

Business review

Design and Engineering Solutions

	Six months to 30 Sept 2006	Six months to 30 Sept 2005
Revenue	£164.5m	£137.5m
Operating profit	£12.0m	£10.9m
Operating margin	7.3%	7.9%
Comparable operating margin	7.8%	7.9%
Work in hand	87%	81%
Staff at 30 September	4,269	3,778

Design and Engineering Solutions produced a strong first half performance with revenue up by 20% and growth in staff numbers of 13%. The growth generated an increase in operating profit of £1.1m (10%) although operating margins fell slightly. This fall is primarily due to increased pension service costs as the comparable operating margin was broadly the same as last year at 7.8% (2005: 7.9%).

Design and Engineering Solutions is operating in good markets. In particular:

- We continue to grow our design and architecture skills working for a range of UK public and private sector clients. In addition, we have had success in winning a number of concept design engagements in overseas markets.
- Infrastructure design work on the water companies' current capital programmes is increasing and we have recently won a nine-year framework contract with Southern Water to provide strategic asset management and engineering services.

- Our operations for clients in the UK energy market continue to grow and we have deepened our relationships with key clients such as British Energy and National Grid.

- We continue to make progress in the nuclear decommissioning market.

- We have built a strong Defence Systems operation aided by our work on the Future Rapid Effects System (FRES) project and are well placed to secure work in future phases.

- Following the acquisition of MSL Engineering, which contributed revenue of approximately £3.0m in the first six months of the financial year, we are now able to offer our Oil and Gas clients an improved range of services.

- Our relationship with Airbus remains strong and our work extends beyond the A380 programme and includes work undertaken on the A350 and A400M.

Outlook

The outlook for the Design and Engineering Solutions segment remains good. The recruitment and retention of staff remains a key priority and we continue to increase our overseas recruitment activity. Following the acquisition of MSL, we continue to review selective acquisitions to strengthen our offering in those markets that offer the greatest potential.

Business review

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Highways and Transportation

	Six months to 30 Sept 2006	Six months to 30 Sept 2005
Revenue	£119.6m	£111.7m
Operating profit	£4.0m	£5.2m
Operating margin	3.3%	4.7%
Comparable operating margin	3.8%	4.7%
Work in hand	92%	87%
Staff at 30 September	3,076	2,869

During the period, revenues grew by 7% compared with the same period last year principally as a result of the mobilisation of the Gloucestershire County Council (GCC) contract. This five-year contract, extendable to 10 years, is expected to deliver annual revenues of around £30m. Operating profit in the period was down by £1.2m compared with last year primarily due to the set up costs of the GCC contract, a relatively slow start to the year in our planning and design businesses and the impact of higher pension service costs. The comparable operating margin was 3.8% (2005: 4.7%).

On 1 September 2006 we commenced service delivery on a 10-year £250m integrated contract to provide transport consultancy and highways management services for Cambridgeshire County Council.

There continues to be demand for our major projects design teams in the UK and we are bidding on a number of major UK highway projects. Work is now flowing steadily through a number of recently secured, strategically important frameworks such as the four-year Highways Agency project support contract. Our Transport Planning business has invested in significant tendering activity and provided support to a number of Local Authorities bidding for Transport Innovation Funding.

Outlook

The outlook for our Highways and Transportation segment remains in line with our expectations. The second half of this year will benefit from the commencement of the Cambridgeshire contract and an increased contribution from the Gloucestershire contract.

Rail

	Six months to 30 Sept 2006	Six months to 30 Sept 2005
Revenue	£112.7m	£87.8m
Operating profit	£1.5m	£1.1m
Operating margin	1.3%	1.3%
Comparable operating margin	1.9%	1.3%
Work in hand	89%	98%
Staff at 30 September	1,890	1,866

Our Network Rail related activities have continued to recover from the recent poor market conditions with work on our major re-signalling contracts at Port Talbot and Basingstoke contributing to the significant increase in revenue compared with last year. The operating performance of the UK rail business in the first half of this year has improved and the order book has strengthened with a number of major wins including Crossrail, Rugby re-signalling and the Cardiff and Newport re-signalling frameworks. Secured work now represents 89% of full year forecast revenue. The results in the first half were, however, affected by losses on two EU funded feasibility study projects for the Polish state railway and the impact of higher pension service costs. The comparable operating margin was 1.9% (2005: 1.3%).

During the period, our work on the Metronet stations programme generated no profit against a loss for the same period last year. A small profit was made on some staff seconded to the Joint Venture.

Outlook

Our Rail segment continues to recover. The expenditure plans of Network Rail indicate a healthy ongoing level of infrastructure investment which, combined with the emerging Passenger Transport Executive market, represents significant potential for growth.

Middle East and China

	Six months to 30 Sept 2006	Six months to 30 Sept 2005
Revenue	£53.6m	£30.5m
Operating profit	£3.2m	£1.5m
Operating margin	6.0%	4.9%
Work in hand	87%	96%
Staff at 30 September	2,377	1,571

Driven by its excellent reputation in the region, our Middle East business has continued its considerable growth, which is underpinned by a buoyant market and the establishment of a new rail business in Dubai. Operating profits increased significantly and we now employ around 1,500 staff in the Middle East, up from 1,000 six months ago. Our reputation in the region and diverse skills gives us access to a large number of opportunities.

The most significant new project is the Dubai Metro light rail scheme for which Atkins is acting as lead consultant for the Japanese-Turkish Metro Joint Venture for all works comprising the Red Line. Our design and programme management work includes 26 stations (four underground), 53km of viaducts and tunnelling and all associated infrastructure and building works. This project utilises Atkins' core strengths and uses skills from across the Group.

Our Chinese business has made steady progress and is now trading profitably. Staff numbers have grown to 650 up from 550 at the year end, with a further 230 site-based. Our focus in China continues to be on urban planning and architectural design.

Outlook

The outlook for this segment is good and secured work represents 87% of full year forecast revenue. In the Middle East our wider offering now includes the new rail business and places us in a strong position to capitalise on this growing market. In China we continue to focus on secondary and tertiary cities which are attracting increasing amounts of investment.

Management and Project Services

	Six months to 30 Sept 2006	Six months to 30 Sept 2005
Revenue	£93.6m	£83.5m
Operating profit	£5.6m	£5.7m
Operating margin	6.0%	6.8%
Comparable operating margin	6.1%	6.8%
Work in hand	85%	82%
Staff at 30 September	2,226	2,026

Faithful+Gould has benefited from an improved performance in the USA. The pharmaceutical, oil and gas and property markets especially have contributed to the first six months of the year, whilst trading in the UK remains satisfactory.

During the period Management Consultants commenced its new five-year framework contract providing programme and business process management to the Government Communications Headquarters (GCHQ). The DfES has awarded us two further contracts worth £11m over the next three years.

The Management Consultants business is implementing an organisational change to position it for future growth and Mantix, which was acquired in June 2006, is being incorporated into the new structure. The integration costs associated with the acquisition have had an impact on the results in the first half of the year.

Outlook

Prospects for the Management and Project Services segment remain positive. Following the acquisition of Mantix, the Management Consultants business is positioned to win further work in an increasingly competitive market and the markets in the UK and USA give Faithful+Gould good opportunities to grow.

Business review

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Asset Management

	Six months to 30 Sept 2006	Six months to 30 Sept 2005
Revenue	£24.6m	£30.9m
Operating profit	£0.6m	£0.2m
Operating margin	2.4%	0.6%
Comparable operating margin	2.8%	0.6%
Work in hand	93%	83%
Staff at 30 September	662	915

Our Asset Management business performed in line with expectations benefiting from contract wins with HBOS and the Metropolitan Police where we are acting as managing agents for facilities management services. We have also extended our eight year association with Barclays Bank Plc through the award of a new five-year commission and started service delivery to the new facility at Colchester Garrison. Revenue fell compared with last year as the previous local MoD Defence Estates contracts have been replaced by the new Defence Housing Prime Contract, which is carried out through a joint venture company in which we have a 25% stake.

Outlook

Asset Management continues to be a niche business with opportunities in the financial services and public sectors.

Equity Investments

	Six months to 30 Sept 2006	Six months to 30 Sept 2005
Revenue	£36.9m	£34.2m
Operating profit	£3.0m	£1.3m
Operating margin	8.1%	3.8%
Staff at 30 September	919	875

The results of the Equity Investments Segment relate largely to Lambert Smith Hampton (LSH), the Group's commercial property business. LSH has continued to make progress building upon the results of the previous year.

The results of this segment also benefited from payments relating to completion of phase one of the Colchester Garrison project.

Outlook

LSH is well placed to benefit from positive market conditions with property investment demand expected to remain strong in the near term.

Metronet

The day-to-day operational performance of the lines for which Metronet is responsible has been below expectations in the first half of the year. Metronet has incurred financial penalties and additional costs relating to track maintenance and signalling issues on the sub surface lines in early summer. These have impacted Metronet's financial results in the first half of the year.

The stations modernisation programme remains a cause for concern with only two further stations being completed and accepted back into service over the past six months. This has continued to impact the Group's profitability.

In November, the PPP Arbiter issued his first annual guidance report on Metronet's performance. The report covers the period from 3 April 2003 to 31 March 2006. The Arbiter's conclusions are broadly in line with our own assessment. The intention of the annual review process was to provide a non-binding report which provides useful guidance on the areas of improvement necessary in order to achieve the goal of Metronet being economic and efficient at the end of the first review period in September 2010. Metronet was already addressing many of the issues raised by the Arbiter and is working with all of its supply chain, including that element contracted to its shareholders, and London Underground to ensure that Metronet will be economic and efficient overall.

Atkins continues to support Metronet through the secondment of a number of our senior staff into Metronet and Trans4m. The group currently has approximately 750 people (600 at March 2006) working on this project.

The table below summarises the Group's financial results relating to its entire involvement in the PPP project. It comprises the Group's share of the results of the Metronet and Trans4m Joint Ventures together with the operating results of the Atkins supply chain and is collectively referred to as the 'Metronet Enterprise'.

	Six months to 30 Sept 2006 £m	Six months to 30 Sept 2005 £m
Metronet PPP – share of profit after tax	–	2.3
Costs of letters of credit	(0.7)	(1.0)
	(0.7)	1.3
Supply chain		
Trans4m – share of loss after tax	(0.6)	–
Business Segments	0.9	(0.3)
Metronet Enterprise	(0.4)	1.0

Outlook

The recovery of the efficiency of the capital programme together with the stabilisation and continued improvement of the day-to-day operational performance remains crucial to the eventual success of the Metronet Enterprise and the realisation of Atkins' returns. Whilst some progress is being made it is essential that Metronet performs in an economic and efficient manner. Metronet, in consultation with all of its stakeholders, including Atkins and London Underground, is working to ensure that this is achieved.