the Board of Directors on February 23, 2006

Alan Murray Chief Executive
Jonathan Nicholls Finance Director

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Consolidated cash flow statement
for the 12 months ended December 31, 2005

		Notes	2005 £m	2004 £m
Cash inflow from operating activities				
Group operating profit before impairments	continuing operations		**448.3**	400.2
Group operating profit before impairments	discontinued operations	9a	**1.0**	4.0
			449.3	404.2
Amortisation of intangible assets		12	**3.0**	2.5
Depreciation and depletion		13	**194.6**	191.4
Provisions charged			**9.5**	6.9
Provisions utilisation			**(43.8)**	(26.1)
Movements in pensions and post-retirement benefits			**(20.0)**	(16.3)
Profit on sale of property, plant and equipment and assets held for sale			**(15.0)**	(6.3)
Increase in inventories			**(42.3)**	(16.5)
Net change in receivables and payables			**20.1**	15.8
Dividends received from joint-ventures and associates			**27.9**	19.9
Other			**8.9**	3.5
Net cash inflow from operating activities before interest and tax			**592.2**	579.0
Interest received			**57.3**	66.0
Interest paid*			**(124.2)**	(119.2)
Taxation paid			**(54.1)**	(18.3)
			471.2	507.5
Cash flow from investing activities				
Purchase of property, plant and equipment and other intangible assets			**(191.8)**	(198.6)
Sale of property, plant and equipment and assets held for sale			**29.0**	18.5
Purchase of investments[#]			**(1.4)**	(16.2)

Disposal of investments		**36.3**	18.4
Acquisitions of operations	25	**(342.9)**	(88.4)
Disposal of operations		**14.0**	59.4
Cash and cash equivalents in operations acquired or disposed of		**(1.2)**	1.0
		(458.0)	(205.9)
Cash flow from financing activities			
Dividends paid to shareholders	10	**(136.2)**	(127.3)
Purchase of own shares held in treasury		**(45.1)**	(26.1)
Purchase of shares by ESOP trust	24	**(6.0)**	
Decrease in borrowings (including finance lease payments of £0.7m (£1.0m))		**(439.3)**	(445.3)
Increase in borrowings		**249.1**	206.6
		(377.5)	(392.1)
Net cash outflow after financing		**(364.3)**	(90.5)
Exchange movements		**37.4**	(9.0)
Cash and cash equivalents at beginning of year		**1,389.0**	1,488.5
Cash and cash equivalents at end of year	18	**1,062.1**	1,389.0

*Interest paid includes £2.6m (£nil) in respect of premium paid on the redemption of borrowings and £0.2m (£0.6m) in respect of the interest element of finance lease rental payments

#Purchase of investments includes £1.4m (£16.9m) in respect of increases in loans to joint-ventures and associates

Disposals of investments includes £5.3m (£13.4m) in respect of decreases in loans to joint-ventures and associates

A reconciliation of net cash outflow after financing to net debt is included in note 20

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Consolidated statement of recognised income and expense

for the 12 months ended December 31, 2005

	Notes	2005 £m	2004 £m
Net gains on cash flow hedges		**4.0**	
Exchange movements		**57.0**	(12.2)
Transfer of cumulative foreign exchange on disposals to the income statement		**(0.1)**	0.3
Net actuarial losses in respect of pensions and other post-retirement benefits	28	**(8.0)**	(25.7)
Tax on items taken directly to equity	8	**11.8**	4.9
Net income/(expense) recognised directly in equity		**64.7**	(32.7)
Profit for the year		**387.6**	264.2
Recognised income and expense		**452.3**	231.5
Restatement for the effects of adopting IAS 39	32	**(11.6)**	
Total recognised income and expense		**440.7**	231.5
Attributable to:			
Equity holders of the Company		**440.1**	231.8
Minority interest		**0.6**	(0.3)
		440.7	231.5

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Notes to the accounts

for the 12 months ended December 31, 2005

1 Accounting policies

Basis of preparation

From January 1, 2005, as required by the European Union s IAS Regulation, the group has prepared its Annual Report and Form 20-F in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and in accordance with the provisions of the Companies Act 1985. IFRS as adopted by the EU differ in certain respects from IFRS as issued by the International Accounting Standards Board (IASB). However, the consolidated financial statements for the periods presented would be no different had the Company applied IFRS as issued by the IASB. References to IFRS hereafter should be construed as references to IFRS as adopted by the EU.

Since this is the first year in which the group has prepared financial statements under IFRS, the comparatives have been restated from accounting principles generally accepted in the UK (UK GAAP) to comply with IFRS. The reconciliation to IFRS from the previously published UK GAAP financial information is provided in note 32.

IFRS differs in certain respects from US generally accepted accounting principles, a reconciliation to which is included in note 33 of the accounts. A summary of the group's key accounting policies is set out below.

The financial statements have been prepared using the historical cost convention except where the measurements of balances at fair value is required as explained below.

Basis of consolidation

The accounting reference date of the Company is December 31. The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries together with the group s share of the results of joint-ventures and associates using the equity method of accounting. Within the income statement, the group s share of results of joint-ventures and associates is stated after interest and taxation.

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions. These affect the reported amounts of assets and liabilities; the disclosure of contingent assets and liabilities at the date of the financial statements; and the reported amounts of revenues and expenses during the reporting period. Critical accounting policies are set out in the Financial review.

Turnover

Turnover is recognised by the group when the risks and rewards associated with the transaction have been transferred to the purchaser which is demonstrated when all the following conditions are met: evidence of a binding arrangement exists (generally, purchase orders), products have been delivered or services have been rendered, there is no future performance required and amounts are collectable under normal payment terms. Turnover represents the net amounts charged or chargeable in respect of services rendered and goods supplied, excluding inter company sales, value added tax and other sales taxes. Turnover is recognised net of any discounts given to the customer. Turnover on long-term construction contracts is recognised as the value of measured works, claims and variations on contracts in the year, based on the stage of completion. Claims and variations are only recognised where they have been agreed with the customer. Where it is foreseen that a loss will arise to the group on a long-term contract, full provision is made for that loss during the year.

Research and development
Expenditure on development and improvement of new and existing products that do not meet the recognition criteria of an intangible asset are expensed as incurred. Research costs are expensed as incurred.

Advertising costs
Expenditure on advertising is expensed in full in the period in which it is incurred.

Share-based payments
The cost of equity-settled transactions with employees, for awards granted after November 7, 2002, is measured at fair value on the date of grant and is recognised as an expense over the vesting period. Fair value is determined by an external valuer using an appropriate pricing model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the Company (market conditions).

For awards evaluated on non-market conditions or no performance criteria, an expense is ultimately only recognised for awards which vest. Where an award is dependent upon a market condition, the cost of the award is recognised irrespective of whether the award vests unless the employee leaves during the vesting period. At each balance sheet date before vesting, the cumulative expense is calculated representing the extent to which the vesting period has expired and management s best estimate of the number of equity instruments that will ultimately vest. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity.

The cost of cash-settled transactions is measured at fair value using a binomial model. During the vesting period a liability is recognised based on the portion of the vesting period expired at the balance sheet date. From the end of the vesting period until settlement, the liability represents the full fair value of the award as at the balance sheet date.

The own shares reserve includes shares purchased by the Company s ESOP Trust to satisfy awards. These are recognised as a deduction to equity.

Dividends
Dividends attributable to the equity holders of the Company declared during the year are recognised directly in equity. Interim dividends are recognised when paid.

Foreign currencies
Average rates of exchange ruling during the year have been used to translate the transactions in foreign currencies, and the income statements of overseas subsidiaries, joint-ventures and associates from their functional currency.

Monetary assets and liabilities denominated in foreign currencies are retranslated from their functional currency at balance sheet exchange rates. The balance sheets of overseas subsidiaries, joint-ventures and associates are translated at rates ruling at the balance sheet date from their functional currency. Differences on translation arising from changes in the sterling value of overseas net assets, related foreign currency loans, foreign exchange contracts and currency swaps at the beginning of the accounting year, or at the date of any later capital currency conversions, together with the differences between income statements translated at average rates and at balance sheet rates, are shown as a movement on reserves and in the statement of recognised income and expense. Other exchange rate differences are dealt with in the income statement for the year.

Business combinations

The results of companies and businesses acquired are dealt with in the consolidated accounts from the date of acquisition. Upon the acquisition of a business, the fair values that reflect their condition at the date of acquisition are attributed to the identifiable assets (including separately identifiable intangible assets) acquired and liabilities and contingent liabilities assumed. Adjustments are also made to bring the accounting policies of businesses acquired into alignment with those of the group. Where the consideration paid for a business exceeds the fair value of net assets acquired and liabilities and contingent liabilities assumed, the difference is treated as goodwill.

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1 Accounting policies continued

Intangible assets

Goodwill arising on acquisitions completed prior to January 1, 1998 was written off directly to reserves. From January 1, 1998 to December 31, 2003, all acquired goodwill was capitalised and amortised over a period not exceeding 20 years. On January 1, 2004, the date of transition to IFRS, goodwill relating to acquisitions was maintained at its net book value. From January 1, 2004 onwards, goodwill is capitalised.

Intangible assets other than goodwill, which are capable of being recognised separately and measured reliably on acquisition of a business, are capitalised at fair value on acquisition. Expenditure on computer software which is deemed not to be integral to the computer hardware is capitalised at cost. The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with a finite life are amortised on a straight line basis over their useful lives. Intangible assets with an indefinite life are not amortised but reviewed annually for impairment.

Property, plant and equipment (including mineral reserves)

Property, plant and equipment is shown at cost less depreciation, depletion and any impairments. The cost of property, plant and equipment comprises its purchase price and any costs directly attributable to bringing it into working condition for its intended use or its deemed cost on transition to IFRS. Costs to develop new commercial aggregates deposits and for major development programmes at existing sites are capitalised and amortised over the life of the quarry. Repair and maintenance costs are charged to costs and overheads as incurred. No depreciation is provided on freehold land except for mineral reserves which are depleted on the basis of tonnage extracted. Depreciation of other property, plant and equipment is calculated to write off their cost over their expected useful lives allowing for estimated residual value. The majority of property, plant and equipment is written off on a straight line basis over the following periods:

Plant and equipment	2-30 years
Land, buildings and natural resources	up to 50 years

Finance costs relating to the purchase of property, plant and equipment are not capitalised but are expensed as incurred. Exchanges of assets are measured at fair value of the asset given up unless the exchange transaction lacks commercial substance.

Assets held under leases

Assets held under finance leases are included within property, plant and equipment at the capitalised value of the future minimum lease payments and are depreciated over the shorter of their lease period and their useful life. The capital element of the future payments is treated as a liability and the interest element is charged to the income statement so as to reflect a constant annual rate of interest on the remaining balance of the outstanding obligation. Rentals paid on operating leases are charged to the income statement on a straight line basis over the shorter of the lease period and the useful life of the leased asset.

Asset retirement obligations

A provision is recognised for the fair value of asset retirement costs in the period in which the obligation arises. An asset representing the future cost of dismantling facilities, where the group has a legal or constructive obligation, is recorded and depreciated over its useful life. Other reclamation costs associated with the restoration of sites, following the extraction of aggregates and clay, are expensed as incurred.

Asset impairment

Intangible assets and property, plant and equipment are reviewed, at least annually, to ensure that assets are not carried above their recoverable amounts. Where some indication of impairment exists, detailed calculations are made of the discounted cash flows resulting from continued use of the assets (value in use) or from their disposal (fair value less costs to sell). Where these values are less than the carrying amount of the assets, an impairment loss is charged to the income statement.

Investments in joint-ventures and associates

The group s investments in its joint-ventures and associates are accounted for under the equity method of accounting.

Under the equity method, the investment in the joint-venture or associate is carried in the balance sheet at cost plus post-acquisition changes in the group s share of net assets of the joint-venture or associate. Goodwill relating to a joint-venture or associate is included in the carrying amount of the investment and is not amortised. After application of the equity method, the group determines whether it is necessary to recognise any additional impairment loss with respect to the group s net investment in the joint-venture or associate. The income statement amount reflects the share of the results after interest and tax of operations of the joint-ventures and associates. Where there has been a change recognised directly in the equity of the joint-venture or associate, the group recognises its share of any changes and discloses this in the reconciliation of changes in total equity, and where appropriate, in the consolidated statement of recognised income and expense.

The joint-ventures and associates accounting policies conform to those used by the group for like transactions and events in similar circumstances.

Inventories and receivables

Inventories are stated at the lower of cost and net realisable value, on a first in first out basis. Cost includes raw materials, direct labour and expenses, and an appropriate proportion of production and other overheads. Full provision is made against slow moving inventories based on historical experience and current market conditions. Receivables are stated after deducting a provision for doubtful debts.

Government grants

Grants received from governments for the acquisition of assets are recognised only when there is reasonable assurance that the grant will be received and any conditions attached to them have been fulfilled. The grant is held on the balance sheet within accrued income and released to the income statement over the periods necessary to match the related depreciation charges or other expenses of the asset as they are incurred.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and current balances with banks and other similar institutions, which are readily convertible into known cash amounts and which are subject to insignificant risk of changes in value and have a maturity of three months or less at the date of inception. For the purposes of the cash flow statement, cash and cash equivalents consists of cash and cash equivalents as defined above, net of bank overdrafts.

Derivatives, financial instruments, interest bearing loans and borrowings

The group has taken advantage of the exemption not to restate comparatives for IAS 32 Financial Instruments: Disclosure and Presentation and IAS 39 Financial Instruments: Recognition and Measurement but to apply these standards from January 1, 2005. As a result, the Financial instruments (current year) and Interest bearing loans and borrowings (current year) policies presented below apply with effect from January 1, 2005 and the Financial instruments (prior year) and Interest bearing loans and borrowings (prior year) policies applied from January 1, 2004 to December 31, 2004.

Derivative financial instruments (current year)

Derivative financial instruments are used to manage the financial risks arising from the business activities of the group and the financing of those activities. Derivative financial instruments are not held for trading purposes.

Derivative financial instruments are used for managing financial risks as follows:

Forward exchange contracts are used as balance sheet hedging instruments to hedge foreign currency net assets held overseas.

Interest rate swaps are used to hedge the group s exposure to movements in interest rates. The interest payable or receivable on such swaps is accrued on an effective interest basis.

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Notes to the accounts continued
for the 12 months ended December 31, 2005

1 Accounting policies continued

The group applies IAS 39, under which hedge accounting is allowed when certain criteria are met. Under IAS 39, derivative financial instruments are always measured at fair value, with hedge accounting employed in respect of those derivatives fulfilling the stringent requirements for hedge accounting as prescribed under IAS 39. In summary, these criteria relate to initial designation and documentation of the hedge relationship, prospective testing of the relationship to demonstrate the expectation that the hedge will be highly effective throughout its life, and subsequent retrospective testing of the hedge to verify effectiveness. The accounting treatment for the group s hedge relationships are described by class below. Hedge effectiveness is reviewed regularly. If a hedge becomes ineffective, hedge accounting ceases to apply and subsequent changes in fair values of the derivative are recognised in the income statement.

Fair value hedges
The group uses interest rate swaps to hedge the group s exposure to changes in the fair value of fixed rate debt as a result of interest rate movements. The interest on such swaps is accrued on an effective interest basis. The carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged. For effective hedges, changes in the fair values of both the hedge and the portion of the hedged item covered by the hedge are recognised in the income statement. If a hedge becomes ineffective, the hedged item ceases to be remeasured with subsequent changes in fair value. Instead, the portion of its carrying value relating to previous changes in fair value is amortised over its remaining life.

Cash flow hedges
The group uses interest rate swaps to hedge its exposure to floating rate debt and uses foreign exchange forwards as cash flow hedges to manage its exposure to currency fluctuations on its future cash flows. For effective cash flow hedges changes in the fair value of the hedge are recognised in equity, where they are recycled through the profit and loss in the same period during which the hedged item impacts the income statement. For hedges that become ineffective the amount previously recognised in equity is recycled to the income statement. Where the underlying hedged item is no longer expected to occur, this recycling is effected immediately. If the underlying hedged item is still expected to occur then the recycling from equity happens when the forecast transaction occurs.

Net investment hedges
Currency borrowings and forward exchange contracts are used as balance sheet hedging instruments to hedge foreign currency net assets held overseas. Regarding forward exchange contracts, the initial valuation of the forward element of the contract and any subsequent movement in its valuation is recognised directly in the income statement. The spot element forms the net investment hedge relationship, and any movement in its valuation, so long as the relationship is effective, is recognised in equity. If the hedge becomes ineffective, movements in the valuation of the spot element are recognised directly in the income statement. On disposal of a foreign currency investment, the cumulative gains and losses are recycled from equity to the extent that they related to hedges of the investment being disposed of.

Derivative financial instruments (prior year)
The group considers its derivative financial instruments to be hedges when certain criteria are met. The group s criteria for an instrument to qualify for hedge accounting are that the instrument must be related to an asset, liability or forecast cash flow, it must involve the same currency as the hedged item and it must offset the effect of movements in foreign exchange and/or interest rates on the relevant asset, liability, cash

flow or reported results of the group.

Derivative financial instruments are accounted for using hedge accounting as follows:

- Forward exchange contracts are used as balance sheet hedging instruments to hedge foreign currency net investments. The difference between the spot and forward rate for these contracts is recognised as part of the net interest payable over the period of the contract. The spot rate of foreign currency hedges is revalued to the rate of exchange at the balance sheet date and aggregate unrealised gains or losses arising on revaluation are included in other debtors/other creditors. Both realised and unrealised gains and losses on these contracts are taken to reserves to the extent that those contracts relate to foreign currency investments.

- Interest rate swaps are used to hedge the group s exposure to movements in interest rates. The interest payable or receivable on such swaps is accrued in the same way as interest arising on deposits or borrowings. Interest rate swaps are not revalued to fair value prior to maturity.

Interest bearing loans and borrowings (current year)

All loans and borrowings are initially recognised at fair value less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses arising on the repurchase, settlement or otherwise cancellation of liabilities are recognised respectively in finance income and finance costs. The fair value measurement of fixed rate loans forming part of fair value hedges is discussed below under the derivatives and financial instruments policy.

Interest bearing loans and borrowings (prior year)

All loans and borrowings are initially stated at the amount of the net proceeds. Interest is charged to the profit and loss at the coupon rate, whilst discounts and fees are amortised on a straight line basis over the term of the debt. Accrued interest costs are included in accruals to the extent that they will be paid in the next accounting period. Gains and losses arising on the repurchase, settlement or otherwise cancellation of liabilities are recognised in the period in which the repurchase or early settlement is made.

Provisions

Provisions for non-current obligations are discounted using a pre-tax rate that reflects current market assessments. The unwinding of the discount on provisions is included within finance costs along with the effect on the provision of changes in the discount rate.

Provisions are classified as current when they are expected to be settled within 12 months of the balance sheet date.

Pensions and other post-retirement benefits

The group s current and past service cost for defined benefit schemes is charged to operating profit. Interest on the defined benefit schemes obligations and the expected return on the schemes assets are recognised in net finance costs. Actuarial gains and losses are recognised directly in equity through the statement of recognised income and expense so that the group s balance sheet reflects the fair value of the schemes surpluses or deficits as at the balance sheet date.

Contributions to defined contribution schemes are charged to operating profit as they become payable. Multi-employer schemes are accounted for as defined contribution schemes, where the group is unable to obtain adequate information regarding its share of the schemes assets and liabilities to account for these as defined benefit schemes.

The group has elected to adopt the IASB s amendment to IAS 19 Employee benefits to permit the recognition of actuarial gains and losses directly in equity rather than apply the 10% corridor method. The group has applied this methodology from the date of transition to IFRS.

Deferred taxation

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying value except to the extent that the temporary difference arises from:

- the initial recognition of goodwill;

- the initial recognition of an asset or liability in a transaction which is not a business combination and, at the time of the transaction, affects neither accounting nor taxable profit or loss;

- temporary differences in respect of the unremitted earnings of subsidiaries, joint-ventures and associates where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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1 Accounting policies continued

A deferred tax asset is recognised for all deductible temporary differences, carry-forward of unused tax losses and unused tax credits to the extent it is probable that future taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. Tax assets and liabilities are offset, if a legally enforceable right exists to set off the tax assets against the tax liabilities and the taxes relate to the same taxable entity and the same taxation authority.

Deferred tax assets and liabilities are measured, on an undiscounted basis, at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The carrying amount of a deferred tax asset is reviewed at each balance sheet date.

Income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Treasury shares

Own equity instruments which are reacquired (treasury shares) are deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company s own equity instruments.

New IFRS standards and interpretations not applied

During 2005, the IASB and IFRIC issued additional standards and interpretations which are effective for periods starting after the date of these financial statements. The following standards and interpretations have yet to be adopted by the group:

International Financial Reporting Standards (IFRS/IAS)		*Effective date*
IFRS 1	Amendment relating to IFRS 6	January 1, 2006
IFRS 4	Amendment to IAS 39 and IFRS 4 Financial Guarantee Contracts	January 1, 2006
IFRS 6	Exploration for and Evaluation of Mineral Assets	January 1, 2006
IFRS 6	Amendment relating to IFRS 6	January 1, 2006
IFRS 7	Financial Instruments: Disclosures	January 1, 2007
IAS 1	Amendment to IAS 1 Presentation of Financial Statements: Capital Disclosures	January 1, 2007
IAS 39	Fair Value Option	January 1, 2006
IAS 39	Amendments to IAS 39 Transition and Initial Recognition of Financial Assets and Financial Liabilities (Day 1 profits)	January 1, 2006
IAS 39	Amendment to IAS 39 and IFRS 4 Financial Guarantee Contracts	January 1, 2006

International Financial Reporting Interpretations Committee (IFRIC)		
IFRIC 4	Determining Whether An Arrangement Contains a Lease	January 1, 2006
IFRIC 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	January 1, 2006
IFRIC 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies	March 1, 2006

IFRIC 8Scope of IFRS 2 May 1, 2006

The group does not anticipate that the adoption of these standards and interpretations will have a material effect on its financial statements on initial adoption. Upon adoption of IFRS 7, the group will be required to disclose additional information about its financial instruments, their significance and the nature and extent of the risks to which they give rise, together with greater detail as to the fair value of its financial instruments and its risk exposure. There will be no effect on reported income or net assets.

2 Segmental analysis

The group s primary segments are the trading operations of North America, UK, Australia, Asia Pacific and Continental Europe. These operations are organised and managed separately according to the geographic location of their assets and economic environment. There are no significant transactions occurring between the primary segments.

There are two secondary business segments, Aggregates and Building Products. The major products for each secondary segment, which differ slightly between countries, are as follows:

Aggregates crushed rock and sand and gravel, asphalt, cement and ready-mixed concrete.

Building products bricks, concrete pipe and products, concrete flooring, precast concrete and roofing tiles.

Hanson s business operations, as shown below, are managed using a combination of primary and secondary structures in eight distinct segments, including the corporate office and related costs, that are described as Central.

Segmental analysis for the 12 months ended December 31, 2005
a) Group turnover

	2005	2004
	£m	£m
North America		
Hanson Aggregates	**980.6**	897.3
Hanson Building Products	**753.7**	647.4
	1,734.3	1,544.7
UK		
Hanson Aggregates	**811.5**	771.9
Hanson Building Products	**368.2**	300.7
	1,179.7	1,072.6
Australia & Asia Pacific		
Hanson Australia	**464.6**	413.2
Hanson Asia Pacific	**108.4**	124.5
	573.0	537.7
Hanson Continental Europe	**228.7**	228.0
Continuing operations	**3,715.7**	3,383.0
Discontinued	**24.0**	81.3
	3,739.7	3,464.3

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Notes to the accounts continued
for the 12 months ended December 31, 2005

2 Segmental analysis continued

b) Operating profit

	2005	2005	2005	2005	2005
	Group operating profit before impairments	Share of joint-ventures and associates profit after tax	Operating profit before impairments	Operating impairments	Operating profit
	£m	£m	£m	£m	£m
North America Hanson Aggregates	138.1	0.3	138.4	(1.6)	136.8
Hanson Building Products	124.4	1.3	125.7		125.7
	262.5	1.6	264.1	(1.6)	262.5
UK Hanson Aggregates	96.9	11.9	108.8	(0.6)	108.2
Hanson Building Products	37.8		37.8		37.8
	134.7	11.9	146.6	(0.6)	146.0
Australia & Asia Pacific Hanson Australia	57.3	24.3	81.6		81.6
Hanson Asia Pacific	5.4	2.7	8.1		8.1
	62.7	27.0	89.7		89.7
Hanson Continental Europe	19.9		19.9	(1.8)	18.1
Central	(31.5)		(31.5)		(31.5)
Continuing operations	448.3	40.5	488.8	(4.0)	484.8
Discontinued	1.0	2.6	3.6		3.6
	449.3	43.1	492.4	(4.0)	488.4

	2004	2004	2004	2004	2004
	Group operating profit before	Share of joint-ventures' and	Operating profit before impairments	Operating impairments	Operating profit

	impairments	associates' profit after tax			
	£m	£m	£m	£m	£m
North America Hanson Aggregates	126.7	0.9	127.6		127.6
Hanson Building Products	111.2		111.2		111.2
	237.9	0.9	238.8		238.8
UK Hanson Aggregates	62.2	12.3	74.5	(20.7)	53.8
Hanson Building Products	36.8		36.8		36.8
	99.0	12.3	111.3	(20.7)	90.6
Australia & Asia Pacific Hanson Australia	56.0	10.5	66.5		66.5
Hanson Asia Pacific	6.1	(0.5)	5.6	(4.9)	0.7
	62.1	10.0	72.1	(4.9)	67.2
Hanson Continental Europe	23.9		23.9	(3.7)	20.2
Central	(22.7)		(22.7)		(22.7)
Continuing operations	400.2	23.2	423.4	(29.3)	394.1
Discontinued	4.0	3.2	7.2	(21.9)	(14.7)
	404.2	26.4	430.6	(51.2)	379.4

The following property profits in respect of surplus property and land disposals totalling £14.9m (£21.4m) are included within group operating profit before impairments: Hanson Aggregates North America £2.4m (£14.3m); Hanson Building Products North America £0.5m (£nil); Hanson Aggregates UK £8.0m (£1.9m); Hanson Building Products UK £3.0m (£3.2m); Hanson Australia £1.0m (£1.7m); Hanson Asia Pacific £nil (£nil); Hanson Continental Europe £nil (£0.3m); Central £nil (£nil).

Total revenue of £3,799.8m (£3,504.3m) includes group turnover from continuing operations of £3,715.7m (£3,383.0m), group turnover from discontinued operations of £24.0m (£81.3m) and interest receivable and similar income of £60.1m (£40.0m) .

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2 Segmental analysis continued

c) Joint-ventures and associates

	2005	**2005**	2004	2004
	Turnover	**Operating profit**	Turnover	Operating profit
	£m	**£m**	£m	£m
North America Hanson Aggregates	**2.4**	**0.6**	1.6	1.1
Hanson Building Products	**4.6**	**1.3**	0.9	
	7.0	**1.9**	2.5	1.1
UK Hanson Aggregates	**111.6**	**16.9**	106.6	17.5
Hanson Building Products				
	111.6	**16.9**	106.6	17.5
Australia & Asia Pacific Hanson Australia	**179.8**	**24.1**	166.5	17.6
Hanson Asia Pacific	**16.0**	**3.3**	16.6	(0.5)
	195.8	**27.4**	183.1	17.1
Hanson Continental Europe	**1.3**		2.0	
Continuing operations	**315.7**	**46.2**	294.2	35.7
Discontinued	**29.2**	**2.6**	51.8	3.2
	344.9	**48.8**	346.0	38.9

	2005	2004
	£m	£m
Continuing operating profit from joint-ventures and associates	**46.2**	35.7
Net finance costs	**(3.5)**	(3.2)
Taxation	**(2.2)**	(9.3)
Continuing profit after tax from joint-ventures and associates	**40.5**	23.2

Included within the joint-ventures and associates taxation charge of £2.2m is a credit of £6.6m following a change in Australian tax laws.

d) Analysis of depletion, depreciation, amortisation and capital expenditure

	2005	2005	2005	2005	2005
	Depletion	**Depreciation**	**Amortisation of other intangible assets**	**Additions to property, plant and equipment**	**Additions to other intangible assets**
	£m	**£m**	**£m**	**£m**	**£m**
North America Hanson Aggregates	**18.4**	**59.5**	**1.5**	**69.4**	**4.1**
Hanson Building Products		**26.3**	**0.2**	**40.7**	
	18.4	**85.8**	**1.7**	**110.1**	**4.1**
UK Hanson Aggregates	**7.2**	**30.0**		**23.1**	**3.4**
Hanson Building Products	**1.6**	**11.6**	**1.2**	**16.8**	
	8.8	**41.6**	**1.2**	**39.9**	**3.4**
Australia & Asia Pacific Hanson Australia	**4.6**	**23.4**		**31.6**	
Hanson Asia Pacific	**0.4**	**3.4**		**1.0**	
	5.0	**26.8**		**32.6**	
Hanson Continental Europe	**1.3**	**6.5**	**0.1**	**13.3**	**0.1**
Central		**0.1**		**0.2**	**0.8**
Continuing operations	**33.5**	**160.8**	**3.0**	**196.1**	**8.4**
Discontinued		**0.3**			
	33.5	**161.1**	**3.0**	**196.1**	**8.4**

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2 Segmental analysis continued

	2004	2004	2004	2004	2004
	Depletion	Depreciation	Amortisation of other intangible assets	Additions to property, plant and equipment	Additions to other intangible assets
	£m	£m	£m	£m	£m
North America					
Hanson Aggregates	19.5	57.0	2.1	74.6	1.9
Hanson Building Products		22.5	0.3	38.2	
	19.5	79.5	2.4	112.8	1.9
UK					
Hanson Aggregates	6.9	30.8		35.6	
Hanson Building Products	1.6	8.1		16.1	
	8.5	38.9		51.7	
Australia & Asia Pacific					
Hanson Australia	5.4	22.3		26.4	
Hanson Asia Pacific	1.1	5.4		2.4	
	6.5	27.7		28.8	
Hanson Continental Europe	1.7	7.5	0.1	7.6	
Central	–			0.2	
Continuing operations	36.2	153.6	2.5	201.1	1.9
Discontinued	0.1	1.5		1.9	
	36.3	155.1	2.5	203.0	1.9

e) Analysis of assets and liabilities

	2005	2005	2005	2005	2005	2005	2005	2005

	Goodwill	Joint-ventures and associates	Long-lived assets	Disposal groups held for sale	Other assets held for sale	Total assets	Total liabilities	Capital employed
	£m	£m	£m	£m	£m	£m	£m	£m
North America								
Hanson Aggregates	229.5	24.6	1,368.2			1,659.6	(275.5)	1,384.1
Hanson Building Products	272.6	0.9	577.3			830.9	(130.5)	700.4
	502.1	25.5	1,945.5			2,490.5	(406.0)	2,084.5
UK								
Hanson Aggregates	93.4	85.6	786.5		1.8	1,011.1	(187.2)	823.9
Hanson Building Products	134.1		470.8	3.5	0.6	590.8	(86.7)	504.1
	227.5	85.6	1,257.3	3.5	2.4	1,601.9	(273.9)	1,328.0
Australia & Asia Pacific								
Hanson Australia	146.0	137.1	602.8		2.3	701.4	(82.1)	619.3
Hanson Asia Pacific	34.3	53.6	102.5			140.7	(22.4)	118.3
	180.3	190.7	705.3		2.3	842.1	(104.5)	737.6
Hanson Continental Europe	22.8	0.3	102.1			197.7	(71.7)	126.0
	932.7	302.1	4,010.2	3.5	4.7	5,132.2	(856.1)	4,276.1
Central			1.7		0.3	1,341.0	(2,948.3)	(1,607.3)
Continuing operations	932.7	302.1	4,011.9	3.5	5.0	6,473.2	(3,804.4)	2,668.8
Discontinued						3.5		3.5
	932.7	302.1	4,011.9	3.5	5.0	6,476.7	(3,804.4)	2,672.3

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2 Segmental analysis continued

	2004	2004	2004	2004	2004	2004	2004	2004
	Goodwill	Joint-ventures and associates	Long-lived assets	Disposal groups held for sale	Other assets held for sale	Total assets	Total liabilities	Capital employed
	£m	£m	£m	£m	£m	£m	£m	£m
North America Hanson Aggregates	171.9	16.6	1,145.9		7.0	1,379.5	(238.2)	1,141.3
Hanson Building Products	220.7	0.3	457.1			640.3	(107.1)	533.2
	392.6	16.9	1,603.0		7.0	2,019.8	(345.3)	1,674.5
UK Hanson Aggregates	94.0	85.3	804.5		2.5	1,038.6	(203.8)	834.8
Hanson Building Products	22.6		264.2		0.2	352.0	(75.6)	276.4
	116.6	85.3	1,068.7		2.7	1,390.6	(279.4)	1,111.2
Australia & Asia Pacific Hanson Australia	138.0	126.2	558.7		2.7	656.6	(81.4)	575.2
Hanson Asia Pacific	33.2	53.2	103.0			142.7	(23.6)	119.1
	171.2	179.4	661.7		2.7	799.3	(105.0)	694.3
Hanson Continental Europe	23.5	0.2	100.5			213.7	(78.9)	134.8
	703.9	281.8	3,433.9		12.4	4,423.4	(808.6)	3,614.8
Central			1.5		0.2	1,695.5	(2,939.2)	(1,243.7)
Continuing operations	703.9	281.8	3,435.4		12.6	6,118.9	(3,747.8)	2,371.1
Discontinued	7.8	29.9	39.7			41.7	(1.8)	39.9
	711.7	311.7	3,475.1		12.6	6,160.6	(3,749.6)	2,411.0

Long-lived assets represents intangible assets, property, plant and equipment, and investments.

f) Analysis of turnover, total assets and capital expenditure by secondary segments

	2005	**2005**	**2005**	**2005**
	Turnover	**Total Assets**	**Additions to property,**	**Additions to other**

			plant and equipment	**intangible assets**
	£m	**£m**	**£m**	**£m**
Aggregates	**2,545.2**	**3,670.2**	**135.4**	**7.6**
Building products	**1,170.5**	**1,462.0**	**60.5**	
Central		**1,341.0**	**0.2**	**0.8**
Continuing operations	**3,715.7**	**6,473.2**	**196.1**	**8.4**

	2004	2004	2004	2004
	Turnover	Total Assets	Additions to property, plant and equipment	Additions to other intangible assets
	£m	£m	£m	£m
Aggregates	2,403.4	3,414.4	145.5	1.9
Building products	979.6	1,009.0	55.4	
Central		1,695.5	0.2	
Continuing operations	3,383.0	6,118.9	201.1	1.9

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Notes to the accounts continued
for the 12 months ended December 31, 2005

3 Group operating profit before impairments

Costs and overheads of continuing operations include:	Notes	2005 £m	2004 £m
Cost of inventories recognised as an expense		**1,035.4**	898.6
Inventories written down		**5.5**	4.2
Reversal of inventory write downs		**(6.2)**	(6.1)
Employment costs	4	**692.3**	645.5
Depreciation and depletion of owned assets		**193.2**	188.3
Depreciation of finance leased assets		**1.1**	1.5
Amortisation of other intangible assets	2d	**3.0**	2.5
Research and development costs		**1.1**	1.8
Advertising costs		**4.9**	3.8
Leasing costs			
Minimum lease payments		**30.0**	24.5
Contingent lease payments		**0.2**	2.2
		30.2	26.7
Less: sublease rental income		**(4.2)**	(3.5)
		26.0	23.2
Represented by:			
Operating lease rentals land and buildings		**17.1**	15.1
Operating lease rentals plant and equipment		**8.9**	8.1
		26.0	23.2

Remuneration of auditors

Audit fees:		
Group audit and subsidiary statutory audits	**4.2**	4.4
Other regulatory reporting	**0.2**	0.2
	4.4	4.6
Non-audit fees:		
Audit related fees* #	**0.5**	0.7
Tax fees#	**0.2**	0.9
	0.7	1.6
Total payments to auditors	**5.1**	6.2

*In addition to the fees disclosed in audit related fees, Ernst & Young LLP has provided audit services for various pension plans sponsored by Hanson. The total fees paid to Ernst & Young LLP by either Hanson or the relevant pension trustees were £0.1m (£0.1m)

#Included in non-audit fees are amounts paid to Ernst & Young LLP for non-audit services in the UK for £0.6m (£0.8m)

4 Directors and employees

	2005	2004
Total employment costs	**£m**	£m
Wages and salaries	**598.7**	557.9
Termination benefits	**1.1**	2.2
Employers social security costs	**46.6**	44.0
Pension costs	**47.0**	48.5
Post-retirement benefits	**1.1**	1.1
	694.5	653.7
Attributable to:		
Continuing operations	**692.3**	645.5
Discontinued operations	**2.2**	8.2
	694.5	653.7

The group s key management personnel as defined by IAS 24 Related Party Disclosures are the Board of Directors. Included within wages and salaries above is £1.0m (£0.6m) in relation to the share-based payment expense for Directors.

Details of the rest of the Directors emoluments and remuneration for each Director which form part of these accounts are given in the auditable part of the Remuneration report.

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4 Directors and employees continued

The table below analyses the distribution of the average number of employees by division and by geographic location.

	2005	2004
Average number of persons employed during the year		
North America		
Hanson Aggregates	**5,600**	5,400
Hanson Building Products	**6,800**	6,300
	12,400	11,700
UK		
Hanson Aggregates	**3,200**	3,700
Hanson Building Products	**3,100**	2,600
	6,300	6,300
Australia & Asia Pacific		
Hanson Australia	**2,800**	2,600
Hanson Asia Pacific	**1,400**	1,700
	4,200	4,300
Hanson Continental Europe	**1,200**	1,300
Central	**200**	100
Discontinued	**100**	800
	24,400	24,500
By geographical location		
North America	**12,400**	11,700
UK	**6,500**	6,400
Australia	**2,800**	2,600
Continental Europe	**1,200**	1,300
Asia	**1,400**	1,700

Discontinued	**100**	800
	24,400	24,500

The total number of employees at the year end was 24,300 (23,800) excluding joint-ventures and associates.

Details of Directors emoluments and remuneration for each Director which form part of these accounts are given in the auditable part of the Remuneration report.

5 Share-based payments

Included within wages and salaries in note 4 is an expense arising from share-based payment transactions of £7.6m (£4.9m) all of which relates to equity-settled share-based payments. Details of each of the employee share plans in place are given below and where applicable in the Remuneration report.

Long Term Incentive Plan

The group operates a Long Term Incentive Plan (LTIP) under which awards of shares are made, on a conditional basis, subject to performance measurements over a three year period. The vesting of 50% of each award is dependent on total shareholder return (TSR) achieved by Hanson measured by reference to a comparator group of companies. As relative TSR is defined as a market condition, a Monte Carlo simulation model has been applied. Further details in relation to the TSR measurement are provided in the Remuneration report. The remaining 50% of each award is dependent on an economic value added measure which is classified as a non-market condition and has therefore been valued using a binomial model. Awards are equity settled and where the performance measurement targets are obtained in part or in full, vested shares are distributed to LTIP participants as soon as practicable after the end of the performance period.

Conditional awards were made over 3,139,356 ordinary shares on March 1, 2005 which will vest, subject to the performance measurement targets being attained, on March 1, 2008. The weighted average fair value of each share award granted is £3.45 (£3.01). The expense recognised in the income statement in the year from the LTIP is £6.1m (£4.1m).

The fair value of total awards granted during the year is £10.8m (£10.9m) .

The following table illustrates the number of, and movements in, share awards during the year under this plan:

	2005	2004
	Number outstanding	Number outstanding
	000	000
At January 1	**11,489.8**	11,604.2
Awarded	**3,139.4**	3,620.2
Forfeited	**(518.5)**	(892.4)

Expired	**(2,306.9)**	(1,729.2)
Exercised	**(767.6)**	(1,113.0)
At December 31	**11,036.2**	11,489.8

Share Option Plan

The group also operates a discretionary Share Option Plan under which participants are granted options over a number of shares but the proportion of these shares under option which may be exercised is subject to the achievement of performance targets over a three year performance period. As with the LTIP, the vesting of 50% of the options is dependent on TSR and therefore valued using a Monte Carlo simulation model. The remaining 50% of the options is dependent on an economic value added measure which has been valued using a binomial model. To the extent any options vest, they will ordinarily remain exercisable at any time up to 10 years from the date of grant and are settled in equity once exercised.

Options were granted over 647,620 ordinary shares on March 1, 2005 and, subject to the performance measurement targets being attained, will be exercisable between March 1, 2008 and February 28, 2015 at an exercise price of 514.3p per share. The weighted average fair value of each share option granted is £1.10 (£1.11) . The expense recognised in the income statement in the year from the share option plan is £0.6m (£0.4m).

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Notes to the accounts continued
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5 **Share-based payments** continued

The following table illustrates the number and weighted average exercise prices of, and movements in, share options during the year under the plan.

	2005	**2005**	2004	2004
	Number outstanding	**Weighted average exercise price**	Number outstanding	Weighted average exercise price
	000	**pence**	000	pence
At January 1	**3,207.5**	**392.2**	3,052.0	391.5
Granted	**647.6**	**514.3**	784.7	439.6
Forfeited	**(744.4)**	**460.5**	(629.2)	447.9
Expired	**(50.0)**	**473.3**	–	–
Exercised	**(133.6)**	**467.6**	–	–
At December 31	**2,927.1**	**397.0**	3,207.5	392.2
Exercisable at December 31	**345.5**	**467.3**	282.8	473.3

Range of exercise prices for the share option plan (pence per share)

	Options outstanding			Options exercisable	
	Number outstanding	Weighted average remaining contract life	Weighted average exercise price	Number exercisable	Weighted average exercise price
	000	years	pence	000	pence
2005:					
290.4p-461.8p	**1,934.0**	**7.5**	**345.2**	**180.7**	**461.8**
461.9p-514.3p	**993.1**	**8.0**	**497.9**	**164.8**	**473.3**
	2,927.1	**7.7**	**397.0**	**345.5**	**467.3**
2004:					

290.4p-461.8p	1,939.5	8.2	345.0	–	–
461.9p-473.3p	1,268.0	6.9	464.3	282.8	473.3
	3,207.5	7.7	392.2	282.8	473.3

Sharesave Scheme

The group also operates a UK HM Revenue & Customs approved savings related Sharesave Scheme available to all UK employees. Options are granted at a discount of up to 20% to the market price at the date of invitation over three, five or seven year savings contracts and options are exercisable during the six month period following completion of the savings contract. Options are valued using a Black-Scholes model.

During 2005, options were granted over 1,454,265 shares which will ordinarily be exercisable at an exercise price of 395.0p per share during the period; June 1 to November 30, 2008 for the three year Scheme; June 1 to November 30, 2010 for the five year Scheme; and June 1 to November 30, 2012 for the seven year Scheme. The weighted average fair value of each share option granted is £1.34 (2004: £1.43) . The expense recognised in the income statement in the year from the Sharesave Scheme is £0.9m (2004: £0.4m).

The following table illustrates the number and weighted average exercise prices of, and movements in, share options during the year in the Sharesave Scheme:

	2005	**2005**	2004	2004
	Number outstanding	**Weighted average exercise price**	Number outstanding	Weighted average exercise price
	000	**pence**	000	pence
At January 1	**4,461.2**	**332.5**	3,716.3	330.1
Granted	**1,454.3**	**395.0**	1,857.7	328.0
Forfeited	**(589.2)**	**334.9**	(625.9)	361.8
Expired	**(151.0)**	**424.7**	(15.1)	234.0
Exercised	**(1,321.6)**	**324.8**	(471.8)	259.3
At December 31	**3,853.7**	**354.7**	4,461.2	332.5
Exercisable at December 31	**40.1**	**319.3**	253.7	427.6

Range of exercise prices for the Sharesave Scheme (pence per share)

	Options outstanding	Options exercisable

	Number outstanding	Weighted average remaining contract life	Weighted average exercise price	Number exercisable	Weighted average exercise price
	000	years	pence	000	pence
2005 :					
318.0p-323.0p	**840.0**	**2.6**	**318.6**	**40.1**	**319.3**
323.1p-428.0p	**3,013.7**	**3.4**	**364.8**	–	–
	3,853.7	**3.2**	**354.7**	**40.1**	**319.3**
2004 :					
237.0p-323.0p	1,769.3	2.6	312.2	–	–
323.1p-428.0p	2,691.9	2.9	345.8	253.7	427.6
	4,461.2	2.8	332.5	253.7	427.6

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5 Share-based payments continued

The following two tables show the assumptions used to fair value the equity settled options granted in the LTIP, Share Option Plan and Sharesave Scheme:

	2005	**2005**	**2005**	**2005**	**2005**
	LTIP	**Share option plan**	**Sharesave 3 year**	**Sharesave 5 year**	**Sharesave 7 year**
Dividend yield (%)	**4.3**	**4.3**	**4.3**	**4.3**	**4.3**
Expected volatility (%)	**24.9**	**30.7**	**24.0**	**26.9**	**29.1**
Risk-free interest rate (%)	–	**4.8**	**4.8**	**4.9**	**5.0**
Expected life of option (years)	**3.0**	**6.5**	**3.4**	**5.4**	**7.4**
Share price at grant (pence)	**518.0**	**518.0**	**498.0**	**498.0**	**498.0**
Exercise price (pence)	**n/a**	**514.0**	**395.0**	**395.0**	**395.0**

	2004	2004	2004	2004	2004
	LTIP	Share option plan	Sharesave 3 year	Sharesave 5 year	Sharesave 7 year
Dividend yield (%)	3.5	3.5	3.5	3.5	3.5
Expected volatility (%)	31.4	33.9	29.6	32.0	33.0
Risk-free interest rate (%)	–	4.7	4.7	4.8	4.9
Expected life of option (years)	3.0	6.5	3.4	5.4	7.4
Share price at grant (pence)	447.0	447.0	432.0	432.0	432.0
Exercise price (pence)	n/a	440.0	328.0	328.0	328.0

The weighted average share price during the year is 544.0p (412.0p).

The expected volatility for Hanson has been calculated using historical data over a term commensurate with the expected life of each option/award. The expected volatility figures used in the valuations were calculated based on the following principles:

- Historic weekly volatility over periods of increasing length ending on the date of each grant were determined.
- The volatility figures above were used to calculate a weighted average volatility for the term commensurate with the expected term of the award being valued.

Other Schemes

Hanson has other share option schemes, the Executive Share Option Schemes A and B (which are now closed) and the HM Revenue & Customs approved Executive Share Option Scheme. No further grants of options will be made under these schemes. The options granted under the Executive Share Option Schemes A and B are deemed to be cash-settled and consequently grants that had not been settled by January 1, 2005 have been accounted for under IFRS 2. Options were granted with an exercise price equal to market value and remained exercisable at any time up to 10 years from the date of grant. No performance conditions applied to the right to exercise the options granted under either scheme. At December 31, 2005 there are no options outstanding under the Executive Share Option Schemes A and B and as a result the carrying amount of the liability relating to the cash-settled options at December 31, 2005 is £nil (£0.4m) .

The following tables illustrate the number and weighted average exercise prices of, and movements in, share options for the other schemes.

	2005	**2005**	2004	2004
	Number of ordinary shares outstanding	**Weighted average exercise price**	Number of ordinary shares outstanding	Weighted average exercise price
	000	**pence**	000	pence
Executive Share Option Scheme:				
At January 1	**114.0**	**331.3**	120.0	331.3
Exercised	**(91.0)**	**331.3**	(6.0)	331.3
At December 31	**23.0**	**331.3**	114.0	331.3
Exercisable at December 31	**23.0**	**331.3**	114.0	331.3
Executive Share Option Schemes A and B:				
At January 1	**321.8**	**356.4**	1,678.1	419.7
Forfeited	**–**	–	(725.5)	465.7
Exercised	**(321.8)**	**356.4**	(630.8)	399.1
At December 31	**–**	–	321.8	356.4
Exercisable at December 31	**–**	–	321.8	356.4

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6 Operating impairments

	2005	2005	2005	2004	2004	2004
	Operating impairments charged	**Operating impairments reversed**	**Net operating impairments**	Operating impairments charged	Operating impairments reversed	Net operating impairments
	£m	**£m**	**£m**	£m	£m	£m
North America						
Hanson Aggregates	**(16.5)**	**14.9**	**(1.6)**			
Hanson Building Products						
	(16.5)	**14.9**	**(1.6)**			
UK						
Hanson Aggregates	**(5.3)**	**4.7**	**(0.6)**	(21.2)	0.5	(20.7)
Hanson Building Products						
	(5.3)	**4.7**	**(0.6)**	(21.2)	0.5	(20.7)
Australia & Asia Pacific						
Hanson Australia						
Hanson Asia Pacific				(4.9)		(4.9)
				(4.9)		(4.9)
Hanson Continental Europe	**(1.8)**		**(1.8)**	(3.7)		(3.7)
Total	**(23.6)**	**19.6**	**(4.0)**	(29.8)	0.5	(29.3)
Impairment (charged)/reversed against:						
Intangible assets goodwill	**(17.6)**		**(17.6)**	(1.4)		(1.4)
Property, plant and equipment	**(5.9)**	**19.2**	**13.3**	(24.2)		(24.2)
Other assets	**(0.1)**	**0.4**	**0.3**	(4.2)	0.5	(3.7)
Operating impairments	**(23.6)**	**19.6**	**(4.0)**	(29.8)	0.5	(29.3)

Impairments during the year:

The net impairment charge for the year is £4.0m.

An impairment charge of £16.5m has been recognised against goodwill held in Hanson Aggregates North America Southwest region. The impairment, which reduces the goodwill s carrying value to its value in use at discount rates provided below, resulted from a change in the economic circumstances of that operation.

An impairment provision of £14.9m recorded against tangible assets, mainly plant and equipment in Hanson Aggregates North America West region, has been reversed. The original charge resulted from significant uncertainty over the assets ability to generate future profitability, due to the lack of an economic supply of raw materials. The supply has now been secured, removing this uncertainty and improving the projected cash flows generated by these assets.

An impairment charge of £5.3m has been recognised against goodwill and tangible assets at various individual operating sites within Hanson Aggregates UK. These tangible assets are cash generating units for the purpose of measuring impairment, as they generate largely independent cash flows. The impairments have arisen due to the closure, or intended closure of the sites, on commercial grounds and are based on the recoverable amount of the assets. Impairment charges totalling £4.7m against individual operating sites within Hanson Aggregates UK have been reversed, as anticipated proceeds from the sale of the site and business exceeded their carrying values, net of the provision.

Tangible assets of £1.2m located in Spain and goodwill amounting to £0.6m in the Czech Republic have been impaired, as these assets are not expected to generate a value in use equal to their carrying value. Both of these cash generating units comprise a part of Hanson Continental Europe.

Assumptions used:

The recoverable amount for each cash generating unit is based on a value in use calculation using cash flow projections based on four year forecasts approved by the Board of Directors excluding the impact of anticipated acquisitions, business improvement capital expenditure and restructuring. Forecast replacement capital expenditure requirements are included within the first four years, after which capital is assumed to represent 100% of depreciation.

Subsequent cash flows beyond the initial four year forecast for all cash generating units are inflated by rates of 0.7% to 4.9% (nil% to 4.0%) including the US 4.0% (4.0%), UK 3.0% (2.5%) and Australia 2.5% (2.5%) . Cash flows have been discounted at rates between 7.5% and 9.5% (8.0% and 10.0%) including the US 8% (8.5%), UK 8.5% (8.5%) and Australia 9.5% (9.5%) .

The calculation of value in use is most sensitive to the following
key assumptions:

- Sales volumes
- Average selling prices
- Operating costs

The sales volume assumptions are influenced by several factors including, end use market and demand drivers, our competitive position, quality of product and service, distribution and product selling price. Historical sales volumes are used as the base. These are either increased or decreased over the forecast period using assumptions derived from past experience or consistent with external sources of information.

Average selling price assumptions are influenced by several factors including end use market and demand drivers, our competitive position, site tenure, quality of product and service, distribution and product selling price. Historical average selling prices are used as the base. These are either increased or decreased over the forecast period using assumptions derived from past experience.

Operating cost assumptions are influenced by several factors including availability of product and service, supply and demand, scarcity of availability, global markets, and age and quality of plant and equipment. Historical operating costs are used as the base. These are either increased or decreased over the forecast period using assumptions derived from past experience.

The principal risks and uncertainties are disclosed in more detail on pages 45 to 48 of this document.

Where business segments include closed sites or sites that are to be closed, the anticipated proceeds less costs to sell have been used. Goodwill is analysed by segment in note 2(e).

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7 Finance costs and finance income

	2005	2004
	£m	£m
Finance costs:		
Interest payable on bank loans and overdrafts	**(23.3)**	(15.2)
Interest payable on other loans	**(95.7)**	(77.0)
Total interest payable	**(119.0)**	(92.2)
Finance cost on pension plan liabilities and other post-retirement benefits	**(103.2)**	(99.2)
Unwinding of discount (net)	**(2.5)**	(6.6)
Total finance costs	**(224.7)**	(198.0)
Finance income:		
Interest receivable and similar income	**60.1**	40.0
Expected return on pension plan assets	**108.7**	111.2
Change in fair value of derivatives and related items	**0.4**	
Total finance income	**169.2**	151.2
Net finance costs	**(55.5)**	(46.8)

Net finance costs of £55.5m (£46.8m) above exclude joint-ventures and associates net finance costs of £3.5m (£3.2m) as shown in note 2(c).

Total interest payable includes £0.2m (£0.5m) relating to finance leases.

8 Taxation

a) Analysis of tax charge in the year

	2005	2004
	£m	£m
Tax on continuing operations before impairments		
Current tax:		
UK corporation tax at 30.0%		(106.1)
Double tax relief		106.1

Effect of current year events on prior period tax balances	**29.6**	
Receipt for group relief	**5.2**	5.3
UK corporation tax credit	**34.8**	5.3
Foreign tax	**(57.1)**	(37.2)
Share of partnership tax	**(2.3)**	(1.6)
Total current tax	**(24.6)**	(33.5)
UK deferred tax: Origination and reversal of temporary differences	**5.1**	(3.3)
Effect of current year events on prior period tax balances	**12.7**	
Foreign deferred tax: Origination and reversal of temporary differences	**(21.5)**	(9.3)
Effect of current year events on prior period tax balances	**(0.5)**	12.7
Total deferred tax	**(4.2)**	0.1
Tax on continuing operations before impairments	**(28.8)**	(33.4)
Tax on impairments	**(5.6)**	6.3
Tax on continuing operations after impairments	**(34.4)**	(27.1)

Double tax relief relates to dividends paid to the UK by overseas subsidiaries

b) Analysis of tax credited to equity

	2005	2004
	£m	£m
Deferred tax on net actuarial losses	**5.7**	4.9
Deferred tax on share-based payments	**3.9**	
Deferred tax on IAS 39 adjustment	**2.2**	
	11.8	4.9

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Notes to the accounts continued
for the 12 months ended December 31, 2005

8 Taxation continued

c) Analysis of total tax charge in consolidated income statement

	Notes	2005 £m	2004 £m
Tax charge on continuing operations before impairments		**(28.8)**	(33.4)
Tax (charge)/credit on impairments		**(5.6)**	6.3
Tax on continuing operations after impairments		**(34.4)**	(27.1)
Tax charge on profit/loss from discontinued operations	9a	**(0.8)**	(1.7)
Tax charge on profit/loss on current year s disposals	9b	**(3.1)**	(1.1)
Tax credit on profit/loss from prior years disposals	9c	**13.4**	39.1
Total tax (charge)/credit excluding share of joint-ventures and associates tax		**(24.9)**	9.2
Tax charge on joint-ventures and associates	2c	**(2.2)**	(9.3)
Total tax charge		**(27.1)**	(0.1)
Analysed as: UK tax		**47.7**	7.2
Foreign tax		**(74.8)**	(7.3)
		(27.1)	(0.1)

d) Factors affecting tax charge for the period

	2005 £m	2004 £m
Profit before taxation continuing operations	**429.3**	347.3
Loss before taxation discontinued operations	**(16.8)**	(92.3)
	412.5	255.0
Tax at the UK statutory tax rate of 30.0%	**(123.8)**	(76.5)

Permanent differences	**(1.3)**	15.9
Overseas tax rate differences	**28.9**	24.7
Tax effect of share of profit after tax of associates and joint-ventures	**12.2**	7.0
Current year losses not recognised	**(40.1)**	(41.8)
Utilisation of tax losses brought forward not previously recognised	**56.2**	48.0
Effect of current year events on prior period tax balances	**42.6**	12.7
Other	**0.4**	19.2
Total tax charge excluding share of joint-ventures and associates tax	**(24.9)**	9.2
Tax charge on joint-ventures and associates	**(2.2)**	(9.3)
Total tax charge	**(27.1)**	(0.1)

Provision for taxes in respect of current and prior periods are based on information at the balance sheet date. These balances will change as new accounting estimates are developed during the period as a result of new events and additional information.
The tax charge will be unaffected by the payment of dividends by the Company to its shareholders.

e) Factors that may affect future tax charges

Tax losses and other deductible temporary differences with a value of £934.6m (£561.0m) have not been recognised as their use is uncertain or not currently anticipated. The increase is due to the resolution of prior years loss position with the tax authorities.

The losses and temporary differences have no expiry date.

At December 31, 2005, the group has not provided deferred tax in relation to temporary differences on its foreign subsidiaries, associates or joint-ventures. Quantifying the temporary differences is not practical, however, based on current enacted law and on the basis that the group can control the timing and realisation of these temporary differences, no material tax consequences are expected to arise.

9 Discontinued operations

During 2005, Hanson Aggregates North America sold its 50% interest in the joint-venture Campbell Concrete and Materials, a ready-mixed concrete and aggregates business operating in Houston, Texas on June 17 for £31.0m; and Hanson Continental Europe disposed of 19 ready-mixed concrete sites on May 13 for £14.0m, following restructuring of its Spanish operations.

The operations of Seagoe, a drainage business based in Northern Ireland, are not considered to be core to the strategic direction of Hanson Building Products UK. As such, these operations were classified as held for sale at the balance sheet date and were subsequently sold for £4.0m on January 31, 2006.

During 2004, Hanson Building Products UK sold its drainage business on May 14; Hanson Aggregates UK sold the Portland Stone operations on December 22 and the Pinden operations on December 24; and Hanson Asia Pacific sold its Thailand operations on July 19.

Note 9(a) below analyses the profit after tax of £2.8m earned during the year by the operations discontinued in 2005. The loss of £16.4m in the prior year represents the net loss after tax incurred during the prior year by the operations discontinued in both 2004 and 2005.

Note 9(b) below analyses the profit after tax of £2.3m resulting from the disposal of operations discontinued in 2005. The profit of £10.4m in the prior year represents the profit on disposal after tax of discontinued operations disposed of during 2004.

Note 9(c) below analyses the loss after tax of £12.4m that resulted from adjustments in the current year to the profit or loss on disposals (and other income and expenses) of operations that were discontinued in prior years. The loss after tax of £50.0m in 2004 represents adjustments made in the prior year to the profit or loss on disposals (and other incomes and expenses) of operations that were discontinued prior to 2005.

Note 9(d) provides an analysis of the net cash inflow after financing of £1.4m generated from operations discontinued in 2005. The net cash inflow of £5.3m in the prior year represents the cash flows generated during the prior year by operations discontinued in 2005 and 2004.

Note 9(e) provides an analysis of the net assets of discontinued operations that were disposed of or classified as held for sale in 2005. The comparative provides the equivalent information for operations disposed of or held for sale in 2004.

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9 Discontinued operations continued

	2005	2004
	£m	£m
a) Current year profit/(loss) after taxation of discontinued operations		
Group turnover	**24.0**	81.3
Costs and overheads	**(23.0)**	(77.3)
Group operating profit before impairments	**1.0**	4.0
Share of joint-ventures and associates profit after tax	**2.6**	3.2
Operating profit before impairments	**3.6**	7.2
Operating impairments		(21.9)
Operating profit/(loss)	**3.6**	(14.7)
Finance costs		
Profit/(loss) before tax	**3.6**	(14.7)
Tax	**(0.8)**	(1.7)
Profit/(loss) after tax	**2.8**	(16.4)
By primary segment		
North America	**1.5**	(19.9)
UK	**0.9**	0.8
Asia Pacific		1.6
Continental Europe	**0.4**	1.1
Profit/(loss) after tax	**2.8**	(16.4)
b) Profit on disposals in the current year, after tax		
Loss on disposal of North America operations	**(0.4)**	
Profit on disposal of Continental Europe operations	**5.8**	
Profit on disposal of Asia Pacific operations		7.9
Profit on disposal of UK operations		2.6
Profit on disposals of Australian operations		1.0

Net profit on disposals before tax	**5.4**	11.5
Tax	**(3.1)**	(1.1)
Net profit on disposals after tax	**2.3**	10.4

c) Loss on disposals in prior years, after tax

Receipts related to terminated operations	**1.3**	4.1
Asbestos	**(22.4)**	(79.7)
Loss on other disposals and terminations	**(11.7)**	(19.0)
Release of demerger provisions and other creditors	**7.0**	5.5
Net loss on disposals before tax	**(25.8)**	(89.1)
Tax	**13.4**	39.1
Net loss on disposals after tax	**(12.4)**	(50.0)

Included in the loss on other disposals and terminations charge of £11.7m (charge of £19.0m) is a charge of £13.0m (charge of £4.8m) before tax relating to the cost of ancillary litigation and bodily injury claims against discontinued operations in the USA. These cash costs now exceed the provision established at the time of demerger and charges of a similar nature are expected in the future.

Included within the asbestos charge of £22.4m (charge of £79.7m) is a charge of £0.6m (£nil) due to discounting. The tax credit on loss from prior years disposals of £13.4m (credit of £39.1m) includes a credit of £8.7m (credit of £31.1m) relating to asbestos. This results in a post-tax charge due to asbestos of £13.7m (£48.6m) which is described in more detail in note 21.

d) Cash flows of discontinued operations

	2005	2004
	£m	£m
Operating activities	**1.4**	6.0
Investing activities		(0.7)
	1.4	5.3

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for the 12 months ended December 31, 2005

9 Discontinued operations continued

e) Assets and liabilities of discontinued operations

	2005	**2005**	2004	2004
	Disposal groups held for sale	**Operations disposed of**	Disposal groups held for sale	Operations disposed of
	£m	**£m**	£m	£m
Goodwill	**0.4**	**3.5**		6.5
Property, plant and equipment	**2.2**	**2.0**		17.4
Joint-ventures and associates		**29.7**		
Inventories	**0.9**			7.9
Receivables				9.6
Cash and cash equivalents				1.7
Payables				(5.0)
Provisions				(0.3)
	3.5	**35.2**		37.8
Profit on disposals before tax (including £0.1m (£0.3m) in respect of transferring the cumulative foreign exchange on disposal)		**5.4**		4.3
Cash consideration (net of disposal costs)		**40.6**		42.1

10 Dividends

Equity dividends on ordinary shares paid during the year:

	2005	2004
	£m	£m
Final dividend for 2004: 12.80p (2003: 11.95p)	**93.5**	87.8
Interim dividend for 2005: 5.85p (2004: 5.35p)	**42.7**	39.5
Dividends paid during the year	**136.2**	127.3

Recommended final dividend for 2005: 14.15p (2004: 12.80p)	**102.2**	93.5

The final dividend of 14.15p recommended by the Board is payable on May 5, 2006, subject to shareholder approval, to those ordinary shareholders on the register at the close of business on April 7, 2006. The Investor information section of the Annual Report contains details of Hanson s dividend policy and reinvestment programme.

11 Earnings per ordinary share

The calculation of the basic earnings per ordinary share of 53.2p (36.0p) is based on the weighted average of 728,300,283 (734,257,732) ordinary shares in issue during the year and profit attributable to equity holders of the Company of £387.3m (£264.3m). The basic earnings per ordinary share for continuing operations of 54.2p (43.6p) is calculated using the same number of shares referred to above and on earnings of £394.6m (£320.3m). Earnings per share is also calculated below, before impairments, since the Directors consider that this gives a useful indication of underlying performance.

The calculation of the diluted earnings per ordinary share of 52.6p (35.6p) is based on the weighted average of 735,664,121 (741,105,680) ordinary shares and the profit attributable to equity holders of the Company of £387.3m (£264.3m). The diluted earnings per ordinary share of continuing operations of 53.6p (43.2p) is calculated using the same number of shares referred to immediately above and on earnings of £394.6m (£320.3m).

The reconciliation from basic earnings per share to diluted earnings per share is given as follows:

	2005	2004
	Number of shares	Number of shares
Weighted average ordinary shares in issue	**736,968,849**	736,968,849
Less: Weighted average own shares held	**(8,668,566)**	(2,711,117)
Basic number of shares	**728,300,283**	734,257,732
Options	**502,975**	223,211
Sharesave	**622,471**	879,847
Long-term incentive plan	**6,238,392**	5,744,890
Diluted number of shares	**735,664,121**	741,105,680

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11 Earnings per ordinary share continued

	2005	**2005**	**2005**	2004	2004	2004
	Unadjusted	**Discontinued operations**	**Continuing operations**	Unadjusted	Discontinued operations	Continuing operations
	£m	**£m**	**£m**	£m	£m	£m
Earnings						
Earnings	**387.3**	**7.3**	**394.6**	264.3	56.0	320.3
Adjustment for impairments after tax	**9.6**		**9.6**	44.9	(21.9)	23.0
Earnings before impairments	**396.9**	**7.3**	**404.2**	309.2	34.1	343.3
Earnings per share (in pence)						
Basic	**53.2p**	**1.0p**	**54.2p**	36.0p	7.6p	43.6p
Adjustment for impairments	**1.3p**		**1.3p**	6.1p	(3.0)p	3.1p
Basic before impairments	**54.5p**	**1.0p**	**55.5p**	42.1p	4.6p	46.7p
Diluted	**52.6p**	**1.0p**	**53.6p**	35.6p	7.6p	43.2p
Adjustment for impairments	**1.3p**		**1.3p**	6.1p	(3.0)p	3.1p
Diluted before impairments	**53.9p**	**1.0p**	**54.9p**	41.7p	4.6p	46.3p

The basic earnings per share figure of 53.2p (36.0p), is calculated by taking the profit attributable to equity holders of the Company for the financial year (described as earnings above), and dividing this by the weighted average ordinary shares in issue, after deducting shares held in employee trusts or as treasury shares. The basic earnings number used has been adjusted by adding back impairments above.

The diluted earnings per share figure of 52.6p (35.6p) is calculated by taking the basic number of shares above and adjusting these for the notional exercise of outstanding long-term incentive awards and options, where these would be deemed to have a dilutive impact.

The basic and diluted earnings per share of the 2005 and 2004 acquisitions is 1.6p and 0.3p respectively.

12 Intangible assets

		2005	**2005**	**2005**	2004	2004	2004
		Goodwill	**Other intangible assets**	**Total**	Goodwill	Other intangible assets	Total
	Notes	**£m**	**£m**	**£m**	£m	£m	£m
Cost							
At January 1		**713.1**	**16.1**	**729.2**	777.2	11.4	788.6

Acquisitions	25	**190.1**	**25.6**	**215.7**	35.1	4.4	39.5
Additions			**8.4**	**8.4**		1.9	1.9

Other intangible assets include brand names with a carrying value of £10.7m (£nil) within Hanson Building Products UK that have an indefinite useful life. Market research, using qualitative and quantitative methods provides evidence that the brands will generate net cash inflows for the group for an indefinite period. Other intangible assets with a finite useful life are amortised on a straight line basis over a period of 1-27 years, and those that were acquired during the year have a weighted average amortisation period of 11 years.

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13 Property, plant and equipment

	Notes	**2005**	**2005**	**2005**	2004	2004	2004
		Land, buildings and natural resources	**Plant and equipment**	**Total**	Land, buildings and natural resources	Plant and equipment	Total
	Notes	**£m**	**£m**	**£m**	£m	£m	£m
Cost At January 1		**1,837.6**	**1,967.0**	**3,804.6**	1,984.5	1,562.5	3,547.0
Acquisitions	25	**66.2**	**67.6**	**133.8**	17.6	21.8	39.4
Additions at cost		**14.1**	**182.0**	**196.1**	18.2	184.8	203.0
Disposals		**(11.6)**	**(43.9)**	**(55.5)**	(106.8)	(77.8)	(184.6)
Reclassifications (to)/from assets held for sale		**3.7**	**(3.1)**	**0.6**	5.6		5.6
Reclassifications (to)/from other asset categories		**6.7**	**(13.3)**	**(6.6)**	3.9	(17.6)	(13.7)
Reallocations*		**16.8**	**(29.9)**	**(13.1)**		373.7	373.7
Exchange adjustments		**127.7**	**134.5**	**262.2**	(85.4)	(80.4)	(165.8)
At December 31		**2,061.2**	**2,260.9**	**4,322.1**	1,837.6	1,967.0	3,804.6
Depreciation and depletion At January 1		**329.6**	**1,036.4**	**1,366.0**	363.6	617.4	981.0
Charge for the year		**47.2**	**147.4**	**194.6**	48.1	143.3	191.4
Provision for impairment	6	**4.7**	**1.2**	**5.9**	17.6	6.6	24.2
Reversal of impairments	6	**(3.8)**	**(15.4)**	**(19.2)**			
Disposals		**(5.7)**	**(32.1)**	**(37.8)**	(82.5)	(56.2)	(138.7)
Reclassifications (to)/from assets held for sale		**(0.3)**	**(1.7)**	**(2.0)**	1.2		1.2
Reclassifications (to)/from other asset categories		**1.9**	**(11.2)**	**(9.3)**	4.6	(7.1)	(2.5)

Reallocations*		**(13.1)**	**(13.1)**		373.7	373.7
Exchange adjustments	**29.2**	**72.4**	**101.6**	(23.0)	(41.3)	(64.3)
At December 31	**402.8**	**1,183.9**	**1,586.7**	329.6	1,036.4	1,366.0
Net book value at January 1	**1,508.0**	**930.6**	**2,438.6**	1,620.9	945.1	2,566.0
Net book value at December 31	**1,658.4**	**1,077.0**	**2,735.4**	1,508.0	930.6	2,438.6

*Reallocations within the prior year include adjustments to the cost and cumulative depreciation of property, plant and equipment acquired through previous acquisitions. These have no impact on net book value

	2005	2004
Land, buildings and natural resources comprise the following:	**£m**	£m
Aggregates	**1,043.6**	1,000.7
Clay	**133.0**	132.0
Other land and buildings	**481.8**	375.3
At December 31	**1,658.4**	1,508.0
Capital expenditure contracted at the balance sheet date	**123.1**	28.5

	2005	2004
Finance leased assets included in plant and equipment above	**£m**	£m
Cost of finance leased assets included in plant and equipment	**66.8**	80.8
Cumulative depreciation of finance leased assets	**(44.9)**	(49.7)
Net book amounts at December 31	**21.9**	31.1

The net book value of plant and equipment includes £0.1m (£0.1m) in respect of assets in the course of construction.

14 Investments

	2005	2004
	£m	£m
Investments in joint-ventures	**211.2**	215.9
Loans to joint-ventures	**47.0**	47.3
	258.2	263.2
Investments in associates	**43.9**	46.9

Loans to associates		1.6
	43.9	48.5
Total investments in joint-ventures and associates	**302.1**	311.7
Other investments	**0.2**	0.2
	302.3	311.9

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14 Investments continued

The group s share of assets, liabilities, income and expenses of joint-ventures and associates are as follows:

	Joint-ventures	Joint-ventures	**Associates**	Associates
	2005	2004	**2005**	2004
	£m	£m	**£m**	£m
Non-current assets	**274.6**	267.7	**38.6**	33.3
Current assets	**82.7**	80.8	**18.5**	31.4
Total assets	**357.3**	348.5	**57.1**	64.7
Non-current liabilities	**(95.6)**	(87.7)	**(8.8)**	(1.9)
Current liabilities	**(50.5)**	(44.9)	**(4.4)**	(15.9)
Total liabilities	**(146.1)**	(132.6)	**(13.2)**	(17.8)
Net assets	**211.2**	215.9	**43.9**	46.9
Total income	**276.7**	264.2	**68.2**	81.7
Total expense	**(241.1)**	(267.3)	**(60.7)**	(74.1)
	35.6	(3.1)	**7.5**	7.6

As at December 31, 2005 the share of joint-ventures and associates contingent liabilities totalled £7.6m and capital commitments were £11.2m.

Investments in joint-ventures at December 31, 2005 include goodwill at cost of £117.3m (£143.2m) . The net book value of goodwill at December 31, 2005 was £117.3m (£123.6m) . The Directors estimated the value of unlisted investments at December 31, 2005 to be £302.3m (£311.9m) .

A list of the significant subsidiaries, including the name, country of incorporation and proportion of ownership interest is given in the Company s separate financial statements on page 142.

Principal joint-ventures and associates, none of which are held directly by the Company, are as follows:

	Principal activity	Share capital and reserves	Full year pre-tax profit	% owned	Country	Year ended at
		£m	£m			
Principal joint-ventures at December 31, 2005						
United Marine Holdings Ltd	marine aggregates	30.5	11.3	50	UK	December

Cement Australia Holdings Ltd	cement production	184.7	52.0	25	Australia	December
Pioneer Road Services Pty Ltd	road surfacing	35.5	8.8	50	Australia	December
Metromix Pty Ltd	ready-mixed concrete and quarry operations	10.8	2.3	50	Australia	March
Piedras y Arenas Baja, S de R L de CV	quarry operations	13.1	(0.4)	50	Mexico	December
Alliance Construction Materials Ltd	ready-mixed concrete and quarry operations	6.5	6.7	50	Hong Kong	December
Principal associate at December 31, 2005						
Midland Quarry Products Limited	quarry operations	77.2	18.2	50	UK	December

15 Inventories

	2005	2004
	£m	£m
Raw materials	**59.4**	46.0
Work in progress	**12.4**	9.8
Consumables and other	**43.7**	29.1
Finished goods	**266.9**	210.9
	382.4	295.8

Inventories are stated net of provisions for slow moving and impaired items of £33.3m (£24.1m).

16 Assets held for sale

	2005	2004
	£m	£m
Disposal groups held for sale	**3.5**	
Other assets held for sale	**5.0**	12.6
	8.5	12.6

Details of disposal groups held for sale are set out in note 9. Other assets held for sale consist of land and buildings reclassified from property, plant and equipment that are surplus to the group s requirements as the group intends to dispose of these assets within 12 months of reclassification rather than use them in the continuing operations. Profits or losses on disposal of assets held for sale are included within group operating profit before impairments see note 2(b). Disposal groups and other assets held for sale are analysed on a segmental basis in note 2(e).

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17 Receivables

Trade and other current receivables		Notes	2005 £m	2004 £m
Trade receivables			**629.0**	594.5
Amounts due from joint-ventures			**7.0**	5.3
Amounts due from associates			**0.7**	0.3
Prepayments			**31.3**	37.0
Amounts recoverable from insurers	Koppers	21	**39.3**	45.2
Amounts recoverable from insurers	asbestos	21	**7.1**	5.1
Derivatives			**6.2**	49.2
Other receivables			**54.2**	51.4
			774.8	788.0

Non-current receivables		Notes	2005 £m	2004 £m
Amounts recoverable from insurers	Koppers	21	**101.5**	117.0
Amounts recoverable from insurers	asbestos	21		7.4
Derivatives			**33.9**	
Other receivables			**46.8**	34.7
			182.2	159.1

The Directors estimate that the carrying amount of trade and other receivables approximates their fair value.

18 Cash and cash equivalents

	2005	2004

	£m	£m
Cash at bank and in hand	**183.9**	131.7
Short-term deposits	**899.1**	1,262.6
	1,083.0	1,394.3

Cash at bank and in hand includes £16.8m in respect of cash held in notional cash pools under which the banks have the right of set-off against overdrafts (note 20) of the same amount. These amounts have not been set-off in the accounts as the group does not intend to offset them. Cash at bank and in hand earns interest at floating rates based on market deposit rates. Short-term deposits are made for varying periods of up to three months and earn interest at the respective short-term deposit rates.

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise the following at December 31:

		2005	2004
	Notes	**£m**	£m
Cash at bank and in hand		**183.9**	131.7
Short-term deposits		**899.1**	1,262.6
Bank overdrafts	20	**(20.9)**	(5.3)
		1,062.1	1,389.0

Cash at bank and in hand includes £53.6m (£43.6m) held by two group captive insurance companies, £36.0m (£21.2m) of which is effectively pledged to insurance companies in support of potential claims under the deductible element of group insurance policies. The excess is available to the group.

19 Payables

	2005	2004
Trade and other current payables	**£m**	£m
Trade payables	**305.5**	304.4
Amounts due to joint-ventures	**21.1**	19.1
Amounts due to associates	**8.7**	0.6
Other taxes	**37.1**	28.1
Accruals and deferred income	**145.9**	138.7

Derivatives	**13.2**	
Other payables	**47.0**	71.0
	578.5	561.9

	2005	2004
Non-current payables	**£m**	£m
Derivatives	**26.4**	
Other payables	**57.6**	31.9
	84.0	31.9

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20 Borrowings

Current borrowings	2005 £m	2004 £m
Overdrafts	**20.9**	5.3
Bank loans	**85.6**	123.4
Debenture loans	**803.3**	901.2
Other loans	**0.6**	0.8
Finance leases	**0.6**	0.5
	911.0	1,031.2

Current debenture loans include £194.4m (£26.0m) relating to borrowings under a US commercial paper programme and £593.0m (£520.4m) relating to borrowings under a European commercial paper programme.

Non-current borrowings	2005 £m	2004 £m
Bank loans	**285.6**	281.5
Debenture loans	**874.2**	774.3
Other loans	**1.6**	2.0
Finance leases	**0.2**	0.5
	1,161.6	1,058.3

The nominal value of non-current borrowings is repayable as follows:	2005 £m	2004 £m
2006		1.2
2007	**86.2**	82.2
2008	**200.2**	200.1
2009	**0.2**	0.3
2010	**437.1**	390.8

Thereafter	**437.1**	390.7

Non-current debenture loans include two bonds each with a nominal value of US$750m, maturing in September 2010 and March 2013 with fixed coupon rates of 7.875% and 5.25% respectively. Non-current bank loans include an unsecured 4.57% fixed rate debt obligation with a nominal value of £199.8m repayable in 2008 (swapped to a floating rate of interest) and A$200m drawn for a period of less than three months on a revolving credit facility that matures in 2007.

A reconciliation of net cash outflow after financing to net debt is set out below:

	2005	2004
	£m	£m
Net cash outflow after financing	**(364.3)**	(90.5)
Decrease in borrowings	**439.3**	445.3
Increase in borrowings	**(249.1)**	(206.6)
(Increase)/decrease in net debt resulting from cash flows	**(174.1)**	148.2
Non cash movements in debt: Fair value adjustments	**(8.8)**	
Effective interest adjustments	**(12.3)**	
Borrowings in subsidiary undertakings (acquired)/disposed of	**(1.9)**	(1.6)
Other movements	**(1.6)**	(1.4)
Exchange movements	**(95.7)**	101.8
Movement in net debt in the year	**(294.4)**	247.0
Opening net debt	**(695.2)**	(942.2)
Closing net debt	**(989.6)**	(695.2)

Net debt comprises the following balance sheet items at December 31:

		2005	2004
	Notes	**£m**	£m
Cash and cash equivalents	18	**1,083.0**	1,394.3
Current borrowings	20	**(911.0)**	(1,031.2)
Non-current borrowings	20	**(1,161.6)**	(1,058.3)
Net debt		**(989.6)**	(695.2)

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Notes to the accounts continued
for the 12 months ended December 31, 2005

21 Provisions

	Asbestos	Koppers liabilities	Reclamation obligations	Legal, insurance, environmental and other	Total
	£m	£m	£m	£m	£m
At January 1, 2004	178.6	201.2	126.2	47.3	553.3
(Decrease)/increase in provisions due to discounting	(43.0)	10.0	5.8	0.9	(26.3)
Provided in year	121.6	4.6	6.6	20.9	153.7
Released in year			(0.8)	(7.0)	(7.8)
(Disposals)/acquisitions			(3.6)	0.3	(3.3)
Reallocations and other			1.8		1.8
Utilised	(32.4)	(39.5)	(6.7)	(12.1)	(90.7)
Exchange movements	(15.8)	(14.1)	(6.5)	(2.5)	(38.9)
At December 31, 2004	**209.0**	**162.2**	**122.8**	**47.8**	**541.8**
Increase/(decrease) in provisions due to discounting	0.5	(5.4)	2.5	1.2	(1.2)
Provided in year	21.8	1.3	18.7	28.8	70.6
Released in year			(21.2)	(11.3)	(32.5)
Acquisitions			2.3	0.1	2.4
Reallocations and other			1.2	(1.2)	
Utilised	(23.8)	(34.2)	(8.5)	(16.5)	(83.0)
Exchange movements	24.7	16.9	8.7	3.9	54.2
At December 31, 2005	**232.2**	**140.8**	**126.5**	**52.8**	**552.3**

	2005	2004
	£m	£m
Current provisions	**104.3**	99.7

Non-current provisions	**448.0**	442.1
	552.3	541.8

The decrease in provisions due to discounting of £1.2m is represented by an increase due to the unwind of the discount of £10.5m and a decrease due to the change in the discount rate of £11.7m.

Included within reclamation provisions release in the year of £21.2m (£0.8m) is £14.7m (£nil) resulting from a change in estimates of future cash flows.

Asbestos

Various of the Company s US subsidiaries are defendants, typically with many other companies, in lawsuits filed in state and federal courts by claimants who allege that they have suffered bodily injury as a result of exposure to asbestos-containing products, the manufacture of which by such subsidiaries ceased, depending on the subsidiary involved, between 1973 and 1984, which was prior to the time that these subsidiaries became members of the group.

The discounted pre-tax provision for the gross cost of asbestos is shown above. The related insurance asset is included within Receivables in note 17 and the deferred tax asset relating to asbestos payments is included within Deferred tax in note 22.

Claimant numbers and costs during the year

Information regarding the movement in asbestos claimants in the year and the cost of resolution in the year is provided below:

	2005	2004
New claimants	**10,350**	18,700
Resolutions	**(14,750)**	(7,150)
Outstanding claimants	**131,350**	135,750
Average gross cost of resolution ($)	**2,929**	8,294
Gross cost of resolution ($m)	**43.2**	59.3
Less insurance recoveries ($m)	**(11.5)**	(46.5)
Net cost before tax ($m)	**31.7**	12.8

New claimants were 10,350 for 2005, compared with the 18,700 claimants 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 file without illness or product identification. In the absence to date of federal reform, a number of states have introduced or are looking to introduce an unimpaired docket which will suspend claims until there is proven evidence of illness. Although outstanding claimants decreased as at the end of 2005 compared to 2004, this does not mean that the Company believes that 2005 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 pre-tax cost of asbestos for the year after insurance was $31.7m ($12.8m).

The aggregate amounts paid in settlement and average settlement payments in any given period, together with related defence costs, have fluctuated widely and are expected to continue to fluctuate widely depending on the nature of the claims resolved (including the proportion of which that are mass claims), disease mix, number of other defendants and jurisdiction of claim.

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21 Provisions continued

Each of the Company s relevant US subsidiaries, together with its insurance carriers and outside counsel, review each asbestos claim that is pursued by claimants. In many cases claimants are unable to demonstrate that any injury they have suffered resulted from exposure to the subsidiary s products, in which case their claim is generally dismissed without payment. In those cases where a compensatable disease, exposure to the subsidiary s products and causation can be established by claimants, the subsidiary generally settles for amounts that reflect the type of disease, the seriousness of the injury, the age of the claimant, the particular jurisdiction of the claim and the number and solvency of the other defendants.

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 disclosed as contingent liabilities (refer note 26). At present, based on detailed analysis and the assumptions noted below, the provision for those costs which are both probable and reliably estimable equates to approximately eight years of gross cost, assuming an annual level of approximately US$60m. 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.

Assumptions made in establishing the provision relate to the number, disease mix and location of future claimants, trends in dismissal rates, settlement and defence costs, resolution of all existing claimants, time scale of resolution of new claimants, the continued solvency of co-defendants and expected insurance recoveries. In light of the significant uncertainty associated with asbestos claims, there can be no guarantee that the assumptions used to estimate the provision for the cost of resolving asbestos claims will be an accurate prediction of the actual costs that may be incurred and as a result the provision will be subject to potential revision from time to time as additional information becomes available and to reflect any changes in trends.

Gross cost provision

The provision of $480.0m at January 1, 2005 was increased by $60.0m (the estimated gross cost for an additional year) and reduced by the gross cost incurred in 2005 of $43.2m, to give a closing provision at December 31, 2005 of $496.8m. This represents the estimated gross cost of asbestos for the next eight years, and is equivalent to $398.6m on a discounted basis, or £232.2m.

Movements in the provision for the year were as follows:

	January 1, 2004	Discount	Provided	Utilised	Exchange	January 1, 2005	Discount	Provided	Utilised	Exchange
Undiscounted $m										
Gross cost provision	316.8	—	222.5	(59.3)	—	480.0	—	60.0	(43.2)	—
Insurance asset	(72.6)	—	—	46.5	—	(26.1)	—	—	11.5	—
Net cost	244.2	—	222.5	(12.8)	—	453.9	—	60.0	(31.7)	—
Deferred tax asset	(95.2)	—	(86.8)	5.0	—	(177.0)	—	(23.4)	12.4	—
Post-tax net cost	149.0	—	135.7	(7.8)	—	276.9	—	36.6	(19.3)	—
Discounted $m										

Gross cost provision	316.8	(78.8)	222.5	(59.3)		401.2	0.9	39.7	(43.2)	
Insurance asset	(72.6)	2.1		46.5		(24.0)	0.3		11.5	
Net cost	244.2	(76.7)	222.5	(12.8)		377.2	1.2	39.7	(31.7)	
Deferred tax asset	(95.2)	29.9	(86.8)	5.0		(147.1)	(0.5)	(15.5)	12.4	
Post-tax net cost	149.0	(46.8)	135.7	(7.8)		230.1	0.7	24.2	(19.3)	
Discounted £m										
Gross cost provision	178.6	(43.0)	121.6	(32.4)	(15.8)	209.0	0.5	21.8	(23.8)	24.7
Insurance asset	(40.9)	1.1		25.4	1.9	(12.5)	0.1		6.4	(1.1)
Net cost	137.7	(41.9)	121.6	(7.0)	(13.9)	196.5	0.6	21.8	(17.4)	23.6
Deferred tax asset	(53.7)	16.3	(47.4)	2.7	5.5	(76.6)	(0.2)	(8.5)	6.8	(9.3)
Post-tax net cost	84.0	(25.6)	74.2	(4.3)	(8.4)	119.9	0.4	13.3	(10.6)	14.3

The rate used to discount the provision and insurance assets in 2005 was 5.30% (4.25%).

Insurance asset

The insurance asset of $26.1m at January 1, 2005 was reduced by insurance utilisation during the year of $11.5m, to give a closing insurance asset at December 31, 2005 of $14.6m, equivalent to £7.1m on a discounted basis.

Most of the US subsidiaries involved with asbestos claims have had agreements with their respective insurance carriers regarding the defence and settlement of asbestos claims, the terms of which varied for each such subsidiary. These insurance arrangements have resulted in the insurance companies having met substantially all of the amounts such subsidiaries have paid in the past in settlements and defence costs. More of these costs are now being borne by the relevant subsidiaries as these arrangements are assumed, for accounts purposes, to be exhausted.

In February 2006, one of the Company s US subsidiaries reached a settlement with its insurers covering approximately 20% of the group s present asbestos costs. Details are provided in note 31.

Certain other US subsidiaries, not party to the recent settlement, continue to pursue litigation and negotiation to maximise the insurance cover available. Litigation proceedings are progressing in the state of California with a view to establishing whether or not substantially all of the primary cover available to one of our US subsidiaries has been exhausted and, to the extent that such cover has been exhausted, the amount of excess cover that is available to it.

Deferred tax asset

The net cost of asbestos is deductible for US taxation at an estimated rate of 39%. At December 31, 2005, the deferred tax asset relating to the discounted asbestos provision, net of insurance, was £87.8m as shown in note 22.

Income statement

The net impact on the income statement, shown under discontinued items in note 9, was a charge of £13.7m. This consists of a

discounted charge after tax of £13.3m, as shown in the Provided column of the above table, less the net impact of the discount unwind and change in discount rate which was a charge of £0.4m after tax as shown in the Discount column of the above table.

Cash flow

The net cash flow impact, shown within net cash inflow from operating activities, was a net cash outflow of £10.6m shown in the Utilised column of the above table.

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Notes to the accounts continued
for the 12 months ended December 31, 2005

21 Provisions continued

Risk factors

Factors which could cause actual results to differ from these estimates include: (i) adverse trends in the ultimate number of claimants filing asbestos claims 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 and/or defence costs, dismissal rates, and/or judgment amounts; (iii) increases or decreases in the amount of insurance available to cover asbestos claims; (iv) the emergence of new trends or legal theories that enlarge the number of potential claimants; (v) the impact of bankruptcies of other defendant 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 costs of the Company s US subsidiaries involved in resolving asbestos claims may be materially different from current estimates and consequently 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 such costs 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.

Koppers liabilities

Koppers environmental obligations and related costs arise primarily from the US chemical and related operations formerly operated by Koppers Company Inc, a company acquired by Beazer PLC which itself was acquired by the Company in 1991. Members of the Beazer group remain contractually and statutorily liable for certain environmental costs relating to these discontinued operations. During 1998 an agreement was signed under which, for a one-off premium and related transaction costs totalling $275.0m, insurance cover of $800.0m in perpetuity (after payment by members of the Beazer group of the first $100.0m of remediation costs arising since January 1, 1998) was provided by subsidiaries of two reinsurance companies, Centre Solutions and Swiss Re.

At the end of 2005, $413.9m of the $800.0m insurance cover had been utilised. The estimate of future probable cost, discounted at 5.3% (5.1%), is shown as a provision of £140.8m at December 31, 2005. These costs are the responsibility of the insurers and hence a receivable of £140.8m is recorded at December 31, 2005 as shown in note 17.

Based upon existing known circumstances, the Company considers that the remaining $386.1m of insurance cover should meet the related future costs, recognising that the estimate of future probable costs could increase. Factors which could cause such remediation costs to increase include (i) unknown adverse conditions arising at sites; (ii) third party claims in excess of estimates; (iii) changes to regulatory requirements; (iv) changes in remediation techniques; and (v) any other significant variations to assumptions made in support of these estimates.

Other provisions

Long-term provisions have been discounted at rates of up to 6.25%.

Reclamation obligations have been established to cover those situations where members of the group have either a statutory or constructive obligation to carry out remedial works. Reclamation provisions are expected to be utilised over the life of the relevant site. Legal, insurance, environmental and other provisions relate to acquisitions, disposals and rationalisations both arising on acquisitions and provided for in current and prior years. Legal, insurance, environmental and other provisions are expected to be utilised on a reducing basis over the next five years, depending in each case on the nature of the underlying obligation.

Where appropriate, reclamation and environmental provisions have been established after taking into account the opinions of suitably qualified and experienced consultants and after estimating the costs in line with current practice and standards.

22 Tax receivable/payable and deferred tax

Current and non-current tax receivable/payable includes expected taxes receivable/payable for tax filings and provisions for potential adjustments by tax authorities with respect to the tax filings in previous years. Examination of tax filings by tax authorities may last several years beyond the year of filing.

Deferred tax assets

	Property, plant and equipment	Other liabilities	Other assets	Total
	£m	£m	£m	£m
At January 1, 2004	0.5	1.2	0.5	2.2
(Charge)/credit to income statement	(1.7)	1.5	(0.5)	(0.7)
Acquisitions/disposals	0.5			0.5
Exchange movements		(0.1)		(0.1)
At December 31, 2004	**(0.7)**	**2.6**		**1.9**
Charge to income statement	(0.1)	(1.2)		(1.3)
Exchange movements		0.1		0.1
At December 31, 2005	**(0.8)**	**1.5**		**0.7**

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22 Tax receivable/payable and deferred tax continued

Deferred tax liabilities

	Property, plant and equipment	Other assets	Other liabilities	Pensions	Asbestos	Losses	Total
	£m	£m	£m	£m	£m	£m	£m
At January 1, 2004	(526.4)	(3.5)	157.8	14.1	53.7	9.3	(295.0)
(Charge)/credit to income statement	14.6	8.2	(55.0)	35.6	28.4	7.1	38.9
Acquisitions/disposals			0.2			0.7	0.9
Credited to reserves				4.9			4.9
Exchange movements	22.2	(0.1)	(8.0)	2.9	(5.5)	(1.2)	10.3
At December 31, 2004	**(489.6)**	**4.6**	**95.0**	**57.5**	**76.6**	**15.9**	**(240.0)**
(Charge)/credit to income statement	12.5	(5.8)	(4.0)	(5.0)	1.9	(2.1)	(2.5)
Acquisitions/disposals	(21.2)	(0.4)	0.8				(20.8)
Utilised and other		1.7					1.7
Credited to reserves			6.1	5.7			11.8
Exchange movements	(32.6)	0.1	8.8	6.0	9.3	1.4	(7.0)
At December 31, 2005	**(530.9)**	**0.2**	**106.7**	**64.2**	**87.8**	**15.2**	**(256.8)**

23 Share capital

The share capital of the Company is shown below:

	2005 Number	2004 Number	**2005 £m**	2004 £m
Authorised				
Ordinary shares of £0.10 (£0.10)	**1,000,000,000**	1,000,000,000	**100**	100
Allotted, called-up and fully paid				
Ordinary shares of £0.10 (£0.10)	**736,968,849**	736,968,849	**73.7**	73.7

Treasury shares				
Ordinary shares of £0.10 (£0.10)	**14,685,000**	6,350,000	**1.5**	0.6

During the period January 1, 2005 to December 31, 2005 no ordinary share capital was allotted.

At December 31, 2005, 6,780,839 (7,989,949) ordinary shares were reserved to satisfy rights in respect of various employee share option schemes. The nominal value of reserved shares totalled £0.7m (£0.8m) at the balance sheet date, as set out below:

i) options were outstanding over 2,927,109 ordinary shares under the Share Option Plan. Of these, 164,775 were exercisable at dates up to 2011 at a subscription price of 473.3p per share and 180,718 were exercisable at dates up to 2012 at a subscription price of 461.75p per share. Subject to performance criteria being met, the remaining options will be capable of being exercised at dates up to 2015. Of these 647,618 had a subscription price of 514.3p per share, 710,196 had a subscription price of 439.6p per share and 1,223,802 had a subscription price of 290.4p per share. At December 31, 2004 options were outstanding over 3,207,545 ordinary shares under the Share Option Plan. Of these 282,883 were exercisable at dates up to 2011 at a subscription price of 473.3p per share. Subject to performance criteria being met, the remaining options will be capable of being exercised at dates up to 2014. Of these 986,516 had a subscription price of 461.75p per share, 710,196 had a subscription price of 439.6p per share and 1,228,372 had a subscription price of 290.4p per share;

ii) options were outstanding over 3,853,729 (4,461,233) ordinary shares under the Sharesave Scheme and were capable of being exercised at dates up to 2013, with subscription prices ranging from 318.0p to 428.0p per share with an average of 354.75p (332.5p) per share; and

iii) no options (321,812) were outstanding under the closed Executive Share Option Schemes. The options outstanding at December 31, 2004 all had a subscription price of 356.4p per share.

24 Reconciliation of changes in total equity

	Share capital (note 23)	Own shares	Cash flow hedge reserve	Cumulative translation reserve	Retained earnings	Other reserves	Equity attributable to equity holders of the Company	Minority interest	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m
At January 1, 2004	73.7	(8.9)			1,289.5	972.4	2,326.7	2.7	2,329.4
Recognised income and expense									