

Halcrow Holdings Limited
Summarised annual
report and accounts

2004

Halcrow

Halcrow Holdings Limited

Summarised annual report and financial statements

31 December 2004

The summarised annual report and financial statements are only a summary of information in the company's annual financial statements and directors' report. They do not contain sufficient information to allow as full an understanding of the results of the group and state of affairs of the company and the group as would be provided by the full annual report and financial statements. A copy of the company's full annual report and financial statements, on which the auditors issued an unqualified opinion, may be obtained free of charge from The Secretary, Halcrow Holdings Limited, Vineyard House, 44 Brook Green, London W6 7BY.

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Halcrow Holdings Limited

Summarised directors' report

1 Principal activity

Halcrow Holdings Limited is the holding company for the Halcrow group of companies. The principal activity of the group is the provision of services as international consulting engineers.

2 Group results

The group made a profit on ordinary activities before taxation of £5,409,000 (2003: £4,517,000).

3 Dividend

In respect of the year ended 31 December 2004, the directors recommend a final dividend payment of 10p (2003: 10p) per ordinary share, payable to those members on the register at the close of business on 30 June 2005. This, together with the interim dividend paid in January 2005 of 10p (2003: 10p) per ordinary share, gives a total dividend for the year of 20p compared with 20p for the year ended 31 December 2003.

4 Business review and future developments

2004 was a year of significant achievement and development for the company. We achieved a record turnover of £244.0 million, compared to £211.3 million in 2003, an increase of 15.5 per cent. Acquisition of work was also ahead of target, 28 per cent higher than in 2003, with international work up 15 per cent. As noted in the chairman's report, staff numbers also grew to record levels.

Our profit before tax was £5.4 million which, while falling short of our target, exceeded our profitability in 2003 of £4.5 million. This was less than expected, partly due to the decline in the value of the US dollar, which affected some of our regions outside the UK, particularly the Middle East.

The transportation part of the business showed a steady performance all year, with the team exceeding its budget. Most market sectors performed well, with particularly strong performance by the highways team and Rail Link Engineering (RLE), the joint venture delivering the Channel Tunnel Rail Link in the UK.

We anticipate further uncertainty in the highways market following the Highways Agency's decision to regionalise some projects originally designated as of national importance. Our work on the A303 Stonehenge bypass, for example, may be delayed.

A Halcrow team is also providing technical advice on system integration, tunnelling and rail systems to Heathrow Express as the extension to the new fifth terminal moves towards construction.

The property business group suffered the cancellation of its biggest project – the new headquarters in Doha for Qatar Petroleum – at the beginning of the year, but recovered well.

A significant boost to this part of the business was the acquisition of Canadian company Yolles. It brings new expertise, a greater geographic spread and additional markets to Halcrow, and these opportunities will be developed during 2005.

The water and utilities part of the business had a difficult year in a number of markets, but a strong performance at the end of the year meant it beat its budget.

The UK wastewater market was down due to reduced volumes of work coming out of our framework contracts but was offset by strong performance internationally.

We have succeeded in joining Yorkshire Water's AMP4 major projects panel in partnership with Laing O'Rourke. Our efforts were also rewarded with a new agreement with Thames Water which could be extended through to 2015.

The consulting team did not meet its budget, although there were pockets of strong performance, particularly urban planning.

The environment team attracted less work outside the UK than anticipated, with the loss of work in Brazil a particular factor. Transportation planning was affected by client delays, but secured some successes to take into 2005. The team did achieve some notable wins during the year, however, including a land development feasibility study in Northants, UK, and the Dubai ring road development in the Middle East.

Following the acquisition of US company Han Padron Associates (HPA) in early 2005, Halcrow created a fifth business group: maritime. This incorporates Halcrow's existing skills in ports, dockyards and coastal work with a range of services in port and marine terminal development, coastal planning and engineering, recreational and urban waterfront development, and waterfront and offshore military installations.

The acquisition makes us one of the largest maritime consultancies in the world and offers us significant opportunities to expand our operations in these markets, particularly in North America.

Our international network of offices gives us more flexibility than many of our competitors. While we continue to seek out opportunities in all our locations, our focus for the immediate future is on North America, Europe, the Middle East, India and China.

The Middle East was our top-performing region during 2004. The amount of business it attracted was the highest in our recent history, with staff levels increasing by nearly 40 per cent. Work won was well above target, attracting £35 million of new projects, with a good deal of work carried over into 2005.

Urban water in the United Arab Emirates (UAE) is one of our successful markets. Net earnings have seen significant increases since 2002, on the back of wastewater work in Sharjah, sewerage work in Ras Al Khaimah and infrastructure design work in Dubai. In the UAE alone, the team is working on over 60 water-based projects, as well as contributing drainage designs to various infrastructure projects.

Europe, which is our second-largest region outside the UK, increased its profits significantly over 2004.

We have established local companies in Romania and Latvia, and are focusing on our other core markets of Hungary, Poland and Bulgaria where development plans are in place.

As part of its preparation for accession to the European Union, Romania has embarked upon an extensive programme of environmental investment. Halcrow, in association with

SWECO of Sweden, has been awarded a £1.6 million commission to oversee improvements to the potable water and sewerage systems and associated treatment facilities in Satu Mare.

In Australia, where our rail business continues to grow, we saw employee numbers rise beyond 50. We also reached the milestone of 50 employees in India.

In Pakistan, a growing market for Halcrow, we established computer-aided draughting and design capabilities. Other work includes a technical assistance study to demonstrate how the economic and social status of people in the deprived areas of the Punjab can benefit from sustainable management of natural resources.

We anticipate China being a key growth market for us in 2005. Our joint-venture company in Shanghai, which operates in the planning market, has grown from two employees two years ago to over 25.

We started the year with less than ten employees in North America and currently have over 300 across five offices. The acquisitions which enabled this expansion – Yolles in Canada and Han Padron Associates in the USA – fitted our strategy of niche-market acquisition to enhance our range of skills and broaden our client base, particularly in North America.

In Latin America, the Chile office, established in 2003, continues to grow, serving an increasing client base. We expect due diligence work for the International Finance Corporation to be a key market here.

In the UK, Halcrow's largest market, we were successful in renewing a number of frameworks, as well as winning new work.

Noteworthy was the retention of our framework contract with Worcestershire County Council, for which we supply highways services. An important part of our success was our ability to talk to the client and respond positively to feedback to improve our services. Halcrow's Worcester office has doubled in size in the last two years to meet the needs of clients.

In Scotland, Halcrow was appointed by Scottish Water Solutions as its regional design partner for north-west Scotland, helping to deliver Scottish Water's £1.8 billion capital investment programme. This aims to improve Scotland's water quality and wastewater treatment processes and is equivalent to 40 per cent of civil engineering investment in Scotland.

In the north of England we won the City of York Highways and Transportation Service Framework. Lasting five to seven years, the win is a good example of cross-business-group co-operation and accords some of its success to the principles established by Halcrow's change programme.

Strong work acquisition figures meant we started 2005 with a strong workbook.

Business improvement is a key activity for 2005, important elements of which are bid effectiveness, client relationships, commission delivery, managing our people and controlling our costs.

We also have the challenge of consolidating our new operations, while continuing with our strategy of growth and acquisition.

5 Directors

The following served on the board of directors during the period under review and to the current date:

A K Allum, chairman
P G Gammie, chief executive
L G Buck
C A Fleming
N Holt
D J Kerr
Sir Michael Angus, non-executive director
Professor R Flanagan, non-executive director

6 Non-statutory accounts

The financial information set out herein does not constitute the company's statutory accounts for the year ended 31 December 2004, but is derived from those accounts. Statutory accounts for 2004 will be delivered to the Registrar of Companies following the company's annual general meeting. The auditors have reported on those accounts; their report dated 26 May 2005 was unqualified and did not contain statements under s237(2) or (3) Companies Act 1985.

Registered office:
Vineyard House
44 Brook Green
London W6 7BY

Registered number:
1674044

By order of the board



K Mair
Secretary
26 May 2005

Independent auditors' statement to the directors of Halcrow Holdings Limited

We have examined the summary financial statements which comprise the summarised directors' report, the summarised consolidated profit and loss account and the summarised consolidated balance sheet.

This report is made solely to the company's directors in accordance with our engagement letter dated 13 December 2002. Our audit work has been undertaken so that we might state to the company's directors 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 directors, 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 summarised annual report and financial statements which are prepared solely for the purpose of providing additional information to the shareholders for the Annual General Meeting.

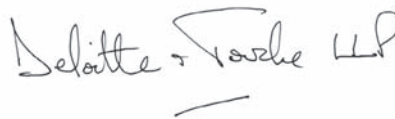
Our responsibility is to report to you our opinion on the consistency of the summary financial statements with the full annual accounts and directors' report. We also read the other information contained in the summarised annual report and financial statements, as described in the contents section, and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the summary financial statements.

Basis of audit opinion

We conducted our work having regard to Bulletin 1999/6 *The Auditors' Statement on the Summary Financial Statement* issued by the United Kingdom Auditing Practices Board

Opinion

In our opinion the summary financial statements are consistent with the full annual accounts and directors' report of Halcrow Holdings Limited for the year ended 31 December 2004.



Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
Reading
26 May 2005

Summarised consolidated profit and loss account for the year ended 31 December 2004

	2004 £000	2003 £000
Group turnover	243,981	<u>211,262</u>
Share of profits of joint ventures and associated undertakings	24	<u>128</u>
Interest receivable and similar income and interest payable and similar charges	250	<u>237</u>
Profit on ordinary activities before taxation	5,409	4,517
Tax on profit on ordinary activities	(2,012)	<u>(1,799)</u>
Profit for the year after taxation	3,397	2,718
Ordinary dividends	(598)	<u>(515)</u>
Retained profit for the year	2,799	<u>2,203</u>
Directors' emoluments	1,060	<u>888</u>

There are no recognised gains or losses for the current and preceding financial periods other than as stated above. Accordingly, no statement of total recognised gains and losses is presented.

Summarised consolidated balance sheet 31 December 2004

	2004 £000	2003 £000
Fixed assets	30,882	19,220
Current assets	102,031	90,829
Creditors – amounts falling due within one year	(72,995)	(66,392)
Net current assets	29,036	24,437
Total assets less current liabilities	59,918	43,657
Creditors – amounts falling due after more than one year	(14,321)	(1,232)
Provisions for liabilities and charges	(4,507)	(4,157)
Net assets	41,090	38,268
Capital and reserves	41,090	38,268

The financial statements were approved by the board of directors on 26 May 2005 and signed on its behalf by



A K Allum
Director



P G Gammie
Director

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