NATIONAL COMMERCE FINANCIAL CORP
Form 425
September 14, 2004

Filed by SunTrust Banks, Inc.
pursuant to Rule 425
under the Securities Act of
1933, as amended and deemed
filed under Rule 14a-6
under the Securities Exchange Act
of 1934, as amended

Subject Company: National
Commerce Financial Corporation
Commission File No.: 333-116112

On September 13, 2004, SunTrust Banks, Inc. made available the following materials:

LEHMAN BROTHERS

2004 FINANCIAL SERVICES CONFERENCE

SEPTEMBER 2004

L. Phillip Humann

President, Chairman and CEO

This presentation contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements include, but are not limited to, statements about the benefits of the merger between SunTrust Banks, Inc. (SunTrust) and National Commerce Financial Corporation (NCF), including future financial and operating results, SunTrust s plans, objectives, expectations and intentions and other statements that are not historical facts. Such statements are based upon the current beliefs and expectations of SunTrust s and NCF s management and are subject to significant risks and uncertainties. Actual results may differ from those set forth in the forward-looking statements. The following factors, among others, could cause actual results to differ from those set forth in the forward-looking statements: the ability to obtain governmental approvals of the merger on the proposed terms and schedule; the failure of SunTrust and NCF stockholders to approve the merger; the risk that the businesses will not be integrated successfully; the risk that the cost savings and any revenue synergies from the merger may not be fully realized or may take longer to realize than expected; disruption from the merger making it more difficult to maintain relationships with clients, employees or suppliers; increased competition and its effects on pricing, spending, third-party relationships and revenues; the risk of new and changing regulation in the U.S. and internationally. Additional factors that could cause SunTrust s and NCF s results to differ materially from those described in the forward-looking statements can be found in the 2003 Annual Reports on Form 10-K of SunTrust and NCF, and in the Quarterly Reports on Form 10-Q of SunTrust and NCF filed with the Securities and Exchange Commission and available at the Securities and Exchange Commission s internet site (http://www.sec.gov). The forward-looking statements in this presentation speak only as of the date of the filing, and neither SunTrust nor NCF assumes any obligation to update the forward-looking statements or to update the reasons why actual results could differ from those contained in the forward-looking statements.

This presentation could include some non-GAAP measures to describe SunTrust s performance. The reconciliation of those measures to GAAP measures can be found in SunTrust s earnings press release, on SunTrust s website in the press release section of the Investor Relations pages and in the appendix of this presentation.

1

Shareholders are urged to read the joint proxy statement/prospectus regarding the proposed transaction, which was first mailed to shareholders of SunTrust and NCF on or about August 6, 2004, because it contains important information. Shareholders are also able to obtain a free copy of the joint proxy statement/prospectus, as well as other filings containing information about SunTrust and NCF, without charge, at the Securities and Exchange Commission's internet site (http://www.sec.gov). Copies of the joint proxy statement/prospectus and the filings with the Securities and Exchange Commission that are incorporated by reference in the joint proxy statement/prospectus can also be obtained, without charge, by directing a request to SunTrust Banks, Inc., 303 Peachtree St., N.E., Atlanta, Georgia 30308; Attention: Investor Relations; or National Commerce Financial Corporation, One Commerce Square, Memphis, Tennessee, 38159; Attention: Investor Relations.

The respective directors and executive officers of SunTrust and NCF and other persons may be deemed to be participants in the solicitation of proxies in respect of the proposed merger. **Information regarding SunTrust s directors and executive officers is available in the proxy statement filed with the Securities and Exchange Commission by SunTrust on March 2, 2004, and information regarding NCF s directors and executive officers is available in the proxy statement filed with the Securities and Exchange Commission by**

NCF on March 17, 2004. Other information regarding the participants in the proxy solicitation and a description of their direct and indirect interests, by security holdings or otherwise, are contained in the joint proxy statement/prospectus and other relevant materials to be filed with the Securities and Exchange Commission when they become available.

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The information provided herein, including related questions and answers, may contain estimates of future operating results for SunTrust. These estimates constitute forward-looking statements (within the meaning of the Private Securities Litigation Reform Act of 1995) which involve significant risks and uncertainties. Any such statements are made in reliance on the safe harbor protections provided under the Private Securities Act of 1995. Actual results could differ materially from those contained in or implied by such statements for a variety of reasons including, but not limited to:

Changes in interest rates,

Changes in accounting principles, policies, or guidelines,

Significant changes in the economic scenario,

Significant changes in legislation or regulatory requirements,

Changes occur in business conditions or the banking competitive environment,

Significant changes in securities markets, and

Litigation risks

SunTrust does not undertake to update forward-looking statements to reflect circumstances or events that occur after the date the forward-looking statements are made.

This presentation could include some non-GAAP measures to describe our Company s performance. The reconciliation of those measures to GAPP measures can be found in our earnings press release, on our website in the press release section of the Investor Relations pages and in the appendix of this presentation.

FORWARD LOOKING STATEMENT

3

TRANSLATING POTENTIAL INTO PERFORMANCE

POTENTIAL

High growth geographic
footprint

Optimal business mix
and operating model

Fortress balance sheet

Investments for the
future

PERFORMANCE

Revenue momentum
and bottom line results

Net interest income and
fee income growth

Industry-leading credit
quality

Strong LOB & sales
results

4

PERFORMANCE PERSPECTIVE

Pre 2000

2001 - 2003

2004 & beyond

Double digit EPS growth

Strong economy in the Southeast

Solid equity markets

Performance reflected recession and industry pressures

Higher credit quality costs, margin compression

Maintained investment in revenue generation capacity

Economic rebound and rising rates spark improved performance

NCF merger enhances geographic reach, retail capabilities

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EPS [1]

(1)

EPS as originally reported and adjusted for stock splits. There are no adjustments for merger pooling.

$

EPS GROWTH: BACK ON TRACK

GAAP EPS

Reduction in EPS due to Merger-related charges

CAGR = 10.1%

CAGR = 3.2%

CAGR = 11.4%

Growth = 10.3%

6

CORE REVENUE GROWTH PER SHARE VS PEERS (1)

$

*** Wells Fargo, AmSouth, SouthTrust, National City, Wachovia, US Bancorp, Fifth Third, Bank of America, KeyCorp, PNC, Comerica, Northern Trust, BB&T and Mellon**

STI = 2% Growth (2)

Peers = 3% Growth

STI = 10% Growth [(2)]

Peers = 4% Growth

(1)

Core revenue per share is calculated by adding fee income per share to net interest income per share. It excludes securities gains
and losses and is fully taxable equivalent

(2)

Total Revenue Growth for SunTrust was 7% 2Q 04 over 2Q 03 and (1)% for 2Q 03 over 2Q 02

Source: SNL

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FEE INCOME GROWTH PER SHARE VS PEERS[(1)(2)]

(1)

For more data on fee income, please refer to the appendix of this presentation

(2)

Fee Income excludes securities gains and losses

$

Highlights

2Q2004:
2Q2003

2Q04:1Q04

(Annualized)

Retail Investment

Trust and investment mgmt

Corp. & Investment Banking

Credit Card

13%

12%

19

36

60

76

17

(2)

*** Wells Fargo, AmSouth, SouthTrust, National City, Wachovia, US Bancorp, Fifth Third, Bank of America, KeyCorp, PNC, Comerica, Northern Trust, BB&T and Mellon**

STI = 5% Growth

Peers = 5% Growth

STI = 11% Growth

Peers = 9% Growth

Source: SNL

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NET INTEREST INCOME PER SHARE VS PEERS [1]

*** Wells Fargo, AmSouth, SouthTrust, National City, Wachovia, US Bancorp, Fifth Third, Bank of America, KeyCorp, PNC, Comerica, Northern Trust, BB&T and Mellon**

$

(1)

Net Interest Income is fully taxable equivalent

STI = Flat

Peers = 2% Growth

STI = 9% Growth

Peers = Flat

Source: SNL

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NET INTEREST MARGIN TRENDS

10

SECURITY PORTFOLIO STILL CONTAINS   DRY POWDER

Securities Portfolio Margin Profile

(1) Yields on investment securities available for sale. Does not include held-to-maturity securities or trading securities unless breakout is unavailable.

(2) Assumes $25 bn security portfolio, 35% tax rate, 282.7 mm shares outstanding and 55 b.p. improvement in yield.

Source: Company Reports

One of the lowest
securities yields
among top 50
banks

Very short duration
compared to peers

Normalizing
securities yield to
historical relative
position adds
approximately
$90 mm after-tax or
$0.32 per share[2]

(219)

4.78

6.97

National Commerce

(55)

(77)

(22)

SunTrust Yield vs. Avg.

(223)

3.79

6.02

SunTrust

(168)

4.56

6.24

Average w/o SunTrust

(180)

3.45

5.25

PNC

(273)

4.04

6.77

BB&T

(258)

4.20

6.78

KeyCorp

(167)

4.21

5.88

U.S. Bancorp

(318)

4.21

7.39

Fifth Third

(125)

4.85

6.10

Bank of America

(162)

4.87

6.49

Wachovia

(12)

4.98

5.10

National City

(106)

6.19

7.25

Wells Fargo

4Q 2001

2Q 2004

Yield Change(b.p.)

4Q 2001:2Q 2004

Securities Yield [(1)]

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LOANS AND DEPOSIT GROWTH [1][2]

(1) For more data on deposits and loans, please refer to the appendix of this presentation

($ in millions)

<u>Highlights</u>

2Q2004:
2Q2003

2Q04:1Q04

(Annualized)

Low cost deposits [2]

DDA

Total Loans

Mortgage loans

Commercial loans

17%

36%

14

30

25

25

7*

(1)

9

13*

* Adjusted for consolidation of Three Pillars

$

(2) Deposits = Consumer and Commercial Deposits, Low Cost Deposits = Demand Deposits + NOW + Savings

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INDUSTRY LEADING CREDIT QUALITY [(1)]

NPAs/(Loans+OREO)

(1) For more data on credit quality, please refer to the appendix of this presentation

NCOs/Average Loans

*** Wells Fargo, AmSouth, SouthTrust, National City, Wachovia, US Bancorp, Fifth Third, Bank of America, KeyCorp, PNC, Comerica, Northern Trust, BB&T and Mellon**

Peers*

SunTrust

Source: SNL

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FOCUS ON EFFICIENCY

Reflected Revenue Slowdown

Expense Growth

Revenue Growth

6

4%

10

-3

9

6

2

1%

4

7

2

6

First Half
of 2004

1999

2000

2001

2002

2003

Year over Year Growth Trends

Source: SNL Data

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LOB INITIATIVES - RETAIL

Actions

Initial

Results

Introduce enhanced consumer and Business

Banking product sets

Doubled

net new

checking account

acquisition

rate YTD

over

2003

level

Equity product volumes 20% higher than

same period in 2003

Focus on high growth Business Banking

segment

Positive Business Banking trends

(as of July 31, 2004)

Checking balances

up

12

% over 2003

Loan production up 9

% over 2003

Continue to grow branch network over next three

years in high growth markets

Denovo growth of

45 net new

locations by

year end 2004

N

CF merger deepens branch share in high

opportunity markets and adds over 250

branches in the Carolinas

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Long Term Growth Rate Target: 8   10%

LOB INITIATIVES - COMMERCIAL

Actions

Initial

Results

Enhance Treasury Services   technology platform to satisfy customer and competitive demands

Introduced product additions and enhancements

critical to client cash management needs

Purchasing Card payment manager

Web

-

based foreign exchange trading

Payroll Card

Online report delivery

Secure data transmission

Leverage new pricing tools with the relationship

profitability component

Installed several upgrades to improve pricing

position

Enhanced model to maximize economic

profit

Converted all commercial relationships to

common profitability management system

Established pricing governance process

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Long Term Growth Rate Target: 8 10%

LOB INITIATIVES CORPORATE AND INVESTMENT BANKING

Actions

Initial

Results

Further develop equity and debt capital market

products to sustain competitive market positions

Leveraging CIB product skills across LOBs

Equity Linked CDs (SILCs) sold to PCS

client base

CMBS partnership with Commercial Real

Estat

e

Risk management partnership on Credit

Default Swaps and Secondary Loan

Trading

Focus on upper middle and large corporate

markets with low risk profile

Expanding Corporate Banking client

penetration faster than any other bank

Completed 90% of annual client plans in Q1,

focusing on cross-sell goals and retention

-

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Long Term Growth Rate Target: 9   11%

LOB INITIATIVES   PRIVATE CLIENT SERVICES

Actions

Initial

Results

Buy, build, or partner to offer a complete product

set to satisfy market demands

Hired a net 30 new brokers in the first half of the

year

;

Retail Investment Income up 20% over last year

Opened new AMA offices in Charlotte, Miami, Atlanta

and Memphis; Increased AMA AUM to $8.465 billion,

a 150%

increase

over last year at this time

Completed acquisition of

Seix

Investment Advisors

($17 Billion in new assets)

Developed and implemented new Flexible

Architecture process for institutional clients

Develop comprehensive package of insurance

products and services

Implemented a comprehensive program targeted at

wealthy and affluent clients

Launched an entire array of insurance

services

including

:

Term, U

L, VUL, Survivorship, Wealth

Transfer products; Long-term care products;

Disability products; and Annuities

Insurance sales up 244% over last year

18

Long Term Growth Rate Target: 12 14%

LOB INITIATIVES MORTGAGE

Action

Initial

Results

Expand Retail, Broker, and Correspondent

channels while enhancing Consumer Direct

-

113 net new retail loan officers (155% of YTD

goal)

-

425 net new broker and correspondent

relationships (177% of YTD goal)

-

$2.1B bank referred production (162% of YTD goal)

-

Consumer Enhancements include:

-

Process and workflow improvements resulting

in significant service level improvements

-

Installation of new voice response technology

and CTI screen pop tools has led to more than

40% of customer service

calls being handled

by the automated solution

-

Strategies include the successful introduction

of Bundled Settlement Services,

comprehensive targeted marketing

campaigns, a relocation service and

expanded hours of operation. The result has

been a 22% conversion ratio (from referrals to mortgage applications).

Launch out of footprint sales of mortgage and

home equity

-

Significantly ramped up out of footprint sales

force and are on track to meet goals of numbers

of new customers.

-

Have been successful with

the home equity

product in the markets it has been rolled out

within the Retail channels; major roll-out is

expected by year end.

Long Term Growth Rate Target: 8   10%

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LONG TERM GROWTH INITIATIVES RECAP

8 -10%

SunTrust

8 -10%

8 -10%

9 -11%

12 -14%

8-10%

Retail

Commercial

Corporate and Investment Banking

Private Client Services

Mortgage

Long Term Growth Rate Target

Business Line

20

SALES FOCUS PAYING OFF

Retail

Equity Line/Loan
Products up **40%**

Branch Banking
loan sales up **42%**

Private Banking
consumer loan
sales up **44%**

Commercial

Deposits and loans
both up **3%**

New business
deposits up **15%**

Private Client Services

Group Trust new
business up **4%**

Retail Investment sales
up **14%**

Institutional Trust s new
business up **170%**

Mortgage

Mortgage purchase
application volume
($s) up **34%**

Mortgage closing
volume ($s) up
37%

Mortgage purchase
closing volume ($s)
up **50%**

**Corp and Investment
Banking**

Capital Markets fees up
20%

DCM fees up **14%**

ECM fees up **30%**

SunTrust Online

Direct consumer
lending production
up **35%**

Increases are 2Q 04 over 1Q 04

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NCF MERGER

Financial scale

$25+bn market cap

$148bn assets

$97bn deposits

1,723 full-service offices in 11 states plus D.C.

#3 in market share in Southeast

Top 5 rank in 20 of 25 largest high growth markets in Southeast

Adds meaningful presence in some of the highest growth North Carolina and South Carolina markets

Solidifies positions in Virginia and Tennessee

2003-2008 Projected Weighted Average Population Growth

Makes Best Footprint Better

22

NCF ACQUISITIONS MILESTONES

Projected Milestones

Sequenced Systems
Conversions

Legal Closing (10/04)

Divestiture Complete
(3 branches,
$64 MM deposits,
$30 MM loans)

High-Level
Organization
Structure
(completed)

Regulatory
Approvals (8/04
9/04)

Shareholder
Approval (9/04)

Completion of
Sequenced
Integration Plan
(9/04)

Merger Application
Filed with Fed and
Georgia Department
of Banking and
Finance (6/04)

<u>Completed Milestones</u>

2005

4Q04

3Q04

2Q04

23

TRANSLATING POTENTIAL INTO PERFORMANCE

Strong Earnings
Momentum Today

Positive Outlook
for Tomorrow

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APPENDIX

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EARNINGS MOMENTUM

Earnings growth accelerating

Net Income

Earnings per Share

Return on Avg. Assets

Return on Avg. Assets less net unrealized gains on securities portfolio [(1)]

Return on Avg. Equity

Return on Avg. Realized Equity [(1)]

2Q 2004

2Q 2003

Change

$364.8

1.29

1.15

1.20

14.39

17.77

$330.4

1.17

1.11

1.06

14.95

16.77

10%

10%

4 b.p.

14 b.p.

(56) b.p.

100 b.p.

(1)

SunTrust presents a return on average realized shareholders equity, as well as a return on average assets less net unrealized securities gains. These two ratios
reflect primarily adjustments to remove the effects of the Company s securities portfolio which includes the ownership by the Company of 48.3 million shares of The
Coca-Cola Company. The Company uses this information internally to gauge its actual performance in the industry. SunTrust believes that the return on assets
less the net unrealized securities gains is more indicative of the Company s return on assets because it fully reflects the return on assets that are related to the
Company s core businesses, which are primarily customer relationship and customer transaction driven. The Company also believes that the return on average
realized equity is more indicative of the Company s return on equity because the excluded equity relates primarily to a long term holding of a specific security. See
the reconciliations slides in the appendix.

(2)

Annualized.

1Q 2004

Sequential
Change

2Q04 : 2Q03

2Q04 : 1Q04

7%

10%

(1) b.p.

2 b.p.

(26) b.p.

33 b.p.

$358.5

1.26

1.16

1.18

14.65

17.44

(2)

(2)

26

FEE INCOME GROWTH

Fee income growth momentum continuing

Trust and Investment Mgmt.

Retail Investment

Deposit Charges

Corp & Invst. Banking

Credit Card Fees

Other Charges & Fees

Other Non-interest income

Total Fees[1]

($ in millions)

$140

50

169

85

38

95

55

632

$136

46

163

74

32

93

46

590

13%

19%

7%

(2)%

17%

14%

38%

12%

$124

42

158

87

32

83

40

566

12%

36%

13%

60%

76%

9%

78%

28%

2Q 2003

2Q 2004

2Q2004:
2Q2003

1Q 2004

2Q04:1Q04

(Annualized)

(1)

Fees without Securities net gains.

27

LOAN GROWTH

Commercial

RE Commercial

RE Construction

Mortgages

Credit Card

Direct

RE Equity

Indirect

Nonaccrual

Total Loans

1Q 2004

2Q 2003

Change

($ in millions)

(1)%

3%

12%

25%

19%

(3)%

30%

12%

(43)%

9%

$28,464.1

9,295.0

4,546.3

17,758.0

140.0

3,533.1

7,111.8

8,727.4

329.2

79,904.9

$27,510.8

9,426.0

4,558.9

18,870.1

151.0

3,576.9

7,619.1

8,938.3

285.3

80,936.4

2Q 2004

$27,810.4

9,192.9

4,057.8

15,064.2

126.4

3,693.7

5,874.6

7,993.1

498.4

74,311.5

2Q 2004: 2Q 2003

2Q 2004: 1Q 2004

Sequential
Annualized
Change

(13)%/7%

6%

1%

25%

31%

5%

29%

10%

(53)%

5%/13%

Driven by targeted sales initiatives

(1) Higher growth rate adjusted for consolidation of Three Pillars

(1)

(1)

28

CUSTOMER DEPOSIT GROWTH

DDA

NOW

MMA

SAV

CDs

Total [1]

Total low cost deposits[2]

1Q 2004

2Q 2003

Change

($ in millions)

17%

11%

flat

12%

(9)%

6%

14%

$18,896.7

12,332.1

22,136.8

6,334.2

10,661.2

70,361.0

37,563.0

$17,548.1

11,576.8

22,284.1

6,253.3

11,434.8

69,097.1

35,378.2

(1)

Average quarterly Consumer and Commercial Deposits (excludes Broker & Foreign Deposits)

(2)

Total of DDA, NOW, Savings

2Q 2004

$20,591.6

12,811.6

22,367.4

6,990.9

10,404.6

73,166.1

40,394.1

2Q 2004: 2Q 2003

Targeted
Product
and Sales
Initiatives

2Q 2004: 1Q 2004

Sequential
Annualized
Change

36%

16%

4%

42%

(10)%

16%

30%

29

STRONG CREDIT QUALITY

Net Charge-offs

Net Charge-offs to Avg. Loans

NPAs

NPAs to Loans/OREO/Other repo

Allowance for loan losses

Allowance to Non-performing loans

Allowance to Charge-offs (Years Coverage)

2Q2004

2Q2003

1Q2004

$58,787

0.30%

$331,912

0.42%

$942,523

311.5%

4.0

$37,556

0.19%

$324,420

0.39%

$943,718

313.4%

6.3

$79,265

0.40%

$463,805

0.59%

$941,423

217.6%

3.0

$82,177

0.44%

$515,390

0.68%

$940,889

194.8%

2.9

3Q2003

$69,787

0.35%

$378,097

0.47%

$941,922

268.1%

3.4

4Q2003

Improving Trends

($ in thousands)

30

RECONCILLIATIONS APPENDIX

Average loans reported

Impact of Three Pillars

Average loans excluding

Three Pillars

Average commercial

loans reported

Impact of Three Pillars

Average commercial loans

excluding Three Pillars

Return on average total assets

Impact of excluding net unrealized securities gains

Return on average total assets less net unrealized gains on securities

Return on average equity

Impact of excluding net unrealized securities gains

Return on average realized equity

$79,905

(1,430)

$78,475

$28,464

(1,430)

$27,034

1.16%

0.02

1.18%

14.65%

2.79

17.44%

2Q 04

1.3%

3.1%

(3.3)%

1.8%

1.11%

(0.05)

1.06%

14.95%

1.82

16.77%

$80,936

-

$ 80,936

$27,511

-

$27,511

1.15%

0.05

1.20%

14.39%

3.38

17.77%

1Q 04

Change

2Q 04 vs 1Q 04 [1]

(Dollars in millions)

[1] Multiply by 4 to calculate sequential annualized growth or reductions

2Q 04

1Q 04

2Q 03

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RECONCILLIATIONS APPENDIX

Fee Income excluding

securities gains and losses

Net Interest Income-FTE

Core Revenue

Common Shares Outstanding

Core Revenue Per Share

Fee Income

Securities losses/(gains)

Fee Income excluding

securities gains and losses

Net Interest Income

FTE adjustment

Net Interest Income-FTE

(Dollars and shares in thousands except per share amounts)

(1) Multiply by 4 to calculate sequential annualized growth or reductions

2Q 02

4Q 02

4Q 03

3Q 02

1Q 04

3Q 03

2Q 03

1Q 03

$545,950

823,112

1,369,062

286,397

4.78

601,687

(55,737)

545,950

813,388

9,724

823,112

$503,070

815,127

1,318,197

285,043

4.62

548,883

(45,813)

503,070

805,114

10,013

815,127

$543,380

844,388

1,387,768

281,410

4.93

574,478

(31,098)

543,380

832,800

11,588

844,388

$488,177

837,341

1,325,518

282,505

4.69

527,724

(39,547)

488,177

827,101

10,240

837,341

$505,620

833,013

1,338,633

280,024

4.78

547,659

(42,039)

505,620

822,470

10,543

833,013

$565,554

810,415

1,375,969

281,393

4.89

596,792

(31,238)

565,554

799,513

10,902

810,415

$564,571

877,501

1,442,072

281,923

5.11

584,072

(19,501)

564,571

865,520

11,981

877,501

$590,159

863,904

1,454,063

282,332

5.15

595,086

(4,927)

590,159

851,648

12,256

863,904

2Q 04

$631,713

885,066

1,516,779

282,767

5.36

622,665

9,048

631,713

872,429

12,637

885,066

32

L. Phillip Humann

President, Chairman and CEO

LEHMAN BROTHERS

2004 FINANCIAL SERVICES CONFERENCE

SEPTEMBER 2004

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Property profit	(inc. in operating profit#)	**0.2m**	£0.5m	(60.0)

Contribution to group turnover*

Contribution to operating profit#

We are one of North Americas leading producers of pipe and precast concrete, concrete pavers, bricks and concrete roof tiles, with operations in 26 US states and Canada.

The division is subdivided into five Pipe and Precast regions, one Concrete Paving group and the Brick and Tile group, each reporting to 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 divisions group turnover*.

2006 v 2005

2006 was a good year for the division, led by improvement due to acquisitions made in both 2006 and 2005, and a strong performance from pipe, precast and roof tile offsetting the difficult residential brick market.

Group turnover* increased to £869.1m (£753.7m) in 2006, an increase of 15.3% . £45.1m, or 6.0%, of this increase was due to acquisitions made in 2006. Group operating margin*# reduced from 16.5% to 16.3% .

Operating profit# increased by £16.1m, or 12.8%, to £141.8m (£125.7m), consisting of £106.1m (£90.8m) in Pipe and Precast, £28.0m (£34.9m) in Brick and Tile and £7.8m (£nil) in the newly formed Paver group.

£11.0m, or 8.8%, of the operating profit# increase was due to acquisitions made in 2006, mainly related to the new pavers product group. Incremental full year contributions from acquisitions made in 2005 added a further £4.8m. Property profits reduced by £0.3m, offsetting a benefit due to foreign exchange translation of £0.1m. Excluding these items, operating profit# increased by £0.5m due to an improvement in Pipe and Precast of £7.4m offset by a decline in Brick and Tile of £6.9m.

Pipe and Precast enjoyed a particularly good performance in the Southeast region in 2006, led by infrastructure and commercial activity in Florida. Results from our West region were also good, including strong demand in California. Elsewhere, overall market demand remained robust, although there were signs of weakening in the Northeast region towards the end of the year. Total heritage[1] pipe and precast volumes increased by 2.4%, in part reflecting the continued success in combining our gravity pipe and precast product offerings in key markets.

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Building Products North America

Average heritage[1] selling prices in pipe and precast increased by 7.1% and were sufficient to recover all input cost increases, including cement.

In Brick and Tile, the reduction in brick operating profit# more than offset an improvement in Roof Tile. As expected, demand for bricks, particularly in the eastern regions, fell significantly due to the slowdown in residential construction in the second half of the year. Overall brick volumes declined by 6.1% . Average selling prices increased by 7.3%, recovering the increased input costs such as natural gas.

The improvement in the Roof Tile performance was led by average price increases of 13.7% to recover significant cost rises and strong demand in Florida. Volume decline of 8.8% was primarily due to weak demand in California.

The new Pavers product line, acquired with Pavermodule in January, enjoyed strong demand in Florida throughout the year. Performance was ahead of our expectations, principally due to an efficient integration process and very strong underlying market demand.

The division completed a further five acquisitions in 2006, the largest being the acquisition of the Hughes Supply concrete products division which brought four complementary plants to our operations in Georgia and Texas. Four more complementary plants were acquired in Connecticut, Utah, Texas and Alabama. All of these acquisitions are performing well.

Geographic footprint

Operating profit# by product group

Order backlog

$560m

at December 31, 2006

An increase of 24.4% compared to December 31, 2005.

* Excluding joint-ventures and associates
□ Continuing operations
Before impairments
1 Heritage excludes acquisitions owned for less than 12 months

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1. A four metre steel pressure pipe being produced at our Grand Prairie plant, Dallas. Precision engineering and product quality ensures watertight transmission and durability.

2. Robotic handling equipment at our brick factory in Monroe, North Carolina.

3. We extended our product base into concrete pavers by acquiring PaverModule in January 2006. These products are an integral part of residential and commercial landscaping in Florida.

4. A storm water catch basin, part of Hanson's extensive range of precast products. Building Products North America employs 7,100 people across 26 US states and Canada.

The capital investment programme to upgrade our plants has continued this year, with capital expenditure* up to £84.9m (£40.7m) New pipe and precast plants were commissioned in Houston, TX and in Columbus, OH. In addition, a new pipe and precast plant under construction at Winter Haven in Florida will consolidate three existing facilities into one. This will become our largest pipe and precast plant, with a rated capacity of nearly 0.3m metric tonnes per annum. Additional replacement plants are also now being built in Longview, TX; Sacramento, CA and in Phoenix, AZ to consolidate two existing facilities into a single site. Within the other product lines, a new concrete pavers plant was completed at Haines City, FL, and construction has

commenced on a further pavers plant on the same site. In roof tiles, a greenfield plant at Sanderson, FL was commissioned shortly after year end and a further new plant is now under construction in Fort Worth, TX. We expect all of the above investments to add value when fully commissioned.

2005 v 2004

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% to16.5% . This decline was 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 operating profit#increased.

Operating profit#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#for Pipe and 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.

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Heritage[1] volumes for concrete products increased by 3.1% during 2005. The strongest markets for concrete products in 2005 were in the Southeast (principally Florida) and the Northeast (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 # for the Brick and Tile group decreased by 0.6% to £34.9m (£35.1m). Heritage[1] 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[1] 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 outstripped supply in the eastern USA (principally in Florida), but was offset by lower demand in California.

The division achieved notable success in 2005 with its acquisition growth initiatives, completing three acquisitions in the year. 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[1] facilities in the Southeast region. Two smaller strategic acquisitions were completed in Ohio and Rhode Island to complement the heritage[1] facilities in the Northeast region. The integration of these acquisitions went very well and all three have been performing ahead of pro forma expectations.

Building Products' other major growth initiative in 2005 was 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 was 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 began in the second half of 2006 and will continue through the first half of 2007.

Outlook for 2007

The majority of our business is exposed to the infrastructure, industrial and commercial sectors. We expect the markets in these sectors to be reasonably robust. Our order backlogs were $560m at December 31, 2006 (compared to $450m at December 31, 2005). Ongoing pricing discipline will remain a priority.

Brick and Roof Tile have the greatest exposure to the residential construction market. The slowdown experienced in the second half of 2006 is anticipated to continue into 2007 which could make progress challenging.

We will continue to seek capacity and productivity improvements from capital investment and expect the level of investment in 2007 to be similar to 2006.

* Excluding joint-ventures and associates
 Continuing operations
Before impairments
1 Heritage excludes acquisitions owned for less than 12 months

Volume/price summary

Volume for the12 months ended December 31, 2006 and % movement in volume and average selling price against prior year.

	Volume 2006 Volume Continuing	2006v2005 % Change Continuing	2006v2005 % Change Heritage	Price 2006v2005 % Change Heritage	Volume 2005 Volume Continuing	2005v2004 % Change Continuing	2005v2004 % Change Heritage	Price 2005v2004 % Change Heritage
Concrete products (m mt)	4.6	12.3	2.4	7.1	4.1	14.5	3.1	12.0
Bricks (m)	1,387	(6.1)	(6.1)	7.3	1,477	(7.3)	(8.2)	6.0
Roof tiles (ts)	1,807	(8.8)	(8.8)	13.7	1,982	(0.1)	(2.0)	12.8

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

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Aggregates UK

Another year of improved earnings
Difficult asphalt market
Selling price discipline maintained
Civil and Marine acquisition performing well

Patrick O’Shea
Managing Director

Financial highlights

	2006	2005	% 2006v2005	2004	% 2005v2004
Group turnover*	**£ 867.0m**	£ 811.5m	6.8	£ 771.9m	5.1
Group operating profit*#	**£ 113.6m**	£ 96.9m	17.2	£ 62.2m	55.8
Group operating margin*#	**13.1%**	11.9%	1.2ppts	8.1%	3.8ppts
Share of joint-ventures and associates profit after tax	**£ 9.6m**	£ 11.9m	(19.3)	£ 12.3m	(3.3)
Operating profit#	**£ 123.2m**	£ 108.8m	13.2	£ 74.5m	46.0
Property profit (inc. in operating profit#)	**£ 9.6m**	£8.0m	20.0	£1.9m	321.1

Contribution to group turnover*

Contribution to operating profit#

We are one of the leading suppliers of aggregates, ground granulated blast furnace slag cement (GGBS), ready-mixed concrete and asphalt in the UK. The foundation for this fully integrated business is our land and marine mineral reserve position, providing aggregates for our downstream ready-mixed concrete, asphalt and contracting operations. GGBS completes the product integration, supplying cement substitute to our ready-mixed concrete operations and UK building products facilities. Geographically, we have operations in all of the UK’s major markets where our focus on customer service allows us to maintain leading market positions.

The division sold*32.4m metric tonnes of aggregates in 2006 and has an excellent long-term mineral position, with approximately 2.2 billion metric tonnes of reserves and resources available for future extraction. This includes a strong reserve position in sand and gravel, both land and marine based.

2006 v 2005

We delivered another year of improved performance in 2006, benefiting from the acquisition in March 2006 of Civil and Marine. This more than offset an adverse asphalt performance, caused by the significant decline in asphalt demand and exacerbated by bitumen and fuel oil input cost inflation.

Group turnover*□increased to £867.0m in 2006 (£811.5m), an increase of 6.8% . £64.2m, or 7.9%, of this increase was due to acquisitions made in 2006. Group operating margin*□#increased by 1.2ppts to 13.1% (11.9%) .

Operating profit□#increased by 13.2% to £123.2m (£108.8m) . The increase consisted of £18.5m, or 17.0%, due to acquisitions made in 2006, additional property profit of £1.6m and a reduction in the heritage[1] business of £5.7m, or 5.2% .

We believe that the heritage[1] performance was good given the particularly difficult asphalt market. The result demonstrates our ongoing commitment to pricing discipline, operational efficiency and cost reduction initiatives.

The 2006 market demand for aggregates in the UK is estimated to have been similar to 2005. Our aggregates volumes fell by 2.9% due primarily to planned quarry closures and lower demand into our downstream operations. The average selling price of aggregates increased by 5.7% in 2006. This recovered the significant increases in the operating cost base, most notably energy and mineral royalty costs.

The asphalt market continues to suffer from limited public infrastructure spend, with

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Aggregates UK

investment in roads falling for the fourth consecutive year. Market demand for asphalt in 2006 is estimated to have been 8% below 2005, compared to a decline of 9.3% in our volumes. We have seen some recovery in our volumes during the second half of the year, indicating that our overall market position is stable. We believe that the shortfall experienced in 2006 was probably due to the regional distribution of demand associated with major works. In addition to weak volumes, we experienced considerable cost inflation. Significant increases in energy and bitumen costs were compounded by the prohibited use, by law, of recycled fuel oil from the beginning of 2006. The impact of these increases could only be partly mitigated through a combination of selling price increases of 8.6%, cost reduction measures and efficiency initiatives.

The total demand for ready-mixed concrete in the UK is estimated to have increased by approximately 2% in 2006, against a decline of 1.4% in our volumes. Our volumes declined due to pricing discipline at the expense of lower margin volume. Selling prices increased by 6.5% during 2006, largely recovering higher input costs, particularly for cement, fuel and electricity.

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 £9.6m (£11.9m) was down on last year due to difficult trading conditions, particularly asphalt for Midland Quarry Products.

Significant efforts were made to enhance customer service levels in 2006. Investment was made in upgrading concrete and asphalt plants to improve plant availability and reduce downtime. In addition, a separate logistics function was established which has been instrumental in improving customer service and the efficiency of our haulage fleet across all products.

Civil and Marine has performed well since its acquisition in March 2006. It is the UK’s leading producer of ground granulated blast furnace slag. This is a high quality cement substitute with significant environmental benefits relative to conventional Portland Cement. Civil and Marine has five production facilities at Llanwern, Port Talbot, Purfleet, Scunthorpe and Teesside, in addition to a variety of depot distribution facilities. This acquisition is an excellent strategic fit with our existing ready-mixed concrete and building products facilities and effectively balances our UK cementitious demand with supply capabilities.

Towards the end of the year, we acquired an asphalt plant in Runcorn which

The acquisition of Civil and Marine makes Hanson the UK’s largest supplier of ground granulated blast furnace slag (GGBS).

complements our heritage[1] asphalt business, increasing our asset footprint and market strength. Integration of both businesses has progressed well and the results were in line with our expectations.

Capital expenditure*∆ during 2006 was £40.3m (£23.1m) and included two new asphalt plants, around 100m metric tonnes of additional mineral reserves and resources, aggregates and ready-mixed concrete plant upgrades and replacement of mobile equipment.

* Excluding joint-ventures and associates

∆ Continuing operations

\# Before impairments

[1] Heritage excludes acquisitions owned for

less than 12 months

Volume/price summary

Volume for the12 months ended December 31, 2006 and % movement in volume and average selling price against prior year.

	Volume			Price	Volume			Price
	2006 Volume Continuing	2006v2005 % Change Continuing	2006v2005 % Change Heritage	2006v2005 % Change Heritage	2005 Volume Continuing	2005v2004 % Change Continuing	2005v2004 % Change Heritage	2005v2004 % Change Heritage
Aggregates (mt)	32.4	(2.9)	(2.9)	5.7	33.3	(8.1)	(8.1)	6.3
Asphalt (mt)	3.6	(9.3)	(9.3)	8.6	3.9	2.5	2.5	4.9
Ready-mixed concrete (m m^3)	5.2	(1.4)	(1.4)	6.5	5.3	(6.0)	(6.0)	6.2

Volumes include intercompany sales and exclude Hanson□s share of joint-ventures and associates

Heritage excludes acquisitions owned for less than 12 months

Aggregate volumes include marine dredged aggregates

mt = millions of metric tonnes; m m^3 = millions of cubic metres

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1. Our operations in Dagenham, East London, provide us with a strategically valuable location. From this site we can supply a wide range of products to construction projects, such as the 2012 Olympics.
2. Hanson is one of the largest suppliers of ready-mixed concrete in the UK with 242 plants across the country, such as Garston Wharf, Liverpool shown here.
3. An operator at our Pateley Bridge hard stone quarry monitors the crushing process. Aggregates UK employs 3,200 people.
4. Marine aggregates provide an important source of material into the UK. We operate nine dredgers including the Arco Arun, shown here discharging into Dagenham.

Significant progress was made in 2006 to develop our strong reserve position for the future. Our sand and gravel position has been strengthened through securing a number of lease options. Our crushed rock position was improved through an extension to our Machen quarry, an important rail linked facility in South Wales. Our valuable marine reserve position was strengthened through the permitting of new dredging licences in the English Channel. This will allow us to continue to provide particularly valuable aggregates to the important South East and London markets.

2005 v 2004

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# 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 heritage[1] operations.

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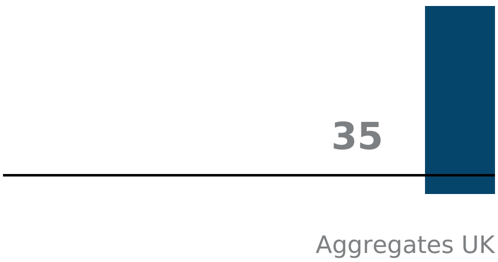

The operating profit[#] improvement, achieved despite reduced volumes, illustrates our commitment to pricing discipline, our initiative to increase premium product output and the delivery of operational efficiency and overhead cost reduction benefits.

Total market demand across the UK for aggregates is estimated to have declined by approximately 3% in 2005. Much of the reduction was due to a slowdown 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[1] 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 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 continued 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 was due in part to the regional location of the work and in part to our pricing discipline at the expense of

Aggregates UK

The Aggregates UK division owns an integrated range of heavy building material operations lower margin volume. Selling prices increased by 6.2% during 2005 offsetting higher input costs, particularly for cement, fuel and electricity.

Commercially, significant progress was 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 were also 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, aggregates and asphalt plant upgrades and modifications and additional mineral reserves and resources. We continued to upgrade our facilities to make them more efficient. In particular, initiatives were 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.

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. Hansons share of net profit after tax of £11.9m (2004: £12.3m) was broadly in line with the prior year.

Outlook 2007

We do not expect a significant recovery in the market in the short term. Nevertheless, there are some signs that demand may improve towards the end of 2007, helped by the London Olympic spend leading up to 2012. We expect further raw material cost increases in 2007. Therefore, we will look to maintain our price discipline in the marketplace wherever possible. Notified price increases for 2007 are, on average, expected to be similar to 2006. Ongoing focus on customer service, reliability, logistics and operational efficiency will be supported by an increase in capital expenditure.

* Excluding joint-ventures and associates

Continuing operations

[#] Before impairments

[1] Heritage excludes acquisitions owned for less than 12 months

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Building Products UK

Difficult brick market
Improved second half performance
Three acquisitions completed
Capital investment opportunities

David Szymanski
Managing Director

Financial highlights

	2006	2005	% 2006v2005	2004	% 2005v2004
Group turnover*□	**£382.8m**	£368.2m	4.0	£300.7m	22.4
Group operating profit*□#	**£43.0m**	£37.8m	13.8	£36.8m	2.7
Group operating margin*□#	**11.2%**	10.3%	0.9ppts	12.2%	(1.9)ppts
Share of joint-ventures and associates□ profit after tax□	□	□	□	□	□
Operating profit□#	**£43.0m**	£37.8m	13.8	£36.8m	2.7
Property profit (inc. in operating profit□#)	**£9.8m**	£3.0m	226.7	£3.2m	(6.3)

Contribution to group turnover*□

Contribution to operating profit□#

Hanson Building Products UK is one of the leading producers of bricks, aggregate blocks, aircrete blocks, concrete pavers, a range of precast concrete structures and packed products.

Bricks accounted for approximately 40% of the division□s group turnover*□ in 2006 and blocks accounted for around 25%. The floors and precast range (which accounts for 15% of group turnover*□) includes a variety of flooring systems, stairs and culverts. Packed products bag a range of materials for general building and landscaping.

Group turnover* by product

12 months ended December 31. 2006 (%)

2006 v 2005

Difficult trading conditions continued for this division throughout 2006, although operating profit# did improve in the second half of the year against the same period last year. Overall, weak demand in the Repairs, Maintenance and Improvement (RMI) sector led to volume reductions in all our main product lines.

Group turnover* increased to £382.8m in 2006 (£368.2m), an increase of 4.0% . £18.7m of this increase was due to acquisitions made in 2006. Group operating margin*# increased by 0.9ppts to 11.2% (10.3%) .

Operating profit# increased by 13.8% to £43.0m (£37.8m) .. Of this £5.2m increase, £2.5m (£1.4m) was due to acquisitions made in 2006. Additional property profits of £6.8m were partly offset by additional restructuring costs, incurred to reduce production capacity, of £2.5m. Excluding acquisitions, property income and restructuring charges, the heritage[1] operations declined by £3.0m, or 7.9% ..

Our total brick volumes were down 13.5% for 2006 compared to 2005. Brick demand from residential house builders increased slightly in 2006. This was more than offset by weaker RMI demand and a significant reduction in stockholding by builders merchants particularly affecting our London

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Brick products. Despite the brick volume reductions, pricing discipline has been maintained. Average selling price increases of 7.6%, necessary to recover higher energy costs, were achieved for bricks due to the combined effects of price increases and product mix.

Aggregate block heritage[1] volumes declined 1.6% whilst average selling prices increased 6.6% . The operating profit[†#] from our aircrete block operations, Thermalite, improved during 2006. This was driven by increases in average selling prices of 6.0%, and reduced costs following production cutbacks. Demand remained weak in 2006. These improvements suggest that Thermalite is now moving back towards the level of financial performance we were seeking at the time of acquisition in 2005.

Packed product average selling prices increased by 9.2%, despite lower volumes, as we continued to focus on the higher margin products within our range. Flooring demand remained strong during 2006, whilst precast product volumes declined due to lower demand and maintenance of pricing discipline.

Input costs, in particular energy, continued to increase during the year although the operating profit[†#] impact was partly mitigated by the forward hedging of gas prices. During 2006, we continued to reduce production capacity in response to low market demand

and high energy costs. Production was reduced and several facilities were either closed or mothballed. A restructuring charge of £5.0m (£2.5m) was incurred as a result of these production changes.

Capital expenditure[*†] in 2006 totalled £18.5m (£16.8m) with an emphasis on projects which will reduce production costs, increase efficiency and automate manual handling activities. These projects include the continuation of our brick robotic setting and kiln rebuild programme at our brick factory at Whittlesey. In addition, we commissioned our first drymix packed products and dry-silo mortar plant at Nuneaton and commenced construction of a new aggregate block plant at Whittlesey.

During 2006, three small acquisitions were completed. In January, we acquired Red Bank Manufacturing, a producer of high quality terracotta clay and concrete products. In February, we acquired a block plant from Lafarge. At the end of June, we acquired Formpave, a producer of high specification, permeable concrete block paving. To date, these acquisitions are performing in line with expectations.

* Excluding joint-ventures and associates
† Continuing operations
\# Before impairments
1 Heritage excludes acquisitions owned for less than 12 months

We are one of the UK’s largest suppliers of aircrete blocks, following the acquisition of Thermalite in 2005.

Volume/price summary

Volume for the12 months ended December 31, 2006 and % movement in volume and average selling price against prior year.

	Volume			Price	Volume			Price
	2006 Volume Continuing	2006v2005 % Change Continuing	2006v2005 % Change Heritage	2006v2005 % Change Heritage	2005 Volume Continuing	2005v2004 % Change Continuing	2005v2004 % Change Heritage	2005v2004 % Change Heritage
Bricks (m)	715	(13.5)	(13.5)	7.6	827	8.5	(12.4)	6.8
Aggregate blocks (m spu)	7.7	4.4	(1.6)	6.6	7.3	(3.0)	(3.0)	2.2

Volumes include intercompany sales and exclude Hanson's share of joint-ventures and associates
Aggregate volumes include marine dredged aggregates
Heritage excludes acquisitions owned for less than 12 months
m = millions; m spu = millions of standard production units

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1. The use of precast concrete products provides improved product quality and accelerated build time, lowering overall construction costs.
2. Hanson is one of the UK's largest suppliers of bricks. We sold approximately 715 million bricks in 2006, most of which were used in residential construction.
3. We expanded our product base into permeable concrete pavers with the acquisition of Formpave in June 2006. These pavers provide an affordable solution to the challenges of water conservation, recycling and reuse.
4. Hollowcore flooring manufacture at our precast factory in Somercotes, near Derby. Building Products UK employs 3,100 people.

Image courtesy of J. Bewley/Sustrans

2005 v 2004

Difficult trading conditions were experienced by this division, particularly in the second half of 2005.

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# 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 heritage[1] operations of £11.3m, or 30.7% .

The majority of the £11.3m reduction in operating profit# from heritage[1] operations was due to lower brick volumes. Whilst our total brick volumes increased by 8.5%, excluding acquisitions, the heritage[1] brick volumes declined by 12.4% . The reduction was predominately within the 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.

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Hanson one-stop house

Hanson's position as one of the UK's leading suppliers of both aggregates and building products ensures that we can provide a wide product range for residential construction as shown below.

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 operating profit# 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 were 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 has performed broadly in line with expectations in 2005. Thermalite, which has experienced difficult market conditions since its acquisition in March 2005, performed below expectations in 2005 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.

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 for 2007

The second half of 2006 saw some signs of improvement in the RMI markets. We expect the level of new residential build to remain stable and continue to consist of a high proportion of flats and apartments, which use less bricks but more of our other products. The level of property profit in 2006 is unlikely to be repeated in 2007, although this may be offset by lower restructuring costs and improved operating conditions.

We have a number of opportunities to improve our productivity and capacity levels, which, if undertaken, would result in a significant increase in capital investment in 2007.

We will continue to focus on the needs of our customers, and are working closely with them to become one of the UK's leading suppliers of heavy building products and solutions which deliver environmental benefits.

* Excluding joint-ventures and associates
 Continuing operations
Before impairments

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Australia and Asia Pacific

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Financial highlights

	2006	2005	% 2006v2005	2004	% 2005v2004
Group turnover*	£608.7m	£573.0m	6.2	£537.7m	6.6
Group operating profit*#	£68.4m	£62.7m	9.1	£62.1m	1.0
Group operating margin*#	11.2%	10.9%	0.3ppts	11.5%	(0.6)ppts
Share of joint-ventures and associates profit after tax	£20.1m	£27.0m	(25.6)	£10.0m	170.0
Operating profit#	£88.5m	£89.7m	(1.3)	£72.1m	24.4
Property profit (inc. in operating profit#)	£10.1m	£1.0m	n/a	£1.7m	(41.2)

Contribution to group turnover*

Contribution to operating profit#

Group turnover* by region
12 months ended December 31, 2006 (%)

Operating profit# by region
12 months ended December 31, 2006 (%)

We are 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% joint-venture in cement (Cement Australia) and a 50% joint-venture in asphalt (Pioneer Road Services). We also operate a Building Products group which produces concrete blocks, pavers and a range of precast concrete products.

In Asia Pacific, we are one of the market leaders in aggregates, ready-mixed concrete and asphalt in Malaysia and 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. Both regions report to the divisional head office based in Sydney, Australia.

2006 v 2005

The Australia and Asia Pacific division delivered another good performance in 2006. Operating profit# decreased by £1.2m, or 1.3%, to £88.5m (£89.7m), consisting of an increase in property profits of £9.1m offset by foreign exchange translation of £1.8m, acquisition loss of £0.6m and a one-off tax benefit in 2005 of £6.6m in Australia, shown in the share of joint-ventures and associates profit after tax within operating profit under IFRS. Excluding these items, operating profit[#] reduced by £1.3m.

Hanson Australia

Group turnover* increased to £489.1m in 2006 (£464.6m), an increase of 5.3% . Group operating margin*[#] increased by 0.4ppts to 12.7% (12.3%), and group operating profit[#] increased by 8.4% to £62.1m (£57.3m) .

Operating profit# decreased by £4.0m, or 4.9%, to £77.6m (£81.6m) . Excluding the £6.6m of one-off benefit in 2005, operating profit[#] increased by £2.6m. The increase

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consisted of £9.1m of additional property profits, offset by a reduction of £1.9m due to foreign exchange translation and an overall reduction in the heritage[1] operations of £4.6m, or 5.5%, against a very strong 2005.

Operating profit#contribution from the aggregates and ready-mixed concrete operations was ahead of last year. This was mainly due to a strong demand-led performance in Queensland and Western Australia, offset to some extent by reduced demand and higher operating costs in New South Wales and Victoria respectively.

Total heritage[1] aggregates volumes increased by 4.6% in 2006. This was due largely to increased demand in south-east Queensland and Western Australia as a result of both infrastructure and resources led demand, offsetting weaker demand in New South Wales. Average selling prices for aggregates increased 4.3%. Heritage[1] ready-mixed concrete volumes increased by 4.9% as lower volumes in Sydney were offset by increases in all other regions. Average selling prices in ready-mixed concrete improved by 2.4%, partly recovering higher raw material costs.

Queensland had a very strong year with a significant increase in operating profit*#, primarily as a result of good residential and infrastructure-related demand and improved

selling prices. Western Australia had a strong performance in 2006 with operating profit*# well ahead of last year. Strong demand, as a result of both residential and infrastructure led activity, and good selling price increases were the main drivers for this improvement.

Victoria's operating profit declined marginally. Despite flat volumes, selling price increases were not sufficient to offset rising input costs. Reduced volume from lower residential demand and completion of major infrastructure projects has led to a decrease in the profitability of our New South Wales operations.

2006 was difficult for our Building Products' operations. Operating profit#declined due to increased input costs, highly competitive pricing and a reduction in volumes in our precast operations.

The share of joint-ventures' and associates' profit after tax of £15.5m (£24.3m) was lower than last year. Excluding the one-off tax benefit in 2005, the reduction was £2.2m, primarily due to the impact of weaker demand in New South Wales.

Capital expenditure* totalled £41.5m (£31.6m) in 2006. This consisted of replacement delivery vehicles for our ready-mixed concrete and aggregates operations, plant upgrades to increase the capacity and

Our modern concrete paver plant in Brisbane features state-of-the-art automation.

efficiency of our quarries, over 100m metric tonnes of additional mineral reserve and resources, and a new ready-mixed concrete plant in south-east Queensland.

Hanson Asia Pacific

The group operating profit#in this region increased by16.7% to £6.3m (£5.4m), predominately due to stronger demand and selling prices in Malaysia. Aggregates and asphalt volumes increased due to a variety of residential and infrastructure led projects, whilst ready-mixed concrete volumes reduced

* Excluding joint-ventures and associates
 Continuing operations
\# Before impairments
1 Heritage excludes acquisitions owned for less than 12 months

Volume/price summary

Volume for the12 months ended December 31, 2006 and % movement in volume and average selling price against prior year.

Australia	Volume 2006 Volume Continuing	2006v2005 % Change Continuing	2006v2005 % Change Heritage	Price 2006v2005 % Change Heritage	Volume 2005 Volume Continuing	2005v2004 % Change Continuing	2005v2004 % Change Heritage	Price 2005v2004 % Change Heritage
Aggregates (m mt)	21.8	4.6	4.6	4.3	20.9	(3.4)	(3.6)	6.8
Ready-mixed concrete (m m^3)	5.7	4.9	4.9	2.4	5.4	1.3	1.3	3.3
Asia Pacific								
Aggregates (m mt)	12.5	16.7	16.7	n/a	10.7	(2.2)	(2.2)	n/a

Volumes include intercompany sales and exclude Hansons share of joint-ventures and associates
Aggregate volumes include marine dredged aggregates
Heritage excludes acquisitions owned for less than 12 months
m mt = millions of metric tonnes; m m3 = millions of cubic metres

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1. Delivering ready-mixed concrete to the Tugan Bypass construction project a motorway link between the Gold Coast and Northern NSW.

2. An innovative new facility at Johor, Malaysia turns a by-product into manufactured sand.
This is used in the production of our ready-mixed concrete.

3. Aggregates being conveyed into one of the overhead bins at our new Maroochydore concrete plant. Hanson is one of the largest producers of aggregates and ready-mixed concrete in Australia.

4. Investment in our paver plant in Brisbane enables a variety of paving finishes and colours to be produced efficiently.

slightly due to maintenance of pricing discipline. Average selling price increases were stable across the aggregates operations in 2006, and well ahead of 2005 in asphalt and ready-mixed concrete to recover higher input costs. In Singapore, the operating performance declined due to a further downturn in construction sector volumes.

The share of joint-ventures and associates profit after tax increased 70.3% to £4.6m (£2.7m) due largely to a much improved performance by our Hong Kong operations. Despite limited new public sector work, our Hong Kong concrete volumes have increased year-on-year whilst selling prices have also increased.

2005 v 2004

A strong performance was delivered by the Australia and Asia Pacific division in 2005. Operating profit# 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%

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Australia and Asia Pacific

(13.6%), although group operating profit#* increased by 2.3% .

Operating profit# 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 operating profit*# of £0.6m, the heritage[1] operations improved by £5.1m, or 7.7% against a very strong 2004.

Our heritage[1] aggregates volumes decreased by 3.6% in 2005, due largely to significant non-recurring secondary aggregates 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[1] ready-mixed concrete volumes increased by 1.3%, with a reduction in Sydney from previously buoyant levels being offset by increases in all other regions. Average selling prices in ready-mixed concrete improved by 3.3%, in part offsetting higher raw material costs.

Operating profit# for Building Products declined due to increased input costs and a highly competitive pricing environment. The operational improvement in the joint-ventures and associates was due largely to improved volume, price and delivery of synergy benefits in Cement Australia.

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

Joint-ventures and associates
12 months ended December 31, 2006 (%)

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

Group operating profit# 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 profit*# 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 increased year-on-year whilst selling prices also improved. Synergy benefits were delivered in line with our expectations.

An integrated range of products
The Australian Operations provide a wide range of products for our customers

Outlook for 2007

Demand in the Australian market is forecast to be stable during 2007, with infrastructure strength offsetting residential weakness. Strong growth is anticipated in Queensland and continuing high levels of demand are anticipated in Western Australia. However, New South Wales is anticipated to remain subdued for the majority of 2007. Asia is expected to see some softening of demand in Malaysia, offset by an improved performance from Hong Kong.

* Excluding joint-ventures and associates
 Continuing operations
Before impairments

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Continental Europe

Good progress
Improved performance in Israel
Price discipline held
Three bolt-on acquisitions completed

Justin Read
Managing Director

Financial highlights

	2006	2005	% 2006v2005	2004	% 2005v2004
Group turnover*	**£273.8m**	£228.7m	19.7	£228.0m	0.3
Group operating profit *#	**£21.8m**	£19.9m	9.5	£23.9m	(16.7)
Group operating margin*#	**8.0%**	8.7%	(0.7)ppts	10.5%	(1.8)ppts
Share of joint-ventures and associates profit after tax					
Operating profit#	**£21.8m**	£19.9m	9.5	23.9m	(16.7)
Property profit (inc, in operating profit#)				0.3	

Contribution to group turnover*

Contribution to operating profit#

This division operates across Austria, Belgium, the Czech Republic, Germany, Spain, The Netherlands and Israel.

2006 v 2005

Continental Europe made good progress in the year and delivered an improved performance.

Group turnover* increased to £273.8m in 2006 (£228.7m), an increase of 19.7% . £9.4m, or 4.1%, of this increase was due to acquisitions made in 2006. Group operating margin*# decreased from 8.7% to 8.0% . Operating profit# increased by 9.5% to £21.8m (£19.9m) . £0.7m, or 3.5%, of this increase was due to acquisitions made in 2006. Excluding acquisitions, the increase was 6.0%, or £1.2m.

Almost all countries, and particularly Israel, delivered an improved operating profit[#] performance in 2006 due to pricing discipline, improved volumes and operating cost reductions. Operating profit[#] in Spain reduced, largely due to the expected exhaustion of reserves in Barcelona. Total heritage[1] volumes for the division improved in each product line with aggregates up 7.0%, ready-mixed concrete up 6.1% and asphalt up 12.1% .

Operating profit[#] in Israel improved significantly, despite difficult political conditions during the year. This was driven by a combination of strong volume demand, price improvement across the product range and continued cost saving initiatives.

In Spain, operating profit[#] declined in 2006 following the exhaustion of two quarries in Barcelona during 2005. Aggregates demand was strong with volumes well ahead of last year whilst average selling prices remained similar to last year due to competitive pricing and product mix. Ready-mixed concrete volume and price increased during the year although margins have reduced due to higher raw material and transport costs.

Market conditions in the Czech Republic were again strong and, coupled with good pricing discipline, contributed to another record operating profit[#] contribution.

In The Netherlands, Belgium and Germany, stronger demand and selling price increases led to an improved performance compared to last year.

Capital expenditure* totalled £13.3m (£13.3m) and included a new ready-mixed concrete plant at Zona Franca, Barcelona, replacement of our sand and gravel processing plant at Ostend, Belgium, and replacement of mobile equipment at various locations throughout the region. Replenishment of our reserves position, either through acquisition or mineral reserve purchases, remained a high priority for 2006. During the year, we acquired 84.5m metric tonnes of additional reserves and resources in Madrid, Spain and in Austria.

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Continental Europe

Three acquisitions were made in 2006. Two of the acquisitions were in Spain, with the acquisition of three quarries complementing our existing operations in Madrid, and two concrete plants strengthening our position in Majorca. In November, we acquired Quarzsande GmbH in Austria which has four aggregates operations based in Upper Austria.

2005 v 2004

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# reduced by £4.0m, or 16.7%, to £19.9m (£23.9m) .

The £4.0m reduction in operating profit# 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#, as did Germany, despite its difficult market conditions. Total heritage[1] 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# decreased in 2005. Aggregate volumes were below 2004 due to lower demand in Madrid and Zaragoza and to the closure of two quarries, although increases in average selling prices were achieved. During 2005 we disposed of 19 underperforming ready-mixed concrete plants. Excluding these disposals, ready-mixed concrete volumes were ahead of 2004, as were average selling prices.

Weak trading conditions 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#.

Outlook for 2007

In 2007, we expect activity levels to reduce from recent highs in certain markets in Spain. This should be broadly offset by further progress in the construction market in other countries. The general pricing environment is stable with inflationary cost increases set to be recovered. We will continue to seek further bolt-on acquisitions and to invest in our capital expenditure programme.

Batchers at the new Zona Franca concrete plant, Barcelona, using the latest automation in order to control quality and optimise logistics.

The enclosed design of our Zona Franca concrete plant, one of the largest in Hanson, reduces the environmental impact of the production process.

Group turnover* by geography

12 months ended December 31, 2006 (%)

* Excluding joint-ventures and associates
Continuing operations
Before impairments
1 Heritage excludes acquisitions owned for less than 12 months

Volume summary

Volume for the12 months ended December 31, 2006 and % movement in volume.

	Volume 2006 Volume Continuing	2006v2005 % Change Continuing	2006v2005 % Change Heritage	Volume 2005 Volume Continuing	2005v2004 % Change Continuing	2005v2004 % Change Heritage
Aggregates (m mt)	30.9	11.7	7.0	27.7	(8.9)	(8.9)
Asphalt (m mt)	0.6	12.1	12.1	0.5	(1.9)	(1.9)
Ready-mixed concrete (m m^3)	4.3	7.7	6.1	4.0	0.4	0.4

Volumes include intercompany sales and exclude Hanson's share of joint-ventures and associates
Aggregate volumes include marine dredged aggregates
Heritage excludes acquisitions owned for less than 12 months

m mt = millions of metric tonnes; m m3 = millions of cubic metres

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Financial review
Income statement

Pavi Binning
Finance Director

Group turnover*†

Group turnover*† in 2006 increased by £417.0m, or 11.2%, to £4,132.7m following a £332.7m, or 9.8%, increase in 2005. £215.0m (£143.8m) of the increase was due to acquisitions made in the year. The majority of the remaining increase of £202.0m (£188.9m) was achieved through selling price discipline.

Costs and overheads*†

Costs and overheads*† increased by £336.3m, or 10.3%, in 2006 to £3,603.7m, and by 9.5% in 2005. £167.1m (£126.7m) of the increase was due to acquisitions. The remaining increase of £169.2m (£157.9m) included significant increases in energy and raw material costs in the last two years. Energy costs consist primarily of electricity, gas and fuel. Raw material costs are largely cement, bitumen and steel. In total, excluding acquisitions, the cost of these items increased by over £80m to nearly £800m in 2006. In 2005 energy costs increased by over 20% and significant raw material increases were incurred.

Share of joint-ventures' and associates' profit after tax†

Our main joint-ventures and associates are in the Aggregates UK and Australia and Asia Pacific divisions. The share of joint-ventures' and associates' profit after tax† in 2006 of £33.7m (£40.5m, £23.2m) was lower than last year, largely due to a one-off tax benefit of £6.6m in Australia in 2005. In 2005, excluding this tax credit, the increase against 2004 reflected the strong performance from our 25% interest in Cement Australia.

Operating profit†#

Operating profit†# in 2006 increased by £73.9m, or 15.1%, to £562.7m following an increase of £65.4m, or 15.4% to £488.8m in 2005. This consists of the operating profit†# for each of the six divisions which totalled £599.2m (£520.3m, £446.1m), less central expenses of £36.5m (£31.5m, £22.7m) . The increase in the operating profit*# included contributions from 2006 acquisitions of £47.9m, additional property profits of £17.8m and an increase in heritage[1] operating profit†# of £12.2m. Further details are provided on page 7 and in the operating review. The increase in central expenses in 2006 related to incentive accruals, group IT costs and self insurance charges. The increase in 2005 included higher self insurance charges relating to a claim in North America.

Foreign currency – exchange rates

	Average rates	Year end

	2006	2005	2004	2006	2005	2004
£/$US	**1.8416**	1.8196	1.8294	**1.9572**	1.7168	1.9199
£/euro	**1.4668**	1.4621	1.4738	**1.4842**	1.4554	1.4125
£/$AUS	**2.4439**	2.3871	2.4858	**2.4831**	2.3404	2.4491

Exchange impact

Foreign exchange translation in 2006 decreased group turnover* by £24.6m (increase of £35.2m in 2005) and operating profit# by £3.3m (increase of £6.4m) .. The sensitivity of operating profit# to a 10% fall in the US dollar is £27.1m.

Operating impairments

Operating impairments in 2006 were £4.1m (£4.0m, £29.3m) . The net charge for 2006 consists primarily of charges relating to the Aggregates North America division which have arisen due to the closure, or intended closure, of two sites. The net charge in 2005 consisted of £23.6m of impairment charges, offset by a reversal of £19.6m.

Finance costs and income

Net finance costs* in 2006 were £77.8m (£55.5m, £46.8m) . Interest payable on loans totalled £131.3m (£119.0m, £92.2m) against interest receivable of £43.9m (£60.1m, £40.0m), resulting in a net interest cost of £87.4m (£58.9m, £52.2m). The main reason for the increase in the net interest charge in each of the last two years was an increased level of net debt due to acquisitions.

Interest cost on the pension plan liabilities and other post-employment benefits was £103.2m (£103.2m, £99.2m), offset by an expected return on pension assets of £114.5m (£108.7m, £111.2m), to give a net pension and other post-employment benefits finance income of £11.3m (£5.5m, £12.0m) . The increase in net pension finance income in 2006 resulted primarily from improved investment returns in 2005 which increased the value of the assets for 2006. The reduction in 2005 was due to lower interest rates.

The unwinding of the discount relating to long-term provisions was a net charge of £2.0m (£2.5m, £6.6m), and included the impact of a change in discount rates. Changes in the fair value of derivatives

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and related items resulted in a net income of £0.3m (£0.4m, £nil).

Profit before taxation

Profit before taxation increased by £51.5m, or 12.0% to £480.8m (£429.3m, £347.3m) in 2006.

Taxation on continuing operations

Taxation on continuing operations in 2006 was £79.7m (£34.4m, £27.1m), equivalent to an effective tax rate on profit before taxation of 16.6% (8.0%, 7.8%) .

The 2006 charge included a benefit of £2.1m relating to impairments (2005 charge £5.6m, 2004 benefit of £6.3m) . In addition, the 2005 charge included a net release from provisions of £29.6m following the successful resolution of a number of issues with the relevant tax authorities. The 2004 charge included a one-off deferred tax benefit of £21.7m.

Discontinued operations after taxation

The 2006 discontinued operations after taxation was a gain of £0.4m (loss £7.3m, loss £56.0m) . This consisted of three categories of items.

The first two relate to current year disposals, namely the current year profit or loss after taxation of discontinued operations of £nil (£2.8m, loss £16.4m) and the profit on disposal after tax for operations disposed of during the year of £0.3m (£2.3m, £10.4m) . Further details are provided in note 9 of the Notes to the accounts.

A profit after tax of £0.1m (losses of £12.4m, £50.0m) resulted from operations that were discontinued prior to 2006. The main item in this category was a credit relating to asbestos of £1.1m (losses of £13.7m, £48.6m) after tax.

Asbestos

The 2006 net credit of £1.1m after tax consists of a benefit of £14.0m due to an asbestos insurance settlement reached in the year, less a charge of £12.9m, including discounting, to maintain the provision.

Summary Income Statement

(£m)

	2006	2005	2004
Group turnover*	4,132.7	3,715.7	3,383.0
Costs and overheads	(3,603.7)	(3,267.4)	(2,982.8)
Group operating profit before impairments*	529.0	448.3	400.2
Share of joint-ventures and associates profit after tax	33.7	40.5	23.2

Operating profit before impairments	**562.7**	488.8	423.4
Operating impairments	**(4.1)**	(4.0)	(29.3)
Operating profit	**558.6**	484.8	394.1
Net finance costs	**(77.8)**	(55.5)	(46.8)
Profit before taxation	**480.8**	429.3	347.3
Taxation	**(79.7)**	(34.4)	(27.1)
Profit after taxation	**401.1**	394.9	320.2
Discontinued operations after taxation	**0.4**	(7.3)	(56.0)
Profit for the year	**401.5**	387.6	264.2
Earnings per share (basic)	**56.0p**	53.2p	36.0p
Dividends per share (interim paid, final recommended)	**21.8p**	20.0p	18.15p

Various of the Companys US subsidiaries are defendants in a number of lawsuits alleging bodily injury due to exposure to asbestos-containing products before 1984.

In 2006, outstanding claimants reduced to approximately 107,600 from 131,350 (2004: 135,750), representing new claimants of approximately 6,350 (10,350; 18,700) less 30,100 (14,750; 7,150) resolved during 2006. In the last two years, over 90% of resolved claimants were dismissed without payment compared to approximately 80% in 2004.

The gross US dollar cost of resolutions (settlement and defence costs) in 2006, before insurance, was $54.5m ($43.2m, $59.3m) including legal fees of $25.4m ($26.3m, $27.4m) . Net costs after insurance were $51.1m ($31.7m, $12.8m), equivalent to a discounted sterling cost after tax of £16.9m (£10.6m, £4.3m) . The costs incurred in each year were utilised against the asbestos provision.

The Companys 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 based on detailed analysis and the assumptions referred to in note 21 of the Notes to the accounts.

Earnings per share

Basic earnings per share increased by 5.3% (47.8%) to 56.0p (53.2p, 36.0p), reflecting the increase in profit before taxation less the impact of the one-off benefits in the 2005 tax charge.

Dividends

The 2006 interim dividend paid and final dividend recommended total 21.8p (20.0p, 18.15p), an increase of 9.0% against 2005, following an increase of 10.2% against 2004. The average annual increase in the dividend since 2002 has been 9.0%, reflecting our progressive dividend policy.

* Excluding joint-ventures and associates

Continuing operations

\# Before impairments

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Cash flow

Net cash inflow from operating activities for 2006 was £445.5m (£471.2m, £507.5m), compared to group operating profit#of £529.0m (£448.3m, £400.2m).

In 2006 the adverse movement in working capital of £87.5m included £69.1m due to an increase in inventories. Around half of this increase was in Building Products North America, largely due to delays in product offtake by our customers and increases to support the order book. The majority of the balance is due to higher brick inventory in the UK to maintain future production flexibility. Other movements in 2006 of £33.8m largely consist of property profits which are excluded from operating cashflow and shown within the sale of property, plant and equipment. Tax and net interest payments increased by £20.9m in line with the increase in the income statement expense.

In 2005, taxation paid increased to £54.1m, against £18.3m in 2004 which was low due to favourable capital allowances in the USA.

Capital expenditure

Capital expenditure* for the purchase of property, reserves, new and replacement plant and equipment during the year totalled £291.4m (£196.1m, £201.1m) of which £288.6m (£191.8m, £198.6m) was paid in 2006. This represented 157.3% (122.0%, 130.9%) of continuing depreciation. In 2006, around 60% of this amount has been spent in North America. A further £142.2m of capital expenditure had been committed as at December 31, 2006, primarily for new Building Products plants in North America.

These capital expenditures are expected to be financed out of group cash flows and borrowing 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.

Summary cash flow reconciliation to movement in net debt
For the year ended December 31, 2006 (£m)

	2006	2005	2004
Group operating profit#	**529.0**	448.3	400.2
Amortisation	**5.4**	3.0	2.5
Depreciation and depletion	**217.3**	194.6	191.4
Dividends from joint-ventures and associates	**27.3**	27.9	19.9
Movement in working capital	**(87.5)**	(22.2)	(0.7)
Net provision utilisation	**(42.3)**	(34.3)	(19.2)
Pensions and post-employment benefits	**(30.6)**	(20.0)	(16.3)
Other	**(33.8)**	(5.1)	1.2

Net cash inflow from operating activities before interest and tax	**584.8**	592.2	579.0
Taxation paid	**(63.6)**	(54.1)	(18.3)
Net interest paid	**(75.7)**	(64.3)	(53.2)
Premium paid on redemption of borrowings	**—**	(2.6)	—
Net cash flow from operating activities	**445.5**	471.2	507.5
Capital expenditure*	**(288.6)**	(191.8)	(198.6)
Sale of property, plant and equipment	**48.5**	29.0	18.5
Acquisition of operations	**(558.0)**	(342.9)	(88.4)
Disposal of operations and investments	**13.9**	50.3	77.8
Dividends	**(147.5)**	(136.2)	(127.3)
Purchase of own shares held in treasury	**(65.7)**	(45.1)	(26.1)
Exchange movements in net debt	**159.2**	(95.7)	101.8
Other	**(15.0)**	(33.2)	(18.2)
Movement in net debt	**(407.7)**	(294.4)	247.0
Opening net debt	**(989.6)**	(695.2)	(942.2)
Closing net debt	**(1,397.3)**	(989.6)	(695.2)

Acquisitions

Total cash consideration for acquisitions, including acquisition costs, for 2006 was £558.0m (£342.9m, £88.4m).

In January 2006, Building Products UK acquired the share capital of Red Bank Manufacturing and Building Products North America acquired the share capital of PaverModule Inc. for a total consideration of £60.6m. On March 2, Aggregates UK purchased the share capital of Civil and Marine (Holdings) Ltd, a leading producer of ground granulated blast furnace slag in the UK, with additional operations in North America and in the Czech Republic, for £248.1m. Aggregates North America completed its acquisition of the share capital of Material Service Corporation, a leading aggregate materials producer in North America, on June 16 for £166.3m. The group completed a further five acquisitions of entities based in the UK, North America and Spain, along with seven asset acquisitions, primarily concrete plants and quarries, for a total consideration of £83.0m.

In 2005 total cash acquisition spend was £342.9m. Building Products UK acquired the assets of UK brick manufacturer, Marshalls Clay Products, for £64.7m on January 4, 2005, and Thermalite, a market leader in aircrete blocks, on March 7 for

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Capital expenditure
For the year ended December 31, 2006 (£m)

	Capex £m	Depreciation £m	Capex % of depreciation
Aggregates North America	90.7	70.1	129.4
Building Products North America	84.9	31.5	269.5
Aggregates UK	40.3	34.9	115.5
Building Products UK	18.5	13.9	133.1
Australia & Asia Pacific	43.7	27.6	158.3
Continental Europe	13.3	7.1	187.3
Central	—	0.1	—
Total	**291.4**	**185.2**	**157.3**

Maturing net cash/(debt)
For the year ended December 31, 2006 (£m)

	Cash	Borrowings	Net debt	Cumulative Net debt
2007	766.7	(824.2)	(57.5)	(57.5)
2008		(199.3)	(199.3)	(256.8)
2009		(0.8)	(0.8)	(257.6)
2010		(397.6)	(397.6)	(655.2)
2011		(0.5)	(0.5)	(655.7)
2012		(0.2)	(0.2)	(655.9)

2013		(361.2)	(361.2)	(1,017.1)
2014		—	—	(1,017.1)
2015		—	—	(1,017.1)
2016		(380.2)	(380.2)	(1,397.3)
Total	**766.7**	**(2,164.0)**	**(1,397.3)**	**(1,397.3)**

£124.2m. On June 17, Aggregates North America acquired the assets of Mission Valley Rock, Berkeley Ready Mix and Berkeley Asphalt, and 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 2005 consisted of three quarries in Southern Indiana by 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, 2006, 9,960,000 (8,335,000) shares were bought back for £64.1m (£46.7m) at an average cost of £6.43 (£5.60) per share, and held as treasury shares. £65.7m (£45.1m) was paid in the year.

At December 31, 2006 there were 712.3 million ordinary shares in issue excluding 24.6 million held in treasury. The share buyback programme is a rolling return of that capital which we believe is in excess of our medium-term requirements and which is reviewed on a continuing basis in the context of our cash flow, capital expenditure and acquisition plans.

Net debt

Net debt consists of cash, cash equivalents and borrowings. The maturity profile of the group's cash and debt, excluding undrawn balances on committed bank facilities, is set out in the adjacent table. The percentage of net debt held at fixed interest rates at the end of 2006 was 63%.

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 £1,114.0m (£1,090.1m, £834.7m), representing 80% (110%, 120%) of net debt. The change in net debt as a result of foreign exchange translation was a reduction of £159.2m (increase of £95.7m, reduction of £101.8m) .

The effect on net debt of a 10% fall in the US dollar is £101.3m. For further details, see note 29 of the Notes to the accounts.

* Excluding joint-ventures and associates
Continuing operations
Before impairments

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Balance sheet

Non-current assets

Non-current assets of £4,582.4m (£4,221.7m) included £2,901.5m (£2,735.4m) of property, plant and equipment. The increase was driven by acquisitions, which added £313.4m (£133.8m), and capital investment of a further £291.4m (£196.1m) . Intangible assets, primarily goodwill, of £1,196.4m (£974.2m) increased largely due to acquisitions which added £299.8m (£215.7m) ..

Cash, cash equivalents and borrowings

At the end of 2006, the group's net debt of £1,397.3m (£989.6m) was represented by borrowings of £2,164.0m (£2,072.6m), offset by cash of £766.7m (£1,083.0m) . Cash balances include £32.7m (£36.0m), effectively pledged to third party insurance companies, and hence not available for general use.

Other assets

Other assets include inventories of £450.0m (£382.4m) and trade and other receivables of £807.3m (£774.8m) ..

Provisions

Non-current and current provisions at December 31, 2006 totalled £479.7m (£552.3m) . These included £203.7m (£232.2m) for the estimated cost of asbestos settlement and legal costs, discounted and before insurance and tax relief, for the next eight years.

Other liabilities

Other liabilities include a net liability before taxation in relation to defined benefit pension plans of £13.5m (£20.8m) and a net liability before taxation relating to post-employment medical benefits of £77.4m (£103.3m) .

Summary balance sheet
At December 31, 2006

	2006 £m	2005 £m
Non-current assets	**4,582.4**	4,221.7
Cash and cash equivalents	**766.7**	1,083.0
Other assets	**1,270.9**	1,172.0
Total assets	**6,620.0**	6,476.7
Borrowings	**(2,164.0)**	(2,072.6)
Provisions	**(479.7)**	(552.3)
Other liabilities	**(1,247.5)**	(1,179.5)
Total liabilities	**(3,891.2)**	(3,804.4)

Net assets	**2,728.8**	2,672.3
Total equity	**2,728.8**	2,672.3

Capital and financial obligations
At December 31, 2006 (£m)

	Total	Less than 1 Year	1-3 years	3-5 years	More than 5 years
Borrowings (note 20)	2,164.0	824.2	200.1	398.1	741.6
Operating and finance leases (note 27)	215.5	25.7	39.6	26.5	123.7
Pension commitments (note 28)	16.8	8.4	8.4	–	–
Capital expenditure contracted (note 13)	142.2	142.2	–	–	–
Purchase obligations	274.1	58.4	65.9	32.0	117.8
Total	**2,812.6**	**1,058.9**	**314.0**	**456.6**	**983.1**

Equity

Total equity was £2,728.8m (£2,672.3m) at December 31, 2006. The increase of £56.5m consisted of profit for the year of £401.5m less foreign exchange movements of £108.3m, dividends paid of £147.5m, shares repurchased of £64.1m and other adverse movements of £25.1m.

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, surety bonds (note 26), contingent liabilities (note 21). Other than as disclosed, there are no off balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on the group's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditure or capital resources.

Capital and financial obligations

The table above sets out Hanson's capital and financial obligations due by period. Purchase obligations primarily consist of mineral royalty purchase commitments.

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Treasury risk management

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 groups 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 three bond issues, each of $750m, maturing in September 2010, March 2013 and August 2016 respectively. The group also has substantial committed bank facilities which total £971.2m; the principal components are a £500m facility, £470m of which expires in April 2011 and £30m of which expires in April 2010, and a $475m facility expiring in July 2009. At the balance sheet

date, £241.8m 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.

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

Credit risk

The Boards 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. Hansons 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.

Interest rate risk

The groups policy for interest rate risk is designed to limit the groups 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

Hansons credit ratings

	Short-term	Remaining
Fitch	F2	BBB+
Moody's	P-2	Baa1
Standard & Poor's	A2	BBB+

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, the group held 63% (56%) of net debt at fixed rates as at December 31, 2006. 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 uneconomical to transport over long distances, there are few foreign exchange transaction exposures in the course of our day-to-day business. However, the majority (64%) 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.

Committed bank facilities

For the year ended December 31, 2006 (£m)

	Expiring	Remaining
2006	–	971.2
2007	228.5	742.7
2008	–	742.7
2009	242.7	500.0
2010	30.0	470.0
2011	470.0	–

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Principal risks and uncertainties

Our business, financial condition and results of operations will be influenced by a range of factors, many of which are beyond the control of Hanson and its Board.
Consequently, these could have an impact on the price of the Hanson shares and the amount and timing of any dividends that we pay. 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.

The demand for many of our products is closely linked to economic conditions, both globally and in the particular countries in which we operate, especially in North America, the UK and Australia. As a result, depressed economic conditions, including a downturn in US residential demand, 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 reduce the demand for Hanson's products.

National governments' policies relating 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 funds available for spending on our products, therefore potentially reducing sales and profits.

For example, government policy supporting 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. It may also 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. Local factors, such as the number of competitors and production capacity, the proximity of natural resources, economic conditions and product demand exert further competitive pressure. 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 pricing of, our products. Consequently, the results of our operations and profitability may be affected.

Changes in government policy or legislation relating to planning, the environment, health and safety and industry-related taxes could significantly affect Hanson's regulatory compliance and other operating costs.

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. Our operating units are subject to extensive regulation by national and local agencies concerning matters such as

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

These national and local regulations in the jurisdictions in which we operate mean that it may be difficult to expand existing quarries or establish new greenfield aggregates 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, and increased costs associated with, both 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 energy and fuel. Gas and other energy supplies are used in our cement and brick manufacturing operations and fuel is used for the processing and transport of our products. We also purchase significant amounts of materials. These include cement for use in our ready-mixed concrete and concrete product operations, steel for use in our concrete product and steel pipe operations and bitumen for use in our asphalt activities. The cost of these materials and cost of energy and fuel fluctuates, sometimes by significant amounts. Increases in the costs of these materials, energy and fuel, or their lack of availability, can significantly impact

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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 groups supply chain, whether by road, rail, sea or river. Any material disruption to/or lack of availability of such transport support could significantly impact operating costs and reduce profitability.

Increased employment costs could significantly reduce Hansons profitability.

We are a significant employer of labour. Any increased costs of employment, including pension and post-employment benefit costs, could significantly impact operating costs and consequently reduce profitability. The group has several funded defined benefit pension plans, which cover a significant number of the groups employees who participate in the groups pension plans. Hanson also provides benefits from unfunded non-qualified plans in the USA and post-employment benefit plans in the USA and Canada. Various assumptions are made in calculating our assets and/or liabilities under our pension and healthcare plans which, if incorrect, could have a material adverse effect on our financial condition.

Ineffective implementation of computer software systems could significantly reduce Hansons 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. This could adversely affect the results of our operations and profitability.

Hansons acquisition strategy or capital investment programme may be unsuccessful.

We plan to continue making selective acquisitions to strengthen, develop and expand our existing activities.

The successful implementation of our acquisition strategy depends on a range of factors. These include 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 cannot be reliably estimated, could be material and the projected synergies resulting from such acquisitions may not be realised. Material costs or delays in the integration of the operations that we acquire, or the inability to realise synergies from those acquisitions, could result in increased expenditure. Consequently, this could lead to reduced profitability and reduced rates of return from such acquisitions.

We continue to make significant investment in new plant and other capital equipment. There may be changes in the cost of, or the benefits derived from, these projects which could result in reduced rates of return from this investment.

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

In the year ended December 31, 2006, approximately 76% of our operating profit# was earned in currencies other than pounds sterling, and a significant portion of our revenue is denominated in US dollars.

At December 31, 2006, approximately 64% of our capital employed was located outside the UK, and approximately 105% 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 effective group tax rate for 2006 was 16.6% 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 estimate reliably 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, the provision for those costs (based on detailed analysis and the assumptions contained in note 21 of the Notes to the accounts) which are both probable and estimable equates to approximately eight years of gross cost, assuming a cost level of approximately $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. 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

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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 Companys 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 Companys US subsidiaries; and (viii) potential legislative changes. In light of such factors, the liability of the Companys US subsidiaries for resolving asbestos claims may be materially different from current estimates. The impact of such claims might have a material adverse effect on the Companys 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. If there were a material deterioration in current trends, the Company does not expect that such claims would impact the ability of the Company to continue as a going concern based on the information currently available to it.

Hansons 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. Based on existing known circumstances, the Company considers the current Koppers insurance cover to be sufficient to meet substantially all of the related future costs of this liability, recognising that the estimate of future probable costs could increase and new sites may arise to which the insurance cover does not apply. Factors which could cause actual 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 cost estimates. Should the current Koppers 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 and profitability.

As a consequence of its significant present and former activities in the USA, the group is subject to litigation claims. These may arise out of former businesses and activities (in addition to those relating to asbestos and Koppers environmental liabilities referred to above) as well as 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 for material amounts. These may not be covered by insurance and consequently may have a material impact on our financial condition, results of operations and cash flow.

One of the companies into which the former Hanson businesses demerged may be unable to satisfy its indemnification obligations to Hanson were it required to do so.

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 nor 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 plc. The Energy Group plc 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 plc.

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Critical accounting policies

The following section explains where, in these financial statements, we have exercised judgement in applying the group's key accounting policies and critical estimates in areas which are by their nature inherently uncertain. Although we have used all of the information currently available to us in making such critical estimates, changes to our assumptions in these areas could materially affect the financial results and position shown in this document. Hanson's significant accounting policies in accordance with IFRS are set out on pages 74 to 76 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 judgment was based could differ from those estimates.

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

Legal and other disputes

Some of the group's subsidiaries are subject to a number of legal disputes, the most significant of which are 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 21 of the Notes to the accounts.

Environmental obligations

Some of the group's subsidiaries are also subject to environmental obligations for clean-up and remediation costs, pursuant to environmental laws and regulations. Provisions are made for environmental obligations and related costs which are probable and reliably estimable and where a legal or contractual obligation to remedy-known exposures exists. The ultimate

requirement for such actions and their costs is inherently difficult to estimate and is based on current information on costs and expected plans for remediation. Actual costs can differ from estimates over time because of changes in existing laws and regulations, public expectations, new sites arising and unknown conditions being encountered.

Impairment

The group 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 judgments, 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-employment benefit plans

Under IFRS, the group applies IAS 19 "Employee benefits". Under US GAAP, the group has adopted SFAS 158 "Employer's Accounting for Defined Benefit Pension Plans and Other Post-Retirement Plans" as at December 31, 2006, amending the accounting methodology under SFAS 87 "Employer's Accounting for Pensions" and SFAS 106 "Employer's Accounting for Post-Retirement Benefits other than Pensions" on a prospective basis.

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-employment benefits.

Taxation

Significant judgement is required in determining the provision for income taxes. At any given time, the group is undergoing tax audits in several tax jurisdictions and covering multiple years. The group has provisions for taxes that may become payable in future periods as a result of these tax audits. The group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final outcome of these matters is different from the amounts provided, such differences will impact the tax provisions in the period in which such determination is made.

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Group governance

Board of Directors

1. **Mike Welton**
   Chairman

2. **Alan Murray**
   Chief Executive

3. **Pavi Binning**
   Finance Director

4. **Graham Dransfield**
   Legal Director

5. **Frank Blount**
   Non-executive Director

6. **John Brady**
   Non-executive Director

7. **Sam Laidlaw**
   Non-executive Director

8. **Jim Leng**
   Senior Non-executive Director

9. **The Baroness Noakes DBE**
   Non-executive Director

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1. Mike Welton*[#ø]

Chairman (60)

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 (53)

Joined Hanson PLC in 1988. He held various senior divisional financial roles and became Assistant Finance Director in 1995 and Finance Director in1997. 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. Pavi Binning[ø]

Finance Director (46)

Appointed Finance Director in January 2007. Prior to joining Hanson, he worked as Chief Financial Officer at telent plc, formerly Marconi Corporation PLC, where he was a main Board director. Before joining Marconi in 2003, he worked for Diageo PLC for 17 years in a number of senior corporate and operational finance roles. He is a member of the Chartered Institute of Management Accountants.

4. Graham Dransfield[ø]

Legal Director (55)

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 (68)

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-Lucent, 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 (55)

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

7. Sam Laidlaw*[+#]

Non-executive Director (51)

Non-executive Director since 2003 and Chairman of the Remuneration Committee. Currently Chief Executive of Centrica plc. He is a Director of the Business Council for International Understanding and a trustee of the medical charity RAFT. He was previously Executive Vice President of the Chevron Corporation, Chief Executive at Enterprise Oil PLC and President and Chief Operating Officer at Amerada Hess Corporation.

8. Jim Leng+#Ø

Senior Non-executive Director (61)

Non-executive Director since June 2004 and Senior Independent Director. Chairman of Corus Group PLC. He is also a Non-executive Director of Alstom SA and Chairman of Doncaster Group Ltd. 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 (57)

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 in1999-2000. She is a Director of the English National Opera.

* Remuneration Committee member
\+ Audit Committee member
\# Nominations Committee member
Ø 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 financial statements of Hanson PLC and its subsidiary undertakings for the year ended December 31, 2006.

Business activities and review
Hanson is a focused heavy building materials company with operations in the UK, North America, Australia, Asia Pacific and Continental Europe.

A review of the group□s activities during the year, including financial performance, key performance indicators and a description of the principal risks and uncertainties facing the group are included in the Chairman□s statement, the Chief Executive□s overview, A decade of delivery and beyond, the Operating and Financial Review, the Corporate governance statement and the Remuneration report of the Annual Report as detailed on page 1. The Annual Report contains some forward looking information/statements which by their nature involve some uncertainty and should not be construed as a profit forecast.

Results and dividends
The profit for the year was £401.5m (£387.6m, £264.2m) .

An interim dividend of 6.45p per ordinary share was paid on September 15, 2006. The Directors recommend a final dividend of 15.35p per ordinary share which will, if approved at the AGM, be paid on May 4, 2007, to ordinary shareholders on the register at close of business (London time) on April 10, 2007.

Dividends of £147.5m were paid during the year.

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
There have been no material post balance sheet events since December 31, 2006.

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 incurred.

Share capital
Details of changes in share capital during the year and the number of ordinary shares reserved for issue at December 31, 2006 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 24, 2007, at The Institution of Engineering and Technology, 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 57.

J C Nicholls resigned as a Director of the Company during the year under review.

M W Welton, J W Leng and G Dransfield will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming AGM. P S Binning, 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, 2006, appear in the Remuneration report on pages 63 to 67.

Directors’ Indemnities
The Company’s Articles of Association were amended following the 2005 AGM to expand the circumstances in which a Director can be indemnified by the Company in accordance with Companies Act 1985. In addition to providing this indemnification and any other indemnification provided 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 £348,000 (£309,000, £321,000), including £84,000 (£93,000, £183,000) in the UK. As in the previous year, no political donations were made to EU political parties or organisations.

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 and disclosure of information to auditors
The Directors who held office at the date of approval of this Report of the Directors each confirm that, so far as they are aware, there is no relevant audit information (as defined in the Companies Act 1985) of which the Company’s auditors are unaware; and that they have each taken all the steps that ought to have been taken as a director of the Company to make himself/herself aware of any relevant audit information and to establish that the Company’s auditors are aware of that information.

This confirmation is given in accordance with the provisions of Section 234ZA of the Companies Act 1985.

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 financial statements are on pages 68, 69 and 135.

By order of the Board
Paul Tunnacliffe
Company Secretary
February 22, 2007

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 has published its business principles which require 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.

Divisional codes of conduct and supporting policies are also 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. No amendments to, or waivers in respect of, the code were made during 2006. This code is available on request from the Company Secretary or on Hanson's website at www.hanson.biz/corporategovernance.

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 and also with the revised Code published in June 2006, applicable for reporting years beginning on or after November 1, 2006.

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.

The Board of Directors
The Board currently comprises the Chairman, the Chief Executive, two other Executive Directors and five Non-executive Directors and their biographies are on page 56.

There is a clear separation of the roles of the Chairman and Chief Executive. The division of responsibilities between the Chairman and the Chief Executive is set out in writing and has been agreed by the Board. As Chairman, M W Welton has 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.

The commitments of the Chairman did not change during the year.

All of the Non-executive Directors are considered by the Board 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 seven Board and strategy meetings held, including one offsite in the UK and another in the US.

The attendance records of individual Directors are set out below:

	Attendance
M W Welton	7/7
A J Murray	7/7
G Dransfield	7/7
J C Nicholls (resigned October 31, 2006)	6/6
W F Blount	7/7
C J Brady	7/7
W S H Laidlaw	5/7
J W Leng	7/7
The Baroness Noakes	7/7

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 2006.

The Board managed 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.

Of the matters reserved for authorisation and approval, during the year the Board considered and approved as appropriate the Company's long-term strategy, the annual operating budget, the financial statements, dividend recommendations, treasury activities, major acquisitions and disposals, major capital projects and expenditure, and the appointment of a new Finance Director.

Matters for which the Board has responsibility include compliance with the group's corporate responsibility policies, including environmental and health and safety for which group policies were endorsed during the year.

Matters which the Board reviewed included 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. The induction programme also includes site visits and, although there were no new Non-executive Directors appointed in 2006, site visits were arranged at various times during the year, including two arranged in conjunction with the holding of the overseas Board meeting.

All Directors are provided with the opportunity, and encouraged to go, for training to ensure they are kept up to date on relevant new legislation and best practice and changing commercial and other risks. Typical training experience for all Directors included attendance at seminars, forums, conferences and working groups, in addition to which W F Blount completed an externally certified Director's College Programme in the USA.

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.

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Corporate governance continued

During the year, an evaluation of the Boards effectiveness, including the effectiveness of Committees of the Board, was undertaken by external consultants by way of a written questionnaire followed by individual meetings with all Directors. A report was prepared for the Board for its consideration. The results of the evaluation showed that the Board and its Committees were operating effectively but did identify some areas which would help the Board provide a higher performance. These covered such areas as the process for developing strategy; the dynamics of the Board; talent management; enhancing the involvement of the Board with the operations; and the workings of the Board. Identified improvements will be introduced in 2007.

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. Feedback was given, including any actions which will be put into effect during 2007, to the Chairman, by J W Leng, and the conclusion reached was that the Chairmans 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 Company Secretary acts as secretary to all of these Committees.

The terms of reference of the Committees are available on Hansons website at www.hanson.biz/corporategovernance.

Remuneration Committee
The Remuneration Committee consists of four independent Non-executive Directors; W S H Laidlaw (Chairman), W F Blount, The Baroness Noakes and C J Brady and, since January 2007, M W Welton. Its role is described in the Remuneration report.

In 2006, 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 2007 and no fee will be paid to M W Welton for acting as a member of the Committee.

Nominations Committee
The Nominations Committee consists of M W Welton as Chairman, A J Murray and the independent Non-executive Directors.

The Committees terms of reference, which were reviewed during the year, 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 2006. There has been no change to the fee arrangements for 2007.

During the year, on behalf of the Board, the Committee undertook a search for the appointment of a new Finance Director, for which search a candidate profile 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 P S Binning as Finance Director and as a member of the Board on January 2, 2007. For the appointment of Non-executive Directors, the Board considers the balance of skills and experience on the Board and then agrees a candidate profile for the search, for which an external search consultancy is appointed. The Committee meets with candidates prior to making a recommendation to the Board. No new Non-executive Directors were appointed during the year.

During the year the Committee met twice formally, and on a number of other occasions, principally in the search for a new Finance Director. W S H Laidlaw was unable to attend one of the formal meetings. The Committee also undertook a review of its own effectiveness, working with the same external consultants used for the Board evaluation, and reported back to the Board.

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 2006, 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 2007.

Regular attendees at Committee meetings, at the invitation of the Committee, included the Chairman, the Finance Director, the Head of Internal Audit, the Group Financial Controller, the Group Chief Accountant and representatives from the external auditors. In 2006, the Chief Executive also attended one meeting prior to the appointment of a new Finance Director.

The Committees principal duties include:

- monitoring the integrity of the Companys financial statements
- reviewing the effectiveness of systems for internal financial control, financial reporting and risk management
- reviewing the internal audit programme and monitoring the effectiveness of the internal audit function
- overseeing the processes for the appointment, re-appointment and removal of the auditors
- approving the terms of engagement and the remuneration for audit services
- setting the policy for the provision of non-audit services and pre-approval of all permitted non-audit services
- monitoring the whistleblowing procedures
- ensuring the objectivity and independence of the auditors is maintained.

During the year the Committee met four times, which all of the Committee members attended, other than on one occasion when J W Leng 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. On appointment to the Committee all members receive appropriate induction. There were, however, no new members appointed during the year.

The Committee discharged its responsibilities through a series of Committee meetings throughout the year at which detailed reports were presented for review. The Committee received reports either from the external auditors, the Head of Internal Audit or Company management. The Committee met 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 external legal or other independent professional advice on any matter within its terms of reference and to secure the attendance of external advisors with relevant experience and expertise if it considers it necessary. There were no occasions during the year when it considered it was necessary to obtain external advice.

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

– the interim and full year financial results prior to consideration by the Board
– the annual internal audit programme and its resourcing
– the auditors□ interim and full year reports
– the auditors□ report to management
– the overseeing of the group□s SOX compliance work
– the overseeing of the whistleblowing programme
– 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, working with the same external consultants used for the Board evaluation, and reported back to the Board.

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

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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. During the year the Committee reviewed all approved services and level of expenditure. The auditors were permitted to perform non-audit service only where the scope of work was within the terms of the policy and there was a business benefit to the group in these services being performed by them rather then an alternative supplier. A breakdown of the non-audit fees can be found in note 32(o) of the Notes to the accounts.

The Committee considered that Ernst & Young LLP were effective in conducting the audit and work on SOX compliance during the year.

Risk Committee

A further Committee of the Board is the Risk Committee, which consists of the Chief Executive, the Finance Director, the Legal Director and other senior executives. It is responsible for monitoring and reviewing the groups significant financial and non-financial risks in relation to treasury activities, tax, insurance, asbestos, legacy issues, pensions, internal audit, internal control, business risk and other matters as they arise from time to time. As one of its main duties, on behalf of the Board, the Committee identifies the principal risks and mitigating actions arising out of the internal control reviews, as outlined below.

Internal control

The Board recognises that it is responsible for the groups 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 and revised in October 2005, to provide guidance to Directors in respect of this requirement.

The Board confirms that procedures, which accord with the guidance, have been in place for the year to December 31, 2006 and up to the date of approval of the Annual Report and Form 20-F by the Board. These procedures provide an ongoing process for identifying, evaluating and managing the principal risks faced by the group, thereby ensuring that the Board is made aware of these.

The Board is responsible for the system of internal control. It is regularly reviewed by the Risk Committee, acting on behalf of the Board, for effectiveness and adequacy and the Board confirms that necessary actions have been or are being taken to remedy any significant failings or weaknesses identified from those reviews. Such a system can only provide reasonable and not absolute assurance against material misstatement or loss, as it is designed to manage rather than eliminate the risk of failure to achieve business objectives. In seeking to achieve these objectives, many of which are already features of the existing processes and procedures within the Company, the Board has specifically instituted the following processes, which have been in effect throughout the reporting period and up to the date of approval of the Annual Report and Form 20-F by the Board.

Policies

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

Processes

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

- Well-defined procedures governing the appraisal and approval of investments, including detailed investment and divestment approval procedures incorporating appropriate levels of authority and regular post investment reviews.

Verification

- An internal audit function, 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 financial statements.
- An Audit Committee, 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, 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, 2006 of these disclosure controls and procedures to permit the signing of the certifications required from the Chief Executive and the Finance Director in accordance with the requirements of section 302 of SOX. Based on this evaluation, the Chief Executive and the Finance Director concluded that the disclosure controls and procedures are effective in ensuring that information required to be disclosed in reports filed under the US Securities Exchange Act of 1934 is recorded, processed, summarised and reported within specified time periods and that information required to be disclosed is accumulated and communicated to management, including them, to allow timely decisions regarding required disclosure.

Management's annual report on internal control over financial reporting

In accordance with the requirements of section 404 of SOX, 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, 2006, 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, 2006, 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 and to enhance its information systems and processes. There have been no changes in the groups internal controls or in other factors during the period that have materially affected, or are reasonably likely to materially affect, the groups 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 regularly reviews internal audit reports and considers the overall effectiveness of the function. 2006 has seen an ongoing focus on financial statement risks identified through existing risk management procedures and through the assessment of internal control over financial reporting, required by SOX. During 2006, we have further embedded the SOX requirements in the organisation and broadened the scope of internal audit to carry out more extensive work on operational risks. This greater emphasis on operational risks will continue into 2007 and will again contribute to the development of the groups risk management framework and its internal controls environment.

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Corporate governance continued

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.

Principally, the investor relations team maintain regular contact with the Company's major shareholders. In addition, regular analyst presentations, copies of which are available to download from the investors section of the Hanson website at www.hanson.biz, are undertaken and roadshows by the Chief Executive and Finance Director follow the announcement of the interim and annual results. A quarterly report covering analyst coverage, shareholder analysis, feedback from investor meetings and press coverage is provided to the Board.

An independent survey of the Company's major shareholders was also undertaken during 2006 with feedback, in the form of a presentation, given to the Board. In addition, a consultation exercise was undertaken with the Company's major shareholders in relation to the introduction of a new Long Term Incentive Plan which was subsequently approved by shareholders at the 2006 AGM.

Although the Senior Independent Director and other Non-executive Directors are available to meet with major shareholders, no specific shareholder requests were made during the year.

The Hanson website also provides information on the Company and its businesses. 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 58 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 making appropriate enquiries, they have a reasonable expectation that Hanson has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Directors' responsibilities for the financial statements
Company law requires the Directors to prepare financial statements 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 financial statements, 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 financial statements 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 Companys website www.hanson.biz. The Directors are responsible for the maintenance and integrity of statutory and audited information on the Companys 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 financial statements may differ from legislation in other jurisdictions.

By order of the Board
Paul Tunnacliffe
Company Secretary
February 22, 2007

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Remuneration report

Remuneration Committee membership and terms of reference

The Remuneration Committee (the "Committee") consists of four Independent Non-executive Directors: W S H Laidlaw (Chairman), W F Blount, The Baroness Noakes DBE and C J Brady; and M W Welton, who was appointed in January 2007.

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 considers, recommends as appropriate and approves 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. M W Welton is not involved in any decisions as to his own 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 four formal meetings held by the Committee during the year and all the then members attended each meeting, other than on one occasion when C J Brady was unable to attend. 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 was respectively excluded when his own performance and remuneration were being discussed.

The Committee also undertook a review of its terms of reference and its own work and effectiveness, working with the same external consultants used for the Board evaluation, 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 60, 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, 2006 the basic fee was £40,000. In 2007, it will remain the same. 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.

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 is 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 Chief Executive, A J Murray, and G Dransfield already satisfy these shareholding requirements.

Basic salary

In setting the basic salary for each Executive Director, the Committee reviews relevant market data and considers the Directors 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 5.4% and 4.1% have been granted to A J Murray and G Dransfield, respectively, for the year commencing January 1, 2007. The salary of P S Binning, who was appointed Finance Director on January 2, 2007, is £420,000.

The Committee also determines the fee for the Chairman, which was £220,000 for 2006. In 2007, this will be £230,000.

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 groups 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 2006, the target level of bonus for A J Murray was 62.5% of basic salary and for G Dransfield 37.5% of basic salary. No bonus entitlement arose for J C Nicholls who left the Company on October 31, 2006.

Improvement in the groups overall economic value added for the year to December 31, 2006 determined the bonus bank addition for the Executive Directors. The strong operating and profit performance in 2006 led to improvement in the groups economic value added and resulted in additions to the bonus bank of 69.4% of basic salary for A J Murray and 41.6% of basic salary for G Dransfield. The bonuses paid in respect of the year to December 31, 2006 to the Executive Directors were £509,262 for A J Murray and £161,986 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 Companys 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.

At the 2006 AGM, shareholders approved a new LTIP. The principal change from the previous LTIP, which expired in 2006, was to replace that element of an award which was the subject of an economic value added measure, with earnings per share (EPS) and cash flow growth measures.

Under the new LTIP, 50% of the award is subject to a Total Shareholder Return (TSR) measure, 25% to an EPS measure and 25% to a cash flow growth measure. The Committee chose these performance measures as it believes they correlate closely with the Companys strategy and with the creation of shareholder value.

The extent to which awards under the EPS and cash flow growth measures will vest will depend on the extent to which growth in these measures exceeds inflation over three year performance periods on the following bases:

Average annual EPS growth over the three year performance period	% of award vesting applicable to the EPS performance measure
Less than RPI + 3%	0%
RPI + 3%	25%
RPI + 9% or more	100%
Between RPI + 3% and RPI + 9%	Between 25% and 100% on a straight line basis

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Remuneration report continued

Average annual cash flow growth over the three year performance period	% of award vesting applicable to the cash flow growth performance measure
Less than RPI + 5%	0%
RPI + 5%	25%
RPI + 10% or more	100%
Between RPI + 5% and RPI + 10%	Between 25% and 100% on a straight line basis

For the TSR measure in 2006 (and similarly for the awards made in 2003, 2004 and 2005), 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 May 2006, 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 Companys ranking.

For the conditional award made in 2006, the EPS and cash flow growth performance measures require an increase in the Companys EPS continuing operations before impairments and the Companys net cash flow from operating activities (excluding additional pension contributions) over a fixed three year performance period starting on the first day of the financial year in which the awards are granted. For 2006, the EPS and cash flow growth measures against which performance will be measured are 50.5p per share and £483.3m respectively.

In 2006, a conditional award of shares was made to A J Murray of 187.5% of basic salary and to the other Executive Directors of 130% of basic salary.

In respect of the outstanding 2004 and 2005 awards, 50% of the award is subject to a TSR performance measure and 50% to the attainment of an economic value added target. The economic value added targets require improvements in economic value added over a period of three years based on the results for the financial year immediately preceding the award. For this performance measure, 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. On attaining the minimum economic value added of £14.0m for the 2004 award and £14.5m for the 2005 award, 25% of the respective awards subject to the economic value added measure criteria will vest. 100% of the awards subject to this measure will vest on attainment of economic value added improvements of £37.2m and £38.8m for the 2004 and 2005 awards, respectively.

For the 2004 award, the TSR comparator group consists of 13 companies, including Hanson. These include 3 UK building materials companies in the FTSE 350 Index (Hanson, Travis Perkins and Wolseley), 4 European building materials companies in the Euro Top 300 Index (CRH, Holcim, Lafarge and Wienerberger), 4 North American businesses (Florida Rock, Martin Marietta, Texas Industries and Vulcan) and 2 Australian building materials companies (Boral and Rinker). The Committee removed Pilkington and Ultraframe following takeover of these companies.

For the 2005 award, the TSR comparator group consists of 15 companies, including Hanson. These include 3 UK building materials companies in the FTSE 350 Index (Hanson, Travis Perkins and Wolseley), 5 European building materials companies in the Euro Top 300 Index (Buzzi Unicem, CRH, Holcim, Lafarge and Wienerberger), 4 North American businesses (Florida Rock, Martin Marietta, Vulcan and Cemex) and 3 Australian building materials companies (Boral, Rinker and James Hardie). The Committee removed Pilkington following takeover of this company.

For the 2006 award, the TSR comparator group consists of 21 companies, including Hanson. These include 7 UK building materials companies in the FTSE 350 index (Hanson, Marshalls, Persimmon, Taylor Woodrow, Travis Perkins, Wimpey and Wolseley), 6 European building materials companies in the Euro Top 300 index (Buzzi Unicem, CRH, Holcim, Lafarge, Saint Gobain and Wienerberger), 5 North American businesses (Cemex, Centex, Florida Rock, Martin Marietta and Vulcan) and 3 Australian building materials companies (Boral, James Hardie and Rinker).

There is no retesting of performance under any of the performance measures.

The table below shows the conditional interests in shares of Executive Directors relating to awards made under the LTIP in 2003, 2004, 2005 and 2006. For the conditional award made in 2003 to Executive Directors, 47% of the award subject to a TSR performance measure criteria and 65% of the award subject to an economic value added performance measure criteria vested following the end of the three year performance period. This resulted in a total vesting of 56% of the maximum number of shares under the conditional awards.

For the conditional award made in 2004, it is anticipated that 30% of the award subject to a TSR performance measure, where Hanson’s TSR over the three year performance period more than doubled, and 100% of the award subject to an economic value added performance measure criteria will vest on March 1, 2007. This would result in a total vesting of 65% of the maximum number of shares under the conditional awards.

	Date of award	Balance at Jan 1, 2006	Awarded during year	Lapsed during year	Vested during year	Balance at Dec 31, 2006
A J Murray	March 1, 2003	278,926	—	122,728	156,198	—
	March 1, 2004	204,732	—	—	–	204,732
	March 1, 2005	181,994	—	—	–	181,994
	May 2, 2006	—	163,379	—	—	163,379
G Dransfield	March 1, 2003	103,306	–	45,455	57,851	—
	March 1, 2004	70,974	—	–	—	70,974
	March 1, 2005	63,192	—	—	—	63,192
	May 2, 2006	—	58,454	—	—	58,454

Notes

1) The Directors elected to satisfy their liabilities to income tax and national insurance contributions, arising on the vesting of shares under the LTIP, out of the share award. A J Murray retained 92,156 shares and G Dransfield retained 34,132 shares.
2) During the period January 1 to October 31, 2006 71,349 of the shares awarded under the 2003 Award vested to J C Nicholls on March 1, 2006. He also received a conditional award over 73,500 shares on May 2, 2006. Following his resignation, on

October 31, 2006 his outstanding entitlements over 241,160 shares held under the LTIP lapsed.

3) S N Vivian, a former Executive Director of the Company, left on June 30, 2003. He retained certain entitlements to the conditional shares awarded to him under the LTIP prior to the date of him leaving. Under the 2003 Award, which vested on March 1, 2006 as detailed above, 27,444 shares vested to S N Vivian.
4) The relevant market prices at the time of the conditional awards in 2003, 2004, 2005 and 2006 were 290.4p, 439.6p, 514.3p and 751.7p, respectively.
5) During the period January 1, 2007 to February 22, 2007 there was no change in the interests of Executive Directors in the LTIP.

Conditional awards under the LTIP will usually be made annually and the maximum annual level of award is 200% of basic salary. Awards vesting under the LTIP are not pensionable.

Share Option Plan

Executive Directors and a selected number of senior executives from the Company's worldwide operations during the period 2001-2005 participated in the Share Option Plan. Under this Plan, participants were granted options over a number of shares during the period 2001-2005 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 2004, it is anticipated that 65% of the number of shares under option will become exercisable following the end of the three-year performance period.

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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, 2006	Lapsed during year	Vested during year	Exercised during year	Balance at Dec 31, 2006	Exercise price (p)	Market price on date of exercise (p)	Gain on exercise (£)	Range of exercise dates
A J Murray	March 1, 2003	232,438	102,273	130,165	—	130,165	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	795.50p	77,328	05/04-05/11
	March 1, 2002	16,242	—	—	16,242	—	461.75	795.50p	54,208	03/05-02/12
	March 1, 2003	103,306	45,455	57,851	57,851	—	290.4	795.50p	292,205	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

Notes

1) Following the end of the three year performance period a total of 56% of the shares under the conditional options granted on March 1, 2003 became capable of being exercised.
2) On September 1, 2006, J C Nicholls exercised options over 24,000, 17,325 and 71,349 shares at exercise prices of 473.3p, 461.75p and 290.4p per share, respectively. Following his resignation, on October 31, 2006 the outstanding options over 167,660 shares held by J C Nicholls under the Share Option Plan lapsed.
3) S N Vivian, a former Executive Director of the Company, left Hanson on June 30, 2003. The option grants made to him 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 56% of the shares under the conditional options granted on March 1, 2003 became capable of being exercised. In respect of this grant, S N Vivian became entitled to an option over 27,444 shares at an exercise price of 290.4p per share. He exercised his option on September 28, 2006 and has no outstanding option entitlements remaining.

4) During the period January 1, 2007 to February 22, 2007 there were no changes in the interests of Executive Directors in options under the Share Option Plan.

No grants of options were made in 2006 and no further grants of options will be made under the Share Option Plan.

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

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, 2006, there were approximately 3,250 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, 2006	Granted during year	Exercised during year	Market price at date of exercise (p)	Balance at Dec 31, 2006	Exercise price (p)	Gain on exercise during the year (£)	Range of exercise dates
A J Murray	—	1,530	—	—	1,530	611	—	6/09-11/09
G Dransfield	3,099	—	—	—	3,099	318	—	12/07-05/08
	1,993	—	—	—	1,993	328	—	06/09-11/09

Notes

1) Options granted under the Sharesave Scheme during the year were at an exercise price of 611p per share, being a 20% discount to the market price on March 16, 2006.
2) The option over 2,398 shares held by J C Nicholls under the Sharesave Scheme lapsed on October 31, 2006 following his resignation.
3) During the period January 1, 2007 to February 22, 2007 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, 2006 was 616.5p to 784.5p. The market quotation on December 31, 2006 was 770.5p.

Gains on exercise

The total gains made by Directors on options exercised or exercised for cash under the Share Option Plan and the Sharesave Scheme were £779,559 (£253,908).

Performance review

The following graph shows the TSR performance of the Company and that of the FTSE 100 Index over the five-year period to December 31, 2006. The FTSE 100 Index was selected due to its broad range of constituents of a large capitalisation, of which Hanson is a constituent company.

Total shareholder return (2002-2006)

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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 Directors normal compensation, including basic salary, annual incentives and benefits, for the unexpired portion of the notice period. Pension entitlement 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 Companys 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 was a Non-executive Director of Man Group plc during the period January 1 to July 20, 2006, in respect of which he received fees of £41,532. 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 (HMRC) 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. For service accruing after July 1, 2004 member contributions are 7.5% 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.

In preparation for the HMRC tax simplification changes for pensions, which became effective on April 6, 2006, the Committee reviewed the impact of the proposals on all employees, including the Executive Directors. The approach adopted, following recommendations from the independent advisor to the Committee, was for solutions which were essentially cost neutral to the Company with no compensation for changes in tax legislation. A contribution was made to the provision of independent financial advice for the affected individuals, including the Executive Directors.

Under the new tax regime, each member now has a Lifetime Allowance (LTA) initially set at £1.5m and a new tax, called the recovery charge, is levied at retirement if the value of their pension benefit from all sources exceeds this amount. However, for any member whose total benefit on April 6, 2006 exceeded the LTA, transitional arrangements allowed them to register the higher value so that they would not be subject to a large retrospective recovery charge.

To qualify for this enhanced protection the member was required to opt out of pension plan membership as regards future service accrual.

A J Murray and G Dransfield elected to opt out of pension plan membership as regards future service accrual as a result of registering for enhanced protection with HMRC. An unfunded unapproved retirement benefit scheme

(UURBS) has been arranged in respect of A J Murray to provide an accumulation of benefit no greater than a total pension promise of two-thirds of final pensionable salary. An appropriate provision has been made in respect of the UURBS which at December 31, 2006 was £237,000. As G Dransfield had already completed the maximum pensionable service allowed under the pension plan, no further arrangements were put in place for him.

The following table gives details for each Executive Director in office during the year of:

- the increase in the accrued pension attributable to service since December 31, 2005.
- the increase in the accrued pension net of inflation attributable to service since December 31, 2005.
- the annual accrued pension payable from normal retirement age, calculated as at December 31, 2006.
- the transfer value of the increase of the accrued pension net of inflation and the Directors contributions 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 transfer value of the accrued pension at December 31, 2006, calculated in accordance with actuarial guidance note GN11.
- the change in the transfer value over the year net of the Directors 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 and improvements in longevity.

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, 2006	Transfer value of net increase in accrued pension earned in year	Transfer value as at Dec 31, 2005	Transfer value as at Dec 31, 2006	Change in transfer value
	£000	£000	£000	£000	£000	£000	£000
A J Murray	10	(9)	379	(235)	8,105	9,030	913
G Dransfield	2	(9)	219	(213)	4,887	5,126	239
J C Nicholls (note 1)	10	8	43	126	681	887	186

Notes

1) Prior to the HMRC tax simplification changes for pensions referred to above becoming effective on April 6, 2006, those Executive Directors and employees who joined the pension plan after May 1989 were subject to an earnings cap (£105,600 in 2005/2006) on HMRC approved pension plans. It was Hansons policy to provide executives with appropriate benefits outside of the pension plan in relation to that part of their salary which exceeded 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, for whom a contribution of £77,785 was made on April 1, 2006) was liable to settle the tax liability himself.

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Directors remuneration

Remuneration of each Director, excluding pensions, during the year ending December 31, 2006:

	Salary/fees	Annual bonus	Benefits (see note 1 below)	2006 Total	2005 Total	2006 LTIP vested (see note 2 below)	2005 LTIP vested
	£000	**£000**	**£000**	**£000**	£000	**£000**	£000
M W Welton	**220**	**–**	**–**	**220**	164	**–**	**–**
A J Murray	**655**	**509**	**36**	**1,200**	1,183	**1,087**	249
G Dransfield	**338**	**162**	**19**	**519**	510	**403**	83
J C Nicholls (note 3)	**354**	**–**	**48**	**402**	763	**497**	88
W F Blount	**46**	**–**	**–**	**46**	42	**–**	–
C J Brady	**46**	**–**	**–**	**46**	16	**–**	–
W S H Laidlaw	**58**	**–**	**–**	**58**	49	**–**	–
J W Leng	**58**	**–**	**–**	**58**	49	**–**	–
The Baroness Noakes DBE	**66**	**–**	**–**	**66**	62	**–**	–
Total	**1,841**	**671**	**103**	**2,615**	2,838	**1,987**	420

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 Companys 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 2006 is based on the share price on the day of vesting, March 1, 2006, of 696p.

3) J C Nicholls left the Company and the Board on October 31, 2006.
4) There were no termination payments made during the year.

Other than as shown under the LTIP and Share Option Plan on pages 63 to 65, no remuneration or other benefit was paid to former Directors during the year to December 31, 2006.

Directors interests in ordinary shares

The interests of the Directors, who held office at December 31, 2006, in Hanson shares on January 1, 2006 and December 31, 2006 (excluding options granted under the Share Option Plan and the Sharesave Scheme, details of which are shown on pages 64 to 65) are as set out below.

	Ordinary shares Dec 31, 2006	Ordinary shares Jan 1, 2006	**Conditional interest under LTIP Dec 31, 2006**	Conditional interest under LTIP Jan 1, 2006
M W Welton	**5,000**	5,000	**–**	–
A J Murray	**362,912**	270,756	**550,105**	665,652
G Dransfield	**178,681**	144,549	**192,620**	237,472
W F Blount	**1,000**	1,000	**–**	–
C J Brady	**10,000**	–	**–**	–
W S H Laidlaw	**20,000**	20,000	**–**	–
J W Leng	**10,000**	10,000	**–**	–
The Baroness Noakes DBE	**7,600**	7,600	**–**	–

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, 2006 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 Companys registered office) contains full details of Directors share and share option interests.

The cumulative shareholdings of the Directors represent less than 1% of the Companys 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 Option Plan, Sharesave Scheme, Gains on exercise and Pensions.

By order of the Board
Paul Tunnacliffe
Company Secretary
February 22, 2007

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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 and subsidiaries for the year ended December 31, 2006 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 31. 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, 2006 and on the information in the Directors Remuneration report that is described as having been audited.

This report is made solely to the Companys 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 Companys 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 Companys 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 responsibilities for preparing the group financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the statement of Directors responsibilities.

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 whether in our opinion the information given in the Report of the Directors report is consistent with the financial statements.

In addition we report to you if, in our opinion, we have received all the information and explanations we require for our audit, or if information specified by law regarding Directors remuneration and other transactions is not disclosed.

We review whether the Corporate governance statement reflects the Companys compliance with the nine provisions of the 2003 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 Boards statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the groups corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and Form 20-F and consider whether it is consistent with the audited group financial statements. The other information comprises only the Report of the Directors, the Chairmans statement, the Chief Executives Overview, A decade of delivery and beyond, the Operating and 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 at December 31, 2006 and of its profit for the year then ended;
- the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Directors' report is consistent with the group financial statements.

Ernst & Young LLP
Registered auditor
London
February 22, 2007

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Auditors reports

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 and subsidiaries as of December 31, 2006 and 2005, and the related consolidated income statements, consolidated cash flow statements and consolidated statements of recognised income and expense for each of the three years in the period ended December 31, 2006. These financial statements are the responsibility of the Companys management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 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 and subsidiaries at December 31, 2006 and 2005, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2006, in conformity 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 32 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 PLCs internal control over financial reporting as of December 31, 2006, 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 22, 2007 expressed an unqualified opinion thereon.

Ernst & Young LLP
London
England February 22, 2007

Report of independent registered public accounting firm

To the Board of Directors and shareholders of Hanson PLC

We have audited managements assessment, included in the accompanying Managements annual report on internal control over financial reporting on page 61, that Hanson PLC maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organisations of the Treadway Commission (the COSO criteria). Hanson PLCs 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 managements assessment and on the effectiveness of the Companys 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 managements 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, 2006, 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, 2006, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Hanson PLC as of December 31, 2006 and 2005, and the related consolidated income statements, consolidated cash flow statements and consolidated statements of recognised income and expense for each of the three years in the period ended December 31, 2006, and our report dated February 22, 2007 expressed an unqualified opinion thereon.

Ernst & Young LLP
London
England February 22, 2007

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Consolidated income statement
for the 12 months ended December 31, 2006

	Notes	**2006** £m	2005 £m	2004 £m
Continuing operations:				
Group turnover*	2a	**4,132.7**	3,715.7	3,383.0
Costs and overheads	3	**(3,603.7)**	(3,267.4)	(2,982.8)
Group operating profit before impairments*	2b	**529.0**	448.3	400.2
Share of joint-ventures and associates profit after tax	2c	**33.7**	40.5	23.2
Operating profit before impairments	2b	**562.7**	488.8	423.4
Operating impairments	2b and 6	**(4.1)**	(4.0)	(29.3)
Operating profit	2b	**558.6**	484.8	394.1
Finance costs	7	**(236.5)**	(224.7)	(198.0)
Finance income	7	**158.7**	169.2	151.2
Net finance costs		**(77.8)**	(55.5)	(46.8)
Profit before tax		**480.8**	429.3	347.3
Tax on continuing operations before impairments	8	**(81.8)**	(28.8)	(33.4)
Tax on impairments	8	**2.1**	(5.6)	6.3
Tax on continuing operations		**(79.7)**	(34.4)	(27.1)
Profit after tax continuing operations		**401.1**	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	**0.3**	2.3	10.4
Profit/(loss) on disposals in prior years, after tax	9c	**0.1**	(12.4)	(50.0)
Profit/(loss) after tax discontinued operations		**0.4**	(7.3)	(56.0)
Profit for the year		**401.5**	387.6	264.2
Profit for the year attributable to:				
Equity holders of the Company		**400.4**	387.3	264.3
Minority interests		**1.1**	0.3	(0.1)
		401.5	387.6	264.2
Dividends				
Paid in the year (£m)	10	**147.5**	136.2	127.3
Paid in the year (pence per ordinary share)	10	**20.60p**	18.65p	17.30p
Earnings per ordinary share (pence)				
Basic	11	**56.0p**	53.2p	36.0p
Basic continuing operations	11	**55.9p**	54.2p	43.6p
Diluted	11	**55.3p**	52.6p	35.6p
Diluted continuing operations	11	**55.2p**	53.6p	43.2p

* The use of the word Group reflects the fact 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, 2006

	Notes	2006 £m	2005 £m
Assets			
Non-current assets			
Intangible assets	12	**1,196.4**	974.2
Property, plant and equipment	13	**2,901.5**	2,735.4
Investments	14	**290.6**	302.3
Receivables	17	**174.8**	182.2
Pension plan surpluses	28	**18.3**	26.9
Deferred tax assets	22	**0.8**	0.7
		4,582.4	4,221.7
Current assets			
Inventories	15	**450.0**	382.4
Trade and other receivables	17	**807.3**	774.8
Tax receivables	22	**10.6**	6.3
Cash and cash equivalents	18	**766.7**	1,083.0
		2,034.6	2,246.5
Assets held for sale	16	**3.0**	8.5
Total assets		**6,620.0**	6,476.7

Liabilities			
Non-current liabilities			
Payables	19	**(69.2)**	(84.0)
Borrowings	20	**(1,339.8)**	(1,161.6)
Provisions	21	**(384.8)**	(448.0)
Pension and post-employment medical plan deficits	28	**(109.2)**	(151.0)
Tax payable	22	**(96.4)**	(101.4)
Deferred tax liabilities	22	**(333.3)**	(256.8)
		(2,332.7)	(2,202.8)
Current liabilities			
Trade and other payables	19	**(628.6)**	(578.5)
Borrowings	20	**(824.2)**	(911.0)
Provisions	21	**(94.9)**	(104.3)
Tax payable	22	**(10.8)**	(7.8)
		(1,558.5)	(1,601.6)
Total liabilities		**(3,891.2)**	(3,804.4)
Net assets		**2,728.8**	2,672.3
Equity			
Called-up share capital	23	**73.7**	73.7
Own shares	24	**(138.4)**	(73.3)
Cash flow hedge reserve	24	**(0.5)**	(3.0)
Cumulative translation reserve	24	**(63.2)**	44.7
Retained earnings	24	**1,879.3**	1,655.5
Other reserves	24	**972.4**	972.4
Attributable to equity holders of the Company		**2,723.3**	2,670.0
Minority interests	24	**5.5**	2.3
Total equity		**2,728.8**	2,672.3

Approved by the Board of Directors on February 22, 2007

Alan Murray Chief Executive

Pavi Binning Finance Director

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Consolidated cash flow statement

for the 12 months ended December 31, 2006

	Notes	2006 £m	2005 £m	2004 £m
Cash inflow from operating activities				
Group operating profit before impairments continuing operations		**529.0**	448.3	400.2
Group operating profit before impairments discontinued operations	9a		1.0	4.0
		529.0	449.3	404.2
Amortisation of intangible assets	12	**5.4**	3.0	2.5
Depreciation and depletion	13	**217.3**	194.6	191.4
Provisions charged		**20.8**	9.5	6.9
Provisions utilisation		**(63.1)**	(43.8)	(26.1)
Movements in pensions and post-employment medical plan benefits		**(30.6)**	(20.0)	(16.3)
Profit on sale of property, plant and equipment and assets held for sale		**(36.6)**	(15.0)	(6.3)
Increase in inventories		**(69.1)**	(42.3)	(16.5)
Net change in receivables and payables		**(18.4)**	20.1	15.8
Dividends received from joint-ventures and associates		**27.3**	27.9	19.9
Other		**2.8**	8.9	3.5
Net cash inflow from operating activities before interest and tax		**584.8**	592.2	579.0

Interest received		**44.8**	57.3	66.0
Interest paid*		**(120.5)**	(124.2)	(119.2)
Taxation paid		**(63.6)**	(54.1)	(18.3)
		445.5	471.2	507.5
Cash flow from investing activities				
Purchase of property, plant and equipment and other intangible assets		**(288.6)**	(191.8)	(198.6)
Sale of property, plant and equipment and assets held for sale		**48.5**	29.0	18.5
Receipt of government grants		**3.0**		
Purchase of investments#		**(3.3)**	(1.4)	(16.2)
Disposal of investments		**8.1**	36.3	18.4
Acquisition of operations	25	**(558.0)**	(342.9)	(88.4)
Disposal of operations		**5.8**	14.0	59.4
Cash and cash equivalents in operations acquired or disposed of		**8.4**	(1.2)	1.0
		(776.1)	(458.0)	(205.9)
Cash flow from financing activities				
Dividends paid to shareholders	10	**(147.5)**	(136.2)	(127.3)
Dividends paid by subsidiaries to minority interests		**(0.3)**		
Purchase of own shares held in treasury		**(65.7)**	(45.1)	(26.1)
Purchase of shares by ESOP trust	24	**(14.2)**	(6.0)	
Decrease in borrowings (including finance lease payments of £0.7m (£0.7m, £1.0m))	20	**(261.2)**	(439.3)	(445.3)
Increase in borrowings	20	**396.2**	249.1	206.6
		(92.7)	(377.5)	(392.1)
Net cash outflow after financing		**(423.3)**	(364.3)	(90.5)
Exchange movements		**(14.0)**	37.4	(9.0)

Cash and cash equivalents at beginning of year	18	**1,062.1**	1,389.0	1,488.5
Cash and cash equivalents at end of year	18	**624.8**	1,062.1	1,389.0

* Interest paid includes £nil (£2.6m, £nil) in respect of premium paid on the redemption of borrowings and £0.1m (£0.2m, £0.5m) in respect of the interest element of finance lease rental payments

Purchase of investments includes £2.9m (£1.4m, £16.9m) in respect of increases in loans to joint-ventures and associates

 Disposal of investments includes £8.1m (£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, 2006

	Notes	**2006** £m	2005 £m	2004 £m
Net gains on cash flow hedges		**3.4**	4.0	–
Exchange movements		**(107.9)**	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-employment medical benefits	28	**(18.6)**	(8.0)	(25.7)
Tax on items taken directly to equity	8d	**(1.7)**	11.8	4.9
Net (expense)/income recognised directly in equity		**(124.8)**	64.7	(32.7)
Profit for the year		**401.5**	387.6	264.2
Recognised income and expense		**276.7**	452.3	231.5
Restatement for the effects of adopting IAS 39	24	–	(11.6)	–
Total recognised income and expense		**276.7**	440.7	231.5
Attributable to:				
Equity holders of the Company		**275.8**	440.1	231.8
Minority interests		**0.9**	0.6	(0.3)
		276.7	440.7	231.5

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Notes to the accounts

for the 12 months ended December 31, 2006

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.

IFRS differs in certain respects from US generally accepted accounting principles, a reconciliation to which is included in note 32 of the Notes to 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.

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 products delivered, excluding inter company sales, value added tax and other sales taxes. Turnover is recognised net of any discounts given to the customer.

Freight and distribution costs
Freight and distribution costs incurred are included in the income statement as part of costs and overheads. Freight and distribution costs that are re-charged to customers are included in the income statement as part of turnover.

Research, development and exploration expenditure
Expenditure on development and improvement of new and existing products that do not meet the recognition criteria of an asset are expensed as incurred. Research costs are expensed as incurred. Where costs associated with the exploration for and evaluation of mineral reserves do not meet the recognition criteria of an asset, the expenditure is 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 with 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, 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.

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 transition to IFRS, on January 1, 2004, the carrying value of goodwill relating to acquisitions was taken as its deemed cost at that date. Since that date under IFRS, goodwill is capitalised and is not amortised but is reviewed annually for impairment.

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.

Business combinations
The results of 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.

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. 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. 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.

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

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1 Accounting policies continued

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.

The group determines whether an arrangement contains a lease by assessing whether the fulfilment of a transaction is dependent on the use of a specific asset and whether the transaction conveys the right to use that asset to Hanson in return for payment. Where this occurs, the arrangement is deemed to include a lease and is accounted for as such.

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 change and discloses this in the reconciliation of changes in total equity, and where appropriate, in the consolidated statement of recognised income and expense.

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 they 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
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 and to hedge highly probable future foreign currency cash flows.
- Interest rate swaps are used to hedge the group's exposure to movements in interest rates.
- Commodity swaps are used to hedge against the group's exposure to changes in energy prices.

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 the standard. 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 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, foreign exchange contracts as cash flow hedges to manage its exposure to currency fluctuations on its future cash flows and commodity swaps to manage its exposure to fluctuations in energy prices. For effective cash flow hedges changes in the fair value of the hedge are recognised in equity, they are recycled through the income statement 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. Forward exchange contracts are initially valued at 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.

Provisions
General
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.

Asset retirement obligations
A provision is recognised for the present value of estimated asset retirement costs in the period in which the obligation arises. The estimated future cost is reassessed over the life of the underlying tangible asset. 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. Changes in the timing or amount of the estimated cost of the obligation are added or deducted to the cost of the related tangible asset. Other reclamation costs associated with the restoration of sites, following the extraction of aggregates and clay, are expensed as incurred.

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

Pensions and other post-employment benefits
The groups 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 groups balance sheet reflects the fair value of the schemes surpluses or deficits as at the balance sheet date.

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Notes to the accounts continued
for the 12 months ended December 31, 2006

1 **Accounting policies** continued

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.

Taxation
The tax charge represents the sum of the current tax charge and the movement in deferred tax recognised in the income statement. The current tax charge is based on taxable profit for the period, and prior period adjustments. Taxable profit differs from net profit as reported in the consolidated income statement because items of income or expense can be taxable or deductible in other years and it further excludes items that are not taxable or deductible.

Except as noted below, deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the carrying value of assets and liabilities in the consolidated balance sheet and their tax bases. The amount of deferred tax reflects the expected recoverable or payable amount and is based on the expected manner of realisation or settlement of the asset or liability.

Deferred tax is not provided to the extent that the temporary differences arise 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.

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.

Deferred tax asset and liabilities are offset when they relate to income taxes levied by the same taxation authority and the group intends to settle its current tax assets and liabilities on a net basis.

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 laws that have been enacted or substantively enacted by the balance sheet date. The carrying amount of deferred tax assets are 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.

Own shares
Own equity instruments which are reacquired (treasury shares and ESOP shares) are deducted from equity at the acquisition cost including transaction costs. ESOP shares are used to satisfy the Companys share based payment awards. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of the Companys own equity instruments.

Foreign currencies
Cumulative average rates of exchange ruling during the year have been used to translate the income statements of overseas subsidiaries, joint-ventures and associates from their functional currency. Transactions which do not take place in an entitys functional currency are converted at the spot rate.

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 financial 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.

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.

New IFRS standards and interpretations adopted during 2006
In 2006, the following standards became effective and were adopted by the group:

- IFRS 6 Exploration for and Evaluation of Mineral Assets
- IFRS 6 Amendment relating to IFRS 6
- IAS 21 Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates Net Investment in a Foreign Operation
- IAS 39 Amendment to IAS 39 Fair Value Option
- IAS 39 Amendment to IAS 39 Cash Flow Hedge Accounting
- IAS 39 Amendment to IAS 39 and IFRS 4 Financial Guarantee Contracts
- IFRIC 4 Determining whether an Arrangement contains a Lease
- IFRIC 5 Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- IFRIC 6 Liabilities arising from participating in a Specific Market Waste Electrical and Electronic Equipment

The adoption of these standards has not had a significant impact on the results of the group in 2006.

New IFRS standards and interpretations not adopted

The IASB and IFRIC have 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, all of which are effective January 1, 2007 with the exception of IFRIC 12 Service Concession Agreements which is effective January 1, 2008 and IFRS 8 Operating Segments which is effective January 1, 2009:

- IFRS 7 Financial Instruments: Disclosure
- IFRS 8 Operating Segments
- IAS 1 Amendment to IAS 1 Presentation of Financial Statements: Capital Disclosures
- IFRIC 7 Applying IAS 29 Financial Reporting in Hyperinflationary Economies for the First Time
- IFRIC 8 Scope of IFRS 2
- IFRIC 9 Reassessment of Embedded Derivatives
- IFRIC 10 Interim Financial Reporting and Impairment
- IFRIC 11 IFRS 2 Group and Treasury Share Transactions
- IFRIC 12 Service Concession Agreements

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. Apart from IFRS 7 and the IAS 1 Amendment, all the new standards and interpretations identified have yet to be adopted by the EU and the group assumes they will be adopted in their current form, in line with the published timetable.

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Notes to the accounts

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.

The group□s primary segmental performance measure is □Operating profit before impairments□.

Segmental analysis for the 12 months ended December 31

a) Group turnover

	2006	2005	2004
	£m	£m	£m
North America			
Aggregates	**1,131.3**	980.6	897.3
Building Products	**869.1**	753.7	647.4
	2,000.4	1,734.3	1,544.7
UK			
Aggregates	**867.0**	811.5	771.9
Building Products	**382.8**	368.2	300.7
	1,249.8	1,179.7	1,072.6

Australia and Asia Pacific			
Australia	**489.1**	464.6	413.2
Asia Pacific	**119.6**	108.4	124.5
	608.7	573.0	537.7
Continental Europe	**273.8**	228.7	228.0
Continuing operations	**4,132.7**	3,715.7	3,383.0
Discontinued	—	24.0	81.3
	4,132.7	3,739.7	3,464.3

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Notes to the accounts continued
for the 12 months ended December 31, 2006

2 **Segmental analysis** continued

b) **Operating profit**

	2006	2006	2006	2006	2006
	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 Aggregates	**177.2**	**3.7**	**180.9**	**(4.1)**	**176.8**
Building Products	**141.5**	**0.3**	**141.8**	–	**141.8**
	318.7	**4.0**	**322.7**	**(4.1)**	**318.6**
UK Aggregates	**113.6**	**9.6**	**123.2**	–	**123.2**
Building Products	**43.0**	–	**43.0**	–	**43.0**
	156.6	**9.6**	**166.2**	–	**166.2**
Australia and Asia Pacific Australia	**62.1**	**15.5**	**77.6**	–	**77.6**
Asia Pacific	**6.3**	**4.6**	**10.9**	–	**10.9**
	68.4	**20.1**	**88.5**	–	**88.5**
Continental Europe	**21.8**	–	**21.8**	–	**21.8**
Central	**(36.5)**	–	**(36.5)**	–	**(36.5)**
Continuing operations	**529.0**	**33.7**	**562.7**	**(4.1)**	**558.6**
Discontinued	–	–	–	–	–
	529.0	**33.7**	**562.7**	**(4.1)**	**558.6**

	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					
Aggregates	138.1	0.3	138.4	(1.6)	136.8
Building Products	124.4	1.3	125.7	—	125.7
	262.5	1.6	264.1	(1.6)	262.5
UK					
Aggregates	96.9	11.9	108.8	(0.6)	108.2
Building Products	37.8	—	37.8	—	37.8
	134.7	11.9	146.6	(0.6)	146.0
Australia and Asia Pacific					
Australia	57.3	24.3	81.6	—	81.6
Asia Pacific	5.4	2.7	8.1	—	8.1
	62.7	27.0	89.7	—	89.7
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 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					
Aggregates	126.7	0.9	127.6	—	127.6

Building Products	111.2		111.2		111.2
	237.9	0.9	238.8		238.8
UK					
Aggregates	62.2	12.3	74.5	(20.7)	53.8
Building Products	36.8		36.8		36.8
	99.0	12.3	111.3	(20.7)	90.6
Australia and Asia Pacific					
Australia	56.0	10.5	66.5		66.5
Asia Pacific	6.1	(0.5)	5.6	(4.9)	0.7
	62.1	10.0	72.1	(4.9)	67.2
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

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2 Segmental analysis continued

Total revenue of £4,176.6m (£3,799.8m, £3,504.3m) includes group turnover from continuing operations of £4,132.7m (£3,715.7m, £3,383.0m), group turnover from discontinued operations of £nil (£24.0m, £81.3m) and interest receivable and similar income of £43.9m (£60.1m, £40.0m) .

c) Joint-ventures and associates

	2006	**2006**	2005	2005	2004	2004
	Turnover	**Operating profit**	Turnover	Operating profit	Turnover	Operating profit
	£m	**£m**	£m	£m	£m	£m
North America						
Aggregates	**26.9**	**4.4**	2.4	0.6	1.6	1.1
Building Products	**1.2**	**0.3**	4.6	1.3	0.9	—
	28.1	**4.7**	7.0	1.9	2.5	1.1
UK						
Aggregates	**107.8**	**14.2**	111.6	16.9	106.6	17.5
Building Products	—	—	—	—	—	—
	107.8	**14.2**	111.6	16.9	106.6	17.5
Australia and Asia Pacific						
Australia	**191.9**	**22.9**	179.8	24.1	166.5	17.6
Asia Pacific	**33.8**	**5.7**	16.0	3.3	16.6	(0.5)
	225.7	**28.6**	195.8	27.4	183.1	17.1
Continental Europe	—	—	1.3	—	2.0	—

Continuing operations	**361.6**	**47.5**	315.7	46.2	294.2	35.7
Discontinued	**—**	**—**	29.2	2.6	51.8	3.2
	361.6	**47.5**	344.9	48.8	346.0	38.9

	2006	2005	2004
	£m	£m	£m
Continuing operating profit from joint-ventures and associates	**47.5**	46.2	35.7
Net finance costs	**(4.6)**	(3.5)	(3.2)
Tax	**(9.2)**	(2.2)	(9.3)
Continuing profit after tax from joint-ventures and associates	**33.7**	40.5	23.2

Included within the 2005 joint-ventures’ and associates’ tax charge of £2.2m is a benefit of £6.6m following a change in Australian tax laws.

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

	2006	**2006**	**2006**	**2006**	**2006**	**2006**
	Property profits	**Depletion**	**Depreciation**	**Amortisation of other intangible assets**	**Additions to property, plant and equipment**	**Additions to other intangible assets**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
North America						
Aggregates	**3.0**	**16.3**	**70.1**	**1.6**	**90.7**	**0.3**
Building Products	**0.2**	**—**	**31.5**	**0.9**	**84.9**	**2.6**
	3.2	**16.3**	**101.6**	**2.5**	**175.6**	**2.9**
UK						
Aggregates	**9.6**	**6.9**	**34.9**	**0.7**	**40.3**	**1.8**
Building Products	**9.8**	**1.5**	**13.9**	**1.7**	**18.5**	**—**
	19.4	**8.4**	**48.8**	**2.4**	**58.8**	**1.8**

Australia and Asia Pacific

Australia	**10.1**	**4.6**	**24.4**		**41.5**	
Asia Pacific		**0.5**	**3.2**		**2.2**	
	10.1	**5.1**	**27.6**		**43.7**	
Continental Europe		**2.3**	**7.1**	**0.1**	**13.3**	
Central			**0.1**	**0.4**		**1.3**
Continuing operations	**32.7**	**32.1**	**185.2**	**5.4**	**291.4**	**6.0**
Discontinued	**0.9**					
	33.6	**32.1**	**185.2**	**5.4**	**291.4**	**6.0**

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Notes to the accounts continued
for the 12 months ended December 31, 2006

2 Segmental analysis continued

	2005	2005	2005	2005	2005	2005
	Property profits	Depletion	Depreciation	Amortisation of other intangible assets	Additions to property, plant and equipment	Additions to other intangible assets
	£m	£m	£m	£m	£m	£m
North America						
Aggregates	2.4	18.4	59.5	1.5	69.4	4.1
Building Products	0.5	—	26.3	0.2	40.7	—
	2.9	18.4	85.8	1.7	110.1	4.1
UK						
Aggregates	8.0	7.2	30.0	—	23.1	3.4
Building Products	3.0	1.6	11.6	1.2	16.8	—
	11.0	8.8	41.6	1.2	39.9	3.4
Australia and Asia Pacific						
Australia	1.0	4.6	23.4	—	31.6	—
Asia Pacific	—	0.4	3.4	—	1.0	—
	1.0	5.0	26.8	—	32.6	—
Continental Europe	—	1.3	6.5	0.1	13.3	0.1
Central	—	—	0.1	—	0.2	0.8

Continuing operations	14.9	33.5	160.8	3.0	196.1	8.4
Discontinued			0.3			
	14.9	33.5	161.1	3.0	196.1	8.4

	2004	2004	2004	2004	2004	2004
	Property profits	Depletion	Depreciation	Amortisation of other intangible assets	Additions to property, plant and equipment	Additions to other intangible assets
	£m	£m	£m	£m	£m	£m
North America Aggregates	14.3	19.5	57.0	2.1	74.6	1.9
Building Products			22.5	0.3	38.2	
	14.3	19.5	79.5	2.4	112.8	1.9
UK Aggregates	1.9	6.9	30.8		35.6	
Building Products	3.2	1.6	8.1		16.1	
	5.1	8.5	38.9		51.7	
Australia and Asia Pacific Australia	1.7	5.4	22.3		26.4	
Asia Pacific		1.1	5.4		2.4	
	1.7	6.5	27.7		28.8	
Continental Europe	0.3	1.7	7.5	0.1	7.6	
Central					0.2	
Continuing operations	21.4	36.2	153.6	2.5	201.1	1.9
Discontinued		0.1	1.5		1.9	
	21.4	36.3	155.1	2.5	203.0	1.9

e) Analysis of assets and liabilities

	2006	2006	2006	2006	2006	2006	2006	2006
	Goodwill	**Joint-ventures and associates**	**Long-lived assets**	**Disposal groups held for sale**	**Other assets held for sale**	**Total assets**	**Total liabilities**	**Net assets**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
North America Aggregates	**250.7**	**24.6**	**1,420.0**	**—**	**0.2**	**1,719.8**	**(241.5)**	**1,478.3**
Building Products	**277.5**	**0.2**	**628.6**	**—**	**—**	**910.1**	**(139.0)**	**771.1**
	528.2	**24.8**	**2,048.6**	**—**	**0.2**	**2,629.9**	**(380.5)**	**2,249.4**
UK Aggregates	**250.4**	**85.3**	**1,022.9**	**—**	**0.7**	**1,263.7**	**(187.4)**	**1,076.3**
Building Products	**150.9**	**—**	**503.0**	**—**	**0.7**	**657.1**	**(92.3)**	**564.8**
	401.3	**85.3**	**1,525.9**	**—**	**1.4**	**1,920.8**	**(279.7)**	**1,641.1**
Australia and Asia Pacific Australia	**137.7**	**131.0**	**581.1**	**—**	**1.4**	**689.5**	**(80.9)**	**608.6**
Asia Pacific	**33.7**	**49.1**	**94.7**	**—**	**—**	**130.3**	**(23.8)**	**106.5**
	171.4	**180.1**	**675.8**	**—**	**1.4**	**819.8**	**(104.7)**	**715.1**
Continental Europe	**42.1**	**0.3**	**135.9**	**—**	**—**	**254.6**	**(90.5)**	**164.1**
	1,143.0	**290.5**	**4,386.2**	**—**	**3.0**	**5,625.1**	**(855.4)**	**4,769.7**
Central	**—**	**—**	**2.3**	**—**	**—**	**994.9**	**(3,035.8)**	**(2,040.9)**
Continuing operations	**1,143.0**	**290.5**	**4,388.5**	**—**	**3.0**	**6,620.0**	**(3,891.2)**	**2,728.8**
Discontinued	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
	1,143.0	**290.5**	**4,388.5**	**—**	**3.0**	**6,620.0**	**(3,891.2)**	**2,728.8**

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2 Segmental analysis continued

	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	Net assets
	£m	£m	£m	£m	£m	£m	£m	£m
North America								
Aggregates	229.5	24.6	1,368.2	—	—	1,659.6	(275.5)	1,384.1
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								
Aggregates	93.4	85.6	786.5	—	1.8	1,011.1	(187.2)	823.9
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 and Asia Pacific								
Australia	146.0	137.1	602.8	—	2.3	701.4	(82.1)	619.3
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
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

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

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

	2006	**2006**	**2006**	**2006**
	Turnover	**Total Assets**	**Additions to property, plant and equipment**	**Additions to other intangible assets**
	£m	**£m**	**£m**	**£m**
Aggregates	**2,834.1**	**4,021.3**	**186.7**	**2.1**
Building products	**1,298.6**	**1,603.8**	**104.7**	**2.6**
Central	—	**994.9**	—	**1.3**
Continuing operations	**4,132.7**	**6,620.0**	**291.4**	**6.0**

	2005	2005	2005	2005
	Turnover	Total Assets	Additions to property, plant and equipment	Additions to other 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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3 Group operating profit before impairments

	Notes	**2006** £m	2005 £m	2004 £m
Costs and overheads of continuing operations include:				
Cost of inventories recognised as an expense		**1,090.5**	1,035.4	898.6
Inventories written down		**19.2**	5.5	4.2
Reversal of inventory write downs		**(8.9)**	(6.2)	(6.1)
Receivables written down		**6.6**	6.7	14.6
Employment costs	4	**814.6**	692.3	645.5
Depreciation and depletion of owned assets		**215.8**	193.2	188.3
Depreciation of finance leased assets		**1.5**	1.1	1.5
Amortisation of other intangible assets	2d	**5.4**	3.0	2.5
Research and development costs		**2.0**	1.1	1.8
Advertising costs		**4.1**	4.9	3.8
Leasing costs				
Minimum lease payments		**27.0**	30.0	24.5
Contingent lease payments		**2.1**	0.2	2.2
		29.1	30.2	26.7
Less: sublease rental income		**(2.9)**	(4.2)	(3.5)

	26.2	26.0	23.2
Represented by:			
Operating lease rentals land and buildings	**16.9**	17.1	15.1
Operating lease rentals plant and equipment	**9.3**	8.9	8.1
	26.2	26.0	23.2

Remuneration of auditors			
Group audit	**0.8**	0.8	0.8
Other services:			
Audit of accounts of subsidiary undertakings of the Company pursuant to legislation	**1.9**	2.0	1.9
Other services supplied pursuant to legislation	**1.3**	1.6	2.1
Other services relating to taxation	**0.3**	0.2	0.9
All other services	**0.1**	0.5	0.5
	3.6	4.3	5.4
Total payments to auditors	**4.4**	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, £0.1m) .

4 Directors and employees

	2006	2005	2004
	£m	£m	£m
Total employment costs			
Wages and salaries	**699.5**	598.7	557.9
Termination benefits	**10.4**	1.1	2.2
Employers social security costs	**51.1**	46.6	44.0
Pension costs	**52.9**	47.0	48.5
Post-employment medical benefits	**0.7**	1.1	1.1

	814.6	694.5	653.7
Attributable to:			
Continuing operations	**814.6**	692.3	645.5
Discontinued operations		2.2	8.2
	814.6	694.5	653.7

The groups key management personnel as defined by IAS 24 Related Party Disclosures are the Board of Directors. Included within wages and salaries above is £0.9m (£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 to the nearest 100 employees excluding joint-ventures and associates.

	2006	2005	2004
Average number of persons employed during the year			
North America			
Aggregates	**6,200**	5,600	5,400
Building Products	**7,300**	6,800	6,300
	13,500	12,400	11,700
UK			
Aggregates	**3,200**	3,200	3,700
Building Products	**3,100**	3,100	2,600
	6,300	6,300	6,300
Australia and Asia Pacific			
Australia	**2,900**	2,800	2,600
Asia Pacific	**1,300**	1,400	1,700
	4,200	4,200	4,300
Continental Europe	**1,200**	1,200	1,300
Central	**200**	200	100
Discontinued	–	100	800
	25,400	24,400	24,500

By geographical location

North America	**13,500**	12,400	11,700
UK	**6,500**	6,500	6,400
Australia	**2,900**	2,800	2,600
Continental Europe	**1,200**	1,200	1,300
Asia	**1,300**	1,400	1,700
Discontinued	—	100	800
	25,400	24,400	24,500

The total number of employees at the year end was 25,900 (24,300, 23,800) excluding joint-ventures and associates.

5 Share-based payments

Included within wages and salaries in note 4 is an expense arising from share-based payment transactions of £11.7m (£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 non-market conditions and has therefore been valued using a Black-Scholes model. For the 2006 award, 25% is dependent on cash flow growth performance and 25% is dependent on earnings per share growth performance, whereas previous awards are dependent on an economic value added measure as the non-market condition. Awards are equity settled and where the performance measurement targets are attained in part or in full, vested shares are distributed to LTIP participants as soon as practicable after the end of the performance period.

The expense recognised in the income statement in the year from the LTIP is £9.9m (£6.1m, £4.1m) . Conditional awards were made over 2,387,057 ordinary shares on May 2, 2006 which will vest, subject to the performance measurement targets being attained, on May 2, 2009. The weighted average fair value of each share award granted is £5.01 (£3.45, £3.01) . The fair value of total awards granted during the year is £12.0m (£10.8m, £10.9m) .

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

	2006	2005	2004
	Number outstanding	Number outstanding	Number outstanding
	'000	'000	'000
At January 1	**11,036.2**	11,489.8	11,604.2

Awarded	**2,387.1**	3,139.4	3,620.2
Forfeited	**(570.0)**	(518.5)	(892.4)
Expired	**(2,155.6)**	(2,306.9)	(1,729.2)
Vested	**(2,682.8)**	(767.6)	(1,113.0)
At December 31	**8,014.9**	11,036.2	11,489.8

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for the 12 months ended December 31, 2006

5 **Share-based payments** continued

Share Option Plan

The group also operates a discretionary Share Option Plan. No options were granted during 2006 and no further grants of options will be made under this plan, the last grant having been made in 2005. Under the plan participants were granted options over a number of shares subject to the achievement of performance targets over a three year performance period. 50% of the option grant is dependent on TSR performance measure and therefore valued using a Monte Carlo simulation model. The remaining 50% of the option grant is dependent on an economic value added measure which has been valued using a Black-Scholes model. Options which have vested will ordinarily remain exercisable at any time up to 10 years from the date of grant and are settled by the issuance of equity once exercised.

The expense recognised in the income statement in the year from the Share Option Plan is £0.6m (£0.6m, £0.4m) .

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

	2006	**2006**	2005	2005	2004	2004
	Number outstanding	**Weighted average exercise price**	Number outstanding	Weighted average exercise price	Number outstanding	Weighted average exercise price
	£000	**pence**	£000	pence	£000	pence
At January 1	**2,927.1**	**397.0**	3,207.5	392.2	3,052.0	391.5
Granted	**–**	**–**	647.6	514.3	784.7	439.6
Forfeited	**(167.6)**	**474.8**	(744.4)	460.5	(629.2)	447.9
Expired	**(545.9)**	**292.7**	(50.0)	473.3	–	–
Exercised	**(798.1)**	**352.4**	(133.6)	467.6	–	–
At December 31	**1,415.5**	**453.2**	2,927.1	397.0	3,207.5	392.2
Exercisable at December 31	**225.3**	**336.3**	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 remaining contract life	Weighted average exercise price
	□000	years	pence	□000	years	pence
2006:						
290.4p-461.8p	**789.1**	**7.0**	**407.9**	**185.4**	**6.1**	**306.8**
461.9p-514.3p	**626.4**	**7.8**	**510.2**	**39.9**	**4.6**	**473.3**
	1,415.5	**7.3**	**453.2**	**225.3**	**5.8**	**336.3**
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	5.8	473.3
	2,927.1	7.7	397.0	345.5	5.8	467.3
2004:						
290.4p-461.8p	1,939.5	8.2	345.0	□	□	□
461.9p-514.3p	1,268.0	6.9	464.3	282.8	6.3	473.3
	3,207.5	7.7	392.2	282.8	6.3	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% of the market price at the date of invitation to participate 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 2006, options were granted over 837,502 shares which will ordinarily be exercisable at an exercise price of 611.0p per share during the period; June 1 to November 30, 2009 for the three year savings contract; June 1 to November 30, 2011 for the five year savings contract; and June 1 to November 30, 2013 for the seven year savings contract. The weighted average fair value of each share under option granted is £1.81 (£1.34, £1.43) . The expense recognised in the income statement in the year from the Sharesave Scheme is £1.2m (£0.9m, £0.4m) .

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

	2006	**2006**	2005	2005	2004	2004
	Number outstanding	**Weighted average exercise price**	Number outstanding	Weighted average exercise price	Number outstanding	Weighted average exercise price

	□000	**pence**	□000	pence	□000	pence
At January 1	**3,853.7**	**354.7**	4,461.2	332.5	3,716.3	330.1
Granted	**837.5**	**611.0**	1,454.3	395.0	1,857.7	328.0
Forfeited	**(282.0)**	**405.2**	(589.2)	334.9	(625.9)	361.8
Expired	**(116.5)**	**363.9**	(151.0)	424.7	(15.1)	234.0
Exercised	**(226.0)**	**390.9**	(1,321.6)	324.8	(471.8)	259.3
At December 31	**4,066.7**	**401.7**	3,853.7	354.7	4,461.2	332.5
Exercisable at December 31	**13.0**	**428.0**	40.1	319.3	253.7	427.6

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5 Share-based payments continued

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 remaining contract life	Weighted average exercise price
	’000	years	pence	’000	years	pence
2006						
318.0p-328.0p	**2,051.3**	**2.0**	**324.6**		–	–
328.1p-611.0p	**2,015.4**	**3.4**	**480.2**	**13.0**	**0.4**	**428.0**
	4,066.7	**2.7**	**401.7**	**13.0**	**0.4**	**428.0**
2005						
318.0p-323.0p	840.0	2.6	318.6	40.1	0.4	319.3
323.1p-428.0p	3,013.7	3.4	364.8	–	–	–
	3,853.7	3.2	354.7	40.1	0.4	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	0.4	427.6
	4,461.2	2.8	332.5	253.7	0.4	427.6

The following tables show the assumptions used to fair value the equity settled options granted in the LTIP, Share Option Plan and Sharesave Scheme. There were no options granted under the Share Option Plan during 2006.

	2006	**2006**	**2006**	**2006**

	LTIP	Sharesave 3 year	Sharesave 5 year	Sharesave 7 year
Dividend yield (%)	**3.3**	**3.3**	**3.3**	**3.3**
Expected volatility (%)	**20.0**	**19.6**	**23.0**	**25.5**
Risk-free interest rate (%)	—	**4.6**	**4.6**	**4.6**
Expected life of option (years)	**3.0**	**3.4**	**5.4**	**7.4**
Share price at award/grant (pence)	**740.0**	**737.0**	**737.0**	**737.0**
Exercise price (pence)	—	**611.0**	**611.0**	**611.0**

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

	2004	2004	2004	2004	2004
	Share Option Plan	LTIP	Sharesave 3 year	Sharesave 5 year	Sharesave 7 year
Dividend yield (%)	3.5	3.5	3.5	3.5	3.5
Expected volatility (%)	33.9	31.4	29.6	32.0	33.0
Risk-free interest rate (%)	4.7	—	4.7	4.8	4.9
Expected life of option (years)	6.5	3.0	3.4	5.4	7.4

Share price at award/grant (pence)	447.0	447.0	432.0	432.0	432.0
Exercise price (pence)	440.0		328.0	328.0	328.0

The weighted average share price during the year is 697.4p (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 award/option. 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/award 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/option being valued.

Other Schemes

Hanson also has an HM Revenue & Customs approved Executive Share Option Scheme. No further grants of options will be made under this scheme. Hanson also had Executive Share Option Schemes A and B which are now closed. The options granted under the Share Option Schemes A and B were 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, 2006 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, 2006 is £nil (£nil, £0.4m) .

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5 **Share-based payments** continued

The following tables illustrate the number and weighted average exercise prices of, and movements in, shares under option for these schemes.

	2006	**2006**	2005	2005	2004	2004
	Number outstanding	**Weighted average exercise price**	Number outstanding	Weighted average exercise price	Number outstanding	Weighted average exercise price
	'000	**pence**	'000	pence	'000	pence
Share Option Scheme:						
At January 1	**23.0**	**331.3**	114.0	331.3	120.0	331.3
Exercised	**(9.0)**	**331.3**	(91.0)	331.3	(6.0)	331.3
At December 31	**14.0**	**331.3**	23.0	331.3	114.0	331.3
Exercisable at December 31	**14.0**	**331.3**	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

6 **Operating impairments**

	2006	**2006**	**2006**	2005	2005	2005	2004	20

	Operating impairments charged	**Operating impairments reversed**	**Net operating impairments**	Operating impairments charged	Operating impairments reversed	Net operating impairments	Operating impairments charged	Operat impairme revers
	£m	**£m**	**£m**	£m	£m	£m	£m	
North America								
Aggregates	**(4.1)**	—	**(4.1)**	(16.5)	14.9	(1.6)	—	
Building Products	—	—	—	—	—	—	—	
	(4.1)	—	**(4.1)**	(16.5)	14.9	(1.6)	—	
UK								
Aggregates	**(0.2)**	**0.2**	—	(5.3)	4.7	(0.6)	(21.2)	(
Building Products	—	—	—	—	—	—	—	
	(0.2)	**0.2**	—	(5.3)	4.7	(0.6)	(21.2)	(
Australia and Asia Pacific Australia	—	—	—	—	—	—	—	
Asia Pacific	—	—	—	—	—	—	(4.9)	
	—	—	—	—	—	—	(4.9)	
Continental Europe	—	—	—	(1.8)	—	(1.8)	(3.7)	
Total	**(4.3)**	**0.2**	**(4.1)**	(23.6)	19.6	(4.0)	(29.8)	(
Impairment (charged)/ reversed against: Intangible assets — goodwill	—	—	—	(17.6)	—	(17.6)	(1.4)	
Property, plant and equipment	**(4.2)**	**0.2**	**(4.0)**	(5.9)	19.2	13.3	(24.2)	
Other assets	**(0.1)**	—	**(0.1)**	(0.1)	0.4	0.3	(4.2)	(
Operating impairments	**(4.3)**	**0.2**	**(4.1)**	(23.6)	19.6	(4.0)	(29.8)	(

Impairments during the year:

An impairment charge of £4.1m resulting from two individual operating site closures has been recognised in Aggregates North America. An impairment charge of £0.2m resulted from the closure of three individual operating sites within Aggregates UK. The impairments have arisen due to the closure, or intended closure, of the sites and are based on the recoverable amount of the assets. Impairment charges totalling £0.2m against individual operating sites within Aggregates UK have been reversed, as proceeds from the sale of the sites exceeded their carrying values, net of the provision. The main class of assets affected by each of the impairment charges and reversals is property, plant and equipment.

Impairments during 2005:

A net impairment charge of £4.0m was recognised in 2005.

An impairment charge of £16.5m was recognised against goodwill held in Aggregates North America Southwest region. The impairment, which reduced 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 property, plant and equipment in years prior to 2005, in Aggregates North America West region, was reversed in 2005. 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 was secured in 2005, removing this uncertainty and improving the projected cash flows generated by these assets.

An impairment charge of £5.3m was recognised in 2005 against goodwill and property, plant and equipment at various individual operating sites within Aggregates UK. These tangible assets are cash generating units for the purpose of measuring impairment, as they generate largely independent cash flows. The impairments arose due to the closure, or intended closure of the sites, on commercial grounds and were based on the recoverable amount of the assets. Impairment charges totalling £4.7m against individual operating sites within Aggregates UK were reversed, as anticipated proceeds from the sale of the site and business exceeded their carrying values, net of the provision.

Property, plant and equipment of £1.2m located in Spain and goodwill amounting to £0.6m in the Czech Republic were impaired in 2005, as these assets were not expected to generate a value in use equal to their carrying value. Both of these cash generating units comprise a part of Continental Europe.

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6 **Operating impairments** continued

Impairments during 2004:

A net impairment charge of £29.3m was recognised in 2004.

An impairment charge of £21.2m was recognised in 2004 against property, plant and equipment and other assets at various individual operating sites within 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 £0.5m against individual operating sites within Aggregates UK have been reversed, as anticipated proceeds from the sale of the site and business exceeded their carrying values, net of the provision.

Assets in Asia Pacific and Continental Europe of £4.9m and £3.7m were impaired in 2004, as these assets were not expected to generate a value in use equal to their carrying value. The main classes of assets affected by the impairment charges were property plant and equipment and goodwill.

Assumptions used for impairment testing:

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 expenditure 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 1.5% to 4.0% (0.7% to 4.9%, nil% to 4.0%) including the US 4.0% (4.0%, 4.0%), UK 3.0% (3.0%, 2.5%) and Australia 2.75% (2.5%, 2.5%) . Cash flows have been discounted at rates between 7.0% and 9.5% (7.5% and 9.5%, 8.0% and 10.0%) including the US 7.8% (8%, 8.5%), UK 7.8% (8.5%, 8.5%) and Australia 9.0% (9.5%, 9.5%) . Post-tax discount rates have been applied to post-tax cash flows. The use of these rates results in recoverable values that are identical to the ones that would be obtained by using pre-tax rates and pre-tax cash flows, as required by IAS 36 Impairment of assets.

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, 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.

Given the excess of value in use over the carrying amount for each cash generating unit, and the absence of any reasonably possible change in the key assumptions applied, the additional disclosures in IAS 36 Impairment of assets regarding the sensitivity of the value in use calculations are not warranted.

The principal risks and uncertainties of the business are disclosed in more detail on pages 52 to 54 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).

7 Finance costs and finance income

	2006	2005	2004
	£m	£m	£m
Finance costs:			
Interest payable on bank loans and overdrafts	**(22.8)**	(23.3)	(15.2)
Interest payable on other loans	**(108.5)**	(95.7)	(77.0)
Total interest payable	**(131.3)**	(119.0)	(92.2)
Finance cost on pension plan liabilities and other post-employment medical benefits	**(103.2)**	(103.2)	(99.2)
Unwinding of discount (net)	**(2.0)**	(2.5)	(6.6)
Total finance costs	**(236.5)**	(224.7)	(198.0)
Finance income:			
Interest receivable and similar income	**43.9**	60.1	40.0
Expected return on pension plan assets	**114.5**	108.7	111.2
Change in fair value of derivatives and related items	**0.3**	0.4	
Total finance income	**158.7**	169.2	151.2
Net finance costs	**(77.8)**	(55.5)	(46.8)
Representing:			
Net interest payable	**(87.4)**	(58.9)	(52.2)
Net pension credit and other post-em ployment medical benefits	**11.3**	5.5	12.0
Change in fair value of derivatives and related items	**0.3**	0.4	

Unwinding of discount (net)	**(2.0)**	(2.5)	(6.6)
Net finance costs	**(77.8)**	(55.5)	(46.8)

Net finance costs of £77.8m (£55.5m, £46.8m) above exclude joint-ventures’ and associates’ net finance costs of £4.6m (£3.5m, £3.2m) as shown in note 2(c).

Total interest payable includes £0.1m (£0.2m, £0.5m) relating to finance leases.

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Notes to the accounts continued
for the 12 months ended December 31, 2006

8 Tax

a) Analysis of total tax charge in consolidated income statement

The income tax (charge)/credit for the year is shown as follows in the financial statements.

	2006	**2006**	**2006**	2005	2005	2005	2004	2004	2004
	Before tax	**Tax**	**After tax**	Before tax	Tax	After tax	Before tax	Tax	After tax
	£m	**£m**	**£m**	£m	£m	£m	£m	£m	£m
Continuing operations: Group operating profit before impairments	**529.0**			448.3			400.2		
Net finance costs	**(77.8)**			(55.5)			(46.8)		
Group operating profit before impairments, after net finance costs[1]	**451.2**	**(81.8)**	**369.4**	392.8	(28.8)	364.0	353.4	(33.4)	320.0
Share of joint-ventures’ and associates’ profit after finance costs	**42.9**	**(9.2)**	**33.7**	42.7	(2.2)	40.5	32.5	(9.3)	23.2
Profit from continuing operations before impairments	**494.1**	**(91.0)**	**403.1**	435.5	(31.0)	404.5	385.9	(42.7)	343.2
Operating impairments	**(4.1)**	**2.1**	**(2.0)**	(4.0)	(5.6)	(9.6)	(29.3)	6.3	(23.0)
Profit from continuing operations	**490.0**	**(88.9)**	**401.1**	431.5	(36.6)	394.9	356.6	(36.4)	320.2
Discontinued operations: Profit/(loss) from discontinued operations	**–**	**–**	**–**	3.6	(0.8)	2.8	(14.7)	(1.7)	(16.4)
Profit from current year disposals	**0.3**	**–**	**0.3**	5.4	(3.1)	2.3	11.5	(1.1)	10.4
Profit/(loss) from prior year disposals	**(0.5)**	**0.6**	**0.1**	(25.8)	13.4	(12.4)	(89.1)	39.1	(50.0)

Profit for the year	**489.8**	**(88.3)**	**401.5**	414.7	(27.1)	387.6	264.3	(0.1)	264.2

	2006	2005	2004
	£m	£m	£m
Tax (charge)/credit for the year analysed as: UK tax	**(9.2)**	47.7	7.2
Overseas tax	**(79.1)**	(74.8)	(7.3)
	(88.3)	(27.1)	(0.1)

[1] Included in the 2005 tax charge was a credit of £29.6m relating to net provision releases. Included in the 2004 tax charge was a one-off deferred tax benefit of £21.7m.

In addition to the income tax charged to the consolidated income statement, a tax charge of £1.7m (credits of £11.8m, £4.9m) has been charged directly to equity See note 8(d).

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8 **Tax** continued

b) Analysis of tax charge on continuing operations before impairments

	2006	2005	2004
	£m	£m	£m
Current income tax			
UK companies	**0.5**	34.8	5.3
Overseas companies	**(76.7)**	(59.4)	(38.8)
	(76.2)	(24.6)	(33.5)
Deferred income tax			
UK companies	**(5.1)**	17.8	(3.3)
Overseas companies	**(0.5)**	(22.0)	3.4
	(5.6)	(4.2)	0.1
Tax on continuing operations before impairments	**(81.8)**	(28.8)	(33.4)

The components of income tax are as follows:

	2006	2005	2004
	£m	£m	£m
Current income tax			
UK corporation tax (charge)/credit at 30.0%:			
Current year	**(0.3)**		(106.1)
Double tax relief	****		106.1
Effect of current year events on prior period tax balances	**(3.6)**	29.6	
Receipt for consortium relief	**4.4**	5.2	5.3
	0.5	34.8	5.3

Overseas current tax (charge)/credit:			
– Current year	**(69.8)**	(58.4)	(37.2)
– Effect of current year events on prior period tax balances	**(3.1)**	1.3	–
– Share of partnership tax	**(3.8)**	(2.3)	(1.6)
	(76.7)	(59.4)	(38.8)
Total current tax	**(76.2)**	(24.6)	(33.5)
Deferred income tax			
UK deferred tax (charge)/credit:			
– Origination and reversal of temporary differences	**(13.8)**	5.1	(3.3)
– Effect of current year events on prior period tax balances	**8.7**	12.7	–
	(5.1)	17.8	(3.3)
Overseas deferred tax (charge)/credit:			
– Origination and reversal of temporary differences	**(1.7)**	(21.5)	(9.3)
– Effect of current year events on prior period tax balances	**1.2**	(0.5)	12.7
	(0.5)	(22.0)	3.4
Total deferred tax (charge)/credit	**(5.6)**	(4.2)	0.1
Tax on continuing operations before impairments	**(81.8)**	(28.8)	(33.4)

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

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Notes to the accounts continued
for the 12 months ended December 31, 2006

8 **Tax** continued

c) Factors affecting tax charge for the period

The table below explains the differences between the expected tax charge on continuing operations before impairments, at the UK statutory tax rate of 30%, and the groups actual tax charge on continuing operations before impairments.

	2006	2005	2004
	£m	£m	£m
Profit before tax on continuing operations before impairments	**484.9**	433.3	376.6
Tax at the UK statutory rate of 30%	**(145.5)**	(130.0)	(113.0)
Permanent differences	**8.4**	0.7	20.8
Effect of different statutory tax rates of overseas jurisdictions	**21.7**	29.2	16.1
Tax effect arising from joint-ventures and associates profit being reported on an after tax basis	**10.1**	12.2	7.0
Current year losses not recognised		(40.1)	(41.8)
Utilisation of tax losses brought forward not previously recognised	**20.3**	56.2	48.0
Effect of current year events on prior period tax balances	**3.2**	43.1	12.7
Other differences		(0.1)	16.8
Tax charge on continuing operations before impairments	**(81.8)**	(28.8)	(33.4)