

HALCROW HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

(continued)

32 LEASE COMMITMENTS

At 31 December 2012 the group was committed to making the following payments during the next year in respect of operating leases

	Group	
	2012	2011
	£000	£000
Land and buildings		
Leases which expire		
Within one year	1,022	1,937
In second to fifth years	2,653	4,406
After more than five years	10,032	10,884
	13,707	17,227
Other		
Leases which expire		
Within one year	54	11
In second to fifth years	619	391
	673	402

The company had no operating lease commitments

33 PENSION COMMITMENTS

The group operates various pension schemes and other long-term benefit plans for eligible employees. The assets of all schemes are held separately from those of the group and are invested by independent investment managers.

In the UK, the main scheme is the Halcrow Pension Scheme which is a defined benefit pension scheme. The Group also sponsors the Pension & Life Assurance Plan of Halcrow Fox & Associates Limited, The MEDA Pension & Death Benefits Scheme, the Prudential Platinum Pension Scheme and contributes to the Halcrow Rail section of the Railways Pension Scheme, all of which are also defined benefit pension arrangements. Contributions are paid to the schemes as agreed with the trustees of those schemes.

In Qatar and the United Arab Emirates the company provides end of service benefit plans that pay out a defined level of benefit based on members the length of a member's service and salary.

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33 PENSION COMMITMENTS - continued

All UK defined benefit pension schemes have been closed to new entrants for a number of years. The schemes were closed to future accrual with effect from 31 December 2007, with the exception of the Railways Pension Scheme and those members covered by the TUPE provisions. For those members affected, their defined-benefit pensions will remain linked to their pensionable salary (with certain restrictions) for a period of five years from 1 January 2008. Since this date, such members have had the right to earn current service benefits in the Halcrow Money Purchase Plan (HMPP).

The end of service plans in Qatar and UAE are still open to new members.

Over the year to 31 December 2012, contributions by the group of £10.5m were made to the main UK pension scheme (2011: £7.5m). Contributions have been reviewed as part of the full actuarial valuation of the main scheme with an effective date of 31 December 2008. Under the schedule of contributions, contributions of £11.6m is expected to be payable in 2013. Additional contributions dependent on Company performance may also be paid. Total contributions of 29.1% of pensionable salaries are being paid in respect of members who continue to accrue benefits (payable in aggregate by the members and the employer). Contributions of £0.8m were made to the Halcrow Fox scheme in line with the Group agreement with the Trustees. Contributions of £0.9m were made to the Railways Scheme. Further contributions were made to other smaller arrangements.

The group contributed £5.6m (2011: £7.0m) to the HMPP, which is a defined contribution arrangement.

Calculations based on a full actuarial valuation of the main UK pension scheme as at 31 December 2011 have been updated to the accounting date by an independent qualified actuary in accordance with FRS17. Other UK pension arrangements have been updated in a similar manner. The calculations for the end of service plans for Qatar and UAE have been based on a valuation using full membership data at May and November 2011 respectively. As required by FRS17, the value of the defined benefit liabilities has been measured using the projected unit method.

The following table sets out the key FRS17 assumptions as at 31 December 2012 used for the schemes. The tables below also set out as at 31 December 2011 and 31 December 2012 the fair value of assets, a breakdown of the assets into the main asset classes, the present value of the FRS17 liabilities and the deficit of assets below the FRS17 liabilities.

Assumptions	<u>UK</u>	<u>Qatar</u>	<u>UAE</u>
Price inflation	3.0% p a	n/a	n/a
Discount rate	4.5% p a	9.8% p a	5.2% p a
Pension increases (fixed)	5.0% p a	n/a	n/a
Pension increases (5% LPI)	2.85% p a	n/a	n/a
Salary Growth (on average)*	4.0% p a	5.0% p a	2.5% p a

The Halcrow Pension scheme

Assumptions	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Price inflation	3.0% p a	3.1% p a	3.4% p a	3.5% p a
Discount rate	4.5% p a	4.9% p a	5.6% p a	5.9% p a
Pension increases (fixed)	5.0% p a	5.0% p a	5.0% p a	5.0% p a
Pension increases (5% LPI)	2.85% p a	3.0% p a	3.3% p a	3.4% p a
Salary Growth (on average)*	4.0% p a	4.1% p a	4.4% p a	4.5% p a

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33 PENSION COMMITMENTS (continued)

The Halcrow Fox scheme and the Railways scheme

Assumptions	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Price inflation	3 0% p a	3 1% p a	3 4% p a	3 5% p a
Discount rate	4 5% p a	4 9% p a	5 6% p a	5 8% p a
Pension increases (fixed)	5 0% p a	5 0% p a	5 0% p a	5 0% p a
Pension increases (5% LPI)	2 85% p a	3 0% p a	3 3% p a	3 4% p a
Salary Growth (on average)*	4 0% p a	4 1% p a	4 4% p a	4 5% p a

*Adjustments have been made for expected increases in the short term

On the basis of the assumptions used for life expectancy, a male pensioner in the UK currently aged 65 would be expected to live for a further 22.6 years (2011 22.4 years). Allowance is made for future improvements in life expectancy, so a pensioner in the UK reaching the age of 65 in 2032 would be expected to live for a further 24.7 years.

Life expectancy is not a feature of the Qatar and UAE plans as these arrangements pay out lump sums to individuals on leaving service or retirement. The key demographic assumptions for these plans are employee turnover. Qatar is assumed to have on average 20% p a and UAE 5% p a employee turnover.

Expected return on assets

<u>Components</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Equities	7 2% p a	8 3% p a	9 0% p a
Bonds	3 1% p a	3 6% p a	5 0% p a
Property	6 8% p a	6 6% p a	6 7% p a
Other	2 5% p a	2 7% p a	2 2% p a
Overall returns expected over the accounting year	5 81% p a	5 6% p a	6 7% p a

The above expected rates of return are used to calculate the expected return figures stated below for the UK schemes. The rates are set to reflect long term expectations of the returns on each asset class held in the schemes at the start of each accounting year. The overall rate is the weighted average of the individual rates. The actual return on scheme assets over 2012 was £36,608,000 (2011 £15,376,000).

The arrangements in Qatar and UAE are unfunded and thus no expected return on asset assumptions are required.

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33 PENSION COMMITMENTS (continued)

<u>Components</u>	<u>31 December 2012</u>		
	<u>Fair Value</u> (schemes in deficit)	<u>Fair Value</u> (scheme in surplus)	<u>Total</u>
	£000	£000	£000
Equities	157,744	-	157,744
Bonds	217,872	-	217,872
Property	19,638	-	19,638
Other	39,314	-	39,314
<u>Balance Sheet</u>			
Total fair value of assets	434,568	-	434,568
Present value of liabilities	(659,331)	-	(659,331)
Deficit in the schemes	(224,763)	-	(224,763)
Employee share of deficit	-	-	-
Adjusted (deficit) / surplus in schemes	(224,763)	-	(224,763)
Related deferred tax	-	-	-
Net pension liabilities	(224,763)	-	(224,763)

<u>Components</u>	<u>31 December 2011</u>		
	<u>Fair value</u> (schemes in deficit)	<u>Fair value</u> (schemes in surplus)	<u>Total</u>
	£000	£000	£000
Equities	180,347	-	180,347
Bonds	182,345	167	182,512
Property	20,381	-	20,381
Other	21,280	-	21,280
<u>Balance Sheet</u>			
Total fair value of assets	404,353	167	404,520
Present value of liabilities	(597,434)	(142)	(597,576)
Deficit in the schemes	(193,081)	25	(193,056)
Employee share of deficit	3,480	-	3,480
Adjusted (deficit) / surplus in schemes	(189,601)	25	(189,576)
Related deferred tax	-	-	-
Net pension liabilities	(189,601)	25	(189,576)

Under FRS17, the schemes are represented on the balance sheet as net pension liabilities of £224,763,000 (2011 £189,576,000)

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33 PENSION COMMITMENTS (continued)

The scheme liabilities under FRS17 moved over the period as follows

	<u>2012</u>	<u>2011</u>
	£000	£000
Scheme liabilities at the beginning of the year	(597,576)	(482,876)
Current service cost	(1,703)	(3,030)
Interest on post-retirement liabilities	(28,814)	(26,673)
Actuanaal loss	(51,824)	(97,703)
Benefits paid	20,466	17,420
Transferred from creditors	120	(4,714)
Scheme liabilities at the end of the year	<u>(659,331)</u>	<u>(597,576)</u>

The value of the pension scheme assets moved over the period as follows

	<u>2012</u>	<u>2011</u>
	£000	£000
Scheme assets at the beginning of the year	404,520	393,543
Expected return on plan assets	23,143	26,428
Contributions including those of employees	13,907	9,632
Actuarial gain / (loss)	13,465	(7,663)
Benefits paid	(20,467)	(17,420)
Scheme assets at the end of the year	<u>434,568</u>	<u>404,520</u>

The following amounts have been included within operating profit under FRS17 in relation to the defined benefit schemes

	<u>2012</u>	<u>2011</u>
	£000	£000
Current service cost	1,703	3,030
Employee contributions	-	(1,212)
Total operating charge	<u>1,703</u>	<u>1,818</u>

The following amounts have been included as net finance costs under FRS17

	<u>2012</u>	<u>2011</u>
	£000	£000
Expected return on pension scheme assets	23,143	26,428
Interest on post-retirement liabilities	(28,814)	(26,673)
Net finance costs	<u>(5,671)</u>	<u>(245)</u>

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33 PENSION COMMITMENTS (continued)

The history of assets, liabilities and deficits over the last 5 years is

	<u>31 Dec</u> <u>2012</u> £000	<u>31 Dec</u> <u>2011</u> £000	<u>31 Dec</u> <u>2010</u> £000	<u>31 Dec</u> <u>2009</u> £000	<u>31 Dec</u> <u>2008</u> £000
Total fair value of assets	434,568	404,520	393,543	355,661	317,341
Present value of liabilities	(659,331)	(597,576)	(482,876)	(456,794)	(396,602)
Deficit in the schemes	<u>(224,763)</u>	<u>(193,056)</u>	<u>(89,333)</u>	<u>(101,133)</u>	<u>(79,261)</u>

The history of experience gains and losses over the last 5 years is

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Actual return less expected return on scheme assets (£000)	13,465	(7,663)	20,751	22,792	(66,995)
Percentage of scheme assets	3.10%	(1.89)%	5.27%	6.41%	(21.11)%
Experience gains and (losses) arising on schemes' liabilities (£000)	(190)	(7,000)	5,626	(21,900)	(8)
Percentage of the value of the schemes' liabilities	0.03%	1.17%	(1.17)%	4.79%	0.00%
Total amount recognised in the STRGL (£000)	(38,359)	(105,366)	6,015	(28,555)	(16,406)
Percentage of the value of the schemes' liabilities	(5.82)%	(17.63)%	1.25%	(6.25)%	(4.14)%

The cumulative actuarial losses recognised in the STRGL since 1 January 2002 are £270,692,000 (2011 a cumulative loss of £232,333,000)

The effect of retirement benefits on operating profit calculated in accordance with FRS17 as set out in the financial statements is as follows

	<u>2012</u> £000	<u>2011</u> £000
Funded defined benefit schemes	6,771	2,841
Defined contribution schemes	6,824	9,875
Charge per note 7b	<u>13,595</u>	<u>12,716</u>