2011

Financial Report

Summary

Turning Vision into Value.

HOCHTIEF
(UK) CONSTRUCTION

Contents

Directors and Professional advisors

Executive directors
J Jackson
T P Lloyd
S Hebgen
U Reinke
H Funke-Oberhag

Secretary and registered office
T P Lloyd
Epsilon
Windmill Hill Business Park
Swindon
Wiltshire SN5 6NX

Registered auditors
Deloitte LLP
Reading

Registered Number
02489026

Directors’ report for the year ended 31 December 2011

The directors present their annual report and the audited financial statements for the year ended 31 December 2011.

Principal activities

The principal activity of the group continues to be building and civil engineering construction both on the company’s own account and in joint arrangements.

Review of business

The Board is pleased to report it has continued to maintain its profit before tax this year. The company accounts show a profit of £0.60m for the current year (2010: £0.65m), which represents a profit margin for the year of 1.4% (2010: 1.4%).

The business is managed by monitoring a range of financial and non-financial KPI’s, principally gross profit, operating expenses, order book and cash balances. The gross margin this year has increased to 9.7% on a turnover of £41.5m in the current compared with a gross margin of 9.3% against the previous year with a turnover of £47.6m. This year’s operating expenses are £3.5m compared with 2010 of £3.8m, showing a reduction of 7.9% in the year from a controlled plan to reduce waste. The company has again restricted its tendering activities, and successfully targeted its resources effectively to secure £66.6m forward orders during 2011, this being a significant improvement or the previous year’s orders received.

The Group cash balance in 2011 has remained high again this year at £8.7m. It is however significantly lower than the previous year’s figure of £18.0m which can be explained in part from the reduction of advance payments on contracts this year end.

The company has restructured and improved its Pre Construction and Business Development structure and as a result has increased its business opportunities during 2011 in the South of England from Rail Infrastructure related works. The Board will continue to focus its attention on Civil projects that match its skill base, those which demand a high level of competence to bring innovative solutions to demanding and intricate structural packages and is now well placed to increase its turnover, staffing levels and order book in 2012.

The company also continues to work well with its HOCHTIEF European competence centres. The Crossrail C310 Tunnelling contract was secured during 2011 and there are a number of Marine and Tunnelling opportunities which have been targeted for future expansion into the UK market.

Going concern and Liquidity risk

The company's business activities, together with the performance and position are set out in the Review of business. The company has considerable financial resources, in particular from its parent company, together with long-term contracts with a number of customers and suppliers across different geographic areas. As a consequence, the directors believe the company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Financial risk management

The group's operations expose it to a variety of financial risks. The group has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the group by monitoring risks on an ongoing basis.

Given the size of the group, the directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the board. The policies set by the board of directors are implemented by the company's finance department. The department has a policy and procedures manual that sets out guidelines to manage interest rate risk, credit risk, and circumstances where it would be appropriate to use financial instruments to manage these risks.

The group does not use derivative financial instruments and as such, no hedge accounting is applied.

Price risk

The group is exposed to commodity price risk as a result of its operations. However, given the size of the group's operations, the costs of managing exposure to commodity price risk exceed any potential benefits. The directors will revisit the appropriateness of this policy should the group's operations change in size or nature. The group has no exposure to equity securities price risk as it holds no listed or other equity investments.

Credit risk

The group has implemented policies that require appropriate credit checks on potential customers before sales are made. The amount of exposure to any individual customer is subject to a limit, which is reassessed periodically by the finance department.

Liquidity risk

The group finances its operations through a combination of retained profits, new share issues and intercompany loans.

Interest rate cash flow risk

The group has both interest bearing assets and interest bearing liabilities. Interest bearing assets include only cash balances, all of which earn interest at floating bank rates.

To the extent that the group enters into intercompany loan agreements, the group's exposure to interest risk arises on such loans on which interest is charged at standard HOCHTIEF commercial rates. The group does not participate in interest rate hedging.

Result

The result for the year is set out on page 8.

Dividends and transfers from reserves

The directors do not recommend a dividend for the year ended 31 December 2011 (2010: £nil). The retained profit of £ 599,000 (2011: profit of £650,000) has been transferred to reserves.

Directors

The directors of the company during the year ended 31 December 2012, and to the date of signing were as detailed on page 2.

Employment policies

The group's policies respect the individual regardless of sex, race or religion. Full and fair consideration is given to applications for employment from disabled people having regard to their particular aptitudes and abilities.

It is company policy to ensure the health and safety of employees and visitors. Employees are encouraged to participate in health and safety matters and the group continually seeks to improve safety standards.

Directors' report for the year ended 31 December 2011 (continued)

Environmental policy

The directors recognise and accept that concern for the environment is an essential part of business strategy and seek to minimise risk to the environment by effective management of the group's resources.

Directors' responsibilities statement

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they 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 period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's and group's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' report for the year ended 31 December 2011 (continued)

Auditor

Deloitte LLP have expressed their willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Each of the persons who is a director at the date of approval of this report confirms that:

1. so far as the director is aware, there is no relevant audit information of which the company's auditor is not aware; and
2. the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

By order of the Board

T P Lloyd
Director

Consolidated profit and loss account for the year ended 31 December 2011

	2011 £'000
Turnover	41,498
Cost of sales	(37,477)
Gross profit	4,021
Other operating expenses	(3,468)
Operating profit	553
Interest receivable and similar income	151
Interest payable and similar charges	(105)
Profit on ordinary activities before taxation	599
Taxation	-
Profit for the financial year	599

All results derive from continuing operations in both the current and preceding financial years.

Consolidated statement of total recognised gains and losses for the year ended 31 December 2011

	2011 **£'000**
Profit for the year	599
Actuarial profit/(loss) on pension scheme	(1,145)
Total recognised gains for the financial year, being total gains recognised since last annual report	546

Balance sheets as at 31 December 2011

	2011 £'000
Fixed assets	
Tangible assets	312
Investments	-
	312
Current assets	
Stocks	-
Debtors - due within one year	9,841
- due after one year	517
Cash at bank and in hand	8,726
	19,084
Creditors: amounts falling due within one year	(10,489)
Net current assets	8,595
Total assets less current liabilities	8,907
Creditors : amounts falling due after more than one year	(291)
Net assets excluding pension deficit	8,616
Pension deficit	(2,913)
Net assets including pension deficit	5,703
Capital and reserves	
Called up share capital	27,700
Profit and loss account	(21,997)
Total shareholders' funds	5,703

HOCHTIEF
(UK) CONSTRUCTION

Epsilon, Windmill Hill Business Park,
Whitehill Way, Swindon SN5 6NX

Tel: +44 (0)1793 755555
Fax: +44 (0)1793 555557

www.hochtief.co.uk