

HALCROW GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

(continued)

22 OPTIONS (continued)

There were no options granted during 2011 and the group's share-based payments charge for 2011 is £228,000 (2010 £105,000). The charge in 2011 represents the accelerated charge and arising from the winding up of the scheme following the purchase of the group by CH2M HILL Companies, Ltd.

23 PENSION COMMITMENTS

The company 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 company and are invested by independent investment managers.

The main scheme is the Halcrow Pension Scheme which is a defined benefit pension scheme. The company 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.

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).

Over the year to 31 December 2011, contributions by the company of £7.5m were made to the main UK pension scheme (2010 £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 new schedule of contributions, contributions of £10.4m would be payable in 2012. Additional contributions dependent on Company performance may also be paid. Total contributions of 29.1% of pensionable salaries are being paid in respect of any members who continue to accrue benefits (payable in aggregate by the members and the employer). Contributions of £0.7m were made to the Halcrow Fox scheme in line with the Group agreement with the Trustees. Contributions of £0.8m were made to the Railways Scheme. Further contributions were made to other smaller arrangements.

The company contributed £7.0m (2010 £6.7m) to the HMPP, which is a defined contribution arrangement.

Calculations based on a full actuarial valuation of the main pension scheme as at 31 December 2008 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. 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 FRS 17 assumptions as at 31 December 2011 used for the schemes. The tables below also set out as at 31 December 2010 and 31 December 2011 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.

The Halcrow Pension scheme

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

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23 PENSION COMMITMENTS (continued)

The Halcrow Fox scheme and the Railways scheme

Assumptions	<u>2011</u>	<u>2010</u>
Price inflation	3.1% p a	3.4% p a
Discount rate	4.9% p a	5.6% p a
Pension increases (fixed)	5.0% p a	5.0% p a
Pension increases (5% LPI)	3.0% p a	3.3% p a
Salary Growth (on average) *	4.1% p a	4.4% 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 22.4 years (2010: 20.3 years). Allowance is made for future improvements in life expectancy, so a pensioner in the UK reaching the age of 65 in 2031 would be expected to live for a further 24.7 years.

Expected return on assets

The Halcrow Pension scheme

<u>Components</u>	<u>2011</u>	<u>2010</u>
Equities	8.3% p a	9.0% p a
Bonds	3.6% p a	5.0% p a
Property	6.6% p a	6.7% p a
Other	2.7% p a	2.2% p a
Overall returns expected over the accounting year	5.6% p a	6.7% p a

The Halcrow Fox scheme and the Railways scheme

<u>Components</u>	<u>2011</u>	<u>2010</u>
Equities	8.3% p a	9.0% p a
Bonds	3.6% p a	5.0% p a
Property	6.6% p a	6.7% p a
Other	2.7% p a	2.2% p a
Overall returns expected over the accounting year	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 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 2011 was a gain of £15,376,000 (2010: gain of £45,262,000).

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(continued)

23 PENSION COMMITMENTS (continued)

<u>Components</u>	<u>31 December 2011</u>		
	<u>Fair Value</u> (schemes in deficit)	<u>Fair Value</u> (scheme 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	(587,558)	(142)	(587,700)
Deficit in the schemes	(183,205)	25	(183,180)
Employee share of deficit	3,480	-	3,480
Adjusted (deficit) / surplus in schemes	(179,725)	25	(179,700)
Related deferred tax	-	-	-
Net pension liabilities	(179,725)	25	(179,700)

<u>Components</u>	<u>31 December 2010</u>		
	<u>Fair value</u> (schemes in deficit)	<u>Fair value</u> (schemes in surplus)	<u>Total</u>
	£000	£000	£000
Equities	190,409	-	190,409
Bonds	179,527	-	179,527
Property	19,300	-	19,300
Other	4,307	-	4,307
<u>Balance Sheet</u>			
Total fair value of assets	393,543	-	393,543
Present value of liabilities	(482,876)	-	(482,876)
Deficit in the schemes	(89,333)	-	(89,333)
Related deferred tax	24,120	-	24,120
Net pension liabilities	(65,213)	-	(65,213)

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23 PENSION COMMITMENTS (continued)

Under FRS17, the schemes are represented on the balance sheet as net pension liabilities of £179,700,000 (2010 £65,213,000)

The scheme liabilities under FRS17 moved over the period as follows

	<u>2011</u> £000	<u>2010</u> £000
Scheme liabilities at the beginning of the year	(482,876)	(456,794)
Current service cost	(1,282)	(1,200)
Interest on post-retirement liabilities	(26,673)	(26,776)
Actuarial loss	(94,289)	(14,736)
Benefits paid	17,420	16,630
	<hr/>	<hr/>
Scheme liabilities at the end of the year	<u>(587,700)</u>	<u>(482,876)</u>

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

	<u>2011</u> £000	<u>2010</u> £000
Scheme assets at the beginning of the year	393,543	355,661
Expected return on plan assets	26,428	24,511
Contributions including those of employees	9,632	9,250
Actuarial (loss)/gain	(7,663)	20,751
Benefits paid	(17,420)	(16,630)
	<hr/>	<hr/>
Scheme assets at the end of the year	<u>404,520</u>	<u>393,543</u>

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

	<u>2011</u> £000	<u>2010</u> £000
Current service cost	1,282	1,200
Employee contributions	(1,212)	(1,482)
Total operating charge	<hr/> <u>70</u>	<hr/> <u>(282)</u>

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

	<u>2011</u> £000	<u>2010</u> £000
Expected return on pension scheme assets	26,428	24,511
Interest on post-retirement liabilities	<hr/> <u>(26,673)</u>	<hr/> <u>(26,776)</u>
Net finance cost	<hr/> <u>(245)</u>	<hr/> <u>(2,265)</u>

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23 PENSION COMMITMENTS (continued)

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

	<u>2011</u> £000	<u>2010</u> £000	<u>2009</u> £000	<u>2008</u> £000	<u>2007</u> £000
Total fair value of assets	404,520	393,543	355,661	317,341	364,192
Present value of liabilities	(587,700)	(482,876)	(456,794)	(396,602)	(436,539)
(Deficit) / surplus in the schemes	<u>(183,180)</u>	<u>(89,333)</u>	<u>(101,133)</u>	<u>(79,261)</u>	<u>(72,347)</u>

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Actual return less expected return on scheme assets (£000)	(11,052)	20,751	22,792	(66,995)	(3,190)
Percentage of scheme assets	(2.73%)	5.27%	6.41%	(21.11%)	(0.88%)
Experience gains and (losses) arising on schemes' liabilities (£000)	(7,000)	5,626	(21,900)	(8)	152
Percentage of the value of the schemes' liabilities	1.19%	(1.17%)	4.79%	0.00%	(0.03%)
Total amount recognised in the STRGL (£000)	(101,952)	6,015	(28,555)	(16,406)	8,379
Percentage of the value of the schemes' liabilities	(17.35%)	1.25%	(6.25%)	(4.14%)	1.92%

The cumulative actuarial losses recognised in the STRGL since 1 January 2002 are £228,919,000 (2010 a cumulative loss of £126,967,000)

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

	<u>2011</u> £000	<u>2010</u> £000
Funded defined benefit schemes	1,095	325
Defined contribution schemes	6,843	12,065
Charge per note 6b	<u>7,938</u>	<u>12,390</u>

24 CAPITAL COMMITMENTS

Capital expenditure contracted for, but not provided for, in the financial statements at 31 December 2011 was £184,000 (2010 £256,000)

25 DERIVATIVES NOT INCLUDED AT FAIR VALUE

The company has derivatives which are not included at fair value in the accounts

	Fair value	
	<u>2011</u> £000	<u>2010</u> £000
Forward foreign exchange contracts	(242)	(376)
Interest rate swap contracts	-	(46)
	<u>(242)</u>	<u>(422)</u>

The company uses the derivatives to hedge its exposures to changes in foreign currency exchange rates and to manage its exposure to interest rate movements on its bank borrowings. The fair values are based on market values of equivalent instruments at the balance sheet date.

The company had an interest rate swap in place at the beginning of the year which matured on 1 December 2011.