

Finance review

Income statement

The results for the six months to 30 September 2006 are summarised below.

	Six months to 30 Sept 2006 £m	Six months to 30 Sept 2005 £m
Group profit before tax	31.2	24.0
Joint Venture (loss)/profit before tax	(0.4)	6.2
Profit before tax (before JV tax)	30.8	30.2
Joint Venture tax	0.1	(2.0)
Profit before tax	30.9	28.2
Taxation	(8.9)	(7.0)
Profit for the period	22.0	21.2

Taxation

The Group's underlying tax rate for the period (including the tax on the Group's Joint Ventures) was 28.6% compared to 29.8% for the six months ended 30 September 2005. The reduction in the Group's underlying tax rate is mainly due to the increased proportion of profits earned in lower tax overseas territories.

Pensions

Pension costs

The cost of the Group's defined benefit pension schemes for the six months to 30 September 2006 of £12.5m is the same as last year. The current service cost has increased by £2.3m due to a reduction in the discount rate used, however, this has been offset by an equal reduction in net finance costs. This change reduces the Group's operating margins by 0.4% but has no impact upon the Group's overall profitability. The comparable operating margin restates 2006 margins in respect of the IAS 19 discount rate to achieve consistency with the rate used in 2005.

Funding

The Group continued to pay accelerated contributions into the Atkins Pension Plan (six months to 30 September 2006: £12.5m; six months to 30 September 2005: £5.0m).

Although the next formal actuarial valuation will take place as at 1 April 2007, an estimated actuarial valuation indicated that the deficit had increased from £69m at 1 April 2004 to approximately £180m at 30 June 2006. The Group has commenced discussions with the Trustees of the Atkins Pension Plan to agree ways to limit any further increases in the Group's defined benefit liabilities, other than for protected schemes.

IAS 19

Under IAS 19, Employee Benefits, the Group recognised a post-tax retirement benefit liability of £219.1m at 30 September 2006 (2005: £202.1m). For the six months to 30 September 2006 the Group posted a post-tax actuarial loss of £15.4m through equity (2005: £10.7m).

The key assumptions and sensitivities used in the IAS 19 valuation are detailed in note 11 to this interim financial information.

Earnings per share (EPS)

Basic EPS for the period was 21.9p (six months to September 2005: 21.3p). Fully diluted EPS was 21.5p (2005: 21.0p).

Cash flow

Net funds reduced by £41.0m from the start of the financial year to £135.6m at 30 September 2006. A reconciliation between profit for the period and cash generated from continuing operations is shown in note 9 to this financial information. The cash used in operations was £7.3m compared with a cash generation of £29.3m in the same period last year. This reversal was anticipated and included the effects of the normal seasonality of cash flows, a slight worsening of the Group's working capital position, growth in the business and the further cash contributions to the Atkins Pension Plan referred to above. A further £8.9m was spent on acquisitions in the period, principally the acquisition of Mantix Group Limited.