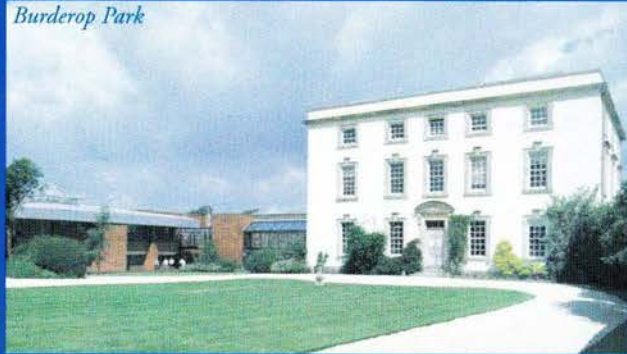


Burderop Park



If you have any queries on the content of this report or wish to discuss any aspects of the scheme please contact:


Pensions Department
Halcrow Pension Scheme
Burderop Park
Swindon
Wiltshire
SN4 0QD
Tel: 01793 812479

Halcrow Pension Scheme



Annual Trustees' Report to Members
6 April 1996 - 5 April 1998

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Chairman's introduction



I am pleased to be able to send you the latest Trustees' Report to members. This covers the two years to 5th April 1998; in future, reports will be issued each year.

The last two years have seen times of significant change for Halcrow, for the Halcrow Pension Scheme and for pension schemes in general. This Report gives you further information about these changes and how they could affect you.

The Trustees have taken the steps necessary to comply with the Pensions Act 1995 which was the legislation introduced following the Maxwell scandal. Further details are on page 6. However, I should say that we have always set ourselves high standards, and therefore we did not have to make sweeping changes in order to comply with the new legislation.

Over recent years it has come to light that many individuals were wrongly advised to take out personal pensions instead of joining their company pension scheme. The ensuing review has highlighted the value to employees of good company pension schemes, like the Halcrow Pension Scheme. You may also have read recent press coverage about alleged mis-selling of "freestanding" Additional Voluntary Contribution arrangements. We wait to see what action this brings but, in the meantime, if you are considering topping up your pension by paying extra contributions, you should bear in mind that the Trustees offer the facility to pay AVCs through the Halcrow Pension Scheme. Our arrangement is likely to have lower charges than a free-standing contract, not least because we do not pay commission to intermediaries.

One of the first acts of the new Labour government was to reduce the tax relief previously enjoyed by company pension schemes. With effect from July 1997, we have lost the ability to reclaim tax paid on UK dividends. This has made the scheme benefits more expensive to provide and, as an interim measure, Halcrow increased its contributions by 2% of pensionable salaries with effect from 1st August 1997.

In the light of the results of the triennial actuarial valuation as at 5th April 1998, Halcrow increased its contributions by a further 2% of pensionable salaries with effect from 1st January 1999. Further information on the actuarial position is on page 10.

(cont. on page 4)

If you have any queries about the pension scheme or your entitlements under it, or if you should wish to see a copy of the formal Trustees' Report and Audited Accounts, you should contact Alan Gill, the Pensions Manager.

Peter Gammie
Chairman of the Trustees

Extract from scheme accounts

The table below shows a summary of the scheme's income and expenditure and changes in the value of the funds over the two years to 5th April 1998. The figures are taken from the accounts for the year to 5th April 1998, which have been audited by PricewaterhouseCoopers, the scheme's auditors.

Income	Year to 5th April 1998 £000	Year to 5th April 1997 £000
Employers' contributions	2,495	1,736
Employees' contributions	1,318	1,067
AVCs	531	399
Other income	63	207
Total income	4,407	3,409
Expenditure		
Pensions	3,537	3,240
Lump sums on retirement	66	184
AVCs paid out	324	377
Death benefits	180	447
Leavers' benefits	205	107
Insurance premiums	24	29
Administration expenses	197	144
Total expenditure	4,533	4,528
Income less expenditure	(126)	(1,119)
Movement of funds		
Assets at beginning of year	131,702	122,348
Income less expenditure	(126)	(1,119)
Net investment growth	31,602	10,473
Assets at end of year	163,178	131,702

Note:

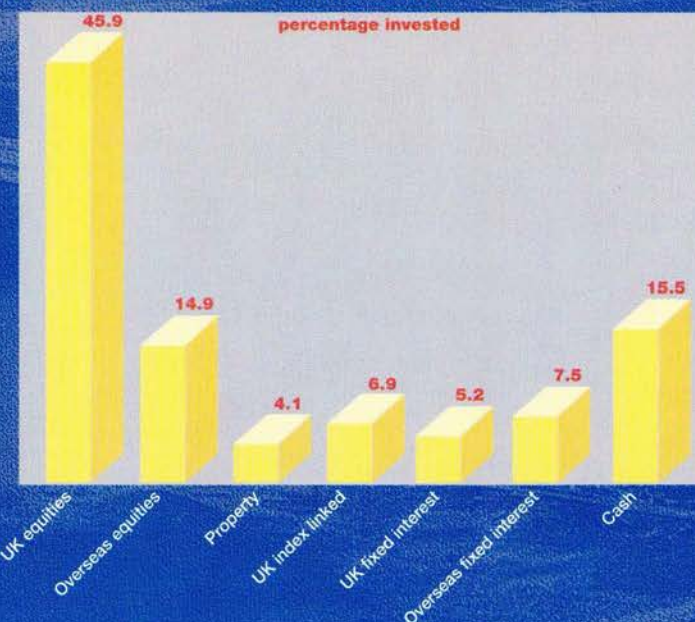
The asset values include the value of members' AVCs which amounted to £2,464,000 (£1,897,000 as at 5th April 1997), although these are invested separately from the scheme's main assets.

Investments

The scheme's assets are invested in a range of stocks, shares and other investments. Responsibility for setting the scheme's investment policy rests with the Trustees who have prepared a Statement of Investment Principles as required under the Pensions Act. If you would like to see a copy of this statement you should ask Alan Gill.

The Trustees have appointed Phillips & Drew (formerly known as PDFM Limited) to invest the assets on their behalf. Phillips & Drew decide in which stocks and shares they should invest the assets bearing in mind the policy set out in the Statement of Investment Principles.

As at 5th April 1998 the assets were invested as follows:



Investment performance

The Trustees monitor Phillips & Drew's investment performance by subscribing to an independent service provided by Combined Actuarial Performance Services (CAPS). Their role is to measure the rate of investment return achieved by Phillips & Drew and compare it with the returns earned by other investment managers.

Phillips & Drew have been outspoken about the level of stock markets in recent years. They believe that markets are over-valued (in particular those in the US and the UK) and, as a consequence, have invested less of the assets in shares than has the typical

(cont. on page 6)

investment manager. The result has been that, over 1996 and 1997, the investment return as measured by CAPS, was 12.7% pa which was below the return achieved by the average fund over the same period of 13.2% pa. This disappointing result followed below-average performance in 1995.

In the light of concerns about Phillips & Drew's continuing under-performance, the Trustees commissioned Lane Clark & Peacock to carry out a review of the scheme's liabilities.

As a result, the Trustees set down new guidelines for Phillips & Drew to follow.

The Trustees continue to monitor investment performance and to compare the results achieved with those of other managers and relevant stock market indices.

Changes since April 1996

Pensions Act 1995

This major piece of pensions legislation was the government's response to the Maxwell scandal. You will recall that Robert Maxwell stole hundreds of millions of pounds from the pension funds of the Mirror Group and the Pensions Act was meant to make it much harder for anyone to do something similar in future.

The Act sets rigorous standards for schemes to meet in terms of administration, disclosure, and funding and requires at least one third of Trustees to be appointed by the scheme members.

Some of the new requirements were as follows:

Member Nominated Trustees

Halcrow Pension Scheme has always had member representation on the Trustee Board and, following consultation with the membership, it was agreed that the existing arrangements did not need to be changed. All Trustees are members of the scheme and so have an interest in its proper administration. Two Trustees (Peter Pavry and Peter Claridge) were chosen by Staff Council and Peter Claridge has remained a Trustee as a pensioner member.

Internal dispute resolution

The Trustees have put in place a formal procedure for resolving disputes concerning the scheme in the unlikely event that these cannot be resolved in the normal way. You should contact Alan Gill if you wish to use this procedure.

Contracting-out

The Halcrow Pension Scheme is "contracted-out" of the State Earnings Related Pension Scheme (SERPS). As a result, both members and Halcrow pay lower National Insurance contributions and part of the scheme pension is a substitute for SERPS. From April 1997, the contracting-out requirements changed and the Actuary confirmed that the benefits provided under the scheme comfortably satisfied the new requirements.

Transfer Values

The legislation set minimum levels for transfer values, in line with the new Minimum Funding Requirement (MFR). Halcrow Pension Scheme has adopted new factors as a result.

Other changes prior to 5th April 1998

Other changes to the scheme were set out in announcement number 3 (issued May 1997) and have been reflected in the latest explanatory booklet, which is now on the Halcrow Intranet.

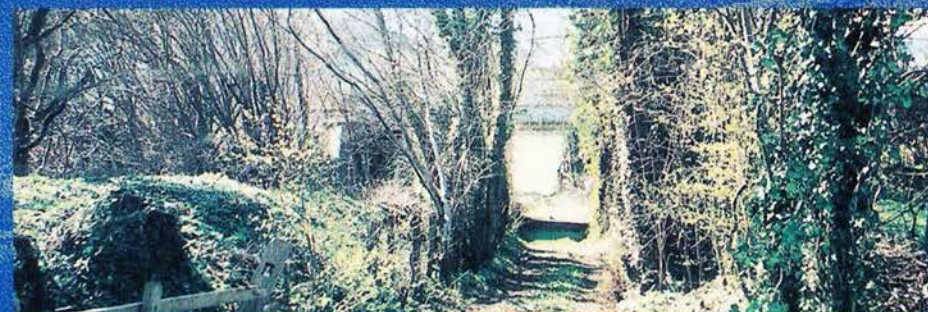
Subsequent changes

Following discussion of the results of the actuarial valuation, it has been agreed that pensions which build up after 1st March 1999 will now only be guaranteed to increase in line with the RPI up to a maximum of 5% in any year. This change was announced to members with the February pay slips.

David Lloyd retired as a trustee on 30th April 1999 and Derek Pollock was appointed as his replacement.

Government Green Paper on Pensions

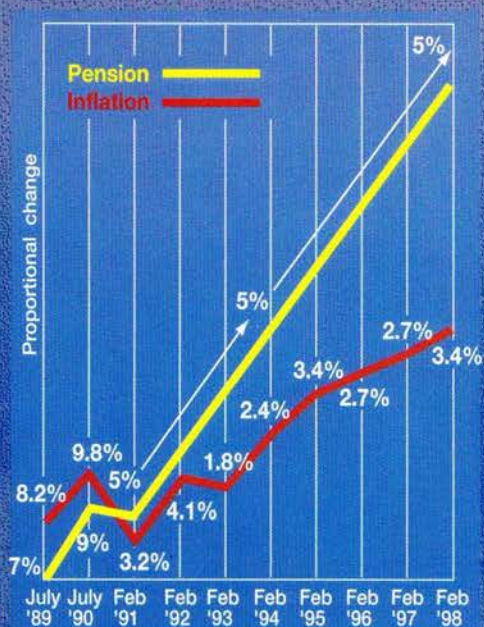
The Government has recently published plans for reform of State pension arrangements (including the introduction of "Stakeholder" pensions) as well as signalling its intention to review some of the legislation affecting occupational schemes. It is too early to say what effect any changes will have on members of the Halcrow Pension Scheme.



Environmental Sensitivity

Increases to pensions in payment

The scheme has a history of providing generous increases to pensions in payment. Over the last 10 years, increases have been awarded as shown below:



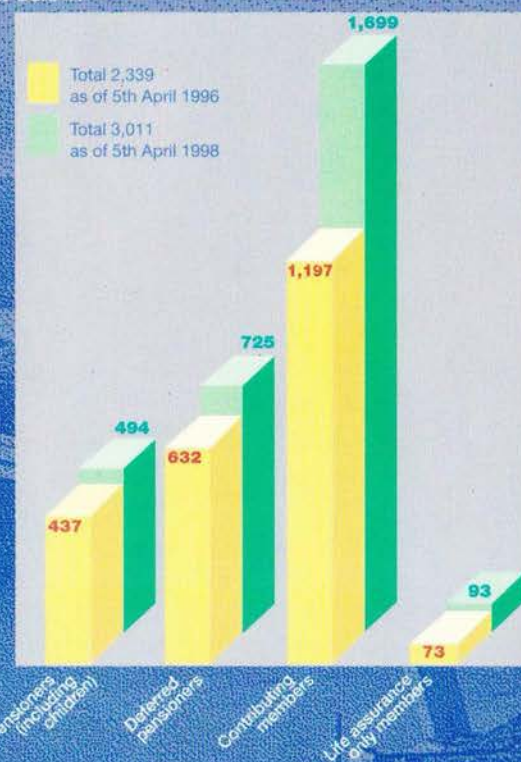
Over the period, inflation has increased by just over 50%, whereas pensions in payment have been increased by a total of 72%, thereby ensuring that pensions have been more than protected against the effects of inflation.

A small number of pensioners, whose pensions were supplemented at the outset by the proceeds of AVCs, have not benefited from the full increases. This is because, in a period of low inflation, the 5% annual increase would have taken their pensions beyond the Inland Revenue limits.

As mentioned previously and on page 10, pensions which build up after 1st March 1999 will only be guaranteed to increase in line with the RPI up to a maximum of 5% in any year. If inflation stays below 5%, pensioners will be fully protected against inflation. In the event that inflation rises above 5%, Halcrow and the Trustees may award discretionary increases above the guaranteed rate, as has happened in the past. Those who retired prior to 1 March 1999 are not affected by this change.

Membership changes

Since 5th April 1996, the membership of the scheme has grown considerably as shown below:



The main reason for the significant growth has been the increase in the number of contributory members. This reflects the acquisition of Crouch Hogg Waterman as well as successful tendering for contracts with Hereford & Worcester County Council, Southern Water and West Sussex County Council. Employees of Halcrow Gilbert have also joined with effect from April 1998 and, over the coming months, it is intended to extend membership to employees of Halcrow Fox as well. Eventually, we hope that all eligible employees of Halcrow Group Limited will be provided with pensions through the Halcrow Pension Scheme.

Halcrow Group Personal Pension Plan (HGPPP)

The company has established a Group Personal Pension Plan to provide benefits for individuals who cannot join the Halcrow Pension Scheme, or who choose not to. The HGPPP is arranged through Equitable Life Assurance Society and provides "money purchase" benefits rather than the "final salary" benefits provided by Halcrow Pension Scheme.

Actuarial valuation

The Actuary has recently completed his valuation of the Halcrow Pension Scheme as at 5th April 1998. This showed that, on the basis of reasonably prudent long-term assumptions, the scheme's assets covered its liabilities, with a modest surplus. The Actuary recommended that Halcrow's contributions be increased to 12% of pensionable salaries with effect from 1st January 1999 and this has been implemented.

The Actuary also assessed the scheme against the new MFR introduced under the Pensions Act. As at 5th April 1998, the scheme satisfied the MFR, again with a modest surplus. However, the MFR measures the scheme's liabilities by reference to yields on government bonds and, as such yields have fallen, from nearly 6% pa in April 1998 to under 4¹/₂% pa now, the value of the liabilities has increased sharply. The Actuary has advised that, after taking this change into account, the scheme may not now meet the MFR.



Environmental Sensitivity

If the scheme continued to promise pensions which increased each year by 5% irrespective of the rate of inflation, such pensions would be prohibitively expensive. Accordingly, the Actuary recommended that steps be taken to limit the rate of guaranteed pension increase to no more than the rate of inflation. This was implemented with effect from 1st March 1999 and announced to all active members. This change did not affect those who retired prior to 1 March 1999.

The next full valuation is due as at 5th April 2001 although the Actuary will be monitoring the position closely during the intervening period.



Risk Management - Canary Wharf

Advisers

The Trustees have appointed the following professional advisers:

- Banker - Midland Bank Plc
- Actuaries, Consultant and Investment Adviser - Lane Clark & Peacock (Scheme Actuary - Mr Bob Scott)
- Investment Manager - Phillips & Drew
- Auditor - PricewaterhouseCoopers
- Solicitor - Sacker & Partners.

Alan Gill is the Pensions Manager responsible for the day to day administration of the pension scheme.

During the year, the Trustees appointed Sacker & Partners, the specialist pensions legal firm, to advise the Trustees and specifically to draw up a new Trust Deed and Rules written in plain English. This is expected to be available soon and, once completed, will permit publication of a new explanatory booklet. Copies of formal reports or documents mentioned in this report can be obtained from Pensions Department.

Trustees

The present Trustees are as follows:

Company Trustees

- Peter Gammie (*front right*)
(Chairman of the Trustees and Group Finance Director)
- Derek Pollock (*insert*)
(Chairman of Halcrow Group Limited)
- Sheila Munro (*front left*)

Member Trustees

- Peter Pavry (*back centre*)
- Peter Claridge (*back right*)

Derek Pollock was appointed on 30th April 1999 to replace David Lloyd (*back left*) who retired from the Company Trustees.

