# Speedy Hire Plc
# Annual Report & Accounts 2004

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The reliance of the construction industry upon hire to meet its equipment requirements has grown enormously in recent times; it is now estimated that hire's market penetration is some 75% to 80%. Changes in the structure of the UK construction industry with major companies increasingly committed to sub-contracting and outsourcing have assisted in expanding the hire market by making construction companies more receptive to the concept of hire. Over the years leading hire companies like Hewden Hire Centres, A-Plant and Speedy have been able to negotiate deals whereby construction companies have sold them their plant and equipment interests and, at the same time, they have entered into trading agreements of a limited duration. Such agreements have helped not only to expand the customer base of the individual company, but should bring some stability to an industry where demand has always been notoriously difficult to predict as companies have no long-term order books from which they can derive comfort; many live from week to week, if not day to day.

Last year a supplement to the tenth annual edition of 'The Plant Hire Investment Report' traced trends within the hire sector. The supplement drew on statistical evidence contained in the ten reports published over the decade. The reports include a data table indicating the changing pattern of construction equipment ownership through the identification of the top fifty equipment owners within the construction and hire sectors. The changes over the period proved illuminating. Back in 1993 the 'independent' hirers accounted for only 15% of the aggregate of the fifty largest fleets; if the fleets of hirers owned by construction companies (of which Speedy would have been one at that time) were added the share rose to 19%. Ten years later the contrast is marked with hirers taking 60% of the aggregate investment and hirers and construction owned hire subsidiaries accounting for 61.5%.

Using the top fifty hire companies as a base showed some changes in the structure of the sector that are highly significant for plant and tool hirers alike. The supplement looked at the changes in the status and ownership of the top fifty hirers over the decade; below we show the findings for the first and tenth years.

*(Note: the tenth year is '2002' as the statistics were based on the latest accounts available in May 2003, which were almost inevitably accounting periods covering most, if not all, of 2002)*

**Analysis of status and ownership of top 50 plant/tool hirers**

| Year | Public companies (%) | Private companies (%) | Construction subsidiaries | Other subsidiaries (%) |
|---|---|---|---|---|
| 1993 | 16 | 26 | 40 | 18 |
| 2002 | 14 | 56 | 20 | 10 |

The years between showed a steady trend towards a decline in the importance of the construction owned hire companies and an increasing dominance by independent hire companies.

The table below shows the aggregate plant and tool investment of the fifty largest hirers, indicating an increasing concentration of plant/tool investment in the largest companies.

**Aggregate plant & tool investment: percentage share of largest companies**

| Year | Aggregate plant & tool investment (£m) | % share of top three hirers | % share of top five hirers | % share of top ten hirers |
|---|---|---|---|---|
| 1993 | 1,300 | 48 | 54 | 69 |
| 2002 | 3,639 | 55 | 67 | 77 |

In this context, the relative changes of 'focused' tool hire companies are interesting; from 1993 to 1996, HSS was the only tool hire company among the 'top ten' hirers in terms of investment and it fluctuated between fifth and sixth place. By 1997 Speedy had just made the 'top ten' and HSS had fallen back to eighth place. In the subsequent five years, Speedy gradually moved up the league to take fifth place last year, while HSS fluctuated slightly but ended the decade in seventh position. The other 'surviving' tool hire specialist Brandon has also seen a significant improvement in its position, albeit not on the same scale as Speedy's; Brandon started the decade with the 44th largest fleet and ended it in 25th position.

Of course, a number of major 'plant' hirers also have a strong position in Tool Hire viz. Ashtead, Hewden Hire Centres and Vp. Ashtead and Hewden have invariably been in the top three/four for most of the period. Last year Ashtead led the table, Hewden was third and Vp was eighth; while the growing privately owned GAP Group (which is approximately 50% tools/50% non-operated plant) ranked amongst the ten largest companies for the first time.

The number of tool hirers amongst the top fifty companies has remained small, although as was pointed out above, this is slightly misleading because a number of plant hirers also have a strong presence in Tool Hire. One interesting feature, however, is the improvement in the relative positions of two of the three 'focused' tool hirers over the decade in terms of turnover:

| | 1993 position on turnover table (out of 50) | 2002 position on turnover table (out of 50) |
|---|---|---|
| HSS Hire Service Group | 4 | 4 |
| Brandon Hire | 44 | 15 |
| Speedy Hire | 31 | 5 |

It is now a year since the publication of this supplement, which was written at the time when there was immense speculation about the future ownership of HSS; it was clear then that there was also a battle going on between HSS and Speedy for the leadership of the UK Tool Hire market. The past three years have seen the increasing ascendancy of Speedy as it has continued its policy of expansion through a mixture of strategic acquisitions and greenfield site openings. Like HSS, it has also looked to expand its range of specialist equipment complementary to its tool hire operations. Meanwhile HSS has suffered because of its unfortunately timed expansion in the US with the acquisition of RentX in July 2001, just two months before September 11; the consequent poor trading at RentX no doubt played its part in precipitating approaches to Davis Service Group for HSS. The protracted period of sale negotiations was inevitably a period of great uncertainty for the hirer and benefited competitors.

At the beginning of this year, 'Executive Hire News' undertook its customary appraisal of the 'Top Ten' tool hirers' in the UK. For the first time it put Speedy a little ahead of HSS in terms of its (i.e. EHN's) annual revenue estimates. Both these companies with turnovers of around £150 million are a long way ahead of the competition; the nearest rival, Hewden Hire Centres, had a turnover of approximately £83 million in 2002 (the most recent accounts filed) and is not thought to have grown significantly over the last year. Brandon's progress to which we referred above has made an impact on that company's 'ranking', lifting it to fourth position with a turnover of £39 million, a little ahead of Vp's Hire Station, A-Plant Tool Hire Shops and Jewson Hirepoint which all had turnovers between £35 million and £38 million. The final three positions in the £27 million to £30 million range went to Wolseley's Hire Centers, GAP Group and TP Hire (owned by Travis Perkins).

The trends in Tool Hire, which we have identified above, look set to continue and to be reinforced as the market place evolves. Construction companies continue to divest of plant as is evidenced by Speedy's acquisition of St Vincent Plant from Clugston; other recent examples include Vp's purchase of Eve Shorco from Peterhouse, Cox Plant's acquisition of Marplant and the deal by which Cox bought Anvil Plant from Wilson Bowden, retained the plant but sold on the tools part of the business to Brandon. Most of these transactions have been accompanied by plant/tool supply agreements of varying lengths.

What is driving construction companies to rely increasingly on hire for their equipment needs? Amongst the factors are:

a) A more efficient use of resources

The very nature of the operation creates higher utilisation than does ownership; it also means that overheads such as maintenance, depreciation and finance costs are shared.

b) Increased mechanisation of the construction industry

For reasons of economy, efficiency, safety and technical development, equipment usage has grown in significance in the construction process and will continue to do so. An increasing number of contractors pursue a policy of retaining only a minimal level of equipment (as is evidenced by the large number which have divested of/ run down their plant subsidiaries); others may decide to retain a range of basic equipment, but, for them too, it is uneconomic and unrealistic to aspire to hold equipment that will meet every requirement for every contract.

c) Higher levels of efficiency

Contractors can hire the most appropriate equipment for the task in hand. As 'specialists', hirers must increasingly take on an advisory role, not just providing and servicing items but also instructing customers in what is the best product for the task in hand and the most efficient and safest ways of using it.

d) Polarisation of the construction industry

With the increasing emphasis on 'national contractors', for them to maintain plant and tool capability across the country would clearly be uneconomic, and unnecessary.

e) Modern management techniques

The increasing use of 'outsourcing' and sub-contracting provide an added impetus to the hire market.

f) More efficient use of capital resources

Construction companies can achieve better returns from investments such as land and are also financing participation in Public Private Partnerships. Why invest in equipment when it is readily available from a national hirer and the capital can earn a better return elsewhere?

Three of the most critical concerns in respect of hired equipment for construction companies are cost, time and safety. Historically contractors have been perceived as regarding price as the over-riding factor, but the increasingly professional attitude of major companies is leading to a realisation that squeezing the lowest rate out of a hirer may not ultimately be the most cost effective policy; equipment breakdowns are very expensive and unsafe equipment even more so.

Major contractors are demanding a high level of service from hirers and they want it to be consistent across the country. Inevitably this means that they will turn increasingly to those companies that operate a national service; which, through investing in modern technology operate call centres on a national basis but, at the same time, provide a 'local' service through the depot network. Contractors also want reassurance that when there is a problem with the service, the hirer has the capacity to deal with it efficiently. They are also increasingly expecting extranet facilities, whereby the hirer can provide on-line detailed information about the equipment on hire and account details.

These trends will lead to even more polarisation, with the national players seeking to enhance their existing network through relatively small ' bolt on' acquisitions (such as Pitreavie by Speedy); meanwhile the 'second tier' of companies with a strong regional presence (Brandon is the obvious example of this) will continue to pursue national coverage through strategic acquisitions of smaller regional based chains (of which there are only a limited number) or of one/two outlet businesses; 'greenfield site' openings remain, as always, a more painstaking option.

The increasing emphasis by major contractors on supply agreements is also encouraging tool hirers to initiate informal, if not formal, 'strategic partnerships' with hirers of other equipment; for example Speedy has a three year supply agreement with All Access Platforms. Such arrangements are likely to grow in number in order to meet the specifications of contractors when negotiating national supply agreements.

Tool Hire is an evolving business; any company which wishes to be, or to remain, a major player needs to establish and maintain a national network of depots, which are capable of providing a high level of service with efficient delivery systems and swift response times to breakdowns. The single outlet, owner-run businesses will always be present to serve the local tradesmen; the pressure will continue on the medium sized players and we must expect further consolidation as they are acquired by larger competitors, ambitious to improve their market share and coverage.

Prospects still look set fair for the major players in Tool Hire as construction activity in most areas remains high, although, of course, a prolonged series of increases in interest rate rises could cause problems. On the other hand, hire often benefits from the onset of a period of uncertainty for construction, as contractors become reluctant to invest in equipment and turn increasingly to the hire market. The increasing prevalence of supply agreements should also bring a degree of stability to hire rates. For the national hirers who have negotiated such deals, it will afford some protection against smaller competitors with cash flow problems whose inevitable response to a downturn in demand will be to cut hire rates.

Many of the current trends in infrastructure development, with its increased emphasis on brownfield sites, where access is frequently restricted, are beneficial to hirers of tools and small plants; tool hire is also a major supplier to the repair and maintenance market, which would stand the sector in good stead if and when the construction downturn comes. So Tool Hire has some defensive qualities too and, with a General Election looming, the government will clearly do all it can to sustain demand this year and next.

## Catherine Stratton

Catherine Stratton has researched and analysed the Plant and Tool Hire sector for many years and is the author of the annual survey of the industry 'The Plant Hire Investment Report'. She writes regularly in both 'Executive Hire News' and 'Plant Hire Executive.'

Her interest in the hire industry began when she joined the research department of stockbrokers Greene & Co. in 1969. In 1975 she became a member of the Stock Exchange and was a research partner at Greene's from 1975 until the company merged with Greig Middleton in 1988, whereupon she became a director of the latter. She left Greig's in 1992 to work as an independent researcher and consultant in the hire industry.

The 2003/2004 edition of 'The Plant Hire Investment Report' is available in June 2004. For details ring Jill Edwards on 01895 819330 or e-mail her at jill@executivehirenews.co.uk

David Wallis
Non-Executive Chairman

## Highlights

**Another excellent year**

**Total dividend for year 10.5p, up 17%**

**Strengthening both Plc and Operating Boards, as part of ongoing succession planning**

**New LTIP proposed following success of previous plan**

**Confident of further good progress in current year**

I am delighted to report another excellent year for your Company. Of the many elements that make towards a successful and profitable business, none is more important than its people. These results demonstrate the skill and enthusiasm of Speedy Hire's people and their willingness to "go the extra mile" for our customers. The successful outcome for the year is a credit to them all and I would like to extend the thanks of both the Board and shareholders to each of them.

**Financial performance**
The financial results are covered in detail by my executive colleagues on the following pages, so I will give a brief overview.

Turnover increased by 18% to £170.2 million (2003: £143.9 million) and pre-tax profits by 17% to £22.0 million before goodwill amortisation (2003: £18.9 million). Earnings per share, before goodwill amortisation and assuming an underlying tax rate, increased by 23% to 38.66 pence (2003: 31.39 pence). Our balance sheet continued to strengthen. During the year we invested £58 million in new equipment in line with our strategy of maintaining the most modern fleet in the hire services industry. Investment in tools and equipment over the last three years has totalled £138 million, ensuring that we are well placed to continue expansion into the future. Our national network has continued to expand, with very strong growth being generated by our specialist divisions.

Our policy on dividends is for them to be progressive and covered not less than three times by earnings. The Board is proposing a final dividend of 6.8 pence per share, making a total of 10.5 pence per share for the year as a whole, an increase of 17%. Even after the strong increase this year, we remain well within these limits.

**The Board**
We are constantly seeking to strengthen both the Plc Board and the Operating Board ensuring well planned management succession. We are considering the position of Chief Executive as we prepare for John Brown's retirement next year.

We have a very strong Chief Operating Officer and Finance Director in Steve Corcoran and Neil O'Brien who have been with the business for 13 years and five years respectively. Their skills have been supplemented by Andrew Simpson who joined us in August 2003 as Business Development Director from N M Rothschild. I am confident we have a first class team to lead the future growth of the business.

At Operating Board level, Colin Brindle and Robin Hall, two long serving Managing Directors, have reached retirement age and I would like to thank them for their contribution to the business and wish them well for the future. However, our ongoing succession planning has ensured that the businesses remain in safe hands.

Three years ago, shareholders approved the introduction of a Long Term Incentive Plan (LTIP) for the key people in the Company. I am delighted to report that this will pay out 93% of the maximum amount approved, mirroring the increase in earnings per share over the last three years. Shareholders have seen a 100%

increase in value as measured by total shareholder return over the LTIP period. At the AGM in July this year, the Board will be seeking approval to introduce a new LTIP and I have included details in a separate letter which is enclosed with this report. Given the success of the initial plan, I strongly recommend that you give this your support.

**Outlook**

Current economic statistics indicate that both the UK and global economies are continuing to strengthen although there are certain obvious factors such as fuel prices and interest rates outside the control of management which impact on the business. The diversity of the range of activities of our customers in the construction sector, both by size and by geography, adds a further level of stability to our business activities as we have no unduly large exposure to any one sector. Our customers report full order books with private sector contracts compensating for the deferral of some public sector work. Our customers have indicated they expect these strong order books to continue for some time to come.

Subject to no material change in the economic outlook, I am confident of reporting further good progress in the current year.

Our AGM will be held on 21 July and I look forward to welcoming you there.

D W Wallis

David Wallis
Chairman
3 June 2004

**" Good governance is about living it, not just reporting it."**

**John Brown**
**Chief Executive**

Simple, straightforward and consistent: these are the key words that define Speedy Hire, our strategy and our track record of delivery. By simply providing the best kit and employing the best people in our industry, we have grown to become the clear market leader in UK tool hire. The consistency of our success is underlined by the fact that this is the twelfth consecutive year of record results from our hire operations.

### Results

The key financial statistics speak for themselves:

- Turnover is up from £143.9 million to £170.2 million, a rise of 18%.
- Operating profit before goodwill amortisation has grown from £21.8 million to £25.5 million, an increase of 17%.
- Group profit before goodwill amortisation and taxation is up from £18.9 million to £22.0 million, a rise of 17%.
- Earnings per share before goodwill amortisation and with underlying tax charge, increased to 38.66 pence, an uplift of 23%.
- Return on capital employed (before goodwill amortisation) has increased from 16.9 % to 17.8%.

Just as important is the fact that this was by no means an exceptional year for Speedy Hire.

All parts of the business contributed to our success, with every division making good like-for-like sales progress. In total, we added a net 29 depots to our tool hire and specialist operations during the year, in line with our targets, bringing our national total to 286.

### Tool Hire

We have consolidated our position as the undisputed leader in the growing UK tool hire market. Our like-for-like sales growth of 9% during the year considerably outstripped market growth of around 3%, driving a further increase in our market share. With national coverage, we are strongly placed to meet the demands of major UK contractors. We concluded new preferred supplier agreements with Mowlem and Costain during the year, and more recently with Interserve.

We added 23 depots, 15 through acquisitions and eight through greenfield developments. We also closed four underperforming units, making a net addition of 19 during the year. The acquisition in June of Kingfisher Hire in South Wales added seven depots to Speedy Western, while the purchase in August of St Vincent Plant, the hire business of the Clugston Group, brought us six depots in Yorkshire and Lincolnshire to strengthen Speedy Northern. Finally in January we acquired the Pitreavie business, adding two depots to Speedy Scotland.

Our regional businesses have performed well. Speedy Scotland, which was formed in 2003, has achieved all our targets. This new regional business was set up to provide the right management resources and structure to accommodate growth. We have continued to place emphasis on developing the right infrastructure and control environment to achieve this.

Speedy Lifting was created in November 2002 and has enjoyed a successful first year of growth. It has also expanded its network through four greenfield openings and now operates in 28 locations. This business focuses on the hire of lightweight lifting equipment and, like our more established specialist companies, has attractive prospects for growth.

### Specialist companies

We have a proven ability to create specialist niche businesses that complement our core tool hire operations, and to grow them profitably both by organic development and the successful integration of acquisitions.

Speedy Space, which specialises in the hire of accommodation and storage units, again produced record results last year. We expanded its network to 14 depots and added 900 units to its asset base. It now has more than 13,000 units available for hire and continues to achieve utilisation rates of just under 90%.

Speedy Power, our power generation business, continued to grow sales and profits rapidly. We added two new greenfield depots and acquired a third through the acquisition in July of Ashtead Plant's Big Air division, specialising in the complementary

Timeline

| April 1977 | April 1982 | October 1987 | June 1989 | September 1994 | January 1997 |
|---|---|---|---|---|---|
| John Brown forms Livesey Hire in Wigan | Speedy Fixings acquired and Speedy brand established | Speedy established in London | Speedy, part of Allen Plc, gains Stock Exchange Listing | Speedy buys "Kendrick Hire" – 41 depots | Speedy has 100 depots |

# "We serve a market that has positive and consistent growth characteristics."

business of portable, high capacity, high pressure compressed air systems. This gave the business a total of seven depots at the year end.

Speedy Survey also continued to grow strongly. This business focuses on the hire of specialist surveying equipment and now operates in 13 locations, with its network strengthened during the year by one greenfield opening and the acquisition in September 2003 of the two depots of Leica Geosystems, dedicated to the hire of construction surveying equipment.

**People**
We produce growing returns for our shareholders because we have been consistently willing to invest in the best hire fleet in the UK and in people who will sell it to our customers with passion and commitment. Our culture and reward structure provide great incentives to succeed, with performance-related bonuses accounting for a high proportion of total remuneration. During the year our 2,375 staff shared bonuses totalling a record £7.6 million. I would like to congratulate them on their success and thank them all for their individual contributions to our financial performance and to building our reputation as the industry leader. This year we introduced our long service award which has been established to recognise the loyalty of those employees who have committed their careers to Speedy. It is thanks to the entire Speedy team that we were recognised once again by the Hire Association of Europe in April 2004, when we were named as 'Hire Company of the Year' for the second consecutive year, and also won their award for the best industry website.

**The future**
We serve a market that has positive and consistent growth characteristics. We have considerable opportunities including:

- Expansion of the existing depot network
- Expansion of the portfolio of specialist businesses
- Capturing more revenue from existing customers
- Improved penetration of non-construction markets
- Further acquisitions.

Our major clients in the construction industry remain busy, with record forward order books. I therefore believe that we are well placed to continue our successful organic growth, and we have demonstrated over many years that we are well equipped to enhance this by the successful identification, negotiation and integration of acquisitions. I am sure that there will be more opportunities to acquire good quality businesses and assets at reasonable prices over the year ahead.

We are already the UK's number one in tool hire and the hire of surveying equipment, and it is our aim to become the number one or two player in every market we service. I have no doubt that we have the right people and the right strategy in place to achieve this goal.

**Steve Corcoran**
**Chief Operating Officer**

**Andrew Simpson**
**Business Development Director**

Speedy Hire operates in five key rental sectors — tool hire; portable accommodation; lifting equipment; surveying and measurement instrumentation; and portable generators and compressed air equipment.

This powerful combination of businesses has delivered another successful year and we are excited by the prospects and scale of the opportunities available to the Group and our ability to capitalise on them.

**Market background**
We believe that there are two key structural trends in the construction industry impacting upon decision making for equipment hirers.

| April 2000 | February 2001 | January 2002 | March 2003 | April 2003 | Year to March 2004 |
|---|---|---|---|---|---|
| Speedy Power starts trading | Speedy takes over Allen Plc's LSE Listing | Speedy acquires Jewson's 37 stand-alone depots | Speedy becomes Number 1 in UK market | Speedy Scotland commences trading | 5 acquisitions — record capital expenditure programme |

1 A fragmented market with the large players becoming more dominant
The construction market is highly fragmented with traditionally low barriers to entry. We estimate that there are more than 500,000 potential customers operating in various UK sectors, the principal markets being building and construction. However, the construction market is polarising between large and small, with the larger contractor groups becoming increasingly involved in traditionally specialist sectors (e.g. rail, utilities, facilities management and maintenance). The consequence is that whilst the overall construction output has grown 35% between 1998 and 2002, the turnover of the top 100 contractors has grown by 68% during the same period (source: Construction News).

2 Increasing professionalism
Construction firms are radically professionalising their supply chain, shifting away from a project by project, site by site approach to an efficient company-wide standard. The main factors driving this change are:

- Increasing Health and Safety requirements.
- Continued enforcement of best practice.
- The scope for procurement savings by working more closely with fewer, better suppliers.
- An increase in sector and market focus to give more repeat work and improve margins.

These trends have some key ramifications for the hire industry:

1. Local relationships are important
The fragmentation of the market means that there will always be a large volume of local business for hire companies from small builders and tradesmen.

2. National capability is important
The cost of downtime for contractors outweighs the cost of hire, and research shows that contractors want their tool hire supplier to be close to site. This, combined with the focus on the supply chain, means that to be a key supply partner hire companies must be able to supply contractors to consistent, high quality standards wherever they may be working.

3. Highest standards are vital
Construction firms no longer just accept cheap prices, they demand total value. Health and Safety responsibilities and the realisation that to improve efficiency the appropriate equipment has to be in the right place at the right time, means that customers require suppliers which have best in class assets and best in class standards.

**The opportunity for Speedy Hire**
Against this market background Speedy Hire will continue to be the winner in the hire sector and grow market share. We are also driving important changes in Speedy Hire to further improve efficiency and long term profitability.

**Our culture**
Many organisations say that people are their best asset but at Speedy Hire we live this philosophy. Our culture is a key part of our success and has been founded on some very simple principles:

1. Employ the best.
2. Devolve responsibility and authority.
3. Allow people to get on with their job.
4. Pay well for success.

At a practical level, Speedy Hire is a national company made up of local businesses (depots). "Can do" is a common trait in our people and it is why town by town and region by region we have strong local relationships. We make it our business to understand the local market and be flexible for customers. What works in a rural environment might not work in an urban one and the important issues for a large contractor are different to those of a local builder.

**Our market position**

Speedy Hire is now the market leader in the tool hire market and is a truly national business. As well as establishing local relationships Speedy Hire has pioneered preferred supplier and national agreements with large and specialist contractors and we are now the hirer of choice to these firms. We commissioned independent market research which shows that Speedy Hire is the main tool hire supplier to 51% of

## “ Our culture is a key part of our success and has been founded on some very simple principles.”

national contractors. This compares to 13% for our nearest competitor (source: Lychgate).

**Our assets**

Safe, modern and reliable equipment is increasingly a key competitive advantage and Speedy Hire is widely recognised for having the best equipment in the industry. Our Group return on capital is over 17%, significantly ahead of our weighted average cost of capital ("WACC") and we believe that Speedy Hire's financial strength compared to its tool hire peers means that we will continue to widen our asset advantage. This will continue to benefit our customers and shareholders alike.

**Improving our business**

We are far from complacent about the future. Our historic growth has been impressive and the hard work of the past 27 years provides a sound platform from which to build. We are determined to continue our success and are undertaking important improvements and investment to ensure Speedy Hire's long term profitability and success. These are as follows:

1. Sales strategy
   Speedy Hire has the largest sales force in the industry and we are investing to improve our sales effort and our market awareness. In addition to our local sales force, we are strengthening our national accounts team and will be concentrating sales teams on market sectors as well as territories. As a result, we will be able to manage our relationships with contractors even more effectively and further diversify our customer base into alternative hire markets in addition to traditional construction activities. For example, during the year we were delighted to win key contracts in markets such as facilities management, industrial maintenance, leisure, the events sector and telecommunications.

   In January 2004 we recruited David Graham who joins us from SGB Youngman as Group Sales & Marketing Director. This is a key new role for Speedy Hire, and David will be responsible for continuing to drive our sales improvement programme and ensuring alignment of the Group to our sales strategy.

2. Leveraging the brand
   The individual operating companies of the Group have historically worked together on a reactive rather than on a pro-active basis. The result is that there is significant customer leakage across the Group. For example, a customer of our power rental business may use a competitor for tool hire, and vice versa. We are working hard to co-ordinate the activities of the Group more effectively and leverage the Speedy Hire brand. Key initiatives include:

- Establishment of more common business practices across the Group.
- Investment in IT, marketing, procurement and training.
- Realignment of the Group bonus scheme to incentivise cross selling throughout the Group.

3. Working smarter
   Speedy Hire's development has been thanks to the hard work of our people. The Group is now focusing on some simple initiatives and undertaking targeted investment to channel our energy even more effectively, improve our understanding of the market and our business and to upgrade the infrastructure of the Group. These include:

1. Recruiting, developing and retaining the best people has been fundamental to Speedy Hire's success. As a small company Speedy Hire was able to identify and develop talented people on an intuitive basis. As a larger organisation we are putting in place the training, development and recruitment infrastructure to ensure that Speedy Hire continues to attract and develop the best.

2. Significant upgrade in IT with three principal aims:

- Customer facing benefits which provide competitive advantage to Speedy Hire.
- Improved internal measurement and benchmarking to provide greater transparency and understanding of our own business.
- Reducing bureaucracy at depot level.

3. Building our Group marketing capabilities to better analyse our market position and attack new customer segments.

4. Supply chain improvement. Speedy Hire has started to work more closely with a smaller number of preferred suppliers to eradicate waste, improve quality and save time. This will

improve our procurement procedures, processes and overall terms.

5. Strategic geographic expansion and upgrading key properties. We have undertaken significant work to identify the key towns for expansion of our depot network as we move towards 400 depots. In addition, we are identifying depots which would benefit from investment in the property, thereby enabling us to capture more passing trade from small builders/tradesmen and sell more retail led add-ons such as consumable items.

**Business expansion**
Speedy Hire has a proven track record of expansion through developing specialist hire markets and by acquisition.

We have completed five acquisitions in the last year, three in tool hire and two in our specialist businesses. These have all now been successfully integrated into the Group. Hire remains a fragmented industry and as scale becomes more important to major customers we are seeing an increasing number of potential acquisition opportunities at realistic prices. We believe that Speedy Hire is well positioned to be the main consolidator in the market for the foreseeable future.

Our simple, straightforward approach to hire has proven successful in developing our specialist businesses. We believe that significant opportunities exist both within our existing product portfolio and in new product markets for continued expansion and development. These will further leverage the brand and provide increased sales from our existing operations and ensure future growth.

**Neil O'Brien**
**Group Finance Director**

Turnover for the year was £170.2m (2003: £143.9m), an increase of 18.3%. The split of Group turnover is 75% from the hire of tools and equipment and 25% from the hire of specialist products. The increase in turnover has resulted from a number of factors including:

- Ongoing extension of the national network with 15 greenfields added in the year (2003: 12 greenfields).
- Maturing of sites opened in the last two years.
- Five acquisitions adding a further 18 depots and £5.4m to turnover.
- Like for like turnover growth of 8.8% (2003: 8.4%) from our existing network.
- Further growth in the specialist businesses of cabin hire, surveying equipment and power and compressed air equipment.

Group margins pre-goodwill amortisation are 15.0% (2003: 15.1%). These margins are the highest in our peer group and have been achieved in a year when external cost pressures such as national insurance increases have been largely mitigated by operational performance. We continue to see the negative impact of acquired/greenfield depots on margins. During the year 13% of our tool depots were in their maturing phase (2003: 23%). New depots will typically mature over a three year period.

Profit before taxation has grown by 16.5% to £21.2m (2003: £18.2m) after charging interest of £3.5m (2003: £2.9m). Interest cover is 7.1 times (2003: 7.3 times).

**Taxation**
Both the profit and loss account and cash flow statements have benefited from the repayment of prior years' taxation, resulting in an effective tax rate for the year of 17.0% (2003: 27.2%). The underlying rate excluding adjustments relating to previous periods is 27.0%.

**Earnings per share ("EPS")**
The weighted average number of shares in issue in the year was 41,594,923 (2003: 41,587,476). Basic earnings per share were 42.34 pence (2003: 31.89 pence), an increase of 32.8%. However, given my earlier comments on the tax rate, I believe that an adjusted EPS based on the underlying current year tax charge and excluding goodwill is more representative. On this conservative

# “ Local relationships and national capability are important, the highest standards are vital.”

basis EPS has increased by 23.2% to 38.66 pence (2003: 31.39 pence).

**Dividend**
The Group's dividend policy is that dividends should be covered at least 3 times by underlying earnings. The Board is proposing a final dividend of 6.8 pence per share, making 10.5 pence per share for the year (2003: 9.0 pence per share). This is a 16.7% increase and leaves the dividend 4.0 times covered.

**Balance sheet**
Net assets at the year end were £93.5m (2003: £79.4m), an increase of 17.8%. There has been a fundamental shift in the balance sheet this year with a move away from short term, hire-purchase debt in current liabilities to a major new long term bank facility supported by four of the UK's largest banks.

Both stocks and debtors have grown at a slower rate than turnover. This is a result of improved working capital management.

Provisions represent deferred taxation balances as capital allowances exceed depreciation charges.

**Return on capital ("ROC")**
ROC is a key financial measure of performance for all our operations. We measure ROC based on average gross capital (total funding from equity and debt sources) and operating profits before goodwill amortisation. On this basis our ROC has improved to 17.8% (2003: 16.9%). We believe this to be one of the leading returns in our peer group. This ROC is substantially ahead of our weighted average cost of capital.

**Cash flow**
Operating cash flow was £49.9m (2003: £39.1m) which represents 29.3% of turnover (2003: 27.2%).

Our cash generation remains strong with operating profit being converted to operating cash flow at the rate of 202.1% (2003: 185.3%).

| | **2004 £m** | 2003 £m |
|---|---|---|
| Operating cash flow | **49.9** | 39.1 |
| Interest | **(3.4)** | (2.9) |
| Taxation | **(0.8)** | (5.6) |
| Gross capital expenditure* | **(56.3)** | (39.6) |
| Disposal proceeds | **15.4** | 15.9 |
| **Free cash flow** | **4.8** | 6.9 |

* Gross capital expenditure comprises cash additions of £52.0m (2003: £12.6m) and expenditure financed by hire-purchase agreements of £4.3m (2003: £27.0m).

Free cash flow was £4.8m (2003: £6.9m) even after funding an 18.3% increase in turnover in the year.

**Capital expenditure and depreciation**
Total gross capital expenditure was £56.3m (2003: £39.6m) and, in addition, £9.0m has been spent on five acquisitions. This expenditure was offset by a range of capital receipts of £15.4m. These disposal proceeds include property disposals, trade-ins and lost equipment recharged to customers. Depreciation has increased by 16.3% to £24.5m (2003: £21.1m), a reflection of the increasing level of hire fleet.

Taking account of all these items, the value of hire fleet assets, the true indicator of our operational capacity, has grown by £26.6m in the year or 22.3%.

**Treasury facilities and hedging**
On 30 June 2003 the Group signed new banking facilities giving us 3 year, £100m committed facilities and a further £5m of uncommitted overdraft. This new facility was used to repay the majority of our hire-purchase loans and to provide funding for the ongoing growth of the Group.

The change in banking arrangements has successfully achieved our objectives to obtain flexibility, certainty and increased debt facilities open to the Group. The Group's facility is placed with a banking group including four of the UK's largest banks.

The main risk arising from the Group's financial instruments is changes in interest rates. We have introduced interest rate hedging to reduce our exposure to this risk and have entered into a range of swaps covering £50m and with a number of maturing dates between August 2004 and August 2006.

Year end net debt stands at £61.1m (2003: £53.1m) with gearing at 65.3% (2003: 66.9%). Our maximum draw down on the new facilities during the year was £72.5m. Interest cover stands at 7.1 times (2003: 7.3 times) and we are well within our internal targets.

Each of our trading companies has its own bank account with individual overdraft limits, and with pooling of balances for interest rate calculations. Authority limits for payments have been placed across the entire Group.

**Accounting policies**
There have been no changes to accounting policies during the year other than the adoption of FRS 5 Application note G.

As a result of continuing improvements to our IT systems, we can now prepare our accounts on a calendar year basis and have therefore taken this opportunity to report our results to 31 March 2004. This has resulted in additional turnover and associated direct costs, compared to the previous 52 week basis. We have also taken the opportunity to make minor changes in the basis of charging certain expenses and other indirect costs. The net effect of these adjustments is to increase profit before tax by approximately £0.3m. The like-for-like figures have been prepared on a strict 52 week comparison between the two years.

The Group does not have any final salary defined benefit pension schemes.

The majority of the Group's vehicle fleet and property portfolio are held on operating leases. In addition, Speedy Power has a number of generators and compressors which are funded by operating leases.

Goodwill is amortised over periods between 5 and 10 years. Five acquisitions in the year added £1.8m to goodwill, and the year end balance stands at £5.0m. The amortisation charge for the year was £0.8m.

A review of the Group's accounting policies has been completed in advance of the introduction of International Financial and Reporting Standards (IFRS). The Group continues to plan for the adoption and implementation of IFRS.

**" Return on capital has risen to 17.8% which is substantially above our cost of capital."**

We strongly believe in the importance of good communication with shareholders, with three main objectives:

- To help shareholders develop a clear understanding of the Company's strategy, performance and growth potential.
- To maintain the highest standards of open communication with a view to building long term trust.
- To ensure compliance with all regulations regarding the conduct of a publicly owned company and the dissemination of price-sensitive information.

As a result, we aim to provide as much information as is commercially sensible to both existing and potential investors, acknowledging that transparency is the best way to develop understanding.

We recognise that our Annual Report is a key information source for investors in not only presenting the results of the financial year, but giving a clear holistic picture of the business. We are constantly striving to improve the content of the Annual Report. As well as hard copy, reports are always available in pdf form on our website.

Speedy Hire has in place a management and policy framework for investor relations which includes contact with the financial community, Stock Exchange announcements and published information. As well as the Preliminary and Interim result announcements, regular trading updates are provided at the AGM in July, together with pre-close period statements in September and March each year. This ensures a regular flow of trading information updating the market five times a year. Separate announcements are made when the Board considers that information is potentially price-sensitive. Eight such announcements were made in 2003/04.

The executive management team led by the Chief Executive and Finance Director meet regularly with institutional shareholders and analysts. During the last financial year, over 65 such presentations were made. At the time of the Interim and Preliminary results they are accompanied by the Chairman who is separately available to answer any concerns which investors may have.

Our shareholder base has broadened over the last 12 months. Table (a) summarises the shareholder base at 31 March 2004 by size of holding and table (b) shows the shareholder base by type of holding. The number of analysts who write about Speedy Hire has steadily increased. This has helped to widen knowledge and increase interest in the Company.

Our AGM will be held at the Thistle Hotel, Haydock on 21 July 2004, commencing at 11 a.m. All Directors and Committee Chairmen will be introduced and will be available for questions both before and after the formal meeting.

**(a) Shareholders analysed by number of shares held**

| Range of shares held | Number of holders | % of holders | Number of shares 000's | % of shares |
|---|---|---|---|---|
| 1–1,000 | 612 | 44.6 | 308 | 0.7 |
| 1,001–5,000 | 454 | 33.0 | 1,036 | 2.4 |
| 5,001–10,000 | 80 | 5.8 | 582 | 1.4 |
| 10,001–50,000 | 115 | 8.4 | 2,715 | 6.4 |
| 50,001–100,000 | 35 | 2.6 | 2,609 | 6.1 |
| 100,001–500,000 | 57 | 4.1 | 12,186 | 28.6 |
| 500,001–1,000,000 | 13 | 0.9 | 9,650 | 22.6 |
| 1,000,000 and above | 8 | 0.6 | 13,560 | 31.8 |
| **Total** | 1,374 | 100 | 42,646 | 100 |

**(b) Shareholders analysed by type of holding**

| Type | Number of holders | % of holders | Number of shares 000's | % of shares |
|---|---|---|---|---|
| Directors | 7 | 0.5 | 276 | 0.6 |
| Private individuals | 863 | 62.8 | 5,371 | 12.6 |
| Nominee accounts | 447 | 32.6 | 34,708 | 81.4 |
| Institutions & investment companies | 17 | 1.2 | 1,150 | 2.7 |
| Other | 40 | 2.9 | 1,141 | 2.7 |
| **Total** | 1,374 | 100 | 42,646 | 100 |

01 02 03 04 05

### 01 Mark Turnbull
**Director of Safety, Health, Environment and Training**

Aged 48, has been with Speedy Hire for nine years. Prior to that he worked with Kendrick Hire as Regional Manager and Quality Assurance Manager. Mark was appointed Health and Safety Director of Speedy Central Services Limited in April 2001, prior to which he was Health and Safety Director of Speedy Hire Centres (Southern) Limited, having achieved his diploma in Safety & Health.

### 02 David Graham
**Group Sales & Marketing Director and MD Speedy Direct**

Aged 45, joined Speedy in 2004 as Group Sales and Marketing Director and MD of Speedy Direct. Previously worked for SGB Youngman in various roles including Regional Manager for London, General Manager of Retail Operations and latterly Sales & Marketing Director.

### 03 Bill Kellie
**MD Speedy Western**

Aged 47, joined Speedy Hire as Regional Director (Yorkshire) in 1993 and was appointed as Managing Director for Speedy Hire Direct in October 2002. Prior to this he was a director of Firth Powerfix between 1987 and 1993.

### 04 Simon Richards
**MD Speedy Northern**

Aged 45, joined the Allen Group in 1978 and became Finance Director of Speedy in 1982. Simon has been involved with most of Speedy's acquisitions and the formation of Speedy Midlands, Speedy Western, Speedy Survey, Speedy Power and Speedy Central Services.

### 05 Denis Martin
**MD Speedy Space**

Aged 40, joined Speedy as MD of Speedy Hire Direct in 1999. Appointed Managing Director of Speedy Southern in April 2001 and became MD of Speedy Space with effect from 01/04/2004. Prior to joining Speedy, he was Managing Director of Elmore Plant Services Limited, a subsidiary of Wates Construction.

**Operating Board experience**

| Name | Driver/fitter | Branch Manager | Sales rep | Sales/ Regional Manager | Sales Director | Finance Director | Managing Director | Total industry experience (years) |
|---|---|---|---|---|---|---|---|---|
| Mark Turnbull | ✓ | ✓ | | ✓ | | | | 26 |
| David Graham | | ✓ | ✓ | | ✓ | | ✓ | 21 |
| Bill Kellie | | | ✓ | ✓ | | | ✓ | 11 |
| Simon Richards | | | | | | ✓ | ✓ | 25 |
| Denis Martin | | | ✓ | ✓ | | | ✓ | 18 |
| John Cummings | | ✓ | | ✓ | | | ✓ | 27 |
| Colin Brindle | | | ✓ | ✓ | ✓ | | ✓ | 27 |
| Andy Carter | | | ✓ | | ✓ | | ✓ | 20 |
| Barry Gallihawk | | ✓ | ✓ | ✓ | | | ✓ | 26 |
| Mark Whitworth | | ✓ | | ✓ | | | ✓ | 9 |
| Robin Hall | | ✓ | | ✓ | | | ✓ | 36 |

06 07 08 09 10 11

### 06 John Cummings
### MD Speedy Scotland

Aged 48, joined Speedy in December 1995 as Regional Director (Scotland) for Speedy Northern. He was appointed Managing Director of Speedy Scotland as from April 2003 following the restructuring of the divisions. Previously John had set up his own business — Capital Plant Hire — and this was acquired by Speedy in 1995.

### 07 Colin Brindle
### MD Speedy Northern (Retiring)

Aged 63, joined Speedy in 1977 as a Sales representative. He has held a number of positions since then including Sales Director, and was appointed Managing Director of Speedy Northern in 1995. Formerly he was regional sales manager with RMC Plc. Colin has retired at the end of this financial year.

### 08 Andy Carter
### MD Speedy Power

Aged 38, joined Speedy in December 1999 to form Speedy Power. For the previous ten years he worked for Rentair Plc, firstly as a Regional Manager and then as Sales and Marketing Director. Prior to this he was London region sales representative for Vp PLC and Business Development Manager for Hertz Equipment Rental.

### 09 Barry Gallihawk
### MD Speedy Southern

Aged 49, joined Speedy in 1994 as Sales Executive and became London Regional Director in 1997. He was appointed Managing Director of Speedy Western on its formation in October 2000. Previously he was Sales Manager with PB Hire Services which became part of the HSS Hire Group. Prior to this he was Transport and Hire Manager with Croudace Construction Plant Division.

### 10 Mark Whitworth
### MD Speedy Lifting

Aged 38, joined Speedy in 1995 as Depot Manager at Kings Lynn. He was appointed Regional Director of Speedy Midlands in 1996 and Managing Director of Speedy Survey in 2001. Prior to this he was an Operations Manager at Marks & Spencer PLC.

### 11 Robin Hall
### MD Speedy Space (Retiring)

Aged 53, joined the Allen Group in 1991 and was appointed as a Director of Speedy Space in 1998. He became Managing Director of Speedy Space in August 2001. Prior to 1991 he owned his own plant and cabin company which was subsequently sold to Allen Plc. Before this he was a Director/General Manager with Walaw Plant Hire Limited, a subsidiary of Walter Lawrence PLC. Robin has retired at the end of this financial year.

**David Wallis BSc Econ**
**Non-Executive Chairman**

David Wallis, aged 56, joined the Board in June 2000 and became Chairman in February 2001. He was formerly Group Managing Director of Merchant Retail Group plc and is currently a Non-Executive Director of Geest PLC, a Non-Executive Director of Robinson Healthcare Limited, Chairman of Greeting Card Group Limited and Chairman of Herbert Brown Limited. David is Chairman of the Company's Nominations Committee.

**John Brown FCCA, ATII**
**Chief Executive**

John Brown, aged 60, joined the Group in 1973 as Finance Director and Company Secretary. In 1977, he started the Speedy Hire business with one depot in Wigan and has masterminded its expansion since then. He became Chief Executive of the Group in February 2001 and was responsible for its transformation from the Allen Group to Speedy Hire. John is Non-Executive Chairman of Voller Energy Limited and a Director of the Hire Association of Europe.

**Neil O'Brien MA, ACA**
**Group Finance Director**

Neil O'Brien, aged 41, joined the Company in June 1999 as Finance Director. Previously he was Finance Director at Avonside Group PLC. Prior to that he held senior financial posts in Aggregate Industries and in Blue Circle's French manufacturing operations.

**Steve Corcoran**
**Chief Operating Officer**

Steve Corcoran, aged 43, was appointed to the Board on 1 March 2001. Steve joined the Group in 1990 and was promoted "through the ranks" to become Managing Director of Speedy Hire Centres (Southern) Limited in 1995. He has been in the hire industry for over 20 years.

**Andrew Simpson ACA, BA (Hons)**
**Business Development Director**

Andrew Simpson, aged 36, was appointed to the Board as Business Development Director in August 2003. Prior to that Andrew spent eight years at N M Rothschild and Sons Limited specialising in advising mid cap companies. He has been involved with Speedy Hire in relation to its development over the last five years.

**David Galloway FCA**
**Non-Executive Director**

David Galloway, aged 58, joined the Board in April 2001. During the last 30 years he has held a number of senior operating and financial roles in the hire and leasing industry. He was a Director of RAC Plc from 1996 to 2000. He is currently a Non-Executive Director of Williams Motor Holdings and the Defence Aviation Repair Agency. David is Chairman of the Company's Audit Committee.

## Frank Dee
### Non-Executive Director

Frank Dee, aged 53, joined the Board in April 2001. Frank has spent over 30 years in retailing and was a main Board Director at Hillards Plc and William Jackson and Son. More recently, Frank was one of the principal shareholders in Day and Nite Stores Limited which was sold to T and S Stores (now a subsidiary of Tesco plc) in May 2000. He is Non-Executive Chairman of Chasemount Limited and a Non-Executive Director of Leeds and Holbeck Building Society. Frank is Chairman of the Company's Remuneration Committee and is also the Company's Senior Independent Non-Executive Director.

## Michael McGrath LLB (Hons)
### Company Secretary

Mike McGrath, aged 37, was appointed as Company Secretary in August 2001. He is a partner in Pinsents, the Company's solicitors, and has advised the Company in relation to the majority of its hire acquisitions over the last 11 years.

**The Board**

Structuring and shaping a Board which is relevant for both current and future needs is an ongoing challenge for any company Chairman. Core skills have to be assessed and complemented with different skills, within both executive and non-executive teams.

The executive team has been augmented during the course of the year with the role of Business Development Director. This has added another dimension to the team, with strategic initiatives to grow the business and improve efficiency and returns. I am confident we have a very strong team for the future.

Our non-executives are a constant support, bringing as they do a different dimension of skills to the Board. We all attempt to constructively challenge management, whether on strategic, structural or operational aspects of the organisation. Time commitment is never an issue. We all spend time in the business visiting depots, regional offices and central support people, seeing first hand how the business really works. We meet formally twice a year without any executive management presence to assess progress.

I am keen that the Plc Board and its role is understood throughout the business. To develop this understanding, a Divisional MD or functional head, such as Marketing, IT or Health and Safety, is invited to give a presentation to the Board each time it meets.

The entire Board meets once a year for a two-day session devoted solely to strategy. This continues to be very successful. An excellent recent innovation has been a formal Board Evaluation Questionnaire. Responses were co-ordinated by the Company Secretary and a number of points identified for improvement in the Board process. The Senior Independent Director used this methodology to appraise my own performance.

I can only conclude that we have a Board consisting of strong individuals, who are able to express diverse views within a process that encourages robust debate. Given that this takes place in a very enjoyable atmosphere makes it an honour to chair the Board of Speedy Hire.

David Wallis
Chairman

**Audit Committee:**
David Galloway, Frank Dee

**Nominations Committee:**
David Wallis, David Galloway, Frank Dee

**Remuneration Committee:**
Frank Dee, David Wallis, David Galloway

The Directors present their report and the audited consolidated accounts for the year ended 31 March 2004.

**Review of the business and future developments**
A review of the principal activities and progress made by the Group during the year, together with the projects for the Group's business are contained on pages 10 to 18 which should be read as part of this report.

**Results and dividends**
The consolidated profit before taxation for the year was £21,211,000 (2003: £18,207,000) with a taxation charge of £3,601,000 (2003: £4,946,000). An interim dividend of 3.7 pence per share was paid during the year. The Directors propose that a final dividend of 6.8 pence per share be paid, making a total dividend distribution for the year of 10.5 pence per share (2003: 9.0 pence per share).

**Post-balance sheet events**
There have been no significant events since the balance sheet date which would have a material effect on the financial statements.

**Issue of shares**
During the year, the Company issued 52,397 shares to employees under the terms of the Company's existing Savings-Related Share Option Scheme.

**Employment of disabled persons**
The Group recognises its responsibilities towards disabled persons and gives full and fair consideration to applicants in positions suited to their own particular abilities where appropriate openings exist. Where employees become disabled in the course of their employment, every effort is made to provide them with continuing employment.

**Equal opportunities**
In the recruitment of staff and their subsequent career development, individuals are considered having regard to their aptitudes and abilities irrespective of race, sex, marital status or disability.

**Employee involvement**
Internal communication is important for Speedy Hire, as employees carry forward Speedy Hire's knowledge, brand and reputation. Speedy Hire provides opportunities for employees to raise issues and discuss matters of concern with management.

Employees are kept informed of developments within Speedy Hire through various means including road-shows, internal publications, news bulletins and announcements. Various meetings of senior management are held regularly to discuss developing issues.

The Group aims to achieve a shared commitment from all employees to the success of the businesses in which they are employed. The Board believes in the financial effectiveness of incentive bonuses. Accordingly, every person in the Group is a member of some form of incentive scheme. Details of such incentive schemes, including annual bonus arrangements for Executive Directors and Senior Executives, are summarised in the Remuneration Committee's report on page 35.

**Substantial shareholders**
At 1 June 2004, the Company had been notified that the following were interested in 3% or more of the Company's ordinary share capital:

| | Number of 5p Ordinary shares | % |
|---|---|---|
| Schroder Investment Management | 6,840,854 | 16.04 |
| Deutche Bank AG | 4,315,358 | 10.12 |
| Framlington Investment Management Limited | 2,042,000 | 4.79 |
| Gartmore Investment Limited | 2,037,652 | 4.78 |
| Prudential Plc | 1,706,783 | 4.00 |
| Scottish Widows | 1,701,835 | 3.99 |
| Legal & General Plc | 1,697,540 | 3.98 |
| UBS Global Asset Management Ltd | 1,630,380 | 3.82 |

**Payments to suppliers**
It is the Group's policy to make suppliers aware of the terms and conditions upon which the Group will trade with them and to abide by those terms. Codes or standards on payment practice are followed where appropriate. The Group had 58 days of purchases outstanding at the end of the financial year (Company: 26 days).

**Going concern**
After reviewing the Group's budgeted cash flows and having made appropriate enquiries, the Directors have a reasonable expectation that the Company and Group have adequate resources to continue in operation for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements.

**Charitable and political donations**
The Group made charitable donations amounting to £41,000 (2003: £17,000) during the year. Company charitable donations were £28,000 (2003: £6,000). Neither the Group or the Company made any political contributions during the year or the previous year.

**Directors**
The Directors who served during the year and the interests of Directors in the share capital of the Company are set out on pages 40 and 41.

Steve Corcoran and David Galloway are retiring by rotation at the Annual General Meeting and are offering themselves, and are recommended by the Board, for re-election.

Andrew Simpson, was appointed as a Director by the Board on 11 August 2003 and, pursuant to the Company's Articles of Association, will retire and offer himself, and is recommended by the Board, for election at the Annual General Meeting.

No Director had any interest, either during or at the end of the year, in any disclosable contracts or arrangements, other than a contract of service, with the Company or any subsidiary company. No Director had any interest in the shares of any subsidiary company during the year.

**Statement of Directors' responsibilities**
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 the Group and of the profit or loss for that period. In preparing those financial statements, the Directors are required to select suitable accounting policies and then apply them consistently, make judgements and estimates that are reasonable and prudent, state whether applicable 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 Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and prevent and detect fraud and other irregularities.

**Auditors**
KPMG Audit Plc were reappointed at the Annual General Meeting of the Company held on 23 July 2003 and their appointment expires at the conclusion of this year's Annual General Meeting. KPMG Audit Plc offer themselves, and are recommended by the Board, for reappointment under the provisions of Section 385 of the Companies Act 1985.

**Annual General Meeting**
The Company's Annual General Meeting will be held at The Thistle Hotel, Haydock, St Helens, WA11 9SG on Wednesday 21 July 2004. A formal notice of meeting, an explanatory circular and a form of proxy have each been sent to shareholders.

By order of the Board

N C O'Brien
Director
3 June 2004

Speedy Hire takes its broader responsibilities very seriously. These responsibilities extend to Health and Safety, the environment, people (our own employees, those of our customers and those who may be affected by our activities), the local community, our reputation and our investors.

Our values are encapsulated in the Speedy Hire culture, which has developed through example set over many years. This is to be open and honest in our dealings and deliver value to all our stakeholders by having high ethical standards and integrity on issues such as conflicts of interest, the acceptance or giving of gifts and entertainment and the exchange of confidential information.

**Health and Safety**

- **Health and Safety is a core skill**
- **Meetings held regularly throughout the Group**
- **£1.4 million spend, including education and training**
- **Accidents analysed and improvement targets set**
- **HAVS training package launched**
- **Audit control measures on vehicle safety checks**
- **Work at Height brochure produced**
- **Active representation at Health and Safety exhibitions.**

One of the core skills of Speedy Hire is Health and Safety. This is an increasingly important reason why our customers hire from us, rather than purchase equipment themselves. Therefore, a firm commitment to the Health and Safety of our employees, customers and all others who may be affected by our activities is integral to the successful operation of the business. We recognise that we must promote a sound Health and Safety culture and we acknowledge the need for personal accountability, throughout our organisation. Health and Safety is always the first item on the agenda within Speedy Hire's operating companies.

Steve Corcoran, the Group's Chief Operating Officer, is the Director responsible for Health and Safety issues. Steve is supported by Mark Turnbull, who has had over 25 years' experience in the tool hire industry, and sits on the Operating Board of the Group as Director responsible for Health, Safety and Training. Mark is supported by a Health and Safety Manager for each operating company. In the financial year to March 2004, we spent over £1.4 million on Health and Safety issues, including education and training.

Health and Safety meetings are held regularly throughout the Group to review performance, monitor compliance with legislation, investigate accidents and identify trends. Findings are regularly reported to the Group Board. If, as a result, existing Health and Safety procedures are modified, our workforce is directly consulted and constructive feedback actively encouraged.

Accidents within the core business are analysed and are reported upon. The accompanying tables show this analysis. The accident trend remains stable, with the increase in the number of reportable incidents more or less tracking the increase in the number of employees. Clear targets have been set for the coming year, albeit it may be some time before the trend turns down as a result of continuing improvements in the reporting of accidents.

Regular inspections by line management and senior workshop staff ensure that performance standards are maintained. A team of "mystery shoppers" reporting directly to Divisional Managing Directors conducts independent inspection of hire fleet equipment.

Speedy Hire is an active member of the tool hire trade association, the Hire Association of Europe, and is represented on the HAE Health and Safety Consultation Group.

Over the past year, there have been a number of Health and Safety initiatives, three of which are particularly worthy of note.

| Reported Incidents | 2004 | 2003 | 2002 |
|---|---|---|---|
| Handling/lifting/carrying | **187** | 175 | 171 |
| Struck by object | **64** | 63 | 51 |
| Contact with tools | **90** | 51 | 58 |
| Slip/trip/fall | **60** | 43 | 45 |
| Fall from height | **19** | 7 | 11 |
| Struck by vehicle | **0** | 0 | 3 |
| Other | **40** | 33 | 55 |
| Total | **460** | 372 | 394 |
| Number of employees | **2,426** | 2,015 | 1,918 |
| All Accident Frequency Rate | **9.65** | 9.09 | 9.86 |
| Reportable Accident Frequency Rate | **1.69** | 1.11 | 0.96 |
| Major Accident Frequency Rate | **0.27** | 0.26 | n/a |

* All frequency rates are calculated on this basis: $\frac{\text{Number of accidents} \times 100}{\text{Number of hours worked}}$

A Hand Arm Vibration Syndrome ("HAVS") package was launched at Interbuild. This is the first time that all sectors of the industry have co-operated to produce an integrated training package, pending new legislation due in July 2005. The construction industry has been consulted about its requirements, the manufacturers have been consulted about the most practical means of product identification, while Speedy Hire, acting as the catalyst for the initiative, formed a working group organised and chaired by Mark Turnbull. Based upon information provided by the manufacturer, tools will be identified with red, amber or green labels, giving guidance on the maximum daily usage time for each piece of equipment. The aim of this training package is to increase awareness of the symptoms and potential severity of HAVS and advise, in layman's terms, on the best way to avoid exposure to harmful levels of vibration.

Speedy Hire has always prided itself on having a modern fleet of delivery vehicles. It is our policy to replace vans after 30 months. Nevertheless, specific audit control measures have been introduced and vehicle safety checks are now included in the responsibilities of Health and Safety Managers.

A Work at Height brochure is being produced in conjunction with Kier Group with the objective of ensuring that all users of such equipment are aware of their legal responsibilities and the requirements of the proposed regulations, which are due to come into force towards the end of 2004. The brochure offers guidance on risk assessment, inspection procedures before use and alternatives to ladders as a work platform. Above all, it will help Speedy Hire's employees to recommend the safest and the most suitable equipment for the job in hand.

**Environmental policy**

- **Effective Environmental Policy**
- **Member of EPIC**
- **Control measures subject to weekly/monthly audit**
- **Waste oil/batteries recycled**
- **Intelligent wash down station being assessed**
- **Initiatives on environmental impact of vehicles.**

Speedy Hire continues to develop an effective environmental policy. This has been codified and is available in full on our website www.speedyhire.plc.uk. Responsibility for this rests with Steve Corcoran at Plc Board level and Mark Turnbull at Operating Board level.

There have been several environmental initiatives over the course of the last year. Speedy Hire is a member of EPIC, the Environmental Performance Improvement Club, with the aim of improving environmental performance along the supply chain. This is strongly supported by various government agencies. EPIC's clear objective is to determine the most effective way of measuring and monitoring environmental performance to better evaluate and improve the control of environmental risks.

Environmental control measures are now included on the weekly checklist for Depot Managers and are verified monthly by regional managers. Successful implementation of these measures will lay the foundation for targets for improvement.

All waste oil from plant and equipment is collected for recycling, as are spent batteries. In both cases Speedy Hire is seeking to negotiate a national contract for their collection, ensuring consistency and measurability of the service.

Many tools have to be washed down after use, before being passed as fit for re-hire. An environmentally intelligent wash down station is currently being assessed. This provides an efficient means of cleaning tools whilst avoiding soil pollution or the accidental contamination of drains, streams and watercourses, by filtering the contaminated water and separating particle matter and oil contaminants.

We are aware of the need to preserve and protect the environment and pursue policies that aim to meet these objectives. Fuel consumption and tyre wear on both vehicles and equipment is closely monitored. Working closely with Michelin, tyre spend is now budgeted by vehicle, with random inspections made across the network. Michelin have conducted workshops demonstrating that a tyre under-inflated by 20% increases fuel consumption by 2% and shortens the life of the tyre by 26%. Additionally, all new vehicles as well as already carrying a very high safety specification, will in future be fitted with speed restrictors, thus further reducing fuel consumption.

**People and training**

- **Paid training courses, with regular updates**
- **PASMA members**
- **Customer training initiatives**
- **Defensive driving/safety awareness courses for drivers.**

As effective training is essential to ensure the safety of our workforce, all new employees are entitled to 5 days paid training in their first year of employment. This includes a manual handling course, developed in conjunction with St John Ambulance. We are one of only a handful of commercial organisations permitted to display the St John Ambulance device on our manual handling training material.

If our customers request training in the use of specialist equipment, we enlist the support of our suppliers to help us develop suitable and effective courses. As members of PASMA (The Prefabricated Access Suppliers' and Manufacturers' Association), we offer training in the safe erection of mobile access towers and have pioneered the development of a new PASMA course covering the safety inspection of access towers.

In light of ever increasing concern over the effects of Hand Arm Vibration Syndrome (Vibration White Finger), it is our policy to purchase low vibration equipment. Along with several manufacturers and major customers, we are involved in the Government's Working Well Together Campaign to train operatives to recognise and avoid the hazards of using vibrating hand held equipment.

As road safety is a high priority, we are implementing defensive driving and safety awareness courses for drivers of company vehicles. Safety considerations influence the selection and specification of our fleet of delivery vehicles. An improved claims record has resulted in the reduction in the premium for commercial vehicle insurance for the year 2004/5.

**Local involvement**

- **Ten charities nominated each year**
- **Local community initiatives**
- **Member of Lighthouse Club.**

Speedy Hire supports ten charities each year. People at all levels within the business choose the charities annually and as such, the list rotates.

We have long supported local community initiatives. This support is provided through sponsorship of a wide variety of local sports teams of all kinds at both youth and adult level, through providing the subsidised hire of tools to local charities, community groups, cub scouts, sports clubs and the like.

Speedy Hire is a corporate member of the Lighthouse Club — a charity dedicated to the support of construction industry employees and their dependants. As such we arrange a variety of fund raising events.

**Reputation**

- **Daily challenge to build and maintain reputation**
- **FTSE4Good original constituent**
- **Robust CSR programme**
- **Recognition of wider responsibilities.**

Speedy Hire has built its reputation over many years of conducting its business in an honest and straightforward way. Continuing to build that reputation is a daily challenge for every individual in the Company — making sure that no-one does anything which will harm that hard won reputation, because of a failure in standards, whether it be the structure of the Board, employment policies, ethics or environmental policy.

We are proud to have been included as an original constituent of the "FTSE4Good" Index and delighted to once again have been included. The selection criteria are based on internationally accepted codes of conduct for companies to use in developing socially responsible policies and practices.

Speedy Hire's standards of business conduct are embedded in the culture of the Group. Being seen by our shareholders, customers and employees as having a robust Corporate and Social Responsibility programme brings undoubted commercial advantages.

We all recognise that our wider responsibilities are constantly evolving, but we are pleased to have reached the point where we have identified areas where improvement is necessary. We are developing plans to address these areas and are devising means of measurement. We have a clear objective of continuing to build our reputation.

## Highlights

**Compliant with new Combined Code a year early**

**Risk management procedures exceed standards expected of similar sized companies in independent review by Marsh**

**Chairman no longer a member of the Audit Committee in accordance with Smith Guidance**

**Combined Code Compliance Statement, including terms of reference of the Board and each Committee, available on the Company's website**

**Existing Non-Executive Directors starting second three-year terms**

The Board is committed to maintaining high standards of Corporate Governance. Accordingly, the Board has taken the decision to report against the new Combined Code appended to the Listing Rules of the UK Listing Authority notwithstanding that, in the circumstances that the new Combined Code applies to financial years beginning on or after 1 November 2003, strictly speaking the new Combined Code does not apply to the Company until next year.

Accordingly, the following paragraphs explain how the Company has applied the principles of good governance and code of best practice set out in both the old and the new Combined Codes. Throughout the year ended 31 March 2004, the Company has been in compliance with the provisions set out in both the old Combined Code and, subject to the change in the constitution of the Audit Committee referred to below, the new Combined Code.

**Directors**

The Board

The Board normally meets at least ten times per annum for scheduled Board meetings including an off-site meeting solely to discuss strategy. The Board also meets as required on an ad hoc basis to deal with urgent business, including the consideration and approval of transactions. The table below lists the number of Board meetings, Board Committee meetings and Directors' attendance during the year.

| | Plc Board | Audit Committee | Remuneration Committee | Nomination Committee |
|---|---|---|---|---|
| David Wallis | 10 | 4 | 4 | 2 |
| Frank Dee | 10 | 4 | 4 | 2 |
| David Galloway | 10 | 4 | 4 | 2 |
| John Brown | 10 | 4* | 4* | 1* |
| Steve Corcoran | 10 | | | |
| Neil O'Brien | 10 | 4* | | |
| Andrew Simpson (appointed 11 August 2003) | 5 | | | |

* by invitation

The Board has approved a schedule of matters reserved for decision by it. This schedule, which forms part of a Combined Code Compliance Statement formally adopted by the Board, is available for inspection at the Company's registered office and on the Company's website www.speedyhire.plc.uk. The matters reserved for specific approval by the Board can be subdivided into a number of key areas including but not limited to:

- Financial reporting (including the approval of interim and final financial statements and dividend policy/declaration);
- The Group's finance, banking and capital structure arrangements;
- Group strategy and transactions;
- Stock Exchange/Listing Authority matters (including the issue of shares, the approval of circulars and communications to the market);
- Approval of the policies and framework in relation to remuneration across the Group (following appropriate recommendations from the Remuneration Committee);
- Approval of the Group's risk management and control framework (following appropriate recommendations from the Audit Committee);
- The constitution of the Board itself, including its various Committees, and succession planning (following appropriate recommendations from the Nominations Committee);
- Approving the Group's policies in relation to, *inter alia*, the environment, Health and Safety and corporate and social responsibility.

Matters requiring Board and Committee approval are generally the subject of a proposal by the Executive Directors submitted to the Board, together with supporting information, as part of the Board or Committee papers circulated prior to the relevant meeting. The implementation of matters approved by the Board, particularly in relation to matters such as significant acquisitions or other material projects sometimes includes the establishment of a sub-committee comprising at least one Non-Executive Director.

The posts of Chairman and Chief Executive are held by David Wallis and John Brown respectively. The Board includes three independent Non-Executive Directors, the Chairman, Frank Dee and David Galloway, who together bring a strong and independent Non-Executive element to the Board. The Senior Independent Director is Frank Dee.

The Audit Committee is chaired by David Galloway. Its other member is Frank Dee, David Wallis having ceased to be a member of the Committee since the year end in accordance with the Smith Guidance on Audit Committees.

The Remuneration Committee comprises the three Non-Executive Directors and is chaired by Frank Dee. The Nominations Committee comprises the three Non-Executive Directors and is chaired by David Wallis. John Brown, the Chief Executive, attends meetings of the Nominations Committee by invitation as the independent Directors feel that it would be inappropriate not to draw on the many years of accumulated experience in the tool hire industry of the Chief Executive in connection with succession planning issues.

The Chairman and other Non-Executive Directors meet at least twice a year without the Executive Directors present. In addition, the Chairman regularly briefs the other Non-Executive Directors on relevant developments regarding the Company and Group as necessary. The Senior Independent Director, Frank Dee, and David Galloway meet at least annually without the Chairman present to appraise the Chairman's performance as part of the overall Board annual appraisal process.

The minutes of all meetings of the Board and each Committee are taken by the Company Secretary. In addition to constituting a record of decisions taken, minutes reflect questions raised by the Directors relating to the Company's businesses and, in particular, issues raised from the monthly reports included in the Board or Committee papers circulated prior to the relevant meeting. Any unresolved concerns are recorded in the minutes.

On resignation, concerns (if any) raised by an outgoing Non-Executive Director are circulated by the Chairman to the remaining members of the Board.

Appropriate Directors' and Officers' insurance cover is arranged and maintained via the Company's insurance brokers, Marsh, and its terms are reviewed annually.

Chairman and Chief Executive
A statement as to the division of the responsibilities of the Chairman and Chief Executive is included in the Combined Code Compliance Statement formally adopted by the Board referred to above. The Board considers that the Chairman on his appointment met and continues to meet the independent criteria set out in paragraph A3.1 of the new Combined Code. It is the policy of the Board that the Chief Executive should not go on to become Chairman.

Board balance and independence
The Board considers that all of the Non-Executive Directors are independent, on the basis of the criteria specified in paragraph A3.1 of the new Combined Code and generally, and are free from any business or other relationship which could materially interfere with the exercise of their independent judgement. Currently there are three Non-Executive Directors on the Board (out of a total of seven Directors) and their respective experience, details of which are set out on pages 22 and 23, clearly indicates that they are of sufficient calibre and number for their views to carry appropriate weight in the Board's decisions. The Company satisfies the requirements relevant to a smaller company in having at least two independent Non-Executive Directors. The Senior Independent Director, Frank Dee, is available to shareholders if they have concerns which contact through the normal channels of Chief Executive, Chairman or Finance Director fail to resolve, or for which such contact is inappropriate.

Appointments to the Board
The Board has established a Nominations Committee. Its terms of reference are also included in the Combined Code Compliance Statement referred to above. The Committee meets formally as necessary, but at least once a year and met twice during 2003/4. The principal functions of the Nominations Committee are also to consider and review the structure and composition of the Board and membership of Board Committees. It considers candidates for Board nomination at both Plc and operating level, including job description, re-election to the Board for those candidates retiring by rotation and succession planning generally. A specification for the role of Chairman, including anticipated time commitment, is included as part of the written statement of division of responsibilities between Chairman and Chief Executive. Details of the Chairman's other material commitments are disclosed to the Board in advance and included in a register of the same maintained by the Company Secretary.

The terms and conditions of appointment of all the Non-Executive Directors, including those of the Chairman, are available for inspection at the Company's registered office during normal business hours. Each letter of appointment specifies the anticipated level of time commitment including, where relevant, additional responsibilities derived from involvement with the Audit, Remuneration or Nomination Committees. Details of other material commitments are disclosed to the Board and a register of the same maintained by the Company Secretary.

None of the Directors is a Non-Executive Director/Chairman of a FTSE 100 Company.

A key recommendation during the year was that, as a result of the forthcoming retirement of the Chief Executive, the Board should be strengthened with a candidate bringing strategic outlook, process and analytical skills to complement the essential entrepreneurial skills of the executive management. In drawing up the specification of the candidate, it became apparent that a member of the Group's advisory team, Andrew Simpson, fulfilled the relevant criteria, whereby he was approached to join the business and agreement reached. The position was not therefore formally advertised.

Information and professional development
Before each scheduled Board meeting, all Directors receive appropriate information regarding the Group comprising a financial report and briefings from senior executives. The Chief Executive also briefs Directors on results, key issues and strategy. During Board Meetings, the Non-Executives regularly make further enquiries of the Executive Directors and seek further information which is provided either at the relevant meeting or subsequently.

A monthly information pack is compiled on market data, including information and activity in relation to competitors and the construction industry generally. This information is drawn from a number of respected sources and provides a current, constantly updated summary of trends in the Group's market.

The Board offers appropriate training to any Director whose appointment to the Board is the first appointment of that Director to the Board of a listed company. The Board also recognises the importance of ongoing training and education, particularly regarding new laws and regulations which relate to or affect the Group. Such training and education is obtained by the Directors individually through the Company or through other companies of which they are Directors.

The Chief Operating Officer, Finance Director and Business Development Director each have a business coach to help with their overall development as business leaders. The Chief Operating Officer completed a course during the year on strategic management at Ashridge Management College. In addition, an ongoing training programme has been developed in conjunction with the Institute of Directors for members of operating management.

All the Non-Executive Directors have, during the course of the year, attended briefings and seminars relevant to their role, including updates on best practice in audit and remuneration issues and economic affairs in general, as well as bringing knowledge and information gathered from their other business interests.

The Chairman and the Company Secretary meet on a regular basis to discuss corporate governance and other issues including, *inter alia*, information flows, induction and training programmes for Directors and operational management.

Procedures are in place to enable Directors to take independent professional advice, if necessary at the Company's expense, in the furtherance of their duties. The procedure to enable such advice to be obtained is included in the Company's Combined Code Compliance Statement.

All Directors have access to the advice and services of the Company Secretary, whose role is to ensure that all procedures are followed and that applicable rules and regulations are complied with. The removal of the Company Secretary is a matter specifically reserved for decision by the Board.

Performance evaluation
The Chairman appraises all Board members annually. This takes the form of a review of the degree of success in achieving objectives set for the year and agreeing areas for improvement going forward. Through the Board evaluation process, whereby all members of the Board are invited to submit comments on Board effectiveness, the Senior Independent Director appraises the performance of the Chairman.

Re-election
Under the Company's Articles of Association, all Directors are subject to election by shareholders at the first Annual General Meeting following appointment and all Directors are subject to retirement by rotation provisions requiring re-election at intervals of no more than three years. Sufficient biographical details of all the Directors, including those subject to election or re-election, are included in the Annual Report in order to enable shareholders to take an informed decision on any re-election resolution. The letters of appointment of each of the Non-Executive Directors confirm that appointments are for specified terms of three years (each Non-Executive Director, including the

Chairman, has just commenced a second three-year term) and that reappointment is not automatic. In relation to the proposed reappointment of David Galloway as a Non-Executive Director at this year's Annual General Meeting, the circular accompanying the Notice of Annual General Meeting includes an explanation as to why David Galloway should be re-elected together with confirmation by the Chairman as to his effective performance and demonstrable commitment to the role.

**Directors' remuneration**

The level and make-up of remuneration

The performance-related elements of the remuneration of the Executive Directors form a significant proportion of their total remuneration packages. The performance-related elements of the schemes in which the Executive Directors are entitled to participate are set out in more detail in the Remuneration report. The Remuneration Committee, with the assistance of advice from Watson Wyatt, reviews on a regular basis the Company's Remuneration Policy including the design of performance-related remuneration schemes. Such performance-related elements have been designed with a view to aligning the interests of the Executive Directors with those of shareholders and to incentivise performance at the highest level. The Board's policy is that no executive share options should be offered at a discount save as permitted by the Listing Rules.

Levels of remuneration payable to Non-Executive Directors are regularly benchmarked, with the assistance of external advisers, against companies of a similar size. The levels of remuneration also reflect the time, commitment and responsibilities of each role including, where relevant, Chairmanship of Board Committees. It is the policy of the Board that remuneration for Non-Executive Directors should not include Share Options. The Chief Executive, John Brown, is Non-Executive Chairman of Voller Energy Limited. Details of his earnings from such position, which he is entitled to retain, are included in the Remuneration report. Save in relation to the above, no Executive Director serves as a Non-Executive Director elsewhere.

On a regular basis, the Remuneration Committee, with the assistance of the Company Secretary, considers the compensation commitments the Executive Directors' service contracts would entail in the event of early termination. The Committee also from time to time considers the advantages of liquidated damages clauses in service contracts. In any event, the Committee's policy remains that compensation for termination of the service contract of an Executive Director would not be paid in the case of removal for misconduct and that a robust line should be taken as regards departing Directors' obligations to mitigate loss. The service contracts of all Executive Directors provide for termination by the Company on one year's notice.

Procedure

The Board has constituted a Remuneration Committee. Its terms of reference are included in the Combined Code of Compliance Statement and are compatible with the provisions of paragraph B2.1 of the new Combined Code. The Remuneration Committee consists exclusively of the three Non-Executive Directors who are independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement. The Chief Executive regularly attends by invitation but is not present for discussions relating to his own remuneration. The Remuneration Committee has appointed Watson Wyatt to advise it in relation to the design of appropriate executive remuneration structures. Watson Wyatt has no other connection with the Company.

The responsibilities of the Remuneration Committee include setting remuneration policy, ensuring that remuneration (including pension rights and compensation payments) and the terms of service of the Executive Directors and the tier of operating management immediately below Board level are appropriate and that they are fairly rewarded for the contribution which they make to the Group's overall performance. The Committee is also responsible for the allocation of shares under long term incentive arrangements approved by shareholders and in accordance with agreed criteria. In addition, it monitors current best practice in remuneration and related issues.

The Remuneration of Non-Executive Directors is dealt with by a Committee of the Board specifically established for this purpose comprising the Chief Executive and the Finance Director. The Remuneration of the Non-Executive Directors is the subject of regular benchmarking reviews carried out with the assistance of Watson Wyatt. The latest such review was carried out this year as part of the process by which each of the Non-Executive Directors agreed to serve further three-year terms.

The Board's policy is that all new long-term incentive schemes (as defined in the Listing Rules) and significant changes to existing schemes should be specifically approved by shareholders. In addition, as part of the Company's commitment to transparency as regards its remuneration policy and maintaining a continuous dialogue with shareholders, the Chairman of the Remuneration Committee, Frank Dee, has held discussions with shareholders to take soundings on aspects of the Company's

Remuneration Policy generally and, in particular, the key features of any proposed new long-term incentive arrangements.

**Accountability and audit**

Financial reporting

The Directors' report and Auditors' report appear on pages 24 to 25 and 42 respectively and comply with the provisions of paragraphs C1.1 and C1.2 of the new Combined Code.

Internal control

The Board, via the Audit Committee, conducts a review, at least annually, of the Group's systems of internal controls. Such review, in relation to which the Audit Committee seeks the assistance of KPMG Audit Plc, examines all material controls, including financial, operational and compliance controls and risk management systems. A formal report is prepared by KPMG Audit Plc and reviewed by the Audit Committee in the presence of KPMG Audit Plc, the Chief Executive, the Group Finance Director and the Head of the Group's Internal Audit function. The findings and recommendations of the Committee are then reported to the Board for detailed consideration.

Audit Committee and Auditors

The terms of reference of the Audit Committee are set out in full in the Combined Code Compliance Statement. Such terms of reference are compatible with the provisions of paragraph C.3 of the new Combined Code. The Board is satisfied that the Chairman of the Audit Committee, David Galloway, has appropriate recent and relevant financial experience.

In addition to its work in relation to the Group's systems of internal controls set out above, the Committee is also responsible for reviewing the integrity of the Company's accounts, including the annual and interim results, and recommending their approval to the Board. The Committee's work also includes reviewing the adequacy of the Group's "whistle-blowing" procedures which have been developed in conjunction with the Group's retained security and investigation advisers.

The Committee meets on a regular basis with the external auditors and internal audit function without the Executive Directors being present as appropriate, to review and discuss issues arising from internal and external audits and to agree the scope and planning of future work.

The effectiveness of the Group's internal audit function is one of the matters reviewed in conjunction with KPMG Audit Plc.

The Audit Committee has primary responsibility for making a recommendation on the appointment, reappointment and removal of the external auditors. The policy of the Audit Committee is to ensure auditor objectivity and independence is safeguarded at all times. Specifically, non-audit services, including taxation and consultancy advice and due diligence in relation to significant acquisitions, are routinely put out to tender to other external accounting firms. Accordingly, the Audit Committee considers that the Company's auditors are independent.

**Relations with shareholders**

Dialogue with institutional shareholders

The Chairman routinely attends brokers' and analysts' presentations in relation to the Company's interim and full year results. The Chairman, with assistance from the Company's brokers, collates feedback from such presentations and reports the findings to the next meeting of the Board. The Chairman also maintains a regular dialogue with major shareholders in relation to, *inter alia*, strategy and corporate governance issues. The Senior Independent Director, Frank Dee, is available to and attends sufficient meetings with major shareholders in order to understand their issues and concerns should the normal communication with the Chairman and Chief Executive be ineffective or inappropriate.

Constructive use of the AGM

The Company's AGM procedures indicate, as a matter of course, the level of proxies lodged on each resolution and the balance for and against each resolution after it has been dealt with on a show of hands. It is also the Company's policy to propose a separate resolution at the AGM on each substantive separate issue, including in relation to the report and accounts.

All Committee Chairmen are available at the AGM.

The Company's standard procedure is to arrange the notice of AGM and related papers to be sent to shareholders at least 20 working days before the meeting in compliance with paragraph D2.4 of the new Combined Code.

**Benchmarking of internal control and risk management procedures**

The Board has continued to develop processes for identifying, evaluating and managing significant risks faced by the Group, such that the Group's internal controls as a minimum meet and, in the view of the Board, exceed guidance established by the Turnbull Committee. However, the Group's systems are designed to manage rather than eliminate risk and can only provide reasonable and not absolute assurance against material misstatement or loss.

In each of 2002 and 2003, the Board reported that, in conjunction with specialist risk management consultants, Marsh, it had reviewed 14 discrete areas of risk management within the Group with a view to benchmarking the Company against publicly quoted companies of a similar size and to establish areas where, and the means by which, continued improvements to its risk management systems could be made. A further review has been carried out this year to monitor the Group's continued progress.

The principal areas of risk reviewed by the Board and Marsh on a regular basis include:

- Business strategy
- Corporate governance
- Risk financing and claims management
- Marketing, brand and reputation
- Health and Safety management
- Environmental management
- Absence management
- Fleet risk management
- Product liability
- Property protection
- Business continuity management
- Computer dependency
- Human resources
- Credit and political risk

This year's review by Marsh has concluded that the Group continues to make good progress in all the areas referred to above and that the Group's risk management systems continue to exceed the standard expected in public companies of a similar size. It is the Board's intention to continue this benchmarking exercise.

You will see from the report which follows that this has been a busy year for the Remuneration Committee. The mass of regulation to which the Committee is subject means that this year's report is, I'm afraid, longer than ever. However, I hope the key highlights opposite will assist shareholders' understanding of the Committee's key objectives.

I am again keen to encourage an ongoing dialogue with shareholders. Accordingly, please feel free to contact me, either by writing to me at the Company's head office or by e-mail at fdee@speedyhire.plc.uk, if you would like to discuss any matters arising from this report or remuneration issues generally.

Frank Dee
Chairman,
Remuneration Committee

## Highlights

**Executive Directors' basic salary not increased compared with average increases across the Group of 3%**

**Existing LTIP maturing this year a great success with anticipated vesting at 93% of maximum, reflecting strong EPS and TSR performance**

**New Incentive Plans proposed, subject to shareholders' approval, building on the success of the existing LTIP designed to provide exceptional awards for exceptional performance on a self-funding basis and to increase equity participation by executives**

**Continuing emphasis on stretching targets from Boardroom to depot**

**New SAYE Scheme proposed to encourage equity participation by all employees**

This report has been prepared by the Remuneration Committee (the "Committee") of Speedy Hire Plc and approved by the Board of Speedy Hire Plc. The report complies with the UK Directors' Remuneration Report Regulations 2002. Information relating to the emoluments and pension contributions of the Directors on pages 40 to 41 and Directors' interests in the Company's existing Long Term Incentive Plan ("LTIP") on page 41 have been audited.

**Remuneration Committee**

The Committee is responsible for recommending to the Board the remuneration (in all its forms), and the terms of the service contracts and all other terms and conditions of employment of the Executive Directors, and for providing advice to the Chief Executive on major policy issues affecting the remuneration of executives at a senior level below the Board.

The members of the Remuneration Committee are, and throughout the year were, the Company's three independent Non-Executive Directors, Frank Dee, David Galloway and David Wallis. The Chairman of the Committee is Frank Dee.

The Committee has appointed Watson Wyatt, an external consultancy firm which has wide experience of executive remuneration in UK listed companies, to advise in developing its performance-related remuneration policy. In particular, the Committee has specifically appointed Watson Wyatt to assist it in developing the terms of the proposed new Long Term Incentive Plan and Share Matching Arrangements which are to be placed before shareholders for approval, full details of which are set out in the accompanying letter to shareholders from the Chairman.

In addition, the Committee has sought advice on a regular basis from the Company's solicitors, Pinsents, in connection with the terms of service contracts for Executive Directors and other members of senior management.

In addition to Watson Wyatt and Pinsents, material advice or services were provided to the Committee during the year by John Brown, Chief Executive, and by Steve Corcoran, Chief Operating Officer. No Director attends a meeting at which his remuneration is reviewed.

**Compliance with the best practice provisions**

The Committee has complied with Schedule A of the old Combined Code — the Principles of Good Governance and Code of Best Practice, issued by the UK Financial Services Authority, during 2003/4.

In relation to the disclosure of Directors' remuneration, the Company has also complied with Schedule B of the old Combined Code.

In accordance with the Board's commitment to maintaining high standards of corporate governance and its decision to report against the provisions against the new Combined Code, the Committee has also complied during the year with Schedule A of the new Combined Code (provisions on the design of performance related remuneration), save to the extent that the existing LTIP approved by the shareholders in August 2001 has not been operated in a way which reflects new best practice regarding the phasing of grants as set out in paragraph 5 of Schedule A.

**Remuneration policy**
The remuneration policy, which applies to the 2004/5 financial year and future years, is as follows:

In determining its policy on senior executive remuneration, including that of the Directors, the Committee's principal objectives are to attract, retain and motivate people of the highest calibre and experience needed to shape and execute the strategy and deliver shareholder value in the context of an ever more competitive employment market.

The Committee also has regard to, and balances as far as is practicable, the following objectives:

- to ensure that it encourages optimum performance by Directors and fairly recognises the contribution of individual Directors to the attainment of the results of Speedy Hire whilst also encouraging a team approach which will work towards achieving the long term strategic objectives of Speedy Hire;

- to link reward to individual Directors' performance and Group performance so as to align the interests of the Directors with Speedy Hire's shareholders;

- to ensure that it maintains a competitive package of pay and benefits, commensurate with comparable packages available within other similar companies operating in similar markets; and

- to be mindful of the link between Directors' remuneration and others in the Group.

In order to meet the above objectives, the remuneration of Executive Directors comprises a balance between "fixed" remuneration and "variable performance-related" incentives. Remuneration presently consists of the following elements:

**(1) Basic remuneration**
Basic remuneration is determined annually by the Remuneration Committee and takes into account that part of the Group's assets under the individual's control, past performance of the individual and comparative information from independent sources, including Watson Wyatt, on the rates of salary in a selected group of comparable companies.

For the current year, and against the background of the proposed new incentive arrangements for Executive Directors described later in this report, the basic salary of Executive Directors has not been increased. This is in the context of average increases to basic remuneration across the Group of approximately 3%. The Committee's position on this issue is fully supported by the Board.

**(2) Annual bonus**
The Committee believes firmly in the financial effectiveness of incentive bonuses. Accordingly, every employee in the Group is in some form of incentive scheme.

At the start of each financial year each subsidiary company in the Group is set a number of challenging financial targets relating to, *inter alia*, profit performance, capital efficiency and debtor control. The targets also reflect the degree of risk associated with the subsidiary's business and, where appropriate, specific key non-financial performance indicators consistent with the Group's Health and Safety, environmental and other policies. If the above targets are exceeded, a progressively increasing proportion of the excess is allocated to a bonus pool relating to that subsidiary company.

Bonuses paid to Executive Directors and senior management based at head office are set on a similar basis to the subsidiaries but are linked to Group performance.

Individual bonuses for Executive Directors and senior management are capped. The relationship between individual bonus arrangements and the Co-Investment Plan to be proposed for approval at this year's Annual General Meeting is described in more detail later in this report.

Non-Executive Directors do not receive a bonus.

**(3) Existing Long-Term Incentive Plan**
At the Annual General Meeting held in July 2001, the Board gained shareholder approval to initiate an LTIP in which the Executive Directors and a further eight Operating Board Directors participate. An award under the LTIP is dependent on:

- growth in earnings per share ("EPS"); and

- comparison of Total Shareholder Return ("TSR") with the performance achieved by companies comprising the

FTSE 350, assuming dividends were reinvested

for a three-year period commencing on 2 April 2001.

The Committee selected the above performance measures as it believed that, following the restructuring of the Group's activities in 2000, senior management should be set a challenging combination of EPS and TSR targets to provide growth for shareholders. The FTSE 350 was selected as other comparator groups, including in particular companies in the same sector, were judged too narrow a measure for the purposes of ensuring shareholders' best interests were served.

The percentage of the award which vests is set out in the table below, for which purpose:

- x is the ranking of Speedy Hire in a list of FTSE 350 companies (excluding investment trusts) ranked according to growth in TSR over the performance period; and
- y is the pro forma earnings per share of the Group for the last financial year of the performance period, such figure to be confirmed by the auditors and approved by the Committee.

Graphs showing Speedy Hire's performance are shown later in this report.

On the basis of advice received by the Committee from Watson Wyatt (in relation to the TSR measure) and the Company's auditors (in relation to the earnings per share measure) it is anticipated that approximately 93% of the maximum award possible under the existing LTIP will vest later in the year, reflecting the Group's exceptionally strong performance over the three year performance period which ended on 31 March 2004.

| y\x | Company in top 60% | Company in top 50% | Company in top 40% |
|---|---|---|---|
| 24p | 20% | 40% | 60% |
| 28p | 30% | 50% | 70% |
| 32p | 40% | 60% | 80% |
| 36p | 50% | 70% | 90% |
| 40p | 60% | 80% | 100% |

Details of the number of shares which it is anticipated will be awarded to Executive Directors under the existing LTIP are included in the table of Directors' share interests later in this report.

Speedy Hire has not granted any discretionary share options other than in respect of the LTIP arrangements set out above.

**(4) Benefits in kind**

The Group operates a policy whereby Executive Directors and senior management are offered a car or cash alternative, as appropriate, health and life cover and defined pension contributions of between 10% and 20% of basic remuneration based on length of service.

The Group does not operate a defined benefit pension scheme and has no plans to introduce such a scheme.

**Basis of comparison**

In assessing all aspects of pay and benefits, Speedy Hire compares the packages offered by similar companies and other benchmarks, such as the Watson Wyatt Manufacturing Distribution and Services Survey (a live database which is continuously updated) and the Watson Wyatt Executive Reward Survey and associated Grading System.

**Proposed New Executive Incentive Plans**
In the light of the success of the existing LTIP in incentivising Executive Directors and senior management, the Remuneration Committee is keen to introduce appropriate new performance-based arrangements, including equity plans. Accordingly, shareholders' approval is to be sought at the Annual General Meeting in July, to the new plans which are summarised below and described in more detail in the circular to shareholders accompanying this document.

**Objectives of the New Executive Incentive Plans**
In line with the overall remuneration policy of the Committee described at the beginning of this report, the objectives of the proposed new incentive arrangements are:

- to support the Company's strong performance culture and provide exceptional rewards for exceptional performance
- to provide a competitive total compensation package
- to link reward to Group performance so as to align the interests of executives with Speedy Hire's shareholders
- to create an expectation of ownership on the part of executives in accordance with shareholding guidelines established by the Committee requiring Executive Directors to hold shares in the Company of the value equivalent to not less than 100% of basic annual salary.

With this mind, the following proposals have been formulated by the Committee with the assistance of Watson Wyatt and Pinsents:

**Performance Plan**
The Committee wishes to propose a new performance share plan ("the Performance Plan"), the key features of which will be as follows:

- Annual awards to be made to executives, each award by reference to a three year performance period.
- Maximum annual awards to equal 100% of basic salary in each year.
- Comparative TSR will be the primary performance measure using the FTSE 250 (excluding investment trusts) as the comparator group. In addition, the performance measures will include an earnings per share growth underpin with a hurdle of CPI (Consumer Price Index) plus 2% per annum compound before vesting commences.
- Vesting of awards will commence at median performance, when 20% will vest, with straight line vesting to upper quartile performance, at which point the maximum entitlement will vest.

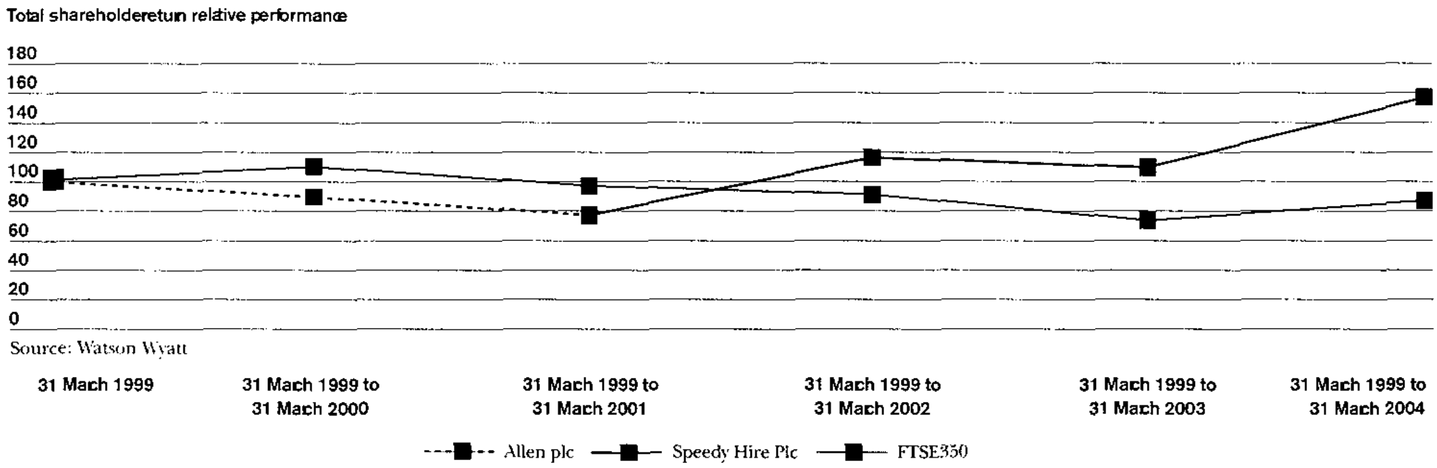
**Co-Investment Plan**
In addition to the above, the Committee proposes a co-investment/deferred bonus plan ("the Co-Investment Plan"), the key features of which will be as follows:

- Performance-related annual bonuses will increase from their maximum current levels of 50% to 100% of basic salary for the Executive Directors, subject to meeting stretching performance criteria.
- Executives must defer any amount of bonus awarded in excess of 50% of basic salary, and may defer up to 100% at the executive's option.
- Deferral will be for three years.
- Matching shares will be awarded by the Remuneration Committee at the end of the three year deferral period and will only vest if pre-determined performance criteria are satisfied. The maximum matching, which will only be awarded for exceptional performance, will be on a 2:1, or 200%, basis.
- Performance targets will be based on both earnings per share growth and relative TSR performance over the deferral period. To obtain maximum matching, earnings per share growth must be greater than or equal to CPI plus 12.5% per annum calculated on a compound basis.

Both the Performance Plan and the Co-Investment Plan are designed to be self-funding.

**New SAYE Scheme**
The Committee also wishes shareholders to approve the adoption of a new three year Save As You Earn (SAYE) scheme available to all employees of the Group in order to continue to encourage employees to invest in the Company's shares. The proposed new scheme will replace a similar scheme adopted in 1998 which is to mature shortly.

The operation of each of the proposed new Plans will be supervised by the Remuneration Committee which, in accordance with best practice and as set out in the Corporate governance report on pages 29 to 34, consists entirely of independent Non-Executive Directors.




**Total shareholder return**

The above graph shows Speedy Hire's performance, measured by TSR, compared with the performance of the FTSE 350 Index also measured by TSR. The graph illustrates the movement of Speedy Hire's TSR, assuming dividends are reinvested on the ex-dividend date against that of the FTSE 350 Index since 31 March 1998. The FTSE 350 Index was believed by the Board when the existing LTIP was proposed in 2001 to be the relevant index for comparison purposes and provides consistency with the performance measurement of the Group for the purposes of the existing LTIP.

**Service contracts**

The service contracts of all Executive Directors provide for termination of employment by giving 12 months' notice or by making a payment of an amount equal to 12 months' basic salary and pension contributions in lieu of notice together with any accrued bonus entitlement. It is the Committee's policy that no Executive Director should be entitled to a notice period or payment on termination of employment in excess of such levels. In determining amounts payable on termination, the Committee also considers, where it is able to do so, appropriate adjustments to take into account accelerated receipt and the executive's duty to mitigate his loss.

John Brown's service contract does not require him to mitigate his loss in the event of termination. The service contracts in relation to each of Steve Corcoran, Neil O'Brien and Andrew Simpson contain express provisions relating to their duty to mitigate their loss and for accelerated receipt in the event of termination.

Save as set out above, no Executive Director has the benefit of provisions in his service contract for the payment of pre-determined compensation in the event of termination of employment.

The execution dates of the current service contracts of the Executive Directors are set out below:

| Executive | Contract Date |
|---|---|
| J E Brown | 14 June 1989 |
| S J Corcoran | 7 January 2002 |
| N C O'Brien | 15 January 2002 |
| A C Simpson | 17 November 2003 |

**Remuneration of Non-Executive Directors**

The remuneration of the Non-Executive Directors is determined by the Board in the absence of the Non-Executive Directors. The policy of the Board is that the remuneration of the Non-Executive Directors should be consistent with the levels of remuneration paid by companies of a similar size and have due regard to their expected time commitment in performing their duties. The levels of non-executive remuneration were the subject of a benchmarking exercise, carried out with the assistance of Watson Wyatt, during the year as part of the process by which each Non-Executive Director was reappointed for a further three-year term. Non-Executive Directors receive an annual fee and are reimbursed expenses incurred in attending meetings. They do not receive any performance related bonuses, pension contributions, share options or other forms of benefit.

The Non-Executive Directors do not have contracts of service but, in each case, are subject to letters of appointment which are for three year terms which in each case commenced on 1 April 2004, subject to earlier termination by three months' notice on either side. The letters of appointment, copies of which are available for inspection at the Company's registered office during normal business hours, specify an anticipated time commitment of 50 days per annum in relation to David Wallis and 18 days per annum in the case of each of Frank Dee and David Galloway.

**Emoluments of the Directors**

The emoluments of the Directors of Speedy Hire Plc were as follows:

(a) Aggregate emoluments

| | **2004 £'000** | 2003 £'000 |
|---|---|---|
| Salaries and fees | **889** | 664 |
| Benefits | **93** | 33 |
| Annual performance-related bonuses | **455** | 284 |
| Pension contributions | **115** | 74 |
| Total | **1,552** | 1,055 |

During the year, payments of £5,000 and £1,000 respectively were made to each of Ken Fox and Donald Greenhalgh, former Directors of the Company, in accordance with consultancy agreements made with them in 2001. Both such agreements expire in 2005. Payments of £16,000 were made to the widow of a former Director (2003: £16,000).

(b) Payments to Executive Directors

| | Salaries and fees | | | | | Pension Contributions | |
|---|---|---|---|---|---|---|---|
| | Salary £'000 | Benefits £'000 | Bonus £'000 | **Total 2004 £'000** | Total 2003 £'000 | **2004 £'000** | 2003 £'000 |
| J E Brown | 299 | 11 | 150 | **460** | 403 | **60** | 41 |
| S J Corcoran | 200 | 10 | 100 | **310** | 280 | **24** | 19 |
| N C O'Brien | 150 | 10 | 75 | **235** | 202 | **13** | 14 |
| A C Simpson (appointed 11 August 2003) | 135 | 62 | 130 | **327** | nil | **18** | nil |
| Total | 784 | 93 | 455 | **1,332** | 885 | **115** | 74 |

Benefits include a car allowance, medical insurance and life assurance.

John Brown was the highest paid Director in 2003/4.

As part of his appointment arrangements, a one-off payment of £55,000 was made to Andrew Simpson as compensation for benefits relinquished by him as a result of ceasing to be employed by NM Rothschild & Sons Limited.

John Brown was appointed Non-Executive Chairman of Voller Energy Limited in April 2004. The Board have confirmed to John Brown that, as an exception to its usual policy, any Director's fees (the precise amount of which is still to be determined) payable in respect of such appointment may be retained by him.

(c) Pensions

The Committee reviews the pension arrangements for the Executive Directors to ensure that the benefits provided are consistent with those provided by other similar companies.

The Company does not offer a defined benefit pension scheme. Instead, it makes contributions to an approved pension scheme of the Executive Director's choice.

Pensions contributions range between 10% and 20% of basic salary depending on length of service. The amount of pension contributions made in respect of each Executive Director are set out above.

The pension arrangements for all the Executive Directors include life assurance cover whilst in employment, an entitlement to a pension in the event of ill health or disability and, a spouse's and/or dependants' pension on death.

(d) Individual emoluments of Non-Executive Directors

The fees of the Non-Executive Directors are set out below.

| | **2004 £'000** | 2003 £'000 |
|---|---|---|
| D W Wallis | **55** | 50 |
| F R Dee | **25** | 23 |
| D A Galloway | **25** | 23 |
| **Total** | **105** | 96 |

The Directors' fees in relation to each of Frank Dee and David Galloway during the year included a sum of £2,500 paid in respect of the discharge of their duties as chairmen of the Remuneration Committee and Audit Committee respectively. Under their new terms of appointment, and following the benchmarking exercise referred to above, the Directors' fees of David Wallis have been increased to £70,000 per annum and, each of Frank Dee and David Galloway, to £27,000 per annum inclusive of the performance of such duties.

(e) SAYE Scheme
Options were granted in November 1998 over shares in Speedy Hire Plc under the Allen plc (the former name of the Company) Savings Related Share Option Scheme (the "SAYE Scheme") in which all eligible employees were invited to participate. At the end of a pre-determined period, employees have the right, if they choose, to use funds accumulated under the SAYE Scheme, to purchase shares in Speedy Hire Plc at a fixed price of 300 pence per share. No performance targets attach to options granted under this scheme as it is an all employee scheme.

As noted previously, as part of the new share incentive arrangements, shareholders' approval will be sought at the Annual General Meeting for a new SAYE Plan to replace the existing SAYE Scheme.

(f) Options held by Directors
Save in respect of the LTIP described above, no options in the ordinary shares of Speedy Hire Plc were held by Directors at any time during the year under the SAYE Scheme or any other scheme.

**Interests in shares**
The interests of the Directors of Speedy Hire Plc in the issued share capital of Speedy Hire Plc at the beginning and end of the year are shown below.

Any ordinary shares required to fulfil entitlements under nil cost share option grants are provided by an Employee Benefit Trust ("EBT") which holds shares equal to the maximum entitlement of participants. Participants will receive shares dependent upon the performance criteria described earlier in this report, up to the maximum entitlement set out in the table below.

The level of awards which it is anticipated will vest under the LTIP is also shown below. As a potential beneficiary under the EBT, each Executive Director is deemed to be interested in all the shares held by the EBT which, at 31 March 2004, amounted to 1,003,000 Speedy Hire Plc ordinary shares.

There have been no changes in the interests of the Directors in the share capital of Speedy Hire Plc since 31 March 2004.

Approved by the Remuneration Committee and Board of Speedy Hire Plc on 3 June 2004.

Frank Dee
Chairman of the Remuneration Committee

**Speedy Hire Plc ordinary shares**

| | 31 March 2003 Number | **31 March 2004 Number** | Anticipated LTIP Award Number | Award maximum LTIP entitlement Number |
|---|---|---|---|---|
| D W Wallis | 30,000 | **30,000** | nil | nil |
| F R Dee | 30,000 | **30,000** | nil | nil |
| D A Galloway | 12,000 | **12,000** | nil | nil |
| J E Brown | 164,209 | **164,209** | 186,000 | 200,000 |
| S J Corcoran | 16,907 | **16,907** | 120,900 | 130,000 |
| N C O'Brien | 17,600 | **17,600** | 111,600 | 120,000 |
| A C Simpson | Nil | **5,000** | nil | nil |

We have audited the financial statements on pages 43 to 61. We have also audited the information in the directors' remuneration report that is described as having been audited.

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

**Respective responsibilities of directors and auditors**

The directors are responsible for preparing the Annual Report and the directors' remuneration report. As described on page 25, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the group is not disclosed.

We review whether the statement on page 29 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement and the unaudited part of the directors' remuneration report, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

**Basis of audit opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the 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 financial statements and the part of the directors' remuneration report to be audited 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 financial statements and the part of the directors' remuneration report to be audited.

**Opinion**

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 March 2004 and of the profit of the group for the year then ended; and
- the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

3 June 2004
St James Square
Manchester
M2 6DS

**Accounting convention**
The following accounting policies have been applied consistently in dealing with items that are considered material in relation to the Group's financial statements.

The financial statements are prepared under the historical cost convention, as modified by the revaluation of certain tangible fixed assets, and in accordance with applicable accounting standards and the Companies Act 1985 except as stated under investment properties.

The Group has adopted FRS5 Application Note G for the first time in these financial statements. Further details are given in note 1. Comparative information has been restated accordingly.

**Basis of consolidation**
The consolidated profit and loss account and balance sheet include the financial statements of the Company and all of its subsidiaries made up to the balance sheet date.

Unless otherwise stated, the acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

A separate profit and loss account for the Company is not presented, as permitted by Section 230(4) of the Companies Act 1985.

**Turnover**
Turnover represents the invoiced amount of assets hired and goods sold less returns and allowances, and value of work done, exclusive of value added tax.

**Rebates**
Customer volume rebates are charged against turnover in the profit and loss account in the year they are incurred. Supplier rebates are credited over the life of the asset acquired or over the period to which the supply relates.

**2001 Long Term Incentive Plan and Employee Share Scheme**
In accordance with UITF17, a charge is recognised in respect of the cost of the Long Term Incentive Plan, based on the expected performance level attained during the year. No cost is recognised in the profit and loss account for the award to employees of shares in the Company's Inland Revenue approved share savings scheme.

**Taxation**
The charge for taxation is based on the profit for the year and takes into account deferred taxation.

Deferred taxation is provided under the liability method at the appropriate rate of tax in respect of timing differences between profits as computed for tax purposes and profits as stated in the financial statements after discounting at an appropriate discount rate.

**Hire depot costs**
Legal and start-up costs in respect of new hire depots are written off as incurred.

**Goodwill**
The excess of the fair value of purchase consideration and associated costs over the fair value of net assets at the date of acquisition of subsidiary undertakings and businesses acquired after 29 March 1998 is capitalised in the year of acquisition and amortised over its useful economic life. The useful economic life is determined on a case by case basis and ranges from five to ten years. On the subsequent disposal or termination of a business acquired since 29 March 1998, the profit or loss on disposal or termination is calculated after charging the unamortised amount of any related goodwill.
Goodwill on acquisitions prior to 29 March 1998 amounting to £3,940,000 which was previously eliminated against reserves has not been reinstated. On the disposal of subsidiary undertakings, any related goodwill charged directly to reserves prior to 29 March 1998 is reinstated and included in the calculation of the profit or loss on disposal.

**Investment properties**
In accordance with Statement of Standard Accounting Practice No. 19 Accounting for investment properties.

(i) investment properties are revalued annually at open market values. Surpluses and deficits arising and the aggregate of any surplus or deficit are transferred to the revaluation reserve except that any permanent diminuition in the value of an investment property is taken to the profit and loss account for the year; and

(ii) no depreciation or amortisation is provided in respect of freehold investment properties and leasehold investment properties with over 20 years to run.

This treatment, as regards certain of the Group's investment properties, may be a departure from the requirements of the Companies Act concerning depreciation of fixed assets. However, these properties are not held for consumption but for investment and the Directors consider that systematic annual depreciation would be inappropriate. The accounting policy adopted is therefore necessary for the accounts to give a true and fair view. Depreciation or amortisation is only one of the many factors reflected in the annual valuation and the amount which might otherwise have been shown cannot be separately identified or quantified.

**Tangible fixed assets and depreciation**
Tangible fixed assets are stated at cost or valuation less accumulated depreciation.

Depreciation is provided so as to write off the cost or valuation of the assets over their expected useful economic lives, after taking account of estimated residual values.

Tool hire equipment fixed assets that are not capable of individual identification (non-itemised plant) are depreciated so as to write them down to their residual value over their normal working lives which range from three to seven years depending on the category of asset. Losses and disposals of such assets are accounted for on a FIFO basis.

The principal annual rates and methods used are:

Hire equipment

Tools and general equipment — between three and seven years straight line.

Surveying equipment — over five years straight line.

Power equipment — between five and ten years straight line.

Accommodation and storage units — over 12 or 15 years straight line.

Freehold buildings, long leasehold properties and ground rents — over 50 years straight line.

Short leasehold improvements — over the period of the lease.

Fixtures, fittings and office equipment — 25%-45% reducing balance.

IT equipment — over three to five years straight line.

Motor vehicles — 25% reducing balance.

Freehold land is not depreciated.

Prior to the adoption of FRS15, freehold buildings, long leasehold properties and ground rents were regularly revalued. Since the adoption of FRS15, the Group policy has been not to revalue these assets. The transitional rules of FRS15 have been applied and while previous revaluations have been retained, they have not been updated. Details of the last revaluations are given in note 8.

**Leasing and hire-purchase**
Certain tangible fixed assets are held under financing arrangements. These assets are included in the balance sheet and are depreciated accordingly. The capital element of the corresponding financing commitments is included in the balance sheet. The finance element of instalments is charged to the profit and loss account in proportion to the reducing capital element outstanding.

All other leases held are operating leases and the rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

**Stocks and work in progress**
Stocks are valued at the lower of cost and net realisable value.

**Derivatives and other financial instruments**
The principal derivative instruments used by the Group are interest rate swaps and caps. Amounts payable or receivable in respect of interest rate swap or cap transactions are recognised on an accruals basis until settlement date and are treated as an adjustment to the interest expense over the period of the contract.

**Pensions**
The Group offers a stakeholder pension arrangement to employees, and in addition makes contributions to personal pension schemes for certain employees. Contributions are charged to the profit and loss account in the year in which they are incurred.

## Consolidated profit and loss account
*For the year ended 31 March 2004*

| | Note | 2004 Existing Operations £'000 | 2004 Acquisitions £'000 | 2004 Total £'000 | 2003 Restated Total £'000 |
|---|---|---|---|---|---|
| **Turnover – Continuing operations** | 1 | **164,872** | **5,359** | **170,231** | 143,853 |
| Cost of sales | 1 | **(46,156)** | **(2,026)** | **(48,182)** | (38,583) |
| **Gross profit** | | **118,716** | **3,333** | **122,049** | 105,270 |
| Distribution costs | | **(17,969)** | **(525)** | **(18,494)** | (15,612) |
| Administrative expenses | | **(77,540)** | **(1,948)** | **(79,488)** | (68,751) |
| Other operating income | | **615** | – | **615** | 179 |
| Operating profit before goodwill amortisation | | **24,506** | **994** | **25,500** | 21,770 |
| Goodwill amortisation | | **(684)** | **(134)** | **(818)** | (684) |
| **Operating profit – Continuing operations** | 1 | **23,822** | **860** | **24,682** | 21,086 |
| Net interest payable and other similar charges | 3 | | | **(3,471)** | (2,879) |
| **Profit on ordinary activities before taxation** | 1 | | | **21,211** | 18,207 |
| Taxation | 4 | | | **(3,601)** | (4,946) |
| **Profit for the year attributable to the Group** | | | | **17,610** | 13,261 |
| Dividends on equity shares | 5 | | | **(4,371)** | (3,743) |
| **Retained profit for the financial year** | 15 | | | **13,239** | 9,518 |

| | Note | Pence | Pence |
|---|---|---|---|
| **Earnings per share** | | | |
| – Basic | 6 | **42.34** | 31.89 |
| – Diluted | 6 | **41.50** | 31.44 |
| – Basic pre-goodwill amortisation | 6 | **44.21** | 33.53 |
| – Basic pre-goodwill amortisation with underlying tax charge | 6 | **38.66** | 31.39 |
| **Dividends per share** | 5 | **10.50** | 9.00 |

## Group balance sheet
*As at 31 March 2004*

| | | 2004 | | 2003 | |
|---|---|---|---|---|---|
| | Note | £'000 | £'000 | £'000 | £'000 |
| **Fixed assets** | | | | | |
| Intangible assets | 7 | | **4,988** | | 4,040 |
| Tangible assets | 8 | | **156,685** | | 129,466 |
| | | | **161,673** | | 133,506 |
| **Current assets** | | | | | |
| Stocks and work in progress | 10 | **3,637** | | 3,217 | |
| Debtors: amounts falling due within one year | 11 | **47,291** | | 44,091 | |
| Cash at bank and in hand | | **6,921** | | 7 | |
| | | **57,849** | | 47,315 | |
| **Creditors: amounts falling due within one year** | 12 | **(45,422)** | | (63,577) | |
| **Net current assets/(liabilities)** | | | **12,427** | | (16,262) |
| **Total assets less current liabilities** | | | **174,100** | | 117,244 |
| **Creditors: amounts falling due after more than one year** | 12 | | **(67,295)** | | (25,402) |
| **Provisions for liabilities and charges** | 13 | | **(13,313)** | | (12,447) |
| **Net assets** | | | **93,492** | | 79,395 |
| **Capital and reserves** | | | | | |
| Called up share capital | 14 | | **2,132** | | 2,130 |
| Share premium account | 15 | | **32,692** | | 32,537 |
| Merger reserve | 15 | | **3,660** | | 3,660 |
| Revaluation reserve | 15 | | **50** | | 51 |
| Investment property revaluation reserve | 15 | | **122** | | 177 |
| Capital redemption reserve | 15 | | **26** | | 26 |
| Profit and loss account | 15 | | **54,810** | | 40,814 |
| **Equity shareholders' funds** | | | **93,492** | | 79,395 |

Approved by the Board of Directors on 3 June 2004 and signed on its behalf by

J E Brown
Director

N C O'Brien
Director

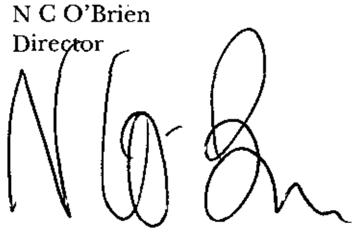
Company balance sheet
*As at 31 March 2004*

| | Note | 2004 £'000 | 2004 £'000 | 2003 £'000 | 2003 £'000 |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Investments | 9 | | **23,614** | | 23,614 |
| **Current assets** | | | | | |
| Debtors: amounts falling due within one year | 11 | **81,803** | | 30,565 | |
| Cash at bank and in hand | | **22,592** | | – | |
| | | **104,395** | | 30,565 | |
| **Creditors: amounts falling due within one year** | 12 | **(14,743)** | | (7,279) | |
| **Net current assets** | | | **89,652** | | 23,286 |
| **Total assets less current liabilities** | | | **113,266** | | 46,900 |
| **Creditors: amounts falling due after more than one year** | 12 | | **(67,000)** | | – |
| **Net assets** | | | **46,266** | | 46,900 |
| **Capital and reserves** | | | | | |
| Called up share capital | 14 | | **2,132** | | 2,130 |
| Share premium account | 15 | | **32,692** | | 32,537 |
| Merger reserve | 15 | | **8,586** | | 8,586 |
| Capital redemption reserve | 15 | | **26** | | 26 |
| Profit and loss account | 15 | | **2,830** | | 3,621 |
| **Equity shareholders' funds** | | | **46,266** | | 46,900 |

Approved by the Board of Directors on 3 June 2004 and signed on its behalf by

J E Brown
Director

N C O'Brien
Director



Consolidated cash flow statement
*For the year ended 31 March 2004*

| | Note | 2004 £'000 | 2003 £'000 |
|---|---|---|---|
| **Cash inflow from operating activities** | 17 | **49,873** | 39,066 |
| **Returns on investments and servicing of finance** | | | |
| Interest received | | **163** | 76 |
| Interest paid | | **(2,834)** | (771) |
| Interest element of hire-purchase and finance lease rental payments | | **(713)** | (2,184) |
| **Net cash outflow from returns on investments and servicing of finance** | | **(3,384)** | (2,879) |
| **Taxation** | | **(824)** | (5,618) |
| **Capital expenditure** | | | |
| Purchase of tangible fixed assets | | **(51,999)** | (12,597) |
| Sale of tangible fixed assets | | **15,408** | 15,898 |
| **Net cash (outflow)/inflow for capital expenditure** | | **(36,591)** | 3,301 |
| **Acquisitions and disposals** | | | |
| Purchase of businesses | 16 | **(8,964)** | – |
| **Net cash outflow from acquisitions and disposals** | | **(8,964)** | – |
| **Equity dividends paid** | | **(3,910)** | (3,451) |
| **Cash (outflow)/inflow before financing** | | **(3,800)** | 30,419 |
| **Financing** | | | |
| Issue of share capital | | **157** | 51 |
| New bank loans | | **67,000** | – |
| Capital element of hire-purchase and finance lease rental payments | | **(52,396)** | (22,700) |
| **Net cash inflow/(outflow) from financing** | | **14,761** | (22,649) |
| **Increase in cash in the year** | 18 | **10,961** | 7,770 |

Reconciliation of net cash flow to movement in net debt
*For the year ended 31 March 2004*

| | Note | 2004 £'000 | 2003 £'000 |
|---|---|---|---|
| Increase in cash in the period | 18 | **10,961** | 7,770 |
| Cash (inflow)/outflow from increase/decrease in debt and hire-purchase and lease financing | | **(14,604)** | 22,700 |
| Change in net debt resulting from cash flows | | **(3,643)** | 30,470 |
| New hire-purchase and finance lease contracts | | **(4,327)** | (27,024) |
| **Movement in net debt in the year** | | **(7,970)** | 3,446 |
| Net debt at 31 March 2003 | | **(53,082)** | (56,528) |
| **Net debt at 31 March 2004** | 18 | **(61,052)** | (53,082) |

Consolidated statement of total recognised gains and losses
*For the year ended 31 March 2004*

| Group | 2004 £'000 | 2003 £'000 |
|---|---|---|
| Profit for the year attributable to the Group | **17,610** | 13,261 |
| Unrealised surplus on revaluation of properties | – | 54 |
| **Total recognised gains and losses relating to the year** | **17,610** | 13,315 |

Note of consolidated historical cost profits and losses
*for the year ended 31 March 2004*

| Group | 2004 £'000 | 2003 £'000 |
|---|---|---|
| Reported profit on ordinary activities before taxation | **21,211** | 18,207 |
| Realisation of property revaluation surpluses of previous years | **56** | 881 |
| **Historical cost profit on ordinary activities before taxation** | **21,267** | 19,088 |
| **Historical cost profit for the year retained after taxation and dividends** | **13,295** | 10,399 |

Reconciliation of movements in shareholders' funds
*for the year ended 31 March 2004*

| Group | 2004 £'000 | 2003 £'000 |
|---|---|---|
| Profit for the year attributable to the Group | **17,610** | 13,261 |
| Dividends | **(4,371)** | (3,743) |
| | **13,239** | 9,518 |
| Unrealised surplus on revaluation of properties | – | 54 |
| Shares issued | **157** | 51 |
| Credit in respect of share related awards | **701** | 615 |
| **Net increase in shareholders' funds** | **14,097** | 10,238 |
| Opening shareholders' funds | **79,395** | 69,157 |
| **Closing shareholders' funds** | **93,492** | 79,395 |

| Company | 2004 £'000 | 2003 £'000 |
|---|---|---|
| Profit for the year attributable to the Company | **2,879** | 3,760 |
| Dividends | **(4,371)** | (3,743) |
| | **(1,492)** | 17 |
| Shares issued | **157** | 51 |
| Credit in respect of share related awards | **701** | 615 |
| **Net (decrease)/increase in shareholders' funds** | **(634)** | 683 |
| Opening shareholders' funds | **46,900** | 46,217 |
| **Closing shareholders' funds** | **46,266** | 46,900 |

## 1 Turnover and profit on ordinary activities before taxation

Turnover (wholly derived from activities within the UK) and profit on ordinary activities before taxation are analysed by class of business as follows:

| | **2004** | | 2003 Restated | |
|---|---|---|---|---|
| | **£'000** | **%** | £'000 | % |
| **Turnover** | | | | |
| Hire services | **170,046** | **99.9** | 143,669 | 99.9 |
| Central including property income | **185** | **0.1** | 184 | 0.1 |
| | **170,231** | **100.0** | 143,853 | 100.0 |

Following the introduction of FRS 5 Application note G, turnover and cost of sales categories have been reclassified and the comparative information has been restated accordingly. The net effect of the reclassification is to decrease turnover and cost of sales by £3,694,000 (2003: £3,334,000). There is no effect on operating profit.

| | **2004 £'000** | 2003 £'000 |
|---|---|---|
| **Operating profit on ordinary activities** | | |
| Hire services | **27,729** | 23,753 |
| Central overheads net of property income | **(3,047)** | (2,667) |
| **Operating profit** | **24,682** | 21,086 |
| Net interest payable and other similar charges | **(3,471)** | (2,879) |
| **Profit on ordinary activities before taxation** | **21,211** | 18,207 |

Central overheads net of property income includes £614,000 (2003: £179,000) of profit on disposal of properties.

## 2 Operating profit

| | **2004 £'000** | 2003 £'000 |
|---|---|---|
| This is stated after charging/(crediting): | | |
| a. **Directors' remuneration** | | |
| – Fees | – | 12 |
| Directors' emoluments | | |
| – basic remuneration including benefits | **982** | 685 |
| – profit related bonuses | **455** | 284 |
| | **1,437** | 981 |
| Payments to former Directors | **22** | 22 |
| Company pension contributions | **115** | 74 |
| | **1,574** | 1,077 |
| Emoluments of the highest paid Director | | |
| – basic remuneration including benefits | **310** | 273 |
| – bonus | **150** | 130 |
| – company pension contributions | **60** | 41 |
| | **520** | 444 |

## 2 Operating profit *(continued)*

### b. Employees

| | 2004 Number | 2003 Number |
|---|---|---|
| The average monthly number of employees during the year was: | | |
| Hire services | **2,312** | 2,175 |
| Central | **63** | 45 |
| | **2,375** | 2,220 |

| Staff costs during the year (including Directors) amounted to: | 2004 £'000 | 2003 £'000 |
|---|---|---|
| Wages and salaries | **50,349** | 45,437 |
| Redundancy costs | **460** | 27 |
| Social security costs | **4,660** | 3,827 |
| Other pension costs | **237** | 174 |
| | **55,706** | 49,465 |

### c. Other items

| | 2004 £'000 | 2003 £'000 |
|---|---|---|
| Amortisation of intangible assets | **818** | 684 |
| Depreciation | | |
| – of owned tangible fixed assets | **23,996** | 9,387 |
| – of tangible fixed assets held under hire-purchase and finance lease contracts | **544** | 11,722 |
| Operating lease rentals | | |
| – plant and machinery | **2,062** | 1,605 |
| – other assets | **12,272** | 11,431 |
| Auditors' remuneration: KPMG Audit Plc | | |
| – audit services | **169** | 126 |
| – non-audit services | **219** | 498 |
| Profit on sale of tangible fixed assets | **(4,200)** | (4,263) |

Profits on disposal of hire equipment are included within operating profit as they result from routine disposal of hire equipment and are no more than required adjustments to depreciation previously charged.

Auditors' remuneration includes £9,000 (2003: £8,000) for audit services and £nil (2003: £nil) for non-audit services in respect of the Company.

Fees payable to the auditors in respect of non-audit services may be further analysed as follows:

| | 2004 £'000 | 2003 £'000 |
|---|---|---|
| Taxation services | **144** | 461 |
| Other | **75** | 37 |
| | **219** | 498 |

During the year the Company paid fees of £20,000 to Pinsents in respect of the services of Mike McGrath as Company Secretary. Mike McGrath is a partner of Pinsents, the Company's Solicitors. Total fees payable during the year to Pinsents were £510,000 (2003: £314,000).

## 3 Net interest payable and other similar charges

| | 2004 £'000 | 2003 £'000 |
|---|---|---|
| On bank loans and overdrafts | **2,914** | 771 |
| Hire-purchase interest and finance lease charges | **713** | 2,184 |
| Other interest | **7** | – |
| | **3,634** | 2,955 |
| Less: Interest receivable | **(163)** | (76) |
| | **3,471** | 2,879 |

## 4 Taxation

| | 2004 £'000 | 2003 £'000 |
|---|---|---|
| On the profit on ordinary activities for the year | | |
| Current tax | | |
| – UK corporation tax on profits of the period at 30% (2003: 30%) | **3,021** | 3,373 |
| – Adjustment in respect of previous periods | **(286)** | (1,100) |
| Total current tax | **2,735** | 2,273 |
| Deferred tax | **866** | 2,673 |
| | **3,601** | 4,946 |

The deferred taxation charge on the profit on ordinary activities for the year comprises the following:

| | 2004 £'000 | 2003 £'000 |
|---|---|---|
| – Origination and reversal of timing differences | **3,194** | 2,256 |
| – Adjustments in respect of previous periods | **(1,841)** | 421 |
| – Changes in the amount of discount deducted | **(487)** | (4) |
| | **866** | 2,673 |

The tax charge assessed for the period is lower (2003: lower) than the standard rate of corporation tax in the UK (30%). The differences are explained below:

| | 2004 £'000 | 2003 £'000 |
|---|---|---|
| Profit on ordinary activities before tax | **21,211** | 18,207 |
| Profit on ordinary activities multiplied by standard rate of corporation tax in UK of 30% (2003: 30%) | **6,363** | 5,462 |
| Net (income)/expenses not deductible for tax purposes (including amortisation of intangible assets) | **(148)** | 167 |
| Capital allowances in excess of depreciation | **(3,194)** | (2,256) |
| Adjustment in respect of previous periods | **(286)** | (1,100) |
| Current tax charge for the year | **2,735** | 2,273 |

## 5 Dividends on equity shares

| | 2004 £'000 | 2003 £'000 |
|---|---|---|
| Interim – 3.7 pence (2003: 3.3 pence) per share on 41,590,678 (2003: 41,590,678) shares paid | **1,539** | 1,372 |
| Final – 6.8 pence (2003: 5.7 pence) per share on 41,643,075 (2003: 41,590,678) shares proposed to be paid on 27 August 2004 | **2,832** | 2,371 |
| | **4,371** | 3,743 |

The employee benefit trust established to hold the 1,003,000 5p ordinary shares for the LTIP has waived the right to the interim and the final proposed dividends.

## 6 Earnings per share

Basic earnings per share is based on the profit after taxation of £17,610,000 (2003: £13,261,000) and the average number of 5 pence ordinary shares in issue during the year of 41,594,923 (2003: 41,587,476).

The weighted average number of ordinary shares used for the diluted earnings per share is calculated as follows:

| | 2004 Number | 2003 Number |
|---|---|---|
| **Weighted average number of ordinary shares in issue during the year** | **41,594,923** | 41,587,476 |
| Diluting effect of options under Allen Plc Savings Related Share Option Scheme | **260** | – |
| Diluting effect of LTIP shares | **839,700** | 591,232 |
| **Diluted weighted average number of ordinary shares** | **42,434,883** | 42,178,708 |

The table below reconciles basic earnings per share to both earnings per share pre-goodwill amortisation, and earnings per share pre-goodwill amortisation with an underlying tax charge.

| | 2004 Pence | 2003 Pence |
|---|---|---|
| **Basic earnings per share** | **42.34** | 31.89 |
| Goodwill amortisation charge after tax per share | **1.87** | 1.64 |
| **Basic earnings per share pre-goodwill amortisation** | **44.21** | 33.53 |
| Adjustment to tax charge per share to reflect underlying current tax rate of 27.0% (2003: 30.9%) | **(5.55)** | (2.14) |
| **Basic earnings per share pre-goodwill amortisation with underlying tax charge** | **38.66** | 31.39 |

## 7 Intangible assets

| Goodwill | Group £'000 |
|---|---|
| Cost | |
| At 31 March 2003 | 5,051 |
| Additions (see note 16) | 1,766 |
| **At 31 March 2004** | **6,817** |
| Amortisation | |
| At 31 March 2003 | 1,011 |
| Charge for the year | 818 |
| **At 31 March 2004** | **1,829** |
| Net book value | |
| **at 31 March 2004** | **4,988** |
| At 30 March 2003 | 4,040 |

## 8 Tangible fixed assets

| Group | Land and buildings £'000 | Hire equipment £'000 | Fixtures, fittings & motor vehicles £'000 | Total £'000 |
|---|---|---|---|---|
| Cost or valuation | | | | |
| At 31 March 2003 | 9,716 | 182,410 | 7,451 | 199,577 |
| Additions | 2,644 | 51,470 | 1,811 | 55,925 |
| Disposals | (2,650) | (23,211) | (247) | (26,108) |
| Arising on acquisition of businesses | 63 | 6,601 | 378 | 7,042 |
| **At 31 March 2004** | **9,773** | **217,270** | **9,393** | **236,436** |
| At valuation in 2004 | 291 | – | – | 291 |
| At valuation in 1997 | 269 | – | – | 269 |
| At cost | 9,213 | 217,270 | 9,393 | 235,876 |
| | 9,773 | 217,270 | 9,393 | 236,436 |
| Depreciation | | | | |
| At 31 March 2003 | 3,644 | 63,216 | 3,251 | 70,111 |
| Charge for the year | 1,031 | 22,194 | 1,315 | 24,540 |
| On disposals | (823) | (13,914) | (163) | (14,900) |
| **At 31 March 2004** | **3,852** | **71,496** | **4,403** | **79,751** |
| Net book value | | | | |
| **at 31 March 2004** | **5,921** | **145,774** | **4,990** | **156,685** |
| At 30 March 2003 | 6,072 | 119,194 | 4,200 | 129,466 |

## 8 Tangible fixed assets *(continued)*

The net book value of tangible fixed assets includes an amount of £3,894,000 (2003: £73,859,000) in respect of assets held under financing arrangements.

| | Group | |
|---|---|---|
| | **2004** | 2003 |
| Land and buildings | **£'000** | £'000 |
| Freehold land and buildings | **1,332** | 1,740 |
| Long leasehold properties | **312** | 1,527 |
| Ground rents | **80** | 80 |
| Short leasehold properties | **4,197** | 2,725 |
| | **5,921** | 6,072 |

Included in land and buildings are investment properties with a net book value and open market value of £291,000 (2003: £343,000).

The last full valuation of freehold buildings and long leasehold properties for the Group, which was incorporated into the financial statements, was carried out in 1997. Investment properties are revalued on an annual basis.

On a historical cost basis, land and buildings would be stated at:

| | Group | |
|---|---|---|
| | **2004** | 2003 |
| | **£'000** | £'000 |
| Cost | **9,601** | 9,488 |
| Accumulated depreciation | **(3,852)** | (3,644) |
| Net book value | **5,749** | 5,844 |

## 9 Investments

| **Company** | Investments in subsidiary undertakings £'000 | Other investments £'000 | Total £'000 |
|---|---|---|---|
| Cost | | | |
| At 31 March 2003 and **31 March 2004** | 23,610 | 150 | 23,760 |
| Impairment | | | |
| At 31 March 2003 and **31 March 2004** | 146 | – | 146 |
| Net book value | | | |
| At 30 March 2003 and **31 March 2004** | 23,464 | 150 | 23,614 |

## 9 Investments *(continued)*

The principal subsidiary undertakings are as follows:

| | Principal activity | Ordinary share capital owned by the Company |
|---|---|---|
| Speedy Hire Centres (Northern) Ltd | Hire services | 100% |
| Speedy Hire Centres (Southern) Limited | Hire services | 100% |
| Speedy Hire Centres (Western) Limited | Hire services | 100% |
| Speedy Hire (Scotland) Limited | Hire services | 100% |
| Speedy Lifting Limited | Hire services | 100% |
| Speedy Hire Direct Limited* | Hire services | 100% |
| Speedy Space Limited | Hire services | 100% |
| Speedy Survey Limited | Hire services | 100% |
| Speedy Power Limited | Hire services | 100% |
| Allen Investments Limited | Property investment | 100% |
| Speedy Central Services Limited | Provision of Group services | 100% |
| Speedy Transport Limited | Provision of Group services | 100% |
| Speedy Asset Leasing Limited | Leasing services | 75% |

* Indirect holding via a 100% subsidiary undertaking.

The Company holds voting rights in each subsidiary undertaking in the same proportion to its holdings in the ordinary share capital of the respective subsidiaries. All subsidiary undertakings operate within the United Kingdom.

## 10 Stocks and work in progress

| | Group | |
|---|---|---|
| | **2004 £'000** | 2003 £'000 |
| Goods held for resale | **3,637** | 3,217 |

## 11 Debtors

| | Group | | Company | |
|---|---|---|---|---|
| Amounts falling due within one year | **2004 £'000** | 2003 £'000 | **2004 £'000** | 2003 £'000 |
| Trade debtors | **38,194** | 37,620 | **138** | 312 |
| Amounts owed by subsidiary undertakings | **–** | – | **80,708** | 29,465 |
| Other debtors | **1,204** | 1,323 | **450** | 335 |
| Property held for resale | **1,664** | – | **–** | – |
| Deferred tax asset (see note 13) | **–** | – | **134** | – |
| Prepayments and accrued income | **6,229** | 5,148 | **373** | 453 |
| | **47,291** | 44,091 | **81,803** | 30,565 |

## 12 Creditors

| a. Amounts falling due within one year | Group 2004 £'000 | Group 2003 £'000 | Company 2004 £'000 | Company 2003 £'000 |
|---|---|---|---|---|
| Bank loans and overdrafts | – | 4,047 | – | 3,455 |
| Trade creditors | **21,407** | 18,980 | **345** | 641 |
| Amounts owed to subsidiary undertakings | – | – | **11,002** | 478 |
| Corporation tax | **2,435** | 524 | **155** | 34 |
| Other taxation and social security | **4,084** | 2,831 | – | – |
| Hire-purchase and finance lease contracts | **678** | 23,640 | – | – |
| Other creditors | **911** | 434 | – | – |
| Accruals | **13,075** | 10,750 | **409** | 300 |
| Dividends proposed | **2,832** | 2,371 | **2,832** | 2,371 |
| | **45,422** | 63,577 | **14,743** | 7,279 |

| b. Amounts falling due after more than one year | Group 2004 £'000 | Group 2003 £'000 | Company 2004 £'000 | Company 2003 £'000 |
|---|---|---|---|---|
| Bank loans | **67,000** | – | **67,000** | – |
| Hire-purchase and finance lease contracts | **295** | 25,402 | – | – |
| | **67,295** | 25,402 | **67,000** | – |

The bank overdrafts are secured by cross guarantees and debentures given by Group companies in favour of Barclays Bank PLC. Hire-purchase and finance lease contracts are secured on the assets concerned.

The bank loans are secured by a fixed and floating charge over all of the assets of the Group.

**c. Derivatives and other financial instruments**

Details on the objectives, policies and strategies relating to financial instruments are set out on page 17.

Short term debtors and creditors other than hire-purchase creditors are excluded from the disclosures relating to derivatives and other financial instruments.

The fair value of financial assets and liabilities is the same as the carrying value in the balance sheet.

**Financial assets**

Financial assets comprise cash at bank and in hand and are all held in sterling. Interest is earned on cash at bank at floating rates linked to short term bank deposit rates.

**Financial liabilities**

Financial liabilities comprise bank borrowings and hire-purchase and finance lease contracts. All borrowings are in sterling.

Interest rate profile of borrowings:

| | Fixed interest rates £'000 | Floating interest rates £'000 | Total £'000 |
|---|---|---|---|
| Bank loans | 20,000 | 47,500 | 67,500 |
| Hire-purchase and finance lease contracts | – | 973 | 973 |
| | 20,000 | 48,473 | 68,473 |
| Issue costs | | | (500) |
| | | | 67,973 |

## 12 Creditors *(continued)*

Floating rate borrowings comprise bank loans bearing interest rates fixed for periods ranging from one to three months by reference to the London Inter Bank Offer Rate, and hire purchase and finance lease contracts bearing variable rates of interest.

The weighted average interest rate of the fixed rate financial liabilities is 5.335% and is fixed for a weighted average period of one year and five months.

At 31 March 2004 the total bank facilities comprised a £100m revolving credit facility and a £5m overdraft facility. Of these facilities, £37.5m remained unutilised at the balance sheet date comprising £32.5m of the revolving credit facility and £5m of the overdraft facility. The maturing date of the revolving credit facility is 30 June 2006. The bank overdraft facility falls due for renewal within 12 months of the balance sheet date.

The maturity profile of the Group's borrowings including finance lease and hire-purchase contracts is as follows:

| | In one year or less £'000 | Between one and two years £'000 | Between two and five years £'000 | Total £'000 |
|---|---|---|---|---|
| Revolving credit facility | – | – | 67,500 | 67,500 |
| Hire-purchase and finance lease contracts | 678 | 295 | – | 973 |
| | 678 | 295 | 67,500 | 68,473 |
| Issue costs | | | | (500) |
| | | | | 67,973 |

The interest rate swap and cap and collar arrangements are accounted for on an accruals basis; therefore, there are no unrecognised gains or losses relating to these transactions.

## 13 Deferred taxation

| | Group £'000 | Company £'000 |
|---|---|---|
| At 31 March 2003 | 12,447 | – |
| Transfer from/to profit and loss account | 866 | (134) |
| **At 31 March 2004** | **13,313** | **(134)** |

The deferred taxation provision comprises:

| | Group | | Company | |
|---|---|---|---|---|
| | **2004 £'000** | 2003 £'000 | **2004 £'000** | 2003 £'000 |
| Accelerated capital allowances (undiscounted) | **16,296** | 14,594 | – | – |
| Other timing differences | **(1,144)** | (1,118) | **(134)** | – |
| Discount | **(1,839)** | (1,029) | – | – |
| | **13,313** | 12,447 | **(134)** | – |

Provision for capital gains tax on revaluation surpluses has not been made in the financial statements as there is no intention to dispose of the properties in the foreseeable future. If the properties were sold at the values disclosed in the financial statements, the Directors estimate that tax would become payable as follows:

| | **2004 £'000** | 2003 £'000 |
|---|---|---|
| Capital gains on revaluation surpluses | **52** | 68 |

The Group has capital losses carried forward at 31 March 2004. No deferred tax asset has been recognised in respect of these losses.

## 14 Share capital

| | 2004 £'000 | 2003 £'000 |
|---|---|---|
| Authorised 50,000,000 (2003: 50,000,000) ordinary shares of 5p each | **2,500** | 2,500 |
| Allotted, called up and fully paid<br>42,646,075 (2003: 42,593,678) ordinary shares of 5p each | **2,132** | 2,130 |

During the year the Company issued 52,397 5p ordinary shares to the Qualifying Employee Share Ownership Trust ('the Quest') established under the Allen Plc savings related share option scheme. At 31 March 2004, options to acquire 225 Speedy Hire Plc shares were outstanding under the Allen Plc Savings Related Share Option Scheme. These options are exercisable by employees of the Group at a price of 300 pence up to 31 July 2004.

## 15 Reserves

| Group | Share premium account £'000 | Merger reserve £'000 | Revaluation reserve £'000 | Investment property revaluation reserve £'000 | Capital redemption reserve £'000 | Profit and loss account £'000 |
|---|---|---|---|---|---|---|
| At 31 March 2003 | 32,537 | 3,660 | 51 | 177 | 26 | 40,814 |
| Shares issued | 155 | – | – | – | – | – |
| Credit in respect of share related awards | – | – | – | – | – | 701 |
| Revaluation surplus realised | – | – | (1) | (55) | – | 56 |
| Retained profit for the year | – | – | – | – | – | 13,239 |
| **At 31 March 2004** | **32,692** | **3,660** | **50** | **122** | **26** | **54,810** |

The cumulative total of goodwill written off against reserves in respect of acquisitions prior to 29 March 1998, when FRS 10: Goodwill and intangible assets was adopted, amounts to £3,940,000 (2003: £3,940,000).

| Company | Share premium account £'000 | Merger reserve £'000 | Capital redemption reserve £'000 | Profit and loss account £'000 |
|---|---|---|---|---|
| At 31 March 2003 | 32,537 | 8,586 | 26 | 3,621 |
| Shares issued | 155 | – | – | – |
| Credit in respect of share related awards | – | – | – | 701 |
| Retained loss for the year | – | – | – | (1,492) |
| **At 31 March 2004** | **32,692** | **8,586** | **26** | **2,830** |

## 16 Purchase of businesses

Acquisitions in the year were as follows:

| | Acquisition date |
|---|---|
| Business and certain assets of Kingfisher Hire and Sales Limited | 30 June 2003 |
| Business and certain assets of Ashtead Plant Hire Company's Big Air Division | 25 July 2003 |
| Business and certain assets of St Vincent Plant | 31 August 2003 |
| Business and certain assets of the construction surveying equipment hire division of Leica Geosystems | 29 September 2003 |
| Business and certain assets of Pitreavie Tools Limited | 31 January 2004 |

## 16 Purchase of businesses *(continued)*

The fair values of the assets and liabilities acquired were as follows:

| | Book value at acquisition £'000 | Fair value adjustment £'000 | Fair value £'000 |
|---|---|---|---|
| Tangible fixed assets | 7,142 | (100) | 7,042 |
| Stocks | 247 | – | 247 |
| Creditors | (91) | – | (91) |
| | 7,298 | (100) | 7,198 |
| Goodwill capitalised | | | 1,766 |
| **Total consideration** | | | 8,964 |
| Satisfied by: | | | |
| – Cash consideration | | | 8,800 |
| – Costs of acquisition | | | 164 |
| | | | 8,964 |

The fair value adjustments represent the alignment of accounting policies for depreciation.

Goodwill is to be amortised over a period of 10 years for the acquisitions of the businesses acquired from St Vincent Plant and Leica Geosystems, and over a period of five years for the other businesses acquired during the year. The useful economic lives of the goodwill have been assessed by reference to the nature of the business and assets acquired.

## 17 Reconciliation of operating profit to cash flow from operating activities

| | **2004 £'000** | 2003 £'000 |
|---|---|---|
| Operating profit | **24,682** | 21,086 |
| Depreciation charge | **24,540** | 21,109 |
| Amortisation charge | **818** | 684 |
| Profit on sale of tangible fixed assets | **(4,200)** | (4,263) |
| (Increase)/decrease in stocks | **(173)** | 147 |
| (Increase)/decrease in debtors | **(1,536)** | 235 |
| Increase/(decrease) in creditors | **5,041** | (547) |
| Charge in respect of share related awards | **701** | 615 |
| Net cash inflow from operating activities | **49,873** | 39,066 |

## 18 Analysis of net debt

| | At 31 March 2003 £'000 | Cash flow £'000 | Other non-cash changes £'000 | **At 31 March 2004 £'000** |
|---|---|---|---|---|
| Cash at bank and in hand | 7 | 6,914 | – | **6,921** |
| Overdrafts | (4,047) | 4,047 | – | **–** |
| | (4,040) | 10,961 | – | **6,921** |
| Debt due after one year | – | (67,000) | – | **(67,000)** |
| Hire-purchase and finance lease contracts | (49,042) | 52,396 | (4,327) | **(973)** |
| | (53,082) | (3,643) | (4,327) | **(61,052)** |

## 19 Contingent liabilities

The Group has given warranties (including taxation warranties) to the purchasers of seven businesses disposed of over the last four years. These warranties expire at various dates up to seven years from the date of disposal.

The Group has given guarantees with a value of up to £300,000 in respect of ongoing contractual commitments.

The Company continues to have an unlimited cross guarantee in respect of the net borrowings of other Group companies, which at 31 March 2004 amounted to £15,671,000 (2003: £592,000).

## 20 Financial commitments

At 31 March 2004 the Group had annual commitments under non-cancellable operating leases as follows:

| | Land and buildings | | Other | |
|---|---|---|---|---|
| | **2004 £'000** | 2003 £'000 | **2004 £'000** | 2003 £'000 |
| Leases which expire | | | | |
| – within one year | **270** | 338 | **1,377** | 1,416 |
| – within two to five years | **1,882** | 1,526 | **5,523** | 5,119 |
| – in more than five years | **3,793** | 3,092 | **26** | 50 |
| | **5,945** | 4,956 | **6,926** | 6,585 |

## 21 Capital commitments

At 31 March 2004 the Group has contracted for capital expenditure amounting to £2,331,000 (2003: £736,000). There are no outstanding capital commitments relating to the Company at 31 March 2004 or 30 March 2003.

## 22 Pension contributions

The Group makes contributions for a number of employees to personal pension schemes. There are no outstanding contributions due as at 31 March 2004.

**Financial calendar**

| | |
|---|---|
| Preliminary announcement of 2004 results and final dividend | 3 June 2004 |
| Annual Report posted | 21 June 2004 |
| Ex-dividend date | 28 July 2004 |
| Dividend record date | 30 July 2004 |
| Annual General Meeting | 21 July 2004 |
| Payment of 2004 final dividend | 27 August 2004 |
| Announcement of 2004 Interim Results | November 2004 |
| 2005 Year end | 31 March 2005 |

**Annual General Meeting**

The AGM will be held on Wednesday 21 July 2004 at 11.00 am at the Thistle Hotel, Haydock, St Helens WA11 9SG.

Shareholders will be asked to approve the Directors' Remuneration report, the election of Andrew Simpson and the re-election of Steve Corcoran and David Galloway to the Board of Directors. Shareholders will also be asked to approve the establishment of new employee share incentives in the form of a new Sharesave Scheme, Performance Share Plan and a Co-Investment Plan.

Other resolutions include a proposal to increase the Company's authorised share capital beyond the current nominal amount of £2,500,000 to £3,000,000; a proposal to amend the Articles of Association of the Company to permit proxies to be submitted electronically and a proposal to renew, for a further year, the Directors' general authority to allot relevant securities of the Company, to allot equity securities for cash and to renew the authority for the Company to buy back its own ordinary shares. No such purchase was made during the year ended 31 March 2004. If approved, the authorities will expire at the end of the 2005 AGM.

**Share price information/performance**

Share price information is available at www.speedyhire.plc.uk . Shareholders can also download copies of our Annual Report and Accounts and Interim Report.

Shareholders within the UK can also use Teletext and the FT Cityline service (telephone 0906 843 3545 — please note, this is charged at premium rate).

**Electronic communications**

Speedy Hire offers shareholders the opportunity to receive electronic notification of the Company's latest press releases via e-mail. To take advantage of this service you will need to register online. To register, log on to www.speedyhire.plc.uk click on the media centre section of the website and complete your details.

**Enquiries on shareholdings**

Any administrative enquiries relating to shareholdings in Speedy Hire such as dividend payment instructions or a change of address should be notified direct to the Registrar (details on page 64). Your correspondence should state Speedy Hire Plc and the registered name and address of the shareholder. For further details of the shareholder services offered by our registrars, visit www.capitaregistrars.com or telephone 020 8639 2157.

**Contact details**

We are happy to answer queries from current and potential shareholders. Similarly, please let us know if you wish to receive past, present or future copies of our Annual Report and Accounts. Please contact us by phone, e-mail, fax or via the website.

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## An Award Winning Company

### Hire Association of Europe: Awards of Excellence

Winner:
Hire Company of the Year 2004

Winner:
Best Hire & Rental Website 2004

Winner:
Hire Company of the Year 2003

Winner:
Hire Person of the Year 2002

Winner:
Employee of the Year 2002

Winner:
Excellence in Training 2002

Winner:
Excellence in Customer Care 2001

Winner:
Hire Catalogue of the Year 2001

Winner:
Best Hire & Rental Website 2001

### Building Magazine: Health & Safety Awards

Short listed:
Best Occupational Health Initiative 2004

### Building Magazine: Specialist Contractor Awards

Short listed:
Essential Site Services 2003

### Contract Journal: Construction Industry Awards

Short listed:
Hire Company of the Year 2003

Short listed:
Hire Company of the Year 2002

Winner:
Hire Company of the Year 2001

### Work Well Together

Cooperation Awards 2003

## Accreditations

Speedy Hire Direct
ISO 9001/2000

Speedy Lifting
ISO 9001/2000

Speedy Survey
ISO 9001/2000

Speedy Hire Plc
"Link-up": Rail supplier qualification & verification scheme

Speedy Hire Plc
"UVDB": Utilities pre-qualification scheme

Speedy Hire Plc
HAE's Safe-HIRE

## Trade Association Membership

HAE
Hire Association of Europe

PASMA
Prefabricated Access Suppliers & Manufacturers Association

LEEA
Lifting Equipment Engineers Association

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