2012 Financial Report

Summary

Turning Vision into Value.

HOCHTIEF (UK) CONSTRUCTION

Contents

Directors and Professional advisors

Executive directors
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Registered auditors
Deloitte LLP
Reading

Registered Number
02489026

Directors' report for the year ended 31 December 2012

The directors present their annual report and the audited financial statements for the year ended 31 December 2012.

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 a significant increase in both turnover and profit before tax this year. The company accounts show a Profit on ordinary activities before tax of £1.1m for the current year (2011: £0.6m), showing an increase of 84% in the year.

The business is managed by monitoring a range of financial and non-financial KPI's, principally turnover, profit, expenses, order book and cash balances. The turnover has increased from £41.5m in 2011 to £80.7m in 2012, an increase of 94% in the year despite the recession in the construction industry. The operating profit this year has increased to 1.4% on a turnover compared with the previous year margin of 1.3% which had a reduced turnover. This year's operating expenses are £4.2m compared with 2011 of £3.5m. This reflects a 3.2% reduction of cost against turnover in the current year coming from a controlled plan and increase in efficiency. The company has again targeted its tendering activities to meet the demands of the business and been successful in increasing its order book during the year.

The Group cash balance in 2012 has remained high again with this year-end having a bank balance of £13.2m, an increase of 51% to the 2011 balance of £8.7m. The Company Accident Frequency Rate has improved again this year to 0.13 compared to 0.16 in 2011 using a base of 100,000 employed hours per year, which indicates that the company has performed much better than the national average. Furthermore the increase in turnover during 2012 has lead to the recruitment of new staff, headcount up 15%, to cater for the growth in business activity.

The Board will continue to focus its attention on Rail and 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. The strategy is to continue a steady increase in the size of the company as it expands its client base into these markets.

The company will also continue to work well with its Group European competence centres. There are a number of major opportunities, in particular in Marine and Tunnelling sectors, 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 2012 (2011: £nil). The retained profit of 1,104,000 (2011: profit of £599,000) 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.

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 2012 (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 2012

	2012 £'000
Turnover	80,673
Cost of sales	(75,338)
Gross profit	5,335
Other operating expenses	(4,175)
Operating profit	1,160
Interest receivable and similar income	70
Interest payable and similar charges	(126)
Profit on ordinary activities before taxation	1,104
Taxation	500
Retained profit for the financial year	1,604

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 2012

	2012 **£'000**
Profit for the year	1,604
Actuarial profit/(loss) on pension scheme	(1,443)
Total recognised gains for the financial year, being total gains recognised since last annual report	161

Balance sheets as at 31 December 2012

	2012 £'000
Fixed assets	
Tangible assets	301
Investments	-
	301
Current assets	
Stocks	-
Debtors - due within one year	11,094
- due after one year	19
- deferred tax asset	500
Cash at bank and in hand	13,197
	24,810
Creditors: amounts falling due within one year	(15,116)
Net current assets	9,694
Total assets less current liabilities	9,995
Creditors : amounts falling due after more than one year	(49)
Net assets excluding pension deficit	9,946
Pension deficit	(4,082)
Net assets including pension deficit	5,864
Capital and reserves	
Called up share capital	27,700
Profit and loss account	(21,836)
Total shareholders' funds	5,864

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