

What  
it takes...

**plan  
design  
enable**

## **Environmental impact**

At Atkins we are genuinely concerned about our environmental performance. In order to help us reduce our environmental impact, you can opt to receive electronic versions of our Annual, Interim and Corporate Responsibility reports instead of printed paper. As well as the obvious 'green' benefits, you'll find the electronic version is far easier to search through and there are significant cost benefits to the Atkins Group. Please visit [www.myatkinsshare.com](http://www.myatkinsshare.com) where you can sign up for the service. If you subscribe, we'll donate £1 to one of our chosen charities on your behalf.

The majority of our work is focused on the efficient operation of our clients' capital programmes. We apply our wide spectrum of skills to the planning, designing and enabling of capital programmes in the built environment – the 'life support systems' for society. As the built environment becomes increasingly complex, we are helping our clients develop strategies to succeed.

## Plan

We plan all aspects of our clients' projects, conducting studies covering technical, logistical, legal, environmental and financial considerations.

## Design

We design systems, processes, buildings and civil structures. We develop cutting edge solutions and combine them with tried and tested technologies to achieve an optimal result.

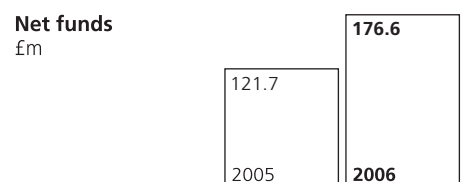
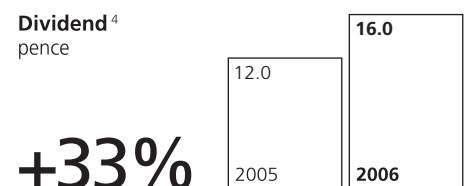
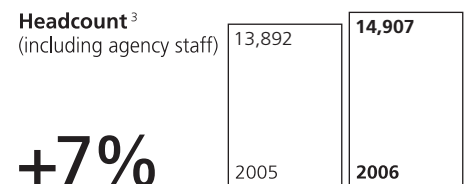
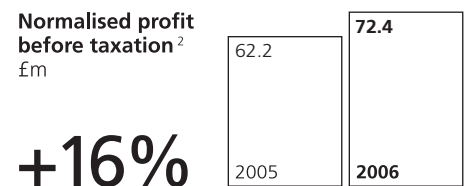
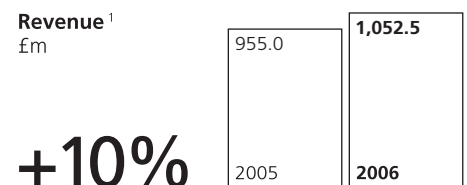
## Enable

We enable complex programmes, delivering one-off projects and managing processes to reduce timescales, cost and disruption, allowing our clients to focus on their core operations.

### Contents

01	Financial highlights	42	Consolidated and parent company statements of recognised income and expense
02	Overview of Atkins	43	Consolidated and parent company balance sheets
03	Chairman's statement	44	Consolidated and parent company cash flow statements
04	Operating and financial review	45	Notes to the financial statements
27	Board of directors	88	Five year summary
28	Directors' report	91	Investors' information
31	Corporate governance report		
35	Remuneration report		
41	Auditors' report		
42	Consolidated income statement		

## Financial highlights



Notes  
1 Revenue excludes the Group's share of revenue from Joint Ventures.  
2 Normalised profit before taxation is defined as profit before taxation excluding Joint Venture taxation and any profits or losses from disposals. This is considered to be a more representative measure of underlying trading. The comparative figure for 2005 excludes a goodwill impairment charge of £7.2m in that year.  
3 Headcount is shown on a 'full time equivalent' (FTE) basis.  
4 Dividend relating to the year, comprising the interim dividend paid in the year and the proposed final dividend.

# What it takes... to build our identity

Atkins is the largest engineering consultancy in the UK, the largest multidisciplinary consultancy in Europe and the fourth largest design firm in the world.<sup>1</sup>

## Design and Engineering Solutions

We deliver high value engineering and innovative design to a wide range of clients in the public, regulated and private sectors. Our areas of operation include water and environment, nuclear and power, aerospace and defence, oil and gas and infrastructure design. Overall we have the largest market share in the UK engineering and design consultancy market.<sup>2</sup>

## Rail

We are the largest rail consultancy operating in the UK.<sup>2</sup> We provide services covering a wide range of engineering disciplines, including signalling, civils, electrification and specialist services in strategic planning, safety, systems integration and asset management.

## Management and Project Services

We provide management and IT consultancy and programme, project and cost management services. We are one of the largest project managers and cost consultants worldwide<sup>3</sup> and one of the 20 largest management consultants operating in the UK.<sup>4</sup>

## Equity Investments

The Equity Investments segment principally comprises Lambert Smith Hampton, our commercial property business which operates independently under its own brand, and our interest in PPP/PFI Joint Ventures. Our largest Joint Venture is Metronet, the consortium responsible for upgrading, maintaining and running two thirds of the London Underground network.

## Highways and Transportation

We are the UK's largest provider of highways and transportation consultancy and related services.<sup>2</sup> Our principal activities are transport planning, design of new roads and road improvements, development of intelligent transport systems, management of road maintenance and integrated road network management.

## Middle East and China

In the Middle East, we provide design and engineering services for buildings, transportation and other infrastructure through our seven offices in the Gulf and India. In China we provide planning, urban design, architectural and engineering services to the mainland market and Hong Kong.

## Asset Management

We provide independent property asset management services, focusing on delivery of top quality facilities management services to selected public and private sector clients.

### Sources:

- 1 New Civil Engineer Consultants File, 2006; Swedish Federation of Consultant Engineers & Architects, 2005; Engineering News Record, 2005.
- 2 New Civil Engineer Consultants File, 2006.
- 3 Building Magazine.
- 4 Management Consultancies Association.

# ...to achieve excellence

The work we are winning is of increasingly higher quality and this continues to attract first class people to Atkins.

### Overview

My first full year as Chairman of Atkins has seen the Group continue to make substantial progress. The business performed well last year, with normalised profit before taxation up by 16%. Moreover, headcount (including agency staff) rose by over 1,000, providing a good platform for further growth. The work we are winning is of increasingly higher quality and this continues to attract first class people to Atkins. I am satisfied that the Group's strategic priorities are sound and that the markets in which we operate are strong.

Sadly the successes of last year have been overshadowed by the tragic events of 30 March 2006, when six Atkins employees and four of their friends or relatives were among the 58 who died in the Bahrain boat disaster. Our thoughts remain with those affected.

### Results

The business produced good results last year and we improved operating profit significantly, through a combination of revenue growth and margin improvement. In particular, the Design and Engineering Solutions and Management and Project Services segments grew substantially and our business in the Middle East has gone from strength to strength. Visibility of earnings has continued to improve, with nearly two thirds of budgeted revenue for 2006/07 secured at the year-end.

The Group's results were adversely impacted by the performance of the Metronet supply chain, which reported a pre-tax loss of £4.2m, compared to a profit of £4.5m last year. Metronet continues to receive considerable attention from senior management and we are determined, along with the other shareholders, to make the project succeed.

### People

We continue to place considerable emphasis on attracting and developing top quality people. In an increasingly diverse company, maintaining a culture of innovation and excellence requires an environment in which talented people can flourish – this remains an important objective for the Board. During the year we made progress in this area, as demonstrated by the many awards won by the Group.

Once again, I would like to thank our colleagues throughout the Group for their great efforts in making last year another successful one.

### Board of directors

Struan Robertson retired as a director of the Company on 7 September 2005, after many years of valuable service.

On 6 October 2005 James Morley replaced Struan as Senior Independent director. On the same date Sir Peter Williams joined the Remuneration Committee, becoming its Chairman, and Christopher Kemball joined the Audit Committee.

### Dividend

The Board is recommending a final dividend of 11.5p, making the total dividend for the year 16.0p (2005: 12.0p), an increase of 33%. This reflects our continuing confidence in the prospects of the Group and represents a progression towards our stated policy of paying a dividend that is approximately 2.5 times covered by cash-backed normalised earnings per share.

### Ed Wallis

Chairman  
22 June 2006

# ...to deliver growth

## Overview of the business and performance in the year

We are confident that the continued focus on people and our core skills will enable the Group to achieve further profitable growth.

### Results

The Group made good progress last year and produced significantly increased profits. Revenue grew by 10%, operating margins increased to 6.0% and headcount, including agency staff, grew by over 1,000.

During the year we made substantial investment in initiatives targeted to improve the development and retention of our staff and this is starting to yield benefits. The Metronet Enterprise, however, continues to present challenges and this has impacted the Group's overall profitability.

### Outlook

The outlook for the Group remains positive and demand for our services is strong in all of our markets. At the end of the year, work in hand was 62% of our budgeted revenue for 2006/07, compared to 57% last year. We are confident that the continued focus on people and our core skills will enable the Group to achieve further profitable growth.

### Our business

Atkins provides professional, technology-based consultancy and support services. We are the largest engineering consultancy in the UK, the largest multidisciplinary consultancy in Europe and the fourth largest design firm in the world.

Our core business is helping our clients to **plan, design and enable** their capital programmes. We are able to plan all aspects of our clients' projects, conducting feasibility studies and impact analyses covering technical, logistical, legal, environmental and financial considerations. We design systems, infrastructures, processes, buildings and civil structures. We enable our clients' complex programmes by optimising procurement methods and managing supply chains on their behalf, to reduce timescales, cost and risk.

Our greatest asset is our rich diversity of skills. We employ engineers, architects, surveyors, cost and project managers, planners, management consultants, geologists and experts in information technology, telecommunications and environmental management.

The Group's operations and customers are primarily UK-based, 85% of revenue being derived from UK operations (2005: 87%). Our most significant overseas businesses are in the Middle East, China and the US. Our client base covers a range of business sectors. Approximately 40% of our business is with the UK public sector, 27% with regulated industries and 33% with private sector clients.

We report our activities in seven business segments. An overview of these businesses is shown on pages 2 and 3. Fuller details of activities and results by business segment are shown below.

### Our business objectives and strategy

Our prime business objective is to deliver sustainable growth in shareholder value. This requires earnings growth in the long term, combined with strong cash generation. Our strategy, as outlined last year, is to develop further the Group's **identity**, drive **excellence** in all that we do and thus deliver core **growth**. During the year we made progress on these strategic objectives.

# ...to drive our strategy

We are committed to driving forward our strategy for growth, by maximising the value of our tremendous expertise and achieving excellence.

We apply our wide spectrum of skills to the planning, designing and enabling of capital programmes in the built environment – the ‘life support systems’ for society. As the built environment becomes increasingly complex, we are helping our clients develop strategies to succeed. We strive to make the complex simple, delivering value to our clients by helping them meet and overcome their challenges. Our **identity** is based on our tremendous expertise across many disciplines, as illustrated by the case studies shown throughout this Annual Report. We deliberately use the word ‘identity’ rather than ‘brand’ – the concept encompasses more than logos; identity is knowing what you are good at and what you want to be better at.

We seek to drive **excellence** by focused investment, applying technology to increase the effectiveness of our high calibre people and products and hence deliver a higher quality and cost-effective service to our clients. The capabilities of our people are paramount. We seek to recruit the very best people and then train and develop them throughout their careers with Atkins. During the year we considerably increased staff training via the ongoing roll-out of a new Group programme and also commenced a talent mobility initiative to broaden the experience of staff across the Group’s business areas. Our Management Development Programmes have benefited over 2,000 individuals since their inception as we have aimed to engage and enhance our management talent pool. We are beginning to see the fruits of our revised and improved recruitment programmes. We are also forging relationships with selected universities, in order to foster academic excellence, both now and in the future. These include Imperial College London and Cranfield and Warwick Universities. We also sponsor Chairs at Greenwich University and the British University in Dubai. During the year we recruited over 200 new graduates.

We are also developing a number of overseas design offices that will principally provide technical services for UK-based projects. The first of these are in the Middle East and India, taking advantage of the availability of highly qualified people in these regions. The operations are still at the incubator stage but they have the potential to help address certain skills shortages within the UK.

We remain committed to improvement of our IT infrastructure to provide better and faster systems, enabling our people to concentrate on service delivery to our clients. Last year we invested some £8m in a Group-wide hardware replacement programme, while plans for this year include implementation of technology to improve data sharing with clients and suppliers.

We recently inaugurated the Atkins Excellence Awards, which were designed to recognise and showcase examples of great achievement throughout the Group. This venture has been highly successful, generating over 400 entries from all parts of the organisation.

As a consequence of enhancing identity and driving excellence, we aim to achieve core **growth** – bringing our diverse skills to bear in business areas that we understand well. This includes growth in existing markets and the extension and improvement of our range of services, through organic growth geographically and by selective acquisitions in targeted areas. The acquisition of MSL Engineering Limited, a technology-led offshore oil and gas consultant, and Mantix Group Limited, a specialist programme management consultant, are recent examples of such targeted investments.

## ...to create a winning team

- **One of the UK's 'Top 20 Best Big Companies to Work For' in 2006**

Sunday Times

- **Runner-up, Best Places to Work in IT**

Computer Weekly Awards 2005

- **No. 1 consultancy in:**

Health & Safety, Defence, Building, Facilities Management, Geotechnics, Public Sector, Rail, Road, Telecoms, Transport Planning, Tunnelling and Waste sectors NCE Consultants File 2006

- **Employee numbers up by over 1,000**

- **Top 100 Graduate Employer**

The Times

- **QS employer of the year**

QS News Awards 2005

- **Most popular graduate recruiter in the Built Environment sector**

Target Awards 2005

### Winners

- **RoSPA Order of Distinction 2006**

- **Winner, MCA Management Awards 2006**

- **Winner, APM Project Management Awards 2005**

# Review of the year

## Key performance indicators

All the Group's KPIs have shown an improvement compared to last year.

The Group's management uses a range of performance measures to monitor and manage the business. Certain of these are particularly important in monitoring our progress in generating shareholder value and are considered key performance indicators (KPIs). Our KPIs measure past performance and also provide information to allow us to manage the business into the future. Revenue, operating profit, EPS and operating cash flow indicate the volume of work we have done, its profitability and the efficiency with which we have turned operating profits into cash; work in hand measures our secured workload over the next year; staff numbers, total headcount and staff turnover show us how effective we have been in recruiting and retaining our key resource. KPIs for 2005/06 are shown in the table below, along with prior year comparatives.

	2006	2005	% change in year
<b>Financial metrics</b>			
Revenue <sup>1</sup>	<b>£1,052.5m</b>	£955.0m	+10%
Operating profit <sup>2</sup>	<b>£62.9m</b>	£50.2m	+25%
Operating margin <sup>2</sup>	<b>6.0%</b>	5.3%	+0.7% pts
Operating cash flow	<b>£111.7m</b>	£88.1m	+27%
Normalised fully diluted EPS <sup>3</sup>	<b>50.1p</b>	42.5p	+18%
<b>Work in hand<sup>4</sup></b>	<b>62%</b>	57%	+5% pts
<b>People</b>			
Staff at 31 March <sup>5</sup>	<b>13,651</b>	12,997	+5%
Total headcount (inc. agency staff) at 31 March <sup>5</sup>	<b>14,907</b>	13,892	+7%
Staff turnover <sup>6</sup>	<b>14.1%</b>	15.0%	-0.9% pts

1 Revenue excludes the Group's share of revenue from Joint Ventures.

2 The operating profit and margin for 2005 are shown before a goodwill impairment charge of £7.2m.

3 EPS is stated after allowing for the dilutive effect of share options and normalised to exclude any profits or losses from disposals. EPS for 2005 excludes a goodwill impairment charge of £7.2m.

4 Work in hand is the value of contracted and committed work as at 31 March that is scheduled for the following year, expressed as a percentage of budgeted revenue for the year.

5 Staff numbers and headcount are shown on a 'full time equivalent' (FTE) basis.

6 Staff turnover is number of staff resignations in the year, expressed as a percentage of average staff numbers.

All the Group's KPIs have shown an improvement compared to last year.

The Group's revenue grew by 10%, with increases in most parts of the business and particularly strong growth in the Design and Engineering Solutions and Middle East and China segments. Operating profit increased by 25% and the Group's underlying operating margins improved by 0.7% points to 6.0%. The margin achieved by the Management and Project Services segment increased significantly and the Asset Management segment returned to profitability. Margins in the Rail business recovered slightly in the second half of the year, though its full year profits were reduced by Metronet supply chain activities. The Metronet supply chain also impacted the margin achieved by Design and Engineering Solutions, though its margins remained in excess of 8%, reflecting the underlying strength of the business. The Highways and Transportation segment produced good growth in its higher margin activities. Operating cash flow in the year was £111.7m, up by £23.6m. As explained in the Financial performance section below, the Group's good cash flow was largely due to a further reduction in working capital. Normalised fully diluted EPS grew by 7.6p per share to 50.1p, an increase of 18%.

We express work in hand in terms of the security of the following year's budgeted revenue, the most relevant measure for the Group. At 31 March 2006 we had secured 62% of budgeted revenue for 2006/07, compared with 57% at the previous year-end. This gives us confidence for the coming year.

Staff numbers and headcount (including agency staff) increased by 5% and 7% respectively. Total headcount increased by approximately 1,000, with particularly strong growth in Design and Engineering Solutions and the Middle East. The recruitment of additional high calibre staff is a key part of our strategy and we will continue to focus on this area. The fall in staff turnover from 15.0% to 14.1% is pleasing and reflects the work we have done to improve staff development and training.

Segmental analysis of revenue, operating profit, work in hand and headcount follows, while staff turnover is discussed further in the People section on page 42.

## Review of the year Segmental performance

Our greatest asset is our rich diversity of skills.

### Design and Engineering Solutions

#### Activities and key performance indicators

Design and Engineering Solutions delivers high value engineering and innovative design to a wide range of clients in the public, regulated and private sectors. Overall Atkins has the largest market share in the UK engineering and design consultancy market, being placed at or near the top of the 2006 New Civil Engineer Consultants File rankings in all our main areas of business.

Key performance indicators	2006	2005	% change in year
<b>Financial metrics</b>			
Revenue	<b>£286.3m</b>	£244.4m	+17%
Operating profit	<b>£23.4m</b>	£21.0m	+11%
Operating margin	<b>8.2%</b>	8.6%	-0.4% pts
<b>Work in hand</b>			
	<b>44%</b>	43%	+1% pts
<b>People</b>			
Staff at 31 March	<b>3,639</b>	3,339	+9%
Total headcount (inc. agency staff) at 31 March	<b>4,026</b>	3,568	+13%

#### Highlights in 2006

- A strong year with substantial growth.
- Revenue increased by £41.9m (17%) with operating margins in excess of 8%. Growth has been driven by our continued focus on design and technical excellence, which has led to strong demand for our services in key target markets. Market conditions have been generally favourable and the slight reduction in margins was caused by the impact of Metronet supply chain activities. Staff recruitment has been an important focus over the last year and headcount numbers increased by over 450.
- Our Water and Environment division finished the year strongly with the AMP4 capital programme generating an increasing flow of work, notably for Southern Water, United Utilities and Thames Water. Our four-year framework contract with the Environment Agency is also providing a large workload. The Geotechnical and Tunnelling division has recently commenced work on the Gautrain Rapid Rail Link, a major infrastructure project in South Africa which is scheduled for completion prior to the 2010 football World Cup.

- The Nuclear and Power division has continued to make progress, following the award of substantial long term contracts for AWE and the Carbon Trust, while the first year of our contract with British Energy has also boosted growth. We have recently been awarded a significant contract, working alongside British Nuclear Group, to provide technical services for the cooling ponds decommissioning project at Trawsfynydd.
- Our Aerospace and Defence division continues to flourish, our strong relationships with Airbus and the MoD providing increasing visibility of forward workload. Work on the Future Rapid Effect System (FRES) project for the MoD is progressing well. FRES is the largest land systems programme ever undertaken in the UK and will develop a new generation of medium-weight armoured vehicles for the British Army. Our role involves technical assessment to enable the MoD to select contractors. Our stress engineering project for the Airbus A380 is well advanced and has been important in raising our profile in the aerospace sector.
- Demand for our integrity management services in the Oil and Gas sector is strong. Platform life extensions are lucrative to producers at present and there is a great deal of demand for smart engineering solutions that can support additional years of production and underpin safe operations. Our capability in this area has been strengthened by the recent acquisition of MSL Engineering Limited, which provides additional expertise in offshore engineering and contracts in the North Sea and the Gulf of Mexico.
- Our Design division has seen continued growth with satisfactory margins, despite the impact of Metronet supply chain activities. Successful completion of the latest design phase of the Colchester Garrison project was a key feature of the year, work being completed to schedule. The education sector has generated a solid flow of work, particularly through the Building Schools for the Future programme and our appointment as technical advisor to Partnership for Schools. We also provide programme management services for the government's flagship City Academy scheme. The most significant contract win in the year was our selection by the Olympic Delivery Authority as one of its Tier 1 consultants for the design of the London Olympic Park and the associated infrastructure. This represents a major multidisciplinary opportunity for the Group. We have also recently been appointed by Essex County Council to provide property services across the county for five years, an endorsement of our capabilities in the local authority property services market. The division has undertaken a wide range of innovative projects, including design and architectural services for lengthening Royal Caribbean's liner *Enchantment of the Seas*. We have recently been awarded a design commission for an even larger liner, the 225,000 ton *Genesis*, set to be the world's largest passenger ship.

# Case studies

## Sustaining best practice for Defra's headquarters

Our brief was to provide a modern and efficient headquarters for Defra (the UK government Department for the Environment, Food & Rural Affairs) within the 1920s Nobel House in Westminster. Co-ordinated from the Atkins design base in Colchester, a multidisciplinary team of architects, mechanical, electrical, structural and civil engineers, environmental modelling and acoustics specialists worked together to embrace best practice in sustainability and energy efficiency. Housing 750 staff, the completed refurbishment has been awarded the UK's highest ever score for its levels of environmental sustainability (by BREEM) in the entire scope of the refurbishment.

In addition:

- An Atkins research team has completed a report supporting the sustainable development of the Chinese city of Wuhan.
- Atkins won the prestigious Business Achievement IT Award (Environmental Business Journal Awards 2005) for its waste soil classification tool.
- Atkins is ranked no. 1 for overall reputation in Environmental Consultancy and in the top five for reputation in every other category (Environment Business Consultancy Survey 2005).
- English Nature has named Atkins environment specialist John Box as one of its six 'green space champions' for his work in urban nature conservation.
- In this year's Bentley Awards we won the Excellence Award for Plant Visualisation using 3D modelling.

We have what it takes to come up with ingenious solutions, through a combination of the highly technical and the intensely practical.

**Garry Batt**  
Project Manager

## Driving innovation on Somerset's highways

As highways service provider to Somerset County Council, Atkins is challenging the conventional means of managing highway maintenance services. Our approach targeted three key areas: people, process and technology, and harnessed our expertise in every aspect of the highways sector to develop an innovative solution. Now, from the dedicated Service Management Centre in Taunton, the Atkins solution is delivering radical improvements in health and safety, with a 34% reduction in accidents. We have also achieved savings to the client of approximately £250,000 per year and lessened the environmental impact of maintenance services by reducing the volume of materials required by 30%.

In addition:

- The Service Management Centre in Taunton has won the Institution of Highways & Transportation Award for Technological Application, and the County Surveyors' Society's Award for Information Management Excellence.
- Our safety and health management systems and high levels of safety performance were recognised in 2006 with a RoSPA Gold Award.
- Atkins manages, maintains and improves 23,750km of roads in the UK – the equivalent of a journey from London to Las Vegas and back.
- We are the UK's largest consultant roads engineer, the largest transport planning consultant and the largest Intelligent Transport Systems consultant.
- We have supported the launch of five out of the seven new Regional Control Centres established by the Highways Agency in England.

We've exceeded the client's expectations on a number of fronts, giving them an award-winning solution to a complex problem.

**John Burr**  
Project Director

# Case studies

continued

## Bringing broadband to the Western Isles

The Connected Communities Broadband Project, led by Highlands and Islands Enterprise, seeks to bring both social and economic benefit to a diverse range of private and public organisations and the 26,500 or so people who live and work in this remote rural part of Scotland. Atkins was responsible for the overall design and integration of the broadband infrastructure, which comprises an island-wide high capacity microwave radio backbone network, 5.8GHz fixed wireless local access technology and a fibre optic network in Stornoway which connects the network's main hub site to various public sector buildings in the town.

Today, thanks to the project, more than 40 schools island-wide, five council offices and 21 NHS sites including the main hospitals in Benbecula and Stornoway are provided with high bandwidth connectivity. Local businesses and residential subscribers can now experience the benefits that next generation broadband internet access can provide.

In addition:

- We are the UK's leading engineer in the telecommunications sector by fee income (NCE Consultants File 2006).
- We are responsible for the entire Cable & Wireless UK and Ireland external fibre network – all 12,000km of it – which supports the company's Bulldog Broadband service.
- We are working with the Welsh Development Agency to enable companies at strategic business parks to access the latest broadband technology.
- One of the greatest challenges faced by Atkins in the Connecting Communities Broadband initiative was the Western Isles' dramatic weather patterns.

Thanks to us, these islands are now at the cutting edge of communications technology and we've made a real difference to people's lives.

**Neil Watt**  
Senior Project Manager

## Signalling success with Network Rail

The combination of specialist skills and multidisciplinary scope that only Atkins can bring to large-scale projects, secures our position at the forefront of rail expertise in the UK. We have been appointed by Network Rail to undertake a major resignalling and infrastructure upgrade in and around Basingstoke. This three-year contract represents £65m of fee income and incorporates the design, installation and commissioning of a new control centre and 185 new signals. The work covers more than 60 miles of line. The Basingstoke project is part of Network Rail's broader programme of works in the south of England, in which we play a significant role. Atkins is also working on the Port Talbot project, which involves the replacement of 235 signals over 22 miles of line.

In addition:

- Atkins is the UK's leading consultant to the rail sector by fee income (NCE Consultants File 2006).
- Atkins is working on the signal safety systems for Taiwan's new High Speed Rail project between Taipei and Kaohsiung, currently the largest railway construction project in Asia.
- Atkins has been awarded the preliminary design commission for South Africa's Gautrain Rapid Rail Link – a high speed 80km rail system which will be completed in time for the 2010 World Cup.
- Stagecoach Sheffield Supertram has commissioned us to develop a vision that will transform its 25 vehicles for the benefit of existing and future customers.

We're constantly developing our expertise in rail and applying cutting-edge solutions to benefit our clients.

**Steve Hall**  
Project Manager

## Extending the life of offshore assets

Our recent acquisition of MSL Engineering enables us to deploy leading-edge technology to help clients manage their fleets of oil and gas installations. This includes Fleet Management System (FMS), a web-based solution that stores and processes the vast amount of data associated with the integrity of oil rigs and other assets, and enables rational and consistent decisions to be made across an entire fleet. We now help BP, ExxonMobil and other major oil companies to ensure asset integrity in the North Sea, the Gulf of Mexico and elsewhere in the world. As oil prices remain high there is increasing benefit to our clients in extending the life of installations, and also in modifying them to accept production from new fields. Atkins is more strongly positioned than ever to add value in this sector.

In addition:

- Atkins has been providing solutions to the oil & gas sector since 1975.
- As European services property management team for Shell, we have designed a new approach to storage tank manufacture and installation, reducing installation time by 60%, reducing cost and removing significant safety risks.
- We have worked on over 1,000 oil and gas installations.
- 60% of our oil and gas revenues now come from beyond the North Sea.
- 20 of Atkins' energy efficiency experts are working exclusively for the Carbon Trust, providing practical advice to businesses on how to reduce carbon emissions.

We have dedicated people working on tough challenges for some impressive clients – and we're seeing great results.

### Martin Grant

Managing Director, Oil and Gas

## Engaging Crewe in school design

When Crewe Underwood Infant School was severely fire-damaged by vandals, Atkins was given the task of designing a new school for 270 pupils, plus a nursery for 50 infants. A crèche and medical facility were later added to the original brief. The timescale and budget were very tight, and public scrutiny was particularly intense, given the importance of the school to the local community. Atkins engaged with teachers, parents and pupils, working to their specification. We placed great emphasis on providing the children with the best quality interior spaces. The final budget for the scheme was £2.2m and the project was completed and ready for occupation, including all the external works, within 13 months.

In addition:

- Atkins is responsible for the design and build of 16 primary and nursery schools in the South Lanarkshire Primary Schools renewal scheme.
- We have over 190 education clients in 15 countries.
- Since 2001 Atkins has successfully completed over 800 capital projects in schools.
- Atkins' report **Do buildings matter?** established the Group at the forefront of the debate on the role of school design in educational achievement.
- In the last two years Atkins has been involved in the design and delivery of more than 62 schools valued at over £200m.

Atkins people listened to what we wanted, and worked with the community to give us a great new school.

### Felicity Jane Tomlinson

Head Teacher

# Case studies

continued

## Safe landings ahead for St Helena

Located far off the shipping lanes, the tiny island community of St Helena is truly remote. Even visits by ship are infrequent, with the inhabitants relying on the RMS St Helena to provide essential supplies from the African mainland and the UK. With this service due to be retired in 2010, a viable alternative had to be found. Only Atkins was able to provide a practical solution. We deployed consultancy teams with expertise ranging from aviation, civil and geotechnical engineering to environmentalists, researchers, social scientists and economists. The result? A design for the island's first-ever airport, approved by the UK government and the people of St Helena. The airport, which is to be ready to accept flights in 2010, will be located on Prosperous Bay Plain on the eastern coast, and will incorporate a 1,950m runway, sufficient to support Boeing 737 jets carrying supplies, islanders and tourists.

In addition:

- Faithful+Gould has won major work with John Wayne International Airport in Santa Ana, California. We will provide master project estimating and master scheduling services for the planning, design, and construction of the new terminal.
- Atkins won its fourth major airport design competition in China, for the extensive development of Xian Xianyang International.
- Faithful+Gould has completed a commission to provide consultancy services to Heathrow Airport Fuel Company (HAFCo) for the construction of aviation fuel storage facilities at London Heathrow Airport.

Our expertise means that an entire island community now has a secure future.

**Kristina Moriarty**  
Managing Consultant

## Investing in our industry's future

Atkins is linking with the University of Greenwich in London, in a five-year, £700,000 sponsorship deal. The deal forms part of our commitment to ensuring that tomorrow's engineering challenges can be met by skilled graduates. We will also offer work placements and graduate employment opportunities to university students in an initiative to recruit new talent and increase the diversity of our workforce. Atkins has extensive experience of delivering complex regeneration and development initiatives in the capital, including those in the Greenwich area. We were the lead consultant for the major project to regenerate the Greenwich Peninsula; assisted in the masterplanning of the development of London City Airport; and devised the regeneration framework for the Leamouth area of East London. Baroness Blackstone, Vice-Chancellor of the University of Greenwich, says: "I am sure that this initiative will bring great benefits to Atkins and the University of Greenwich."

In addition:

- Our commitment to employee development has seen three of our people recently start MBA courses at Imperial College's top ranking Tanaka Business School.
- Atkins was ranked 11th in the '20 Best Big Companies to Work For 2006' by The Sunday Times.
- We were the highest climber in the most recent Times Top Graduate Employers survey.
- Atkins is supporting art students at Birmingham's renowned Gallery 37, leading to an exhibition of original art works, imaginative prints and a spectacular lighting project at its offices in the city.
- A poll of 20,000 students and recent graduates won us a prestigious Target National Graduate Award as the 'most popular graduate employer' in the built environment sector.

We're working with Atkins to meet tomorrow's engineering challenges.

**Baroness Blackstone**  
Vice-Chancellor, University of Greenwich

# Operating and financial review

continued

## Design and Engineering Solutions

continued

### Outlook

- The outlook for Design and Engineering Solutions remains good and the short supply of high quality engineering skills means there is scope for further margin growth. Demand is strong in all our divisions and at 31 March 2006 we had secured 44% of our budgeted revenue for 2006/07. This is very satisfactory given that most of the segment's workload relates to medium rather than long term projects. Further growth is dependent on sufficient staff recruitment and this remains a key focus for management. We aim to supplement increasing staff numbers in the UK with accelerated recruitment into our Bangalore design office.
- Prospects in the longer term are considered positive in the UK defence, nuclear, healthcare and education markets. In the defence sector our FRES systems house role leaves us well placed to win further work and we are currently reviewing market opportunities in the light of the recent White Paper on Defence Industrial Strategy. The nuclear sector presents excellent opportunities over the next few years in relation to the management of licensed sites. Healthcare and education remain major government priorities. Growth areas overseas include mass transit, where there are opportunities to provide design services alongside rail engineering.

## Highways and Transportation

### Activities and key performance indicators

Atkins is the UK's largest provider of highways and transportation consultancy and related services (New Civil Engineer Consultants File, 2006). Our principal services are transport planning, design of new roads and road improvements, development of intelligent transport systems, management of road maintenance and integrated road network management. Our client base is largely in the public sector, notably local authorities, the Highways Agency (HA), the Department for Transport (DfT) and other government bodies. The New Civil Engineer Consultants File 2006 indicates that our share of the UK market is approximately 15%.

Key performance indicators	2006	2005	% change in year
<b>Financial metrics</b>			
Revenue	<b>£215.4m</b>	£206.8m	+4%
Operating profit	<b>£11.0m</b>	£9.4m	+17%
Operating margin	<b>5.1%</b>	4.5%	+0.6% pts
<b>Work in hand</b>	<b>75%</b>	74%	+1% pts
<b>People</b>			
Staff at 31 March	<b>2,734</b>	2,641	+4%
Total headcount (inc. agency staff) at 31 March	<b>2,891</b>	2,780	+4%

### Highlights in 2006

- A year of continued growth with significantly improved margins.
- Operating profit increased by £1.6m to £11.0m (17%) with operating margins up from 4.5% to 5.1%. All areas of the business grew, the improved margin being mainly due to increased volumes and returns from our Transport Solutions division, which has performed particularly strongly.
- The Transport Solutions division delivers design services for highway infrastructure and transport technology. Performance in 2005/06 was driven by strong demand for intelligent transport systems and design services for local authorities. During the year we secured our place on several important frameworks for the HA and won a number of term commissions for local authorities, notably Birmingham City Council, and an extension to our key traffic management role with Essex County Council. Our lead role on the HA Regional Control Centre (RCC) technical framework has been important and we have designed five of the HA's seven RCCs. The implementation of the RCCs has enabled the smooth transfer of responsibility for motorway and trunk road management from the police to the HA. Contract wins overseas included our appointment as independent engineer for the A1 motorway DBFO project in Poland, representing the Polish Motorways Agency and lending banks.
- Our Transport Planning division provides a range of services, including strategic advice, traffic engineering, demand forecasting and access planning. The division has continued to grow, driven by a good workload from our framework contracts with the HA and the National Assembly for Wales, along with commissions from other national and local transport authorities. The provision of high level strategic advice has been an increasingly important area of our business, key clients including the DfT, the Commission for Integrated Transport and regional development agencies. PPP/PFI advisory work has also grown and we have recently been appointed as lender's traffic and technical advisor on a number of European projects.
- The Highway Services division undertakes road maintenance term contracts on behalf of the HA and local authorities. The division had a successful year and we secured extensions to three HA contracts. Our integrated services contracts have continued to generate a good flow of work, particularly through our award-winning highways partnerships with Northamptonshire and Somerset county councils. In December 2005 we were appointed by Gloucestershire County Council under a five-year contract to provide integrated highway management and design services to the county. The contract is extendable to ten years and has an annual value of around £30m, representing a major win for the business. In April 2006 Cambridgeshire County Council named us as preferred bidder for its integrated highways services contract. The contract will combine our existing professional services work with design and network management services and will generate annual revenue of approximately £25m over ten years.

# Operating and financial review

continued

In partnership with the Welsh Assembly government, we are responsible for traffic management on the entire Welsh motorway and trunk road network.

## Highways and Transportation

continued

### Outlook

- Prospects for the Highways and Transportation segment are good. Following the award of our contract with Gloucestershire County Council, visibility of forward workload has slightly improved compared to last year, with work in hand at 31 March 2006 representing 75% of budgeted revenue for 2006/07. Many good work opportunities are presently available with a number of key bids currently outstanding.
- The longer term outlook remains positive, with the UK government's stated commitment to improving highway infrastructure being supported by current spending plans. The segment retains potential for margin growth derived from a shift in the mix of work towards higher value planning and design services. The Transport Innovation Fund (TIF) will be one of the key growth drivers, with funding available from 2008 and increasing to some £2.5bn per annum by 2014. We are already supporting a number of transport authorities with their TIF bids.

## Rail

### Activities and key performance indicators

Atkins is the largest rail consultancy operating in the UK. We provide services covering a wide range of engineering disciplines, including signalling, civils, electrification and specialist services in strategic planning, safety, systems integration and asset management. Atkins currently has approximately 20% of the rail consultancy market in the UK, our market share being significantly greater than that of our nearest competitor (New Civil Engineer Consultants File, 2006). We also operate in Scandinavia.

Key performance indicators	2006	2005	% change in year
<b>Financial metrics</b>			
Revenue	<b>£176.5m</b>	£187.6m	-6%
Operating profit	<b>£2.6m</b>	£8.9m	-71%
Operating margin	<b>1.5%</b>	4.7%	-3.2% pts
<b>Work in hand</b>	<b>75%</b>	66%	+9% pts
<b>People</b>			
Staff at 31 March	<b>1,757</b>	1,735	+1%
Total headcount (inc. agency staff) at 31 March	<b>2,004</b>	1,906	+5%

### Highlights in 2006

- The results of our Rail segment were significantly impacted by the performance of the Metronet supply chain. The rest of the Rail business, as predicted last year, is now in the process of recovery.
- During the year we won contracts for two major signalling schemes on behalf of Network Rail. The projects are located in Basingstoke and Port Talbot and work commenced on both during the year. The Basingstoke project involves the design, installation and commissioning of a new control centre and 185 new signals covering 60 miles of line. The contract will generate revenue of some £65m over three years. The Port Talbot contract has a value of approximately £20m and is the largest re-signalling scheme to be undertaken in Wales during the last 30 years. These contracts have provided a solid workload and maintained good utilisation of staff resources.
- Last year a considerable amount of resource was directed towards Metronet's stations delivery programme and this is set to continue. Although the Atkins supply chain has delivered a significant contribution to the project, the overall capital programme continues to lag behind expectations. These delays have triggered certain cost and delay provisions that are primarily reported within the Rail segment's results. Further details are given in the Metronet section below.

### Outlook

- Prospects for the Rail business are generally improved compared to the position a year ago. Work in hand at 31 March 2006 includes 75% of budgeted revenue for 2006/07, compared to 66% last year, the increase being mainly due to the Basingstoke and Port Talbot contracts. Additionally, Network Rail is due to award a number of significant projects in 2006/07.
- Recovery of the stations delivery programme for the Metronet project is a key priority. The project remains complex and challenging and we continue to commit significant resources to enable a satisfactory outcome for the client. It is probable that Metronet supply chain activities will continue to impact adversely the Rail segment's operating profits in the short term.
- The medium term outlook for our Rail business remains positive and the forward spending plans of Network Rail and others indicate that investment in our target markets is set to grow substantially over the next three years. In order to meet the increasing demand for scarce rail engineering skills, we will continue to invest resources in our design office in Sharjah, where headcount of Rail staff has already grown to 130.

## Middle East and China

### Activities and key performance indicators

Our Middle East business provides design and engineering services for buildings, transportation and other infrastructure through our seven offices in the Gulf and India. In China we provide planning, urban design, architectural and engineering services to the mainland market and Hong Kong.

Key performance indicators	2006	2005	% change in year
<b>Financial metrics</b>			
Revenue	<b>£67.1m</b>	£44.0m	+53%
Operating profit	<b>£3.0m</b>	£2.1m	+43%
Operating margin	<b>4.5%</b>	4.8%	-0.3% pts
<b>Work in hand</b>	<b>78%</b>	52%	+26% pts
<b>People</b>			
Staff at 31 March	<b>1,482</b>	1,106	+34%
Total headcount (inc. agency staff) at 31 March	<b>1,708</b>	1,347	+27%

### Highlights in 2006

- The business generated significant growth and revenue increased by 53%. Operating margins in the Middle East were good, while in China results were broadly break-even as we continued our investment to grow a sustainable, long term business.
- We have generated profitable growth in the Middle East, where headcount is now approaching 1,000. The high degree of liquidity in the regional economy continues to boost demand, with a particular focus on investment in long term infrastructure. In China we have invested in additional staff and have expanded our office network on the mainland.
- In the Middle East we have a particularly strong brand in building design, as typified by the Bahrain World Trade Centre, which is currently nearing completion. The building comprises two sail-shaped towers which taper to a height of 240 metres and support three 29 metre wind turbines. The turbines will generate a proportion of the towers' electricity consumption, making the building a model of innovative and sustainable design, as well as a landmark structure.

- Hotel design and project management is a major source of work in the Gulf states, due to the region's burgeoning tourist industry. Project wins in the year included design of the Palm Resort Hotel in Dubai, construction supervision for the Burj Dubai Lake Hotel and design of the Four Seasons Hotel in Bahrain. We have also won design commissions for a number of residential complexes and school campuses in Dubai, Abu Dhabi and Qatar.
- The Middle East's transportation sector is increasingly a growth area and we have many promising projects and enquiry developments in the road and rail sectors.
- In China we have continued to re-invest profits from projects in new staff and offices on the mainland, where we now operate from seven locations. We won a good volume of work last year, including the design of a new landmark tower in Tianjing, four airport masterplan commissions and a tourism project for Hainan Island. Commissions in Hong Kong have included tunnel and wind power projects for China Light and Power and rail safety engineering projects for MTRC and KCRC.

### Outlook

- Prospects for the Middle East and China business segment are very good with 78% of budgeted revenue for 2006/07 secured at 31 March 2006, compared to 52% a year ago.
- In the Middle East our strong brand means we are well placed to benefit from the continuing construction boom, while opportunities in other areas are also emerging. The transport sector offers great potential, especially given the need to provide improved infrastructure to relieve growing traffic levels in major cities. Our strategy in the region remains focused on larger, medium and long term contracts that provide a means of sustained growth.
- Capital investment in China continues to accelerate, driven strongly by the urbanisation process that has so far affected only one third of the population. The market offers great potential and our approach is to concentrate on infrastructure projects in specific areas and to pursue opportunities in China's secondary and tertiary cities, which are likely to attract increasing investment.

# Operating and financial review

continued

## Management and Project Services

### Activities and key performance indicators

The Management and Project Services segment provides management and IT consultancy and programme, project and cost management services. Atkins is one of the largest project managers and cost consultants worldwide (Building Magazine) and one of the 20 largest management consultants operating in the UK (Management Consultancies Association).

Key performance indicators	2006	2005	% change in year
<b>Financial metrics</b>			
Revenue	<b>£171.9m</b>	£152.2m	+13%
Operating profit*	<b>£13.9m</b>	£9.2m	+51%
Operating margin*	<b>8.1%</b>	6.0%	+2.1% pts
<b>Work in hand</b>	<b>39%</b>	50%	-11% pts
<b>People</b>			
Staff at 31 March	<b>2,062</b>	1,957	+5%
Total headcount (inc. agency staff) at 31 March	<b>2,146</b>	2,044	+5%

\* Excluding a goodwill impairment charge of £7.2m in 2005.

### Highlights in 2006

- A good year with substantially improved margins.

- Revenue grew by £19.7m (13%) and margins increased by 2.1% points to 8.1%\*, with growth across the segment's range of services.
- The Management Consultants division performed well last year, generating significant revenue growth while maintaining good margins. Growth has been driven by increased demand for our programme and project management services, along with a number of significant contract wins. The largest of these was the award of the Programme and Project Support Office contract for the Government Communications Headquarters (GCHQ). The contract is for five years, extendable to seven, and confirms the success of our long term relationship with this important organisation.

- We were awarded a major commission for Shell to provide programme management services for its capital investment programme, covering retail outlets in nine European countries. New framework contracts and extensions have generated a substantial workload, notably from IBM, BAA and the Learning and Skills Council. Demand for IT consultancy has been strong and we are working with the Department for Education and Skills on the Information Sharing Index which will support government's work in co-ordinating children's services.

- Our Faithful+Gould project management and cost consultancy division had an excellent year with significant revenue growth at much improved margins. Margin growth has been driven largely by selective bidding and improved utilisation of staff.

- Revenues derived from the public sector have continued to grow, particularly in education, through the Building Schools for the Future initiative, and in health from strategic consultancy for Welsh Health Estates and primary care trusts. Provision of strategic cost and project management services to the PPP/PFI sector has been another growth area.

- In the transportation sector we have provided consultancy services relating to the new West London Tram scheme, while regeneration projects have included work relating to the redevelopment of the Longbridge plant for St Modwen. We have maintained a strong presence in the banking sector, including project and cost consultancy work for Royal Bank of Scotland. Commissions from the regulated sector have also increased and we have been appointed by the Environment Agency under a five-year cost management framework contract. We have continued to support major projects undertaken by other parts of the Group, particularly in the Middle East.

- The performance of our US operation has improved significantly and the business grew strongly in the second half of the year. Growth in the industrial sector has been particularly encouraging and we have won major commissions for BP, Intel and Amgen. We have also won substantial contracts in the leisure and airport sectors, including a five-year commercial management contract for the redevelopment of John Wayne International Airport in California.

## Outlook

- Work in hand at 31 March 2006 included 39% of budgeted revenue for 2006/07, compared to 50% last year. This fall is largely explained by the timing of award of work under certain long term contracts and is not a concern.
- The management consultancy market appears set for a period of further growth and we are well positioned to benefit from this trend. In the public sector the drive is continuing for organisational change and efficiencies, an area where we have niche skills and experience. Private sector demand is also strong and we are increasingly targeting certain growth sectors, including heavy industry.
- The acquisition of Mantix Group Limited on 21 June 2006 has enhanced the capabilities of our Management Consultants division, especially in the area of programme management. In the coming year the business will be integrated into our existing operations.
- Prospects for our Faithful+Gould division remain positive, with strong demand and an expanding UK client base. New opportunities for 2006/07 include redevelopment projects for main line railway stations, consultancy on the proposed expansion of a number of regional airports and a range of health and education projects. In the US, client representative work in the transport, manufacturing and property sectors offers good opportunities.

## Asset Management

### Activities and key performance indicators

Asset Management provides independent property asset management services. The business focuses on providing top quality facilities management (FM) services to the MoD and selected private sector clients. Atkins is well positioned in the market as the largest independent management company for clients seeking property asset management solutions (New Civil Engineer Consultants File, 2006).

Key performance indicators	2006	2005	% change in year
<b>Financial metrics</b>			
Revenue	<b>£61.5m</b>	£58.6m	+5%
Operating profit	<b>£4.0m</b>	£(4.7)m	n/a
Operating margin	<b>6.5%</b>	(8.0)%	+14.5% pts
<b>Work in hand</b>	<b>96%</b>	53%	+43% pts
<b>People</b>			
Staff at 31 March	<b>628</b>	890	-29%
Total headcount (inc. agency staff) at 31 March	<b>730</b>	892	-18%

## Highlights in 2006

- A much better result with some significant contract wins.
- Financial performance recovered markedly during the year, though the large swing in operating results is partly due to the onerous contract provisions of £3.9m made in 2004/05. Temporary extensions to certain MoD contracts also contributed a non-recurring benefit.
- We won two major five-year managing agent contracts during the year, for the Metropolitan Police Service and HBOS. These successes have been driven by our investment in improved IT systems and skills. The contracts supplement our existing client base of large organisations.
- During the year we were awarded interim extensions to our local MoD Defence Estates contracts. These contracts have now concluded and the associated staff have transferred under TUPE, with a consequent reduction in headcount. Our Defence Housing Prime contract has successfully mobilised and will provide work over seven years, while the Colchester Garrison PFI project is performing as planned. We will be undertaking the work on the Defence Housing Prime contract within a Joint Venture and its results will therefore be excluded from the segment's operating profit.
- The performance of our managing contractor operations has stabilised over the last year.

## Outlook

- Our managing agent contract wins mean that 96% of budgeted revenue for 2006/07 had been secured at 31 March 2006. This also demonstrates the market's demand for our integrated estates, FM and project management services. In particular, the financial services, retail, leisure and public sectors offer further opportunities.

# Operating and financial review

continued

## Equity Investments

### Activities and key performance indicators

The Equity Investments segment principally comprises Lambert Smith Hampton (LSH) and the Group's interest in PPP/PFI Joint Ventures, including Metronet.

Key performance indicators	2006	2005	% change in year
<b>Financial metrics</b>			
Revenue	<b>£73.8m</b>	£61.4m	+20%
Operating profit	<b>£5.0m</b>	£4.3m	+16%
Operating margin	<b>6.8%</b>	7.0%	-0.2% pts
<b>People</b>			
Staff at 31 March	<b>887</b>	874	+1%
Total headcount (inc. agency staff) at 31 March	<b>887</b>	874	+1%

### Lambert Smith Hampton

#### Activities

LSH operates independently under its own brand and provides a broad range of commercial property consultancy and transactional services through its extensive office network in the UK and Ireland. LSH is ranked by the Estates Gazette as the UK's Most Active Agent and as the top national agent in the office agency and industrial agency sectors.

#### Highlights in 2006

- A good year with significant growth.
- Revenue grew strongly, operating margins being maintained at a similar level despite non-recurring costs relating to the relocation of our London operations to a single office. Market conditions have been favourable and good results have been achieved across the business.
- The Investment division performed particularly strongly, with £2.2bn of investment transactions concluded in the year. This included the purchase for £145m of 52 properties let to Booker Cash and Carry and the acquisition for £290m of the Alpha Portfolio of 35 properties, both on behalf of the Scarborough Group.
- The Industrial Agency division transacted nearly 20m sq ft of space in the year, including acting for Tesco in two of the largest distribution market transactions as well as the largest letting within the M25 in the year.
- Demand remains good for our consultancy services, including new estates management contracts for AXA UK and Northamptonshire County Council and a strategic property review for Buckinghamshire County Council.

### Outlook

- The general outlook for property markets is positive. The investment market is strong, while occupier demand is also expected to increase, led by the office sector. Although the retail sector is vulnerable to consumer spending levels, related demand for warehousing space remains good, particularly large distribution centres.
- LSH's approach is to target growth in our range of services and national network. Our increasing strength in consultancy services will be an important factor in generating long term growth.

### Metronet

Metronet, in which Atkins has a 20% stake, is a consortium of five companies responsible for upgrading, maintaining and running two thirds of the London Underground network under the framework of a 30-year Public Private Partnership (PPP). As part of that capital programme, Metronet has contracted with Trans4m, a company in which Atkins has a 25% stake, to deliver the required improvements to stations and certain civil assets. In turn Trans4m has contracted with Atkins for some components of that work.

In June 2005, Metronet's management team was changed and Keith Clarke was appointed as non-executive Chairman of Metronet on behalf of all of the shareholders, to enable a smooth transition and to improve the performance of both the Board and management. In addition to strengthening Metronet and Trans4m's senior management team, the Trans4m management team has been integrated into Metronet to address the initial weaknesses of the supply chain. Atkins continues to support the Metronet management team in their efforts through the secondment of a number of our own senior staff to the project. Atkins currently has over 600 people committed to this project.

The operational performance of the lines for which Metronet is responsible remains inconsistent and behind Metronet's original expectations, but it is improving.

In terms of the capital programme, improvements to trains and track are now being delivered. However, the stations renewal programme remains challenging. Only 14 stations had been completed by 31 March 2006, compared to the 35 contracted. This is being addressed and measures have been put in place to recover the programme by 2008.

Atkins' role in the project primarily relates to the design of renewal and refurbishment of station infrastructure and civil asset design, inspection and assessment. So far we are approximately half way through our stations design programme. There have been issues with obtaining final design approvals which have impacted the overall delivery of the station improvements. The civils programme is progressing to plan.

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

These results show that the inconsistent operational performance, penalties and cost overruns associated with the delays to the capital programme, principally the modernisation of stations, have affected the Group's return from the Metronet project at all levels. The working of the PPP contract acts as an effective incentive to improve performance.

The new Trans4m management team has re-evaluated the programmes and resources needed to deliver the contracted station improvements. This review has led to additional provisions and, due to the pain/gain share mechanism throughout the tied supply chain, to an adverse impact on Atkins' results throughout the Metronet Enterprise.

### Outlook

The recovery of the efficiency of the capital programme and the improvement of the operational performance of the Underground remain crucial to the eventual success and realisation of value from the project. Whilst some progress has been made over the last year, it will take time to evidence any significant recovery. It is essential for Metronet and its supply chain to improve their delivery to ensure that the Group's returns from Metronet are not to be further impacted at all levels, including the final value of the investment.

Atkins' involvement in the turnaround of the Metronet Enterprise remains critical and we are committed to ensuring its success.

	Income statement component	IFRS 2006 £m	Pro forma IFRS* 2005 £m	UK GAAP 2005 £m
Metronet PPP – share of profit before tax	Share of JV result	<b>10.8</b>	13.1	10.0
Cost of letters of credit	Finance cost	<b>(2.0)</b>	(2.6)	(2.6)
		<b>8.8</b>	10.5	7.4
Supply chain:				
Trans4m – share of profit before tax	Share of JV result	<b>(1.5)</b>	2.0	2.0
Business segments	Operating profit	<b>(2.7)</b>	2.5	2.5
<b>Metronet Enterprise</b>		<b>4.6</b>	15.0	11.9

\* As permitted by IFRS 1, *First-time adoption of IFRS*, the Group has elected to adopt IAS 32, *Financial instruments: disclosure and presentation* and IAS 39, *Financial instruments: recognition and measurement*, prospectively from 1 April 2005. The pro forma figures provided here show comparatives had the Group adopted IAS 32, IAS 39 and the IFRIC draft interpretations regarding PPP/PFI concessions for the year ended 31 March 2005.

# Operating and financial review

continued

## Review of the year Financial performance

### International Financial Reporting Standards (IFRS)

The financial statements for the year ended 31 March 2006 are the Group's first prepared in accordance with IFRS. Conversion to IFRS is an accounting change which has no impact on the Group's financial performance, risk profile or ability to generate cash. The main areas of impact of IFRS on reporting of the Group's results and financial position are as follows:

- Accounting for pension costs under IAS 19, *Employee benefits*.
- The cessation of goodwill amortisation under IFRS 3, *Business combinations*.
- Changes to accounting for assets constructed or managed under PPP/PFI concessions, though at present only draft guidance is available. The guidance, issued by the International Financial Reporting Interpretations Committee (IFRIC), requires such assets to be classified as financial assets where the grantor has primary responsibility to pay the operator for concession services. This accounting treatment has been adopted by all Joint Ventures in which the Group has an interest. However, this is potentially subject to change following completion of the consultation process on IFRIC's proposals. The process remains ongoing and we will continue to monitor developments.
- The recognition of dividends in the income statement only when they are declared and approved.
- Measurement of the cost of share-based payments granted after November 2002 on a fair value basis under IFRS 2, *Share-based payments*.
- Changes to the format of financial statements, notably regarding the reporting of Joint Ventures and segmental disclosures.

Additional information is given in note 41 to the financial statements, which includes reconciliations from UK Generally Accepted Accounting Principles (UK GAAP) to IFRS.

### Revenue

Total revenue for the year ended 31 March 2006 was £1,411.0m (2005: £1,157.3m). Excluding our interests in Joint Ventures, revenue amounted to £1,052.5m (2005: £955.0m), an increase of 10%. Revenue growth has primarily been driven by greater staff numbers, with total headcount (including agency staff) increasing by 7% over the year.

The majority of revenue growth was derived from higher margin activities, in line with the objectives we stated last year. We will continue to pursue growth opportunities only where satisfactory margins are achievable.

### Operating profit

Operating profit for the year was £62.9m, an increase of £12.7m (25%) excluding the goodwill impairment charge of £7.2m in 2005. On a similar basis, operating margins rose from 5.3% to 6.0%.

Excluding Metronet supply chain activities, most of our businesses have generated growth in underlying operating margins and have further scope for margin improvement.

### Joint Ventures

The Group's share of pre-tax profits from Joint Ventures, excluding disposals, was £11.5m (2005: £14.8m). The Group's most significant Joint Venture is Metronet, which is discussed in the Segmental performance section above. After tax, profits from Joint Ventures, excluding disposals, amounted to £7.9m (2005: £9.9m).

In November 2005 the Group disposed of its 25% interest in South Manchester Healthcare (Holdings) Limited for a cash consideration of £7.8m, resulting in a profit on disposal of £5.7m. In December 2005 the Group disposed of its 42.5% interest in NewSchools (Penweddig) Holdings Limited for a cash consideration of £1.4m, resulting in a profit on disposal of £0.7m. These disposals were in line with the Group's policy of recycling capital invested in mature PFI investments at the appropriate time.

### Net finance cost

Net finance cost reduced by £0.6m to £3.3m. The cost of Metronet Standby Letters of Credit reduced by £0.6m following equity payments to the Joint Venture, while the finance cost on retirement benefit liabilities increased by £1.3m. Finance income increased by £1.1m due the Group's improving cash position and should continue to rise next year.

### Taxation

The Group's effective taxation rate for the year ended 31 March 2006 was 23.9% (2005: 26.6%). The effective taxation rate on normalised profit was 29.6% (2005: 31.4% – adjusted to exclude goodwill impairment of £7.2m in that year). The normalised effective rate has reduced due to a greater contribution from our overseas operations in lower tax regimes. The tax charge on disposal of Joint Ventures was £0.5m (2005: £0.3m).

### Earnings per share (EPS)

Basic EPS was 57.0p (2005: 39.3p). Normalised fully diluted EPS was 50.1p (2005: 42.5p – adjusted to exclude goodwill impairment of £7.2m in that year), an increase of 18%. Normalised EPS is considered to be a more representative measure of underlying trading. Further details are given in note 10 to the financial statements.

## Cash flow

Net funds increased by £54.9m to £176.6m. Net cash inflow from operating activities was £111.7m (2005: £88.1m). A summary reconciliation between operating profit and operating cash flow is shown below:

	2006 £m	2005 £m
Operating profit	62.9	43.0
Depreciation and amortisation	24.3	27.8
Impairment of goodwill	–	7.2
Decrease in working capital	40.1	12.3
Decrease in pension balances	(18.4)	(5.9)
Other items	2.8	3.7
<b>Cash generated from operations</b>	<b>111.7</b>	<b>88.1</b>

Strong operating cash flow was driven by a further working capital reduction of £40.1m in the year. This included the benefit of advance payments from several of our large clients. Last year the Group made additional cash contributions to the principal defined benefit pension scheme of £20.0m (2005: £8.6m). The Group anticipates making accelerated contributions on a continuing basis. Further details are given below.

Tax paid in the year was £10.9m (2005: £18.3m), the reduction being due to the current tax benefit of the higher level of pension contributions noted above. The Group made scheduled equity and loan injections amounting to £11.2m into the Metronet PPP companies during the year (2005: £11.1m). The Group is committed to making loan capital payments to the Metronet PPP companies amounting to £37.3m over the next three years. Cash payments relating to acquisitions in the year, principally MSL, amounted to £4.9m. Further details are given below. Net capital expenditure in the year, including the purchase of computer software licences, amounted to £28.2m (2005: £17.9m), the majority of the increase relating to IT infrastructure. The level of capital expenditure is likely to increase approximately in line with growth in staff numbers over the next few years. The cash position benefited from the sale of the Joint Venture investments described above.

The Group is well placed to maintain robust cash flows and generate sufficient funds to enable the anticipated rate of growth.

## Pensions Funding

The latest actuarial valuation of the Atkins Pension Plan was carried out as at 1 April 2004 and indicated that the scheme had an actuarial deficit of £69m. The next actuarial valuation of the Atkins Pension Plan will take place as at 1 April 2007 and it is likely that the actuarial liability will increase due to changes in longevity and other assumptions.

In 2004 the Group reached agreement with its employees and the trustees of the scheme regarding the funding of the actuarial deficit so that it should be eliminated over a 15-year period. In order to reduce the deficit more rapidly, the Group announced in 2005 that it intended to accelerate the payment of its contributions. Accelerated contributions amounting to £8.6m were made in the year ended 31 March 2005. During the year ended 31 March 2006 the Group increased the level of these additional contributions, making accelerated contributions of £20.0m.

The Group is focused on substantially reducing the pension scheme deficit and anticipates making accelerated deficit funding contributions of at least a further £20.0m in the year ending 31 March 2007.

## Charges

The Group accounts for pension costs under IAS 19, *Employee benefits*. The defined benefit total service cost for the year was £18.1m (2005: £19.8m), the reduction reflecting the increase in employee contributions and the reducing membership of the scheme. The net finance cost for the year was £6.7m (2005: £5.4m). The charge relating to defined contribution schemes amounted to £9.0m (2005: £10.1m).

The overall charge for pensions for the year ending 31 March 2007 will be broadly as last year. However, due to the lower discount rate of 5.0% at 31 March 2006 (31 March 2005: 5.4%), the current service cost will be higher, with a corresponding reduction in the interest charge.

## IAS 19 valuation and accounting treatment

The Group assesses pension scheme funding with reference to actuarial valuations but for reporting purposes uses IAS 19.

Under IAS 19, the Group recognised a post-tax retirement benefit liability of £210.0m at 31 March 2006 (2005: £191.9m). The Group has adopted early the proposed amendment to IAS 19 and has recognised through equity a post-tax actuarial loss of £26.4m for the year ended 31 March 2006 (2005: £15.9m). The increased actuarial loss is principally due to changes in the valuation assumptions relating to the longevity of scheme members.

The assumptions used in the IAS 19 valuation are detailed in note 26 to the financial statements. The sensitivities regarding the key assumptions relating to the Atkins Pension Plan are shown below.

Assumption	Change in assumption	Indicative effect on the scheme's liabilities
Discount rate	Increase/decrease by 0.5%	Decrease/increase by 10.0%
Rate of inflation	Increase/decrease by 0.5%	Increase/decrease by 6.5%
Real rate of increase in salaries	Increase/decrease by 0.5%	Increase/decrease by 2.0%
Longevity	Increase by 1 year	Increase by 4.0%

## Acquisitions

On 31 March 2006 the Group acquired 100% of the share capital of MSL Engineering Limited and MSL Services Corp, for a combined consideration of £5.8m, of which £4.6m was paid in cash with the remainder deferred. During the year the Group also acquired 100% of the share capital of NovaPlan Holding AB for £0.3m in cash. Further details of these transactions are given in note 38 to the financial statements.

# Operating and financial review

continued

## Events after the balance sheet date

On 21 June 2006 the Group acquired 100% of the share capital of Mantix Group Limited, a specialist programme management consultancy, for a net cash consideration of £8.8m.

## Capital structure

The Group had 104.5m fully paid ordinary shares in issue at 31 March 2006 (2005: 104.5m), full details of which are shown in note 28 to the financial statements. Net funds at 31 March 2006 were £176.6m (2005: £121.7m), which comprised cash balances and current investments of £218.2m (2005: £145.8m) less bank loans and finance lease creditors of £41.6m (2005: £24.1m).

The adoption of IAS 19, *Employee benefits*, has resulted in the Group reporting an equity shareholders' deficit of £36.1m (2005: £53.4m). However, the Group's corporate structure enables it to continue paying dividends.

## Treasury policies and objectives

The Group's Treasury function manages and monitors external funding and investment requirements and financial risks in support of the Group's corporate objectives. The Board reviews and agrees policies and authority levels for treasury activities.

The Group's financial instruments, other than derivatives, comprise borrowings, cash and liquid resources and various items, such as trade debtors and trade creditors, that arise directly from its operations. The main purpose of these financial instruments is to finance the Group's operations. The Group also enters into derivative transactions, principally forward foreign currency contracts. The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk and foreign currency risk, along with the risks arising from the financing of the Group's activities in the Public Private Partnership and Private Finance Initiative sectors. The Group's policies for managing each of these risks are summarised below. These policies have remained unchanged during the year. The Group does not trade in financial instruments.

## Interest rate risk and liquidity risk

The Group funds its ongoing activities through cash generated from its operations and, where necessary, bank borrowings and finance leases. The Group has banking facilities which include cash facilities and bonding lines, as well as a Letter of Credit facility in relation to the ongoing equity obligations of the Group's PPP/PFI projects. The Group accepts some interest rate risk and any loans drawn under the banking facilities are at floating rates. At 31 March 2006, the amount undrawn under the Group's credit lines was £36.7m (2005: £49.5m).

On 21 June 2006, the Group signed new five-year committed banking facilities of £100m with its principal lending banks. These facilities include borrowing and Letter of Credit facilities.

## Foreign currency risk

The Group, through its ownership of companies based outside the UK, has foreign currency denominated assets. To mitigate the effect of currency exposures arising from net investments overseas, it is the Group's policy to hedge those exposures, where material, using borrowings denominated in foreign currency. At 31 March 2006 the Group had £23.3m (2005: £10.5m) of loans denominated in foreign currency.

The Group also has transactional currency exposures. These exposures arise from sales or purchases in currencies other than its subsidiaries' functional currencies. It is the Group's policy to hedge such risks, where material, using forward currency contracts. At 31 March 2006 the Group had outstanding forward foreign exchange contracts amounting to the equivalent of £4.5m (2005: £5.8m).

The Group accounts for financial instruments in accordance with IAS 39, *Financial instruments: recognition and measurement*. Where a derivative is a designated hedging instrument and is assessed as effective under IAS 39, any gain or loss on re-measurement is taken to equity. In all other cases the gain or loss is recognised in the income statement.

## Public Private Partnership (PPP) and Private Finance Initiative (PFI)

The Group's PPP and PFI projects involve the arrangement of finance as part of the overall project service. Individual projects are undertaken by Special Purpose Companies (SPCs) in Joint Ventures with other parties. These SPCs contract with end users for the provision of serviced facilities and also arrange funding, construction, facilities management services and, where required, operational support for projects. Except for equity commitments, the funding of the SPCs is arranged without recourse to the rest of the Group.

The Group's share of the gross assets and liabilities of the SPCs is reflected separately in the Group accounts in accordance with the provisions of IAS 31, *Interests in joint ventures*.

## Critical accounting policies

The Group's principal accounting policies are described in note 1 to the financial statements. The financial statements for the year ended 31 March 2006 have been prepared under IFRS and include the re-statement of comparatives for the year ended 31 March 2005. Earlier years shown within the five year summary on pages 108 to 110 are under UK GAAP but are presented alongside 2005 and 2006 figures in IFRS format.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. Material estimates applied across the Group's

businesses and Joint Ventures are reviewed to a common standard and adjusted where appropriate to ensure that consistent treatment of similar and related issues that require judgement is achieved upon consolidation. Any revisions to estimates are recognised prospectively.

The accounting policies and areas that require the most significant estimates and judgements to be used in the preparation of the financial statements are in relation to contract accounting and defined benefit pension schemes.

#### **Contract accounting**

Profit is recognised on contracts on a percentage completion basis, provided the outcome of the project can be reasonably foreseen. Full provision is made for estimated losses. Where contracts span more than two accounting periods profit is not generally recognised until the project is 50% complete.

The projected outcome of any given contract is necessarily based on estimates of revenues and costs to completion. Whilst the assumptions made are based on professional judgements, subsequent events may mean that estimates calculated prove inaccurate, with a consequent effect on the reporting of results.

#### **Defined benefit pension schemes**

Accounting for pensions involves judgement about uncertain events in the future, such as discount rates, the rate of inflation, the level of salary increases and the longevity of scheme members. Assumptions in respect of pensions and post-retirement benefits are set after consultation with independent qualified actuaries. Management believes the assumptions are appropriate. However, a change in the assumptions used would impact the Group's results and net assets. Any differences between the assumptions and the actual outcome will affect results in future years.

## **Review of the year**

### **Risks and uncertainties**

In order to achieve our business objectives we must respond effectively to the associated risks. The Group has well established risk management procedures, involving the identification and monitoring of strategic and operational risks at various levels of management. The Board regularly reviews material risks identified and risk management is embedded in our annual budgeting and five-year planning processes. It is however not possible to mitigate fully all risks that we enter into. The principal risks for the Group are as follows:

#### **Recruitment and retention of sufficient high calibre staff**

The Group's people are its key resource and the recruitment and retention of top quality staff are crucial to its future success. Failure to do so would constrain the growth of the business and prevent the Group from achieving its potential. The skills needed are in short supply and the Group has to compete with a large number of other organisations to secure the best talent. The Group invests a great deal of management effort and resource in this area, a summary of our approach being shown in the People section below.

#### **Changes in the competitive environment resulting from government policy or industry consolidation**

The competitive environment in which the Group operates may change for a number of reasons. It may be altered by government policy in the form of increased or reduced regulation or a change in public sector procurement practices. It would also be affected should any significant industry consolidation occur. We seek to mitigate this risk by regularly monitoring market developments and competitor activity and undertaking benchmarking processes.

#### **Changes to the contracting environment resulting from market developments**

The ways in which business is conducted inevitably change over time. The nature of the contracting environment is especially important for companies like Atkins. The trend remains one where clients increasingly seek to transfer risk to consultants; contractors will also seek to share risks. There is a possibility that, in securing new work, the Group accepts risks that are insufficiently understood or evaluated, with ensuing financial loss. We actively mitigate this risk via a range of internal review procedures that enable contract terms to be subject to appropriate scrutiny and manageable risks to be reduced.

#### **Financial risks associated with large and complex Joint Ventures**

Atkins periodically enters into Joint Venture arrangements. These allow the Group to work in partnership with companies that possess complementary skills in order to meet client needs. Where projects are large, Joint Venture arrangements may also act to spread commercial and other risks. In many cases, particularly in relation to PPP/PFI concessions, the Group's liability in the Joint Venture is limited to its committed equity and loan capital. Some Joint Ventures can, however, include joint and several liability provisions which increase the Group's exposure. The Group takes steps to mitigate this through risk evaluation prior to entering into such contracts and by regular monitoring of Joint Venture performance.

#### **Retirement benefits**

We operate both defined contribution and defined benefit pension schemes. The principal defined benefit scheme is closed to new members but accepts ongoing contributions from existing members. The risk that scheme assets may not match liabilities is inherent in defined benefit schemes. In particular, the scheme's assets largely comprise equities and bonds and therefore the value of the scheme's assets is directly affected by the performance of these markets. The value of the scheme's liabilities is affected by a number of factors, including discount rates, the rate of inflation, the level of salary increases and the longevity of scheme members. Should the assumptions made regarding these factors prove inaccurate, a material difference between the scheme's assets and liabilities could persist.

#### **Safety and health**

Our business is concerned with the built environment and this entails significant safety and health risks. Should the Group's policy or practice in this area prove inadequate, there would be a consequent risk to employees, clients, contractors and third parties. We take safety and health seriously and ensure that all staff are appropriately trained and that procedures are continuously reviewed and improved.

## Review of the year People

Atkins is a significant employer of professional engineers, project managers and many other specialist disciplines. Our professionalism and prominence in our sector have been recognised by several awards won during the year, including the following:

- *The Sunday Times* Top 20 Best Big Companies To Work For, in which we were placed 11th and ahead of several leading professional service organisations.
- *The Times* Top 100 Graduate Employers, in which our placing moved from 94 to 66.
- QS Employer of the Year.
- Best Places to Work in IT, in which we were again placed in the top three in our sector.

### Recruitment and retention

Our investment in e-recruitment is beginning to achieve positive results. In addition to significantly increasing our capacity to recruit, this has brought cost and efficiency benefits, with the proportion of potential recruits applying online now over 40%.

We have continued to increase the resources allocated to recruitment, with over 40 specialist staff now dedicated to this activity. Our e-recruitment platform now covers the US and the Middle East and will be extended to cover India and China this year.

Staff numbers have risen steadily and our own staff increased by approximately 650 in the year, with total headcount (including agency staff) up by over 1,000. We have undertaken a number of highly successful recruitment campaigns in India, Poland and Australasia and will continue to extend our recruitment coverage.

Staff turnover fell in the year from 15.0% to 14.1%, with a marked improvement in our design disciplines. Staff turnover for those participating in management development schemes is particularly low, providing an early return on our investment. Retention of staff on graduate training schemes has also improved, following enhancement of our development programmes.

### Training and development

Investment in training and development increased further during the year and a major improvement of our management training portfolio has been largely completed. By 31 March 2006 1,850 managers had attended people management, commercial and client management programmes. These programmes involve managers across the business and are now being run on an international basis. We have increased the annual throughput of managers attending our highly successful Management Development Centres to around 200. Our Senior Management Development Programme continues to prove very beneficial, both in broadening the skills and mindset of the next generation of top managers and as a catalyst for driving change across the Group.

We have continued building links with academic institutions in the UK and overseas. We are one of the supporters of a new MBA at Imperial College, London that is focused on innovation, while at Cranfield and Warwick Universities we work closely on Atkins' in-house management development programmes. We sponsor Chairs at the British University in Dubai and Greenwich University.

Our intake of graduate trainees has continued to grow. We were particularly pleased to be the fastest riser in the list of *The Times* Top 100 Graduate Employers. We now visit 35 universities during the annual recruitment exercise and process applications from over 8,000 undergraduates. During the year approximately 140 graduates attended graduate development workshops, which utilise many of the assessment tools employed by our Management Development Centres. Feedback from participants has been very encouraging and we expect these workshops to prove successful in supporting the career development of our graduate recruits. While we have made significant progress in this area, it will remain a focus for continuous improvement, not least as we move from a UK-centric to an international organisation.

### Reward

Over 500 staff are eligible to participate in the Executive Bonus Scheme. This rewards senior staff for the achievement of demanding performance targets, a third of any award being in the form of shares deferred for a period of three years. The funds available for discretionary bonuses continued to increase, with awards made to over 20% of staff last year. Communications have been improved with the issue of Total Reward Statements for the top 500 managers. This is an important step in communicating the value of non-salary benefits, in particular pension, bonus and share awards, and in moving towards a total compensation culture.

### Working environment

Some 70% of staff responded to our annual Viewpoint survey which covered all staff worldwide. The overall Employee Engagement Index of 71 was unchanged at Group level and remains above the benchmark for organisations similar to Atkins. We remain committed to improving performance, particularly in relation to recognition and feedback, areas that we believe have a direct impact on staff retention.

Participation in our Share Incentive Plan remains healthy with 10% of eligible staff purchasing shares on a monthly basis. Participation is also high for other flexible benefits, including childcare vouchers and flexible leave. We plan shortly to introduce a 'Bike4work' scheme taking advantage of the tax concessions available in the UK.

The proportion of UK staff covered by Investors in People accreditation increased from 66% to 73% last year.

# Review of the year

## Corporate responsibility

Corporate responsibility (CR) is an increasingly important issue for all companies and Atkins is no exception. The Group's understanding of this area continues to mature and over time CR has become more embedded in our management systems, policies and culture. Every year the Group publishes a CR Report, simultaneously with the Annual Report, which provides details of our CR strategy and performance. A summary of the key issues and developments during the year is presented here, while matters relating to our staff are covered in the People section above.

### CR management

The Board sets Group policies on CR, the Chief Executive being responsible to the Board for the Group's CR performance. Central management frameworks are in place covering various CR matters, including a common management structure dealing with quality, safety and health and environment (QSE). Every Atkins business unit has dedicated QSE representatives to implement Group policies and manage issues at a local level.

Group policies are in place covering a range of areas, including quality, safety and health, the environment, business conduct, data protection, dignity and equality at work, whistle-blowing and the appropriate use of information technology. These policies are published on the corporate intranet and are also provided externally on request. Policies are regularly reviewed and updated where necessary to reflect changes in legislation, emerging good practice and business needs. Risk identification and management are key parts of this process. Business units are encouraged to adopt additional policies locally where these are particularly relevant to their own operations, provided these are in line with Group policies.

### Safety and health

Effective safety and health management is central to our commitment to CR. Last year we continued to make progress in this area, including:

- Additional OHSAS 18001 certifications.
- Improvements to our accident/near miss reporting system, including a 24/7 hotline.
- Launch of safety, health and environment induction training via e-learning.
- Production of a noise e-learning module for the industry as part the 2005 European Safety Week.
- Publication of a handbook on driving safety.
- Translation of key safety, health and environment resources into local languages for our non-UK operations.

One of the Group's most important performance indicators on safety is the Accident Incident Rate (AIR), which measures the annual number of reportable accidents per 100,000 employees. AIR statistics are measured both for our employees and contractors and are divided into office, engineering and construction activities. AIR performance in 2005/06 showed an overall improvement compared to the previous year and targets were met in all categories, as shown below:

	Office		Engineering		Construction	
	2006	2005	2006	2005	2006	2005
<b>Target</b>	<b>170</b>	170	<b>463</b>	463	<b>2,100</b>	2,100
<b>Actual:</b>						
Employees	<b>104</b>	59	<b>151</b>	235	<b>556</b>	2,763
Contractors	–	–	<b>124</b>	767	<b>293</b>	317

During the year we received no improvement or prohibition notices from the Health and Safety Executive or any local authority during their visits to our offices and sites. We received no prosecutions for any breach of health and safety laws.

The Group is committed to continuous improvement to safety and health and objectives for this year include:

- Completion of OHSAS 18001 certification across the Group.
- Achievement of reduced AIR targets.
- Continuing roll-out of Construction Skills Certification Scheme cards to our employees.

### Environment

The Group is very much aware of the potential impact of its activities on the environment. Our environment policy requires that we:

- Take environmental impact into account in the planning, design and conduct of our work to help prevent pollution, minimise our impacts on local communities and ensure that activities with high environmental risks are controlled effectively.
- Ensure compliance with all relevant environmental legislation and, where practical, with codes of practice, industrial standards and other requirements, including those specified by our customers.
- Incorporate environmental and sustainability considerations into our design standards and practices regarding the procurement and use of materials, energy consumption, waste disposal and recycling.
- Provide appropriate environmental training for our own staff and work to promote environmental awareness amongst our suppliers, contractors and partners.

# Operating and financial review

continued

Progress last year included the following:

- An improvement to our Business in the Environment survey score from 74% to 80%, ranking the Group within the top 100 performers.
- Implementation of e-learning for staff covering environmental issues.
- Inclusion of environmental reporting within our online accident reporting system.
- Production and distribution of an emergency response guide for site activities.
- The switch to a 'green tariff' for electricity supply to all our UK business operations.
- Subscription to the Corporate Responsibility Exchange (CRE) to enhance our performance monitoring.

The Group seeks to measure the direct environmental impact of its operations via the measurement of certain performance indicators, details of which are shown in the CR Report. The most significant direct impacts on the environment for businesses such as Atkins are CO<sub>2</sub> emissions arising from office accommodation and business travel, and non-hazardous waste. Reporting of data is still evolving as standard CO<sub>2</sub> conversion factors are revised and our own data capture systems improve. The estimates shown below are based only on data from UK-based operations, the figures for 2005/06 being broadly similar to the previous year:

Per employee	2006	2005
CO <sub>2</sub> emissions	<b>2,708kg</b>	2,716kg
Solid non-hazardous waste	<b>82kg</b>	85kg
Paper recycled	<b>29kg</b>	27kg

Indirect impacts from business activities also occur in the form of 'upstream' impacts, notably through the use of sub-consultants and other suppliers, and 'downstream' impacts via our clients' use of the capital infrastructure we plan, design and enable. The Group regards measurement of these impacts as impractical at present.

We intend to provide additional information on direct environmental performance indicators in future Annual Reports as this area develops within business as a whole and reliable industry comparator information becomes available.

No significant environmental incidents were reported during the year. We received no cautions, warnings or prohibition notices from enforcement authorities related to environmental incidents and we were not prosecuted for any breach of environment law.

Improvements in the area of environmental management planned for this year include:

- Achievement of ISO 14001 certification across the whole business.
- Improvements to our environmental incident reporting system.
- Strengthening of our capabilities in sustainable design and engineering services.
- Implementation of a 'green' policy covering company cars.
- Roll-out of environmental leadership courses across the business.

## Community

The Group takes great pride in making a contribution to the communities in which it works. In particular:

- Many of our projects have positive social, ethical and environmental impacts.
- The Group is formally involved in a number of charitable, educational and environmental initiatives.
- Our staff are involved with many voluntary community and fund-raising activities.

Our CR report contains numerous case studies covering these areas. The Group again participated in the Business in the Community Corporate Responsibility Index last year. Our score rose from 71% to 78%, ranking Atkins within the top 100 participants.

## Relationships with other stakeholders

The maintenance of excellent relationships with other key stakeholders, including customers and suppliers, is crucial to the Group's success. In particular we place great emphasis on:

- Understanding our clients' needs and delivering the highest standards of technical expertise.
- The adoption of a partnership approach to achieve shared aims.
- Integrity, honesty and efficiency in communication.
- Feedback, review and continual improvement.

Effective quality management systems are critical to the delivery of first class service to clients. All of the Group's UK businesses are accredited with the international quality standard ISO 9001:2000. Last year further approvals were achieved among our non-UK based businesses and all of our operations in the Middle East and China are now accredited with the standard.

A Group procurement policy is in place which includes the use of preferred suppliers. These are selected through a fair tendering process and are expected to comply with minimum CR criteria. It is our policy, wherever possible, to use environmentally friendly goods and services and to purchase from ISO 14001-accredited organisations. We also seek to use contractors covered by the Safe Contractor accreditation to support the management of the Group's estate.

Last year the efforts of our people won numerous awards and accolades, both from customers and independent organisations. This year we will continue our efforts to improve further our relationships with key stakeholders.

Approved by the Board and signed on its behalf

**Keith Clarke**  
Chief Executive  
22 June 2006

**Robert MacLeod**  
Group Finance Director

# Board of directors

## **Ed Wallis**

Chairman, age 66

Ed Wallis was appointed a director in September 2004, taking up the post of Chairman in January 2005. He is a Chartered Engineer. He was the founding Chief Executive of Powergen where he also held the position of Chairman before retiring in 2003. Prior to this he gained more than 30 years of experience working for the Central Electricity Generating Board. He has a wide range of other board level experience including the Chairmanship of Lucas Varity and London Transport. He was invited to become a Companion of the British Institute of Management in 1994 and in 1997 became a Fellow of the Royal Academy of Engineering. In 1996 he was awarded honorary doctorates by both Brunel University and Aston University. He is Chairman of the Nomination Committee.

## **Keith Clarke**

Chief Executive, age 54

Keith Clarke was appointed a director in October 2003. He is a Chartered Architect. He joined the Group from Skanska AB where he was Executive Vice President responsible for its activities in the UK, Poland, Czech Republic, India and China. He has over 30 years' experience in construction and engineering, having previously worked for the City of New York, Olympia and York, Trafalgar House and Kvaerner. He was appointed non-executive Chairman of Metronet on 13 April 2005 and is a member of the National Employment Panel and Patron of the Environmental Industries Commission. He is a member of the Nomination Committee.

## **Robert MacLeod**

Group Finance Director, age 42

Robert MacLeod was appointed Group Finance Director in June 2004. He is a Chartered Accountant. He joined the Group as Group Financial Controller in March 2003 having previously worked in a variety of senior financial roles at Enterprise Oil plc. A graduate of Cambridge University, he trained at KPMG.

## **James Morley**

Non-Executive Director, age 57

James Morley, a Chartered Accountant, was appointed a non-executive director in 2001. He is Chief Operating Officer of Primary Group Limited and is also a non-executive director of Bankers Investment Trust plc. He was previously Finance Director at Cox Insurance Holdings plc, Arjo Wiggins Appleton plc, Guardian Royal Exchange plc and Avis Europe plc.

He is Senior Independent Director, Chairman of the Audit Committee and a member of the Remuneration and Nomination Committees.

## **Admiral the Lord Boyce**

Non-Executive Director, age 63

Lord Boyce was appointed a non-executive director in May 2004. He has had a distinguished career in the Royal Navy and the Ministry of Defence (MoD). He qualified as a submariner in 1965, and commanded three submarines and HMS Brilliant. He attended the Royal College of Defence Studies. Lord Boyce was promoted to Admiral in 1995 and was Second Sea Lord and subsequently Commander-in-Chief Fleet before becoming First Sea Lord, Professional Head of the Royal Navy from 1998 to 2001; and Chief of Defence Staff, Professional Head of the Armed Forces from 2001 to 2003. He was elevated to the peerage in 2003 and was appointed Lord Warden and Admiral of the Cinque Ports and Constable of Dover Castle in 2004. He is a non-executive director of VT Group plc. Lord Boyce is a director of the White Ensign Association, an Elder Brother of Trinity House, a Trustee of the National Maritime Museum and a member of the Council of the RNLi. He is a member of the Remuneration and Nomination Committees.

## **Christopher Kemball**

Non-Executive Director, age 59

Christopher Kemball was appointed a non-executive director in 2002. He is Chairman of The Davis Service Group plc and a non-executive director of Control Risks Group Limited. He is also a Vice-Chairman of Hawkpoint Partners Limited, the independent investment bank. Most of his career has been in investment banking in Europe, Emerging Markets and the USA. He ran the North American operations of Kleinwort Benson plc from 1983 to 1986 before moving to Dillon Read & Co. Inc. as Managing Director jointly in charge of its European business. In 1992, he joined Baring Brothers & Co. Limited as a director and ran its international corporate finance activities from 1994, leaving in 1999. He is a member of the Audit and Nomination Committees.

## **Sir Peter Williams**

Non-Executive Director, age 61

Sir Peter Williams was appointed a non-executive director in May 2004. He graduated from Cambridge University with an MA and PhD in Physics. He initially pursued an academic career, first at Selwyn College, Cambridge and subsequently at Imperial College, London. After a period with VG Instruments Limited he joined Oxford Instruments plc in 1982. He became its Chief Executive in 1985 and was Chairman from 1991 until his retirement in 1999. He is Chairman of the National Physical Laboratory and a non-executive director of GKN plc. Sir Peter was Master of St Catherine's College, Oxford, Chairman of the UK's Engineering & Technology Board, Chairman of the Board of Trustees of the National Museum of Science & Industry, President of the Institute of Physics, President of the British Association for the Advancement of Science and President of the Association for Science Education. He is currently joint Patron of WISE (Women into Science and Engineering). Sir Peter was elected as fifth Chancellor of the University of Leicester on 21 October 2005. He is Chairman of the Remuneration Committee and a member of the Audit and Nomination Committees.

# Directors' report

The directors present their Annual Report on the affairs of the Company and the Group, together with the financial statements and the independent auditors' report, for the year ended 31 March 2006. These will be laid before shareholders at the Annual General Meeting (AGM) to be held on 6 September 2006.

## Principal activities and business review

The Chairman's statement (pages 4 and 5) and the Operating and financial review (pages 6 to 45) report on Atkins' principal activities and performance during the past year and prospects for the future. The statement and review are included in this report by reference, together with the list of the principal subsidiary undertakings and the countries in which they operate (note 39 to the financial statements).

## Results and dividends

The Group profit after tax for the year of £56.9m (2005: £38.9m) is shown in the Consolidated income statement on page 62.

The directors recommend a final dividend of 11.5 pence (2005: 8.0 pence) per ordinary share to be paid on 29 September 2006 to ordinary shareholders on the register on 25 August 2006 which, together with the interim dividend of 4.5 pence paid on 27 January 2006, makes a total of 16.0 pence for the year (2005: 12.0 pence).

## Acquisitions and disposals

Acquisitions and disposals made by the Group in the year are described in notes 5 and 38 to the financial statements on pages 76 and 100.

## Directors

Full biographical details of the Company's directors at the date of this report are given on pages 46 and 47.

The Company's Articles of Association require that one third of directors must retire at each AGM and may be re-elected.

Struan Robertson retired from the Board on 7 September 2005. No directors were appointed during the year. Lord Boyce and Keith Clarke will retire by rotation at the AGM and, being eligible, offer themselves for re-election.

The Board considers that the performance of those directors proposed for re-election continues to be effective and that they demonstrate a strong commitment to their role.

## Directors' interests and indemnities

Directors' interests in the Company are described in the Remuneration Report on pages 55 to 60.

Directors and officers of the Company and its subsidiaries have the benefit of a directors' and officers' liability insurance policy which provides appropriate cover in respect of legal actions brought against its directors. The Company's practice has always been to indemnify its directors in accordance with the Company's Articles of Association and to the maximum extent permitted by law. Disclosure of such indemnities is now required by new provisions inserted into the Companies Act 1985 (the Act). During the year the Board approved the grant of deeds of indemnity to all directors and these are in force as at the date of this report. These indemnities are available for inspection by shareholders at the Company's registered office.

Neither the insurance nor the indemnities provide cover where the director has acted fraudulently or dishonestly.

## Corporate governance

A report on corporate governance is on pages 51 to 54.

## Corporate responsibility

A summary of the Group's corporate responsibility activities is contained on pages 43 to 45 of the Operating and financial review. In addition, the Group produces a separate annual report on corporate responsibility which includes detailed information in respect of safety and health, the environment, the community, people and suppliers. A copy of that report is sent to all shareholders and is also available on the Company's website [www.atkinsglobal.com](http://www.atkinsglobal.com).

## Employees

The Group communicates financial results and significant business issues to all employees via the use of email, the intranet and in-house publications. Feedback from employees is obtained annually via a confidential survey. Where appropriate, consultation with employee and union representatives takes place.

Employee share ownership has been encouraged over a long period. UK employees have the opportunity to become shareholders via the Company's Share Incentive Plan.

The Group is committed to the fair and equitable treatment of all its employees irrespective of gender, race, age, religion, disability or sexual orientation. Policies have been implemented across the Group to ensure that this commitment is acted on in practice.

The Group's policy and practice is to encourage the recruitment and subsequent training, career development and promotion of disabled people on the basis of their aptitude and abilities, and the retention and re-training of employees who become disabled.

#### **Business conduct policy**

The Board is responsible for the Group's Business Conduct Policy. The Group believes that integrity is a fundamental prerequisite for successful business relationships, both internally and externally. Reputation, trust and confidence are essential elements which we seek to protect and enhance to the benefit of all with whom we have a relationship. The Group seeks to understand and meet its customers' needs, whilst seeking continuous improvement. Across the Group there are procedures in place which seek to underpin this approach. By so doing the Group aims to meet the needs of all stakeholders.

#### **Supplier payment policy**

The Company's policy, which is also applied by the Group, is to agree terms and conditions for its business transactions with suppliers and endeavour to make payment to these terms, subject to the terms and conditions being met by suppliers. As at 31 March 2006 creditors represented 21 days' annual purchases (2005: 21 days).

#### **Charitable and political donations**

During the year the Group made charitable donations of £97,534 (2005: £85,000), principally to local charities serving the communities in which the Group operates or charities relevant to the Group's activities. For 2006, the Group has chosen to focus its efforts on three charities, namely RedR, WaterAid and the PSP Association. It is the Group's policy not to make political donations, either in the UK or overseas.

The Group has no intention of making any political donations or incurring such expenditure in the future. However, the Political Parties, Elections and Referendum Act (the PPER Act) defines "EU Political Organisation" widely. There is still some uncertainty over which bodies are covered by the definition and what will be classified as a "Donation". The Board will therefore seek authority at the forthcoming AGM for the Company and its main trading subsidiary Atkins Ltd to make such political expenditure up to £100,000 in order to prevent inadvertent breach of the PPER Act.

#### **Share capital**

Full details of the Company's authorised and issued share capital, including changes during the year, can be found in note 28 to the financial statements.

#### **Purchase of own shares**

The Company is authorised to purchase its own shares in the market under authorisation given by shareholders at its AGM held in 2005. Although no such purchases have been made, the Company will seek to renew the authority from shareholders at its forthcoming AGM. Any shares purchased pursuant to that authority may be held as treasury shares in accordance with the Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003.

#### **Substantial shareholdings**

As of the date of this report the Company had been notified, in accordance with Sections 198 to 208 of the Companies Act 1985, of the following interests in the ordinary share capital of the Company:

<b>Name of holder</b>	<b>Number of ordinary shares</b>	<b>Percentage of issued capital</b>
The Atkins (No.4) Employee Benefit Trust	4,107,429	3.93%
Barclays plc	4,056,299	3.88%
Legal & General Group plc	3,830,384	3.37%
Standard Life Investments	4,288,283	4.11%

Save as referred to above, the directors are not aware of any person as at the date of this report who was interested in 3.0% or more of the issued share capital of the Company or could directly or indirectly, jointly or severally, exercise control.

# Directors' report

continued

## Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period.

In preparing those financial statements the directors are required to:

- Select suitable accounting policies and then apply them consistently.
- Make judgements and estimates that are reasonable and prudent.
- State that the financial statements comply with IFRS.
- Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group will continue in business.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the Act. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that, as at the date this report was approved, so far as each director is aware, there is no relevant audit information of which the auditors are unaware and they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

The directors are responsible for the maintenance and integrity of the website. Financial information published on the website is based on legislation in the United Kingdom governing the preparation and dissemination of financial statements that may differ from legislation in other jurisdictions.

## Going concern

The directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and therefore continue to adopt the going concern basis in preparing the financial statements.

## Auditors

The Company's auditors, PricewaterhouseCoopers LLP, have expressed their willingness to continue in office and a resolution for their re-appointment and to authorise the directors to determine their remuneration will be proposed at the forthcoming AGM.

Approved by the Board and signed on its behalf

## Philip Davis

Company Secretary  
22 June 2006

## Cautionary statement

Under the Companies Act 1985 (as amended), a company's directors' report is required, among other matters, to contain a fair review by the directors of the Group's business through a balanced and comprehensive analysis of the development and performance of the business of the Group and the position of the Group at the year-end, consistent with the size and complexity of the business.

The directors' report set out above, including the Chairman's statement and the Operating and financial review incorporated into it by reference (the 'Directors' report'), has only been prepared for the shareholders of the Company, as a whole, and its sole purpose and use is to assist shareholders to exercise their governance rights. In particular, the Directors' report has not been audited or otherwise independently verified. The Company and its directors and employees are not responsible for any other purpose or use or to any other person in relation to the Directors' report.

The Directors' report contains indications of likely future developments and other forward looking statements that are subject to risk factors associated with, among other things, the economic and business circumstances occurring from time to time in the countries, sectors and business segments in which the Group operates. These factors include, but are not limited to, those discussed under 'Risks and uncertainties' elsewhere in this document. These and other factors could adversely affect the Group's results, strategy and prospects. Forward looking statements involve risks, uncertainties and assumptions. They relate to events and/or depend on circumstances in the future which could cause actual results and outcomes to differ. No obligation is assumed to update any forward looking statements, whether as a result of new information, future events or otherwise.

# Corporate governance report

The Company is committed to the principles of good corporate governance contained in the Combined Code on Corporate Governance adopted by the Financial Reporting Council in July 2003 (the Code). This report sets out the Company's compliance with the Code.

## Statement of compliance with the Combined Code

The Company has complied with the provisions set out in Section 1 of the Code throughout the year ended 31 March 2006 except for the short period between the retirement of Struan Robertson on 7 September 2005 and the appointment on 6 October 2005 of James Morley as Senior Independent Director, Sir Peter Williams as Chairman of the Remuneration Committee and Christopher Kemball as a member of the Audit Committee. During this period the Company had not confirmed the appointment of a replacement Senior Independent Director and the Audit and Remuneration Committees temporarily comprised two non-executive directors.

## The Board

The Board of directors is the body responsible for corporate governance, for establishing policies and objectives and for the stewardship of the Group's resources. It is the Group's policy that the roles of Chairman and Chief Executive are separate, with their roles and responsibilities clearly divided and recorded. Currently the Board is made up of the Chairman, two executive directors and four non-executive directors. James Morley is the Senior Independent Director. Struan Robertson was Senior Independent Director until his retirement on 7 September 2005. The biographies of the directors as at the date of this report are given on pages 46 and 47.

It is the opinion of the Board that the non-executive directors are independent of management and have no business or other relationship which could interfere materially with the exercise of their judgement.

The Board has a regular schedule of meetings together with further meetings when required. In addition, directors meet as members of relevant committees. Whilst the Board has delegated the normal operational management of the Company to the Chief Executive it has agreed a formal schedule of matters reserved specifically for its decision. This schedule includes strategy, the approval of financial statements and shareholder circulars, treasury policy, major capital investments, risk management strategy and acquisitions and disposals.

The Chairman and the non-executive directors meet without the executive directors present at least annually.

All directors have access to the advice and services of the Company Secretary, who is responsible for ensuring that Board procedures and applicable rules and regulations are observed. There is an agreed procedure for directors to obtain independent professional advice, paid for by the Group.

In accordance with the Company's Articles of Association, one third of the Board is required to retire by rotation each year. In addition, any director appointed during the year will stand for election at the next General Meeting, ensuring that each Board member faces re-election at regular intervals.

## Chairman

Ed Wallis, the Chairman, normally spends two days per week on the business of the Group. His other significant commitments are disclosed in his biography on page 46. The Board considers that these commitments do not hinder his ability to discharge his responsibilities to the Company effectively.

## Committees of the Board

The Board's committees meet regularly to enable them to discharge their responsibilities. Each Committee has terms of reference which are reviewed annually by the Board. Copies are available on request from the Company Secretary or on the Group's website [www.atkingsglobal.com](http://www.atkingsglobal.com). Following formal decision making the Board may, on occasion, delegate authority to a standing committee consisting of any two directors to facilitate final sign off for an agreed course of action within strict parameters.

## Audit Committee

The Audit Committee comprises James Morley, Christopher Kemball and Sir Peter Williams, all independent non-executive directors. James Morley, a Chartered Accountant, is Chairman of the Committee. Struan Robertson served as a member of the Committee until his retirement on 7 September 2005. Christopher Kemball was appointed as a member of the Committee on 6 October 2005. The Board considers all members to have recent and relevant financial experience.

The independent auditors and Head of Internal Audit have unrestricted access to the Audit Committee and, in accordance with usual practice, meet privately with the Committee at each scheduled meeting.

The Audit Committee's terms of reference address the provisions in the Code in relation to audit committees and auditors. The Board and the Audit Committee monitor the cost effectiveness of audit and non-audit work performed by the auditors and also consider the potential impact, if any, on the corporate relationship with the auditors before awarding any non-audit work. For details regarding fees paid to the independent auditors, see note 4 to the financial statements.

# Corporate governance report

continued

The independent auditors continue to operate procedures to safeguard against the possibility that the auditors' objectivity and independence could be compromised. This includes the use of quality review partners, use of a technical review board (where appropriate) and annual independence procedures, including confirmations by all staff. The auditors report to the Audit Committee on matters including independence and non-audit fees on an annual basis. In addition, the role of the audit partner is rotated on a periodic basis.

During the year the Committee's activities have included:

- A formal review of the draft Annual Report, interim statement and associated announcements focusing on key judgemental areas and accounting policies.
- A review of the independent auditors' strategy and their findings in respect of the annual and interim reports.
- Regular examination of the reports in respect of work undertaken by the internal audit function.
- An assessment of the effectiveness of the system of internal control, risk management process and the Company's written procedures for responding to the allegations of whistle-blowers.
- A detailed review of the internal audit plan.
- The conclusion of the Group's transition to IFRS.
- Analysis of audit and non-audit fees and of the auditors' independence, including consideration of the forthcoming rotation of the audit partner.
- An appraisal of its own effectiveness and that of the independent auditors and the internal auditors.

## Nomination Committee

The Nomination Committee comprises Ed Wallis, Lord Boyce, Keith Clarke, Christopher Kemball, James Morley and Sir Peter Williams. Struan Robertson was a member of the Committee until his retirement from the Board on 7 September 2005. The Committee is chaired by Ed Wallis. The Committee is responsible for nominating candidates for appointment to the Board. The Committee makes appraisals of the processes in place for succession planning in respect of both Board and senior appointments.

All non-executive directors are advised of the time commitment considered necessary to enable them to fulfil their responsibilities prior to appointment.

## Remuneration Committee

The Remuneration report on pages 55 to 60 includes details of the Remuneration Committee and its work.

## Board and committee attendance

The following table details the attendance of directors at meetings of the Board and of Board committees of which they were members during the year ended 31 March 2006:

Director	Board	Audit Committee	Remuneration Committee	Nomination Committee
Lord Boyce	8/8	–	4/4	1/1
Keith Clarke	8/8	–	–	1/1
Christopher Kemball	8/8	1/2 <sup>(1)</sup>	–	1/1
Robert MacLeod	8/8	–	–	–
James Morley	8/8	4/4	4/4	1/1
Struan Robertson	3/4	1/1	2/2	–
Ed Wallis	8/8	–	–	1/1
Sir Peter Williams	8/8	4/4	2/2	1/1

(1) Christopher Kemball was appointed as a member of the Audit Committee on 6 October 2005. The first meeting held following his appointment coincided with a prior engagement.

## Group Executive

The Group Executive is the Chief Executive's committee and is responsible for the operational management of the business. Its members currently comprise the Group Finance Director, the Chief Operating Officer, the Managing Directors of a number of the Group's business segments, the Group Human Resources Director and the General Counsel and Company Secretary. It meets regularly throughout the year, on at least ten occasions. Those members who are not directors of the Company are invited to attend certain Board meetings during the year and also meet with the non-executive directors from time to time without the executive directors present.

The respective roles of the Board and Group Executive are discussed further under internal control on page 53.

## Board performance evaluation and training

The Board, as part of its commitment to ensure its effectiveness and evaluate its performance, completed a full evaluation of its performance and that of its directors during the year. This evaluation consisted of a series of questionnaires completed by all Board members and those executives with significant Board exposure followed by private discussions between the Chairman and each director. In addition, the Audit Committee has completed a detailed formal assessment of its performance and the audit process. In light of the new composition of the Remuneration Committee it is proposed to complete a detailed formal assessment of the effectiveness of this committee later in the current financial year.

The non-executive directors have met alone to appraise the Chairman's performance.

The Company has a continuing professional development framework to assist the Chairman, executive directors and non-executive directors in discharging their responsibilities effectively. Non-executive directors meet regularly with members of the Group Executive and receive regular business updates via scheduled presentations. This, coupled with site visits and the attendance by key employees at Board dinners, ensures non-executive directors gain first hand experience of developments within the Group. External training is provided when appropriate. This includes briefings from the Company's legal advisors, brokers and auditors at Board meetings and presentations from guest speakers at Board dinners.

### **Internal control**

The Board has accountability for reviewing and approving the adequacy and effectiveness of internal controls operated by the Group, including financial, operational and compliance controls and risk management. It is the role of management to implement the agreed policies on risk and control.

The system of internal financial and operational controls is designed to meet the Group's particular needs and aims to facilitate effective and efficient operations, to safeguard the Group's assets, ensure proper accounting records are maintained and ensure that the financial information used within the business and for publication is reliable. The Group's risk management process identifies the key risks facing each business and reports to the Board on how those risks are being managed.

Such a system of internal control can only be designed to manage rather than eliminate risk of failure to achieve business objectives and can provide reasonable, but not absolute, assurance against material misstatement and loss.

There is a continuing process for identifying, evaluating and managing the risks faced by the Group. This process has been in place for the year under review and remains current. This process covers subsidiaries in which the Group has an interest of 50% or more. Joint Ventures in which the Group does not have overall control are not treated, for these purposes, as part of the Group. For these Joint Ventures, systems of internal control are applied as agreed between the parties to the venture. For Metronet the Board has separately reviewed the risks faced by the Group.

The Audit Committee has reviewed the operation and effectiveness of the Group's internal controls, which operated during the period covered by the directors' report and financial statements, up to and including the date of approval by the Board.

Key features of the system of the Group's internal control are as follows:

### **Group organisation and culture**

By its statements and actions the Board emphasises a culture of integrity, competence, fairness and responsibility.

The Board focuses mainly on strategic issues, senior management and financial performance. The Group Executive concentrates on operational performance, operational decision making and the formulation of strategic proposals to the Board. The Group's managing directors manage their businesses with the support of senior managers. The Board determines how the Chief Executive operates within a framework of delegated authorities and reserved powers which seek to ensure that certain transactions, significant in terms of their size or type, are undertaken only after high level review.

### **Control environment**

The Group's operational structure has clearly documented and communicated principles of delegation of authority and segregation of duties. The Group's management systems include financial policies and procedures, corporate and business quality assurance manuals, health and safety procedures and environmental management procedures. These procedures are subject to review to ensure that improvements to enhance controls can be made.

### **Financial reporting**

The Board approves a business plan and annual budgets for the Group. The financial performance of individual business operations is reported regularly and compared to annual budgets. The Group reports to shareholders on a half-yearly basis. Forecasts for the Group are updated and reviewed by the Board regularly.

### **Project and contract control**

Procedures seek to ensure that risks are identified through the project lifecycle from bidding to completion. Regular review procedures are in place to ensure that issues are appropriately reported to the Board. A Commercial Risk and Audit Framework is in place which requires peer review to be carried out for all significant bids and opportunities or where significant investment decisions have to be taken.

### **Individual business controls**

Individual businesses and central corporate functions complete an annual self-certification statement. Responsible managers personally confirm the review of their systems of internal control and their compliance with Group policies. The statement also requires the reporting of any significant control issues that have emerged so that areas of Group concern may be identified and addressed and experience shared. The results of the process are reported to the Board and reviewed by the Audit Committee.

# Corporate governance report

continued

## Functional speciality reporting

The Board assesses the risks facing the business on an ongoing basis and has identified a number of other key areas which are subject to regular reporting to the Board, such as human resources, health and safety, environment, equity investments and treasury.

## Risk management review

The Board assesses risk management throughout the Group, aided by the Group Risk Committee and detailed reviews of internal controls and risk management. The Group Risk Management Framework requires businesses to record formally all significant risks facing their business and detail the steps being taken to avoid or mitigate those risks. A summary of the key risks facing the Group is placed on risk registers which are reviewed regularly by the Audit Committee acting on behalf of the Board.

The Group maintains insurance policies to provide protection from losses arising through claims from clients. The adequacy of the Group's insurance cover is reviewed by the Board annually.

## Internal audit

The internal audit function undertakes a programme to address internal control and risk management processes with particular reference to the Turnbull report. Its conclusions are communicated to the relevant level of management and the function has a direct reporting responsibility to the Audit Committee acting on behalf of the Board.

## Metronet

Metronet is the Group's most significant Joint Venture. Given its importance to the Group, an experienced senior manager is responsible for representing the Group's interest as a non-executive director on the Board of Metronet and is responsible for monitoring the progress of Metronet on behalf of the Group. Metronet has regular meetings of its board of directors. It also has its own Audit and Remuneration Committees, at which a Group representative is also present. Keith Clarke is non-executive Chairman of the board of directors of Metronet.

## Investor relations

The Board gives communication with all shareholders a high priority. The Annual and Interim Reports are sent to all shareholders and all shareholders are invited to the Company's AGM, which is attended by the full Board. The Company is seeking to promote the use of e-communications by encouraging shareholders to sign up to receive company circulars, such as this Annual Report, by email rather than by post. This can be done by accessing our new shareholder services portal [www.myatkinsshare.com](http://www.myatkinsshare.com).

The Group's website contains information on current activities including records of the Annual and Interim results presentations to City analysts and institutional investors.

The Board welcomes the views of all shareholders. The Chairman maintains contact with major shareholders, writing to them annually to set out the Company's commitment to open, ongoing dialogue. Both the Chairman and the Senior Independent Director will make themselves available for the regular investor meetings held by the Chief Executive and Group Finance Director if they are requested to do so. A wide range of relevant issues are discussed at investor meetings including strategy, performance, management and corporate governance. Non-executive directors are kept informed of the views of shareholders and the executive directors provide reports to them on investor meetings. The Company's brokers provide briefings to the Board on shareholder opinion and compile independent feedback from investor meetings.

The Annual Report is designed to present a balanced and understandable view of the Group's activities and prospects. The Chairman's statement and Operating and financial review on pages 4 to 45 provide an assessment of the Group's affairs and position and will be supported by a presentation to be made at the AGM.

Approved by the Board and signed on its behalf

## Philip Davis

Company Secretary  
22 June 2006

# Remuneration report

This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 (the Regulations). As required by the Regulations, a resolution to approve the report will be proposed at the AGM of the Company at which the financial statements will be presented for approval.

The Regulations require the independent auditors to report to the Company's shareholders on the 'auditable part' of this report and to state whether, in their opinion, that part of the report has been properly prepared in accordance with the Companies Act 1985 (as amended by the Regulations). The report has therefore been divided into separate sections for unaudited and audited information.

## Unaudited information

### Remuneration Committee

The Company's Remuneration Committee comprises Sir Peter Williams, James Morley and Lord Boyce, all independent non-executive directors. The Committee was chaired by Struan Robertson until he retired from the Board on 7 September 2005. Sir Peter Williams was appointed as a member of the Committee and its Chairman on 6 October 2005. Details of attendance at Committee meetings can be found on page 52.

The Remuneration Committee reviews, on behalf of the Board, the remuneration policy for the Chairman and executive directors and, more generally, the remuneration policy of the Group. The Committee determines the level of remuneration, incentives and other benefits, compensation payments and terms of employment of the Chairman and each executive director. The Committee seeks to provide appropriate incentives to enhance performance and align the interests of the executive directors with those of shareholders. The Committee also reviews the salaries and benefits of the Company Secretary, members of the Group Executive and other senior managers reporting directly to the Chief Executive.

In determining remuneration, the Committee consulted the Chief Executive, the Group Human Resources Director and, where required, the Company Secretary about its proposals. No director or senior manager participates in meetings at which his own remuneration is under consideration.

The Committee has appointed, and continues to use, New Bridge Street Consultants LLP to provide advice on structuring executive remuneration packages. New Bridge Street Consultants LLP do not provide any other services to the Group. Clifford Chance LLP provides legal advice on incentive schemes when required.

### Remuneration policy

The objectives of the Group's remuneration policy are to attract, retain and incentivise management with the appropriate professional, managerial and technological expertise to realise the Group's business objectives and to align their interests with those of shareholders. The Group continues to strive to link payment to performance and thereby create a performance culture.

To ensure that the Group continues to offer the best available incentive to enhance shareholder value the Committee completed a detailed remuneration review during the year of the following constituent elements of the remuneration of the executive directors, members of the Group Executive and senior managers:

- Basic salary, performance salary and other benefits.
- Performance bonus payments.
- Long term share incentives.
- All employee share plan.
- Retirement benefits.

This review was supported by New Bridge Street Consultants LLP who provided the Committee with detailed analysis of the reward packages within two comparator groups: a specific group of companies operating in businesses similar to the Group and a more general group of companies with a market capitalisation similar to the Group.

#### (i) Basic salary, performance salary and other benefits

The Committee utilised the review of remuneration packages within the two comparator groups when setting salary levels for the executive directors, members of the Group Executive and senior managers. From 1 April 2006, Keith Clarke's salary was increased to £380,000 per annum and Robert MacLeod's salary was increased to £230,000 per annum.

The Committee continued to support the use of Performance Salary to reward exceptional performance. Performance Salary is an additional cash payment received for exceeding budgeted Group targets and is therefore self-funding. Potential Performance Salary payments range from 0-12% of basic salary depending on performance against targets. Performance Salary is contractual and non-pensionable.

Other benefits for executive directors include a car allowance or a car and payment of its operating expenses and fuel, life assurance and entitlement to a non-contributory private healthcare scheme.

Keith Clarke received no remuneration for his services as non-executive Chairman of Metronet in the year ended 31 March 2006.

The Company's bonus and long term incentive plans seek to provide executive directors, members of the Group Executive and senior managers with the opportunity to increase overall remuneration levels to the upper quartile for comparable businesses, but only following demanding performance targets being achieved.

# Remuneration report

continued

## (ii) Performance bonus payments

The Committee has concluded that the Group's annual bonus plan continues to be effective. Accordingly executive directors continue to be eligible to receive a bonus of up to 60% of their basic salary and Performance Salary for achieving Group financial and individual performance targets. The targets against which bonuses are paid, which include non-financial targets relating to management of issues such as health and safety and staff retention, have been reviewed by the Committee. In exceptional circumstances, the Committee may increase the bonus to pay out up to 80% of basic salary and Performance Salary. Members of the Group Executive and senior managers also participate in the bonus plan.

Executive directors, members of the Group Executive and senior managers are required to take a minimum of one third of any bonus in the form of an award over shares, under the terms of the WS Atkins Deferred Bonus Plan (DBP). The DBP is designed to aid retention, with the award being subject to forfeiture on resignation within three years from grant. There are no further performance conditions once the award has been made. The Committee decided that this structure remained effective but agreed that the dividends declared on future awards should be rolled up and delivered to participants in cash on release to further align their interests with those of shareholders. Full details of the proposal are set out in the Notice of AGM.

Bonus awards are non-pensionable and non-contractual.

## (iii) Long term share incentives

As part of the remuneration review, the Committee resolved that the WS Atkins 2003 Senior Executive and Key Employee Long Term Incentive Plan (LTIP) was an appropriate long term incentive. However, the Committee concluded that the analysis by New Bridge Street Consultants LLP showed that certain aspects of the plan, in particular the performance targets attaching to LTIP awards, should be changed to enable them to better motivate and retain executives and senior managers going forward.

At present, LTIP awards vest at the end of a three-year monitoring period which commences at the beginning of the financial year following that in which the awards were made, subject to the Company's total shareholder return (TSR) performance relative to a group of similar companies. None of the award vests for below median performance, 30% of the award vests for median ranking and 100% of the award vests for a ranking in the top 20%. In addition, growth in earnings per share (EPS) must be 2% per annum above the Retail Price Index (RPI) over the period.

Although the Committee believes that TSR can effectively align interests of senior executives with investors, it also considers that EPS growth is a key measure of management performance and can provide a closer "line of sight" between management performance and reward than can be achieved with TSR, particularly for less senior executives.

The Committee will therefore recommend to shareholders at the forthcoming AGM that the rules of the LTIP be amended to include the following:

- Separate performance targets for different categories of management. Awards made to executive directors, members of the Group Executive and the most senior employees are proposed to be made on the following basis:
  - 50% of the award would be subject to the Company's TSR performance relative to the constituents of the FTSE 250 index (excluding investment trusts) on the date of award. Full vesting of this portion of the award would be achieved if the Company were ranked in the upper quartile, 30% vesting would be achieved for a median ranking, with pro rata vesting for intermediate performance. No vesting would occur for a ranking below median.
  - 50% of the award would be subject to the Company's real growth in normalised EPS over the performance period. For the award following the AGM the intended EPS growth targets would require the increase to be more than 10% per annum above UK RPI in the three-year performance period to enable the shares to vest in full, but if the increase is less than 4% per annum above the UK RPI then none of the shares would vest. A sliding scale in relation to the number of shares that may vest would operate for growth in EPS between 4% and 10% above the UK RPI.
- Awards made to the other participants would be subject solely to the EPS condition as set out above.
- The performance period would run for three years from the beginning (not, as presently, the end) of the financial year in which awards are granted.
- Dividends declared on shares subject to the award would be rolled up and delivered to executives in cash on release of the underlying award.

The Committee has canvassed the opinions of the Company's major shareholders and their principal institutional representative bodies in respect of the proposed changes prior to recommending them to all shareholders. Full details of all the proposals are set out in the Notice of AGM.

This year the Committee intends to make LTIP awards at around the 100% of salary level to the executive directors. The number of shares subject to the awards will be based on a share price determined as of the beginning of the financial year prior to the award date, a practice which it intends to follow in future years. The upper limit in the plan will remain at 150% of salary.

A full summary of the performance conditions attaching to existing share plan awards can be found in Note 29 on pages 93 to 95.

**(iv) All-employee share plan**

The Company's Share Incentive Plan, as approved by HM Revenue and Customs, continues to be offered to all eligible UK employees, including the executive directors.

**(v) Retirement benefits**

Pension and retirement benefits provided to the executive directors are comparable to those provided by other companies.

**Performance graph**

The following graph is included to meet legislative requirements and shows the Company's performance, measured by TSR, compared with the performance of the FTSE 250 Index (excluding investment trusts) over the past five years. This is considered the most appropriate index against which to measure performance as the Company has been a member of the FTSE 250 for the majority of the five-year period.

TSR is defined as the return shareholders would receive if they held a notional number of shares and received dividends on those shares over a period of time. Assuming dividends are re-invested into the Company's shares, it measures the percentage growth in the Company's share price together with the value of any dividends paid.

**Directors' contracts**

**Chairman and non-executive directors**

The Chairman and non-executive directors have letters of appointment stating their annual fee and that their appointment is initially for a term of three years subject to satisfactory performance and their re-election at forthcoming AGMs. Their appointment may be terminated with six months' written notice at any time. The table below summarises the dates of appointment and most recent re-election dates for the Chairman and each of the non-executive directors:

Name of director	Date of appointment as a non-executive director	Date of last re-election at AGM
Lord Boyce <sup>(1)</sup>	5 May 2004	7 September 2004
Christopher Kemball	14 May 2002	7 September 2005
James Morley	1 January 2001	7 September 2005
Ed Wallis	7 September 2004	7 September 2005
Sir Peter Williams	5 May 2004	7 September 2004

(1) Lord Boyce will stand for re-election at the AGM to be held on 6 September 2006.

Copies of the letters of appointment will be available for inspection prior to and during the AGM and are also available for inspection at the Company's registered office during normal business hours.

The remuneration of the Chairman is determined by the Committee. From 1 April 2006 the Chairman's salary has increased to £157,500 per annum. The remuneration of the non-executive directors is determined by the Board on the recommendation of the executive directors within the limits set out in the Articles of Association and on the basis of independent advice and the level of fees paid to non-executive directors of comparator companies. The annual fees are specific to each director reflecting their individual commitments to the Board and various Board committees. From 1 April 2006 the basic fee has increased to £33,000 per annum. In addition, the fees for chairing a committee or membership of the Audit and Remuneration Committees have increased to £6,000 and £3,000 per annum respectively. The Chairman and the non-executive directors are not eligible for pensions, share incentives, annual bonus or any similar payments other than out-of-pocket expenses in connection with the performance of their duties. The Chairman and the non-executive directors do not participate in any meeting at which discussions in respect of matters relating to their own position take place.

**Executive directors**

The service agreements of the executive directors are summarised in the table below:

Name of director	Date of contract	Notice period
Keith Clarke <sup>(1)</sup>	12 September 2003	12 months
Robert MacLeod	14 July 2004	12 months

(1) Keith Clarke will stand for re-election at the AGM to be held on 6 September 2006.

In the event of unsatisfactory performance, the notice period for Keith Clarke and Robert MacLeod is reduced to three months. Both Service Agreements include a duty to mitigate loss where the Agreement is terminated and any payment in lieu of notice may be reduced to take account of such mitigation.

No Service Agreement provides for predetermined amounts of compensation in the event of early termination of service contracts.

The Service Agreements will terminate when the director reaches the retirement age as determined by the Board which in normal circumstances is 60 and are otherwise terminable on giving 12 months' notice. Copies of each director's Service Agreement will be available for inspection prior to and during the AGM and are also available for inspection at the Company's registered office during normal business hours.

# Remuneration report

continued

## Audited information

### Directors' emoluments

The aggregate emoluments in respect of their roles as directors, excluding pensions, of the directors of the Company who served during the year:

	Salary/ fees £000	Performance salary £000	Bonus <sup>(3)</sup> £000	Other benefits <sup>(4)</sup> £000	Other payments £000	Non-cash emoluments £000	Total £000 <sup>(7)</sup>	Total 2005 £000
<b>Executive directors</b>								
Keith Clarke	367	23	107	15	60 <sup>(5)</sup>	53 <sup>(6)</sup>	625	696
Robert MacLeod	184	14	73	15	–	37 <sup>(6)</sup>	323	229
Total executive directors	551	37	180	30	60	90	948	925
<b>Chairman and non-executive directors</b>								
Lord Boyce	33	–	–	–	–	–	33	29
Christopher Kemball	31	–	–	–	–	–	31	30
James Morley	38	–	–	–	–	–	38	38
Struan Robertson <sup>(1)</sup>	19	–	–	–	–	–	19	38
Ed Wallis <sup>(2)</sup>	150	–	–	–	–	–	150	85
Sir Peter Williams	35	–	–	–	–	–	35	30
<b>Total Chairman and non-executive directors</b>	<b>306</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>306</b>	<b>250</b>

(1) Struan Robertson retired as a director on 7 September 2005.

(2) Ed Wallis was appointed as a director on 8 September 2004.

(3) Amounts payable in cash.

(4) Other benefits include such items as company cars or car allowances, fuel and medical insurance.

(5) Keith Clarke is entitled to receive a pension payment equivalent to 25% of his salary. This payment is in respect of his entitlement which could not be paid into his individual stakeholder arrangement as a result of HM Revenue and Customs' earnings cap.

(6) Keith Clarke and Robert MacLeod are required to take a minimum of one third of their bonus payment in the form of a right to acquire shares under the DBP. Awards of shares to these values will be made following the announcement of the preliminary results pursuant to the rules of the DBP.

(7) Total excludes pension contributions which are detailed under the heading of Directors' retirement benefits below.

### Additional notes

Mike Jeffries, who retired as a director on 1 January 2005, received a payment of £3,508.60 during November 2005. This payment was the equivalent to the amount of dividends paid per share in the financial years up to the exercise date of his bonus award under the terms of the WS Atkins Pre-tax Equity Participation Plan (EPP) plus a payment equivalent to the amount of dividends paid per share and declared following vesting and up to the exercise date of his matching award under the terms of the EPP and his award under the WS Atkins 2003 Senior Executive and Key Employee Long Term Incentive Plan. This amount became payable to him following exercise.

### Directors' retirement benefits

Keith Clarke and Robert MacLeod receive pension benefits on a defined contributions basis. Both receive life assurance cover equal to four times their basic salary.

Keith Clarke participates in a personal stakeholder arrangement to which the Company's contribution was £31,680 (2005: £30,600). He has a contractual entitlement to receive an amount equivalent to 25% of basic salary as a pension payment. As a result of HM Revenue and Customs' Earnings Cap, £60,070 (2005: £59,400) could not be paid to his personal stakeholder arrangement. This sum was therefore paid to him as an additional emolument and is reported in the Directors' emoluments table on page 58.

Robert MacLeod has had a contractual entitlement to receive an annual amount equivalent to 25% of his basic salary towards his pension benefits. During the year the Company has made pension payments of £45,875 (2005: £34,750) into the Defined Contribution section of the Atkins Pension Plan.

### Directors' interests

The beneficial interests of the directors and their families in the ordinary shares of 0.5p each in the Company as at 31 March 2006 were as follows:

	At 22.06.06	At 31.03.06 or date of termination	At 31.03.05 or date of appointment
<b>Chairman and non-executive directors</b>			
Lord Boyce	846	846	846
Christopher Kemball	10,000	10,000	10,000
James Morley	1,250	1,250	1,250
Struan Robertson	–	3,396	3,396
Ed Wallis	1,000	1,000	–
Sir Peter Williams	2,500	2,500	–
	<b>15,596</b>	<b>18,992</b>	15,492
<b>Executive directors</b>			
Keith Clarke	31,827	31,781	26,570
Robert MacLeod	10,327	10,281	10,070
	<b>42,154</b>	<b>42,062</b>	36,640
<b>Total</b>	<b>57,750</b>	<b>61,054</b>	52,132

Changes in directors' interests between 31 March and 22 June 2006 relate to shares acquired via the WS Atkins Share Incentive Plan.

As at 31 March 2006, each of the executive directors was deemed to be interested as a potential beneficiary under the Employee Benefit Trusts in 4,364,253 ordinary shares of 0.5p each (2005: 5,448,065). Details of the directors' personal interests in the EBTs are given on page 60.

# Remuneration report

continued

## Directors' share options and long term incentives

Aggregate emoluments disclosed above do not include any amounts for the value of options to acquire ordinary shares in the Company granted to or held by the directors.

Name	Plan name <sup>(1)</sup>	Award date	No. of shares under option at 01.04.05 or date of appointment			No. of shares under option at 31.03.06 or at date of			Option price	Market price on exercise	Mid-market price at date of grant	Gain on exercise	First date of exercise	Date of lapse of option
			Granted	Exercised	Lapsed	termination								
Keith Clarke	LTIP <sup>(2)</sup>	01/10/2003	95,000	–	–	–	95,000	0.0p	–	401.5p	–	01/04/2007	01/10/2013	
	DBP	25/06/2004	6,849	–	–	–	6,849	0.0p	–	586.5p	–	25/06/2007	25/06/2014	
	LTIP <sup>(2)</sup>	25/06/2004	20,000	–	–	–	20,000	0.0p	–	586.5p	–	01/04/2008	25/06/2014	
	LTIP <sup>(2)</sup>	24/06/2005	–	25,000	–	–	25,000	0.0p	–	670.0p	–	01/04/2009	24/06/2015	
	DBP	24/06/2005	–	8,574	–	–	8,574	0.0p	–	670.0p	–	24/06/2008	24/06/2015	
<b>Total</b>			<b>121,849</b>	<b>33,574</b>	–	–	<b>155,423</b>				–			
Robert MacLeod	LTIP <sup>(2)</sup>	17/09/2003	15,000	–	–	–	15,000	0.0p	–	401.5p	–	01/04/2007	17/09/2013	
	DBP	25/06/2004	2,625	–	–	–	2,625	0.0p	–	586.5p	–	25/06/2007	25/06/2014	
	LTIP <sup>(2)</sup>	25/06/2004	30,000	–	–	–	30,000	0.0p	–	586.5p	–	01/04/2008	25/06/2014	
	LTIP <sup>(2)</sup>	24/06/2005	–	10,000	–	–	10,000	0.0p	–	670.0p	–	01/04/2009	24/06/2015	
	DBP	24/06/2005	–	4,287	–	–	4,287	0.0p	–	670.0p	–	24/06/2008	24/06/2015	
<b>Total</b>			<b>47,625</b>	<b>14,287</b>	–	–	<b>61,912</b>				–			
<b>Aggregate gains on share options 2006</b>											–			
<b>Aggregate gains on share options 2005</b>											–			

(1) Plan names: LTIP – WS Atkins 2003 Senior Executive and Key Employee Long Term Incentive Plan.  
DBP – WS Atkins Deferred Bonus Plan.

(2) Subject to performance criteria described in note 29 to the financial statements.

### Additional notes

Mike Jeffries, who retired as a director on 1 January 2005, remains a director of a subsidiary company and, accordingly, retained his awards over a total of 218,730 shares made under the terms of the LTIP and EPP. On 9 August 2005, Mike Jeffries exercised awards over 26,914 of these shares. His award over 191,816 shares, made under the terms of the LTIP, remained under option as at 31 March 2006.

For each share under option that had not expired at the end of the financial year, the mid-market price at 31 March 2006 was 815 pence and the highest and lowest market prices during the financial year were 815 pence and 604.5 pence respectively.

### Approval

Approved by the Board and signed on its behalf

### Sir Peter Williams

Chairman of the Remuneration Committee  
22 June 2006

# Auditors' report

## **Independent auditors' report to the members of WS Atkins plc**

We have audited the group and parent company financial statements (the "financial statements") of WS Atkins plc for the year ended 31 March 2006 which comprise the Consolidated income statement, the Consolidated and parent company balance sheets, the Consolidated and parent company cash flow statements, the Consolidated and parent company statements of recognised income and expense and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Remuneration report that is described as having been audited.

## **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the Annual Report, the Remuneration report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of directors' responsibilities.

Our responsibility is to audit the financial statements and the part of the Remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We report to you whether in our opinion the information given in the Directors' report is consistent with the financial statements. The information given in the Directors' report includes that specific information presented in the Operating and financial review that is cross-referenced from the Business review section of the Directors' report. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate governance statement reflects the company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Financial highlights, the Overview of Atkins, the Chairman's statement, the Operating and financial review, the Directors' report, the Corporate governance report and the unaudited part of the Remuneration report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

## **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration report to be audited.

## **Opinion**

In our opinion:

- The group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 March 2006 and of its profit and cash flows for the year then ended.
- The parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 March 2006 and cash flows for the year then ended.
- The financial statements and the part of the Remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.
- The information given in the Directors' report is consistent with the financial statements.

## **PricewaterhouseCoopers LLP**

Chartered Accountants and Registered Auditors  
London  
22 June 2006

# Consolidated income statement

for the year ended 31 March 2006

	Notes	2006 £m	Group 2005 £m
<b>Continuing operations</b>			
Revenue (Group and share of Joint Ventures)		<b>1,411.0</b>	1,157.3
<b>Revenue</b>	2	<b>1,052.5</b>	955.0
Cost of sales		<b>(637.3)</b>	(579.3)
<b>Gross profit</b>		<b>415.2</b>	375.7
Administrative expenses		<b>(352.3)</b>	(332.7)
<b>Operating profit</b>	4	<b>62.9</b>	43.0
Profit on disposal of Joint Ventures	5	<b>6.4</b>	3.7
Share of post-tax profit from Joint Ventures	3	<b>8.8</b>	10.2
<b>Profit from operations</b>		<b>78.1</b>	56.9
Finance income	7	<b>7.9</b>	6.8
Finance cost	7	<b>(11.2)</b>	(10.7)
Net finance cost	7	<b>(3.3)</b>	(3.9)
<b>Profit before taxation</b>		<b>74.8</b>	53.0
Taxation	8	<b>(17.9)</b>	(14.1)
<b>Profit for the year from continuing operations</b>		<b>56.9</b>	38.9
<b>Profit for the year attributable to equity shareholders</b>	30	<b>56.9</b>	38.9
Basic earnings per share – continuing operations	10	<b>57.0p</b>	39.3p
Fully diluted earnings per share – continuing operations	10	<b>55.9p</b>	38.7p
Dividends recognised in the year – paid	9	<b>12.5p</b>	11.0p
Dividends relating to the year – paid and proposed	9	<b>16.0p</b>	12.0p

## Consolidated and parent company statements of recognised income and expense

for the year ended 31 March 2006

	Notes	Group		Company	
		2006 £m	2005 £m	2006 £m	2005 £m
Actuarial loss on retirement benefit liabilities	26	<b>(37.7)</b>	(22.7)	–	–
Share of Joint Venture financial derivatives	30	<b>(0.5)</b>	–	–	–
Tax on items charged to equity	8c	<b>11.3</b>	6.8	–	–
Net differences on exchange	30	<b>1.5</b>	(0.2)	–	–
		<b>(25.4)</b>	(16.1)	–	–
Profit for the year		<b>56.9</b>	38.9	<b>7.3</b>	25.4
Total recognised income and expense for the year attributable to equity shareholders		<b>31.5</b>	22.8	<b>7.3</b>	25.4
Restatement for the effects of adopting IAS 32 and IAS 39 including share of Joint Ventures	41	<b>(6.2)</b>			

The notes on pages 65 to 107 form part of these financial statements.

# Consolidated and parent company balance sheets

as at 31 March 2006

	Notes	2006 £m	Group 2005 £m	2006 £m	Company 2005 £m
<b>Assets</b>					
<b>Non-current assets</b>					
Goodwill	12	35.6	29.3	–	–
Other intangible assets	13	10.0	10.8	–	–
Property, plant and equipment	14	47.2	34.2	–	–
Investments in subsidiaries	15	–	–	88.1	88.4
Investments in Joint Ventures	3	46.2	41.6	–	–
Financial assets	16	20.1	20.1	–	–
Deferred tax assets	17	103.8	97.5	–	–
Trade and other receivables	18	1.5	2.7	–	–
		<b>264.4</b>	236.2	<b>88.1</b>	88.4
<b>Current assets</b>					
Inventories	19	0.2	0.2	–	–
Trade and other receivables	18	272.9	266.7	21.9	41.4
Financial assets	20	20.7	11.1	–	–
Cash and cash equivalents	21	177.4	114.6	–	–
		<b>471.2</b>	392.6	<b>21.9</b>	41.4
<b>Liabilities</b>					
<b>Current liabilities</b>					
Borrowings	22	(6.5)	(2.6)	–	–
Trade and other payables	24	(379.5)	(332.7)	–	(13.9)
Current tax liabilities		(12.3)	(10.8)	(0.6)	(1.4)
Provisions for liabilities and charges	25	(2.8)	(2.8)	–	–
		<b>(401.1)</b>	(348.9)	<b>(0.6)</b>	(15.3)
<b>Net current assets</b>					
		<b>70.1</b>	43.7	<b>21.3</b>	26.1
<b>Non-current liabilities</b>					
Borrowings	22	(35.1)	(21.5)	–	–
Provisions for liabilities and charges	25	(11.7)	(11.1)	–	–
Retirement benefit liabilities	26	(299.9)	(274.2)	–	–
Other non-current liabilities	27	(23.9)	(26.5)	–	–
		<b>(370.6)</b>	(333.3)	–	–
<b>Net (liabilities)/assets</b>					
		<b>(36.1)</b>	(53.4)	<b>109.4</b>	114.5
<b>Capital and reserves</b>					
Ordinary shares	28	0.5	0.5	0.5	0.5
Share premium account	30	62.4	62.4	62.4	62.4
Merger reserve	30	8.9	8.9	8.9	8.9
Retained (loss)/earnings	30	(107.9)	(125.2)	37.6	42.7
<b>Equity shareholders' (deficit)/funds</b>					
		<b>(36.1)</b>	(53.4)	<b>109.4</b>	114.5

Keith Clarke  
Director

Robert MacLeod  
Director

Approved by the Board on 22 June 2006.

The notes on pages 65 to 107 form part of these financial statements.

# Consolidated and parent company cash flow statements

for the year ended 31 March 2006

	Notes	2006 £m	Group 2005 £m	2006 £m	Company 2005 £m
<b>Cash flows from operating activities</b>					
Cash generated from operations	31	<b>111.7</b>	88.1	<b>12.4</b>	10.7
Interest received		<b>7.6</b>	7.0	–	–
Interest paid		<b>(2.4)</b>	(2.4)	–	–
Tax paid		<b>(10.9)</b>	(18.3)	–	–
Net cash from operating activities		<b>106.0</b>	74.4	<b>12.4</b>	10.7
<b>Cash flows from investing activities</b>					
Dividends received from Joint Ventures		<b>3.7</b>	3.6	–	–
Investment in Metronet		<b>(11.2)</b>	(11.1)	–	–
Acquisition of subsidiaries					
– Consideration	38	<b>(4.9)</b>	–	–	–
– Cash acquired	38	<b>(0.2)</b>	–	–	–
Purchases of property, plant and equipment		<b>(20.4)</b>	(14.5)	–	–
Proceeds from disposals of property, plant and equipment		<b>0.5</b>	2.1	–	–
Proceeds from disposals of Joint Ventures	5	<b>9.2</b>	5.6	–	–
Financial assets		<b>(9.6)</b>	(1.1)	–	–
Purchase of other intangible assets		<b>(8.3)</b>	(5.5)	–	–
Net cash used in investing activities		<b>(41.2)</b>	(20.9)	–	–
<b>Cash flows from financing activities</b>					
Proceeds from issue of ordinary shares		–	0.1	–	–
Redemption of loan stock		–	(0.7)	–	–
Long term loans		<b>12.5</b>	2.6	–	–
Repayment of long term loans		<b>(1.1)</b>	(15.2)	–	–
Finance lease principal payments		<b>(3.2)</b>	(2.9)	–	–
Sales of own shares by Employee Benefit Trusts		<b>1.3</b>	1.2	–	–
Equity dividends paid to shareholders	9	<b>(12.4)</b>	(10.7)	<b>(12.4)</b>	(10.7)
Net cash used in financing activities		<b>(2.9)</b>	(25.6)	<b>(12.4)</b>	(10.7)
Effects of exchange rate changes		<b>0.9</b>	0.5	–	–
<b>Net increase in cash and cash equivalents</b>		<b>62.8</b>	28.4	–	–
Cash and cash equivalents at beginning of year		<b>114.6</b>	86.2	–	–
<b>Cash and cash equivalents at end of year</b>	21	<b>177.4</b>	114.6	–	–

The notes on pages 65 to 107 form part of these financial statements.

# Notes to the financial statements

## 1. Accounting policies

### Basis of accounting

WS Atkins plc is a public limited company registered in the UK. Its registered office is Woodcote Grove, Ashley Road, Epsom, Surrey, KT18 5BW, England.

The Group's financial statements for the year ended 31 March 2006 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS), and those parts of the Companies Act 1985 applicable to companies reporting under IFRS. A summary of the more important accounting policies applied in the preparation of the financial statements is given below. These financial statements are covered by IFRS 1, *First-time adoption of International Financial Reporting Standards*, as they are the Group's first IFRS financial statements.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. Material estimates applied across the Group's businesses and Joint Ventures are reviewed to a common standard and adjusted where appropriate to ensure that consistent treatment of similar and related issues that require judgement is achieved upon consolidation. Any revisions to estimates are recognised prospectively.

Except where noted below, the Group has applied historical cost accounting.

The accounting policies have been consistently applied to all the periods presented, except in relation to IAS 32, *Financial instruments: disclosure and presentation*, and IAS 39, *Financial instruments: recognition and measurement*, and the IFRIC draft interpretations in respect of PPP/PFI concessions, as permitted by IFRS 1. The impact of the adoption of IAS 32, IAS 39 and IFRIC D12 to D14 for the comparative period has been included in note 41.

### Basis of consolidation

The consolidated income statement and balance sheet include the accounts of the Company, its subsidiary undertakings and its share of Joint Ventures. The results of the subsidiary undertakings acquired during the year are included in the income statement from the date of acquisition. The results of subsidiary undertakings disposed of during the year are included in the income statement up to the date of disposal.

Where subsidiaries adopt accounting policies that are different from the Group, their reported results are restated to comply with the Group's accounting policies. All intra-group transactions and balances are eliminated on consolidation. Where subsidiaries do not adopt accounting periods that are co-terminous with the Group's, results and net assets are based upon accounts drawn up to the Group's accounting reference date.

The accounts of the Employee Benefit Trusts (EBTs) are incorporated into the results of the Group as, although they are administered by independent Trustees and their assets are held separately from those of the Group, in practice the Group's advice on how the assets are used for the benefit of employees is normally accepted. The Group bears the major risks and rewards of the assets held by the EBTs until the shares vest unconditionally in the employees. Shares in WS Atkins plc held by the EBTs are shown as a reduction in retained loss/earnings. Other assets and liabilities held by the EBTs are consolidated with the assets of the Group.

### Revenue

Revenue from long term contracts comprises the value of work performed during the period calculated in accordance with the Group's policy for contract accounting set out below. Revenue from other contract activities represents fee income receivable in respect of services provided during the period.

Under certain services contracts, the Group manages customer expenditure and is obliged to purchase goods and services from third party contractors and recharge them on to the customer at cost. The amounts charged by contractors and recharged to customers are excluded from revenue and cost of sales. Receivables, creditors and cash relating to these transactions are included in the Group balance sheet.

### Revenue recognition and contract accounting

The value of contract work in progress comprises the costs incurred on contracts plus an appropriate proportion of overheads and attributable profit. Fees invoiced on account are deducted from the value of work in progress and the balance is separately disclosed in trade and other receivables as amounts recoverable on contracts, unless such fees exceed the value of the work in progress on any contract, when the excess is separately disclosed in trade and other payables as fees invoiced in advance.

# Notes to the financial statements

continued

## 1. Accounting policies (continued)

Profit is recognised on a percentage completion basis when the outcome of a contract or project can be reasonably foreseen. Provision is made in full for estimated losses. Where the outcome of a contract cannot be reasonably foreseen, profit is taken on completion. Where contracts span two or more accounting periods profit is not generally recognised until the contract is 50% complete.

Revenue recognition on outsourcing contracts is determined by reference to the proportion of the annual service delivered to date. Where the costs of obligations in relation to the non-renewal or termination of a contract are higher in the final period of the contract a proportion of revenue is deferred each period to meet these anticipated costs. Full provision is made for losses on outsourcing contracts if the forecast costs of fulfilling the contract throughout the contract period exceed the forecast income receivable. In assessing the amount of the loss to provide on an outsourcing contract, account is taken of the Group's share of the forecast results from any Joint Ventures which the contract is servicing.

### Pre-contract costs

The Group accounts for all pre-contract costs in accordance with IAS 11, *Construction contracts*. Costs incurred before it becomes probable that a contract will be obtained are charged to expenses. Directly attributable costs incurred after that point are recognised in the balance sheet and charged to the income statement over the duration of the contract or, in the case of PPP/PFI concessions, over the same period as the Group's interest in any Special Purpose Company (SPC) charges the equivalent capitalised amounts to the income statement.

Bid recovery fees are deferred and credited to the income statement over the duration of the contract or, in the case of PPP/PFI concessions, over the same period as the Group's interest in any SPC charges the equivalent capitalised amounts to the income statement. Where the Group's interest in any SPC reduces, the deferred bid recovery fees are credited to the income statement in proportion to the reduction of the Group's interest.

### Joint Ventures

In accordance with IAS 31, *Interests in Joint Ventures*, the Group accounts for Joint Ventures under the equity method of accounting. The Group's share of a Joint Venture's profit after tax is included from the date on which the Group acquires joint control. Within the consolidated balance sheet the investment is recorded at cost (classified as a non-current asset) and subsequently adjusted to reflect the Group's share of the movements in the Joint Venture's net assets post-acquisition.

The results, assets and liabilities of Joint Ventures are stated in accordance with Group accounting policies. Where Joint Ventures adopt accounting policies that are different from the Group, their reported results are restated to comply with the Group's accounting policies.

Where Joint Ventures do not adopt accounting periods that are co-terminous with the Group's, results and net assets are based upon accounts drawn up to the Group's accounting reference date.

### PPP/PFI concessions

Assets constructed by PPP/PFI concession companies are classified in the accounts of the Joint Ventures as financial assets or intangible assets, depending on whether the grantor or user has the primary responsibility to pay the operator for the concession services. To date all of the Group's PPP/PFI concession assets have been classed as financial assets.

The financial asset represents an interest-bearing, long term receivable. The cost of the financial asset at any one time is equal to the accumulated value of service delivery plus accumulated interest charged to the financial asset less amounts received to date.

The financial asset is measured at fair value. Where it is classed as a loan receivable any movement in fair value is taken to the income statement. Where it is classed as available for sale any movement in fair value is taken to reserves.

Revenue is recognised at the fair value of the consideration received for goods and services provided in the normal course of business net of value added tax rebates and discounts. Revenue from contracting activities represents the value of work carried out during the year including amounts not invoiced. Interest income is accrued on a time basis by reference to the principal outstanding and the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying value amount.

Where the outcome of a construction contract can be measured reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date as measured by the contract costs incurred. Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent that it is probable that contract costs incurred will be recovered.

When it is probable that the total contract costs will exceed total contract revenue, the expected resultant loss is recognised as an expense immediately.

## **1. Accounting policies (continued)**

### **Inventories**

Inventories are stated at cost less impairment. Cost is calculated on a first-in, first-out basis.

### **Taxation**

Current and deferred taxation are recognised in the income statement for the period except where the taxation arises as a result of a transaction or event that is recognised directly in equity. Taxation arising on transactions or events recognised directly in equity is charged or credited directly to equity.

Deferred tax is recognised in respect of all taxable temporary differences that have originated but not reversed at the balance sheet date. Deferred tax is measured using tax rates enacted at the balance sheet date.

A deferred tax asset is recognised only when it is regarded as more likely than not that it will be recovered.

No deferred tax is recognised on the unremitted earnings of overseas subsidiaries and Joint Ventures. As the earnings are continually reinvested by the Group, no UK corporation tax is expected to be payable on them in the foreseeable future.

### **Other intangible assets**

#### **Goodwill**

Goodwill is stated at cost less impairment. Prior to 1 April 2004, goodwill was amortised over its estimated useful economic life. Amortisation ceased on 1 April 2004 and the carrying value of existing goodwill was frozen at that date and subject to annual impairment review.

On acquisition of a business, fair values are attributed to the assets, liabilities and contingent liabilities of the acquired business at the date of acquisition. Goodwill arises when the fair value of the consideration given for a business exceeds the fair value of the net assets. In accordance with IFRS 3, *Business combinations*, goodwill arising on acquisitions is capitalised and is subject to impairment review both annually and when there are indications that the carrying value may not be recoverable.

Goodwill that arose prior to 1 April 1997 was written off to retained earnings/loss. Profit or loss on disposal of the underlying businesses to which this goodwill related will not include goodwill previously recorded as a deduction from equity.

#### **Acquired intangibles**

The Group accounts for acquired intangible assets in accordance with IAS 38, *Intangible assets*. Intangible assets are stated at cost less impairment. Such intangible assets are recognised separately if they meet the criteria for recognition, and amortised over their estimated useful economic lives unless these are indefinite in which case they are reviewed regularly for impairment. The Group's acquired intangible assets primarily relate to software licences which are amortised on a straight-line basis over the life of the licence.

#### **Corporate information systems**

In accordance with IAS 38, *Intangible assets*, the Group's corporate information systems are treated as an intangible asset. Costs included are those directly attributable to the design, construction and testing of new systems (including major enhancements and internally generated costs) from the point of inception to the point of satisfactory completion where the probable future economic benefits arising from the investment could be assessed with reasonable certainty at the time the costs are incurred. Maintenance and minor modifications are expensed in the income statement as incurred. The corporate information systems are amortised on a straight-line basis over their estimated useful economic life of six years.

#### **Property, plant and equipment**

Property, plant and equipment is carried at cost less accumulated depreciation and impairment. Cost comprises purchase price after discounts and rebates plus all directly attributable costs of bringing the asset to working condition for its intended use.

# Notes to the financial statements

continued

## 1. Accounting policies (continued)

Property, plant and equipment is depreciated on a straight line basis calculated at annual rates to write off the cost less residual value of each asset over the term of its estimated useful economic life as follows:

Freehold buildings – 10 to 50 years  
Short leasehold – over the life of the lease  
Plant and machinery – 3 to 10 years  
Special purpose industrial motor vehicles – 3 to 12 years  
Other motor vehicles – 3 to 4 years  
Information technology – 2.5 to 5 years

No depreciation is provided in respect of freehold land.

The directors annually review the estimated useful economic lives and residual values of property, plant and equipment.

## Investments in subsidiaries

Investments in subsidiaries are stated at cost less impairments.

## Impairment

Assets that have an indefinite useful life are not subject to amortisation and are reviewed for impairment annually and when there are indications that the carrying value may not be recoverable. Assets that are subject to amortisation are reviewed for impairment wherever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

## Financial assets

Financial assets include UK government securities and restricted cash deposits, which are shown at market value. Restricted cash deposits relate to accounts where withdrawals are restricted under contractual agreements.

## Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, demand deposits and short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

## Lease obligations

### Finance leases

Lease arrangements that transfer substantially all the risks and rewards of ownership to the lessee are treated as finance leases. Assets held under finance leases are capitalised within tangible fixed assets and depreciated over the shorter of the lease term and the useful life of the asset. A liability is recognised for the present value of the minimum lease payments within current and/or non-current liabilities as appropriate. Rental payments are apportioned between capital and interest expense to achieve a constant rate of interest charge on the outstanding obligation. Where the Group acts as a lessor in a finance lease, receivables under finance leases represent outstanding amounts due under these agreements less finance charges allocated to future periods. Finance lease interest is recognised over the primary period of the lease so as to produce a constant rate of return on the net cash investment.

### Operating leases

Where the Group acts as lessee in an operating lease arrangement, the costs of operating leases are charged to the income statement as incurred. Lease incentives received are recognised over the lease term on a straight-line basis.

Where the Group acts as lessor in an operating lease arrangement, rental income from operating leases is accounted for on a straight-line basis over the period of the lease. Lease incentives provided are recognised over the lease term on a straight-line basis.

## 1. Accounting policies (continued)

### Provisions

Onerous contract provisions are recognised for losses on contracts where the forecast costs of fulfilling the contract throughout the contract period exceed the forecast income receivable. In assessing the amount of the loss to provide on any contract, account is taken of the Group's share of the forecast results from any Joint Ventures which the contract is servicing. The provision is calculated based on discounted cash flows to the end of the contract.

Vacant property provisions are recognised when the Group has committed to a course of action that will result in the property becoming vacant. The provision is calculated based on discounted cash flows to the end of the lease.

### Pension schemes

The Group operates defined contribution and defined benefit pension schemes which require payments to be made into separately administered funds. For defined benefit schemes, regular valuations are prepared by independent professionally qualified actuaries to determine the level of contributions required to fund the benefits set out in the scheme rules.

The Group accounts for pensions in accordance with IAS 19, *Employee benefits*. The cost of the defined contribution schemes is charged to operating profit as incurred. The cost of the defined benefit schemes is charged as follows:

- The current service cost incurred during the period to provide retirement benefits to employees is charged to operating profit.
- Gains or losses arising from settlements or curtailments not covered by actuarial assumptions are included in operating profit.
- A charge representing the expected increase in scheme liabilities is included in net finance costs. This is based on the present value of scheme liabilities at the beginning of the period.
- A credit representing the expected return on scheme assets is included within net finance costs. This is based on the market value of the assets of the schemes at the start of the period allowing for expected cash flows during the period.

For defined benefit schemes, differences between actual and expected returns on assets during the period are recognised immediately in the statement of recognised income and expense, together with differences arising from changes in assumptions. The difference between the market value of scheme assets and the present value of scheme liabilities is recognised as a retirement benefit asset or liability on the consolidated balance sheet. To the extent that it is recoverable, any related deferred tax asset or liability is included in the relevant category of receivable/payable.

The Group has adopted early the Amendment to IAS 19: *Employee benefits – actuarial gains and losses*, in all periods presented. The Group has elected to recognise actuarial gains and losses in full as they arise through retained loss/earnings.

### Foreign currency transactions and translation

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are reported at the rates of exchange prevailing at the balance sheet date.

Trading results of overseas subsidiaries are translated at average rates of exchange. Differences resulting from the retranslation of opening net assets and results for the period at closing rates are taken to the statement of recognised income and expense.

### Derivative financial instruments and hedging activities

The fair value of financial assets is measured at each balance sheet date by computing the discounted future value of the cash flow allocated to the financial asset. The movement in the fair value of available for sale financial assets since the previous balance sheet date is taken to equity.

With effect from 1 April 2005 financial instruments are accounted for in accordance with IAS 39, *Financial instruments: recognition and measurement*. Derivatives are initially accounted for and measured at fair value on the date a contract is entered into and subsequently measured at fair value. Where a derivative is a designated hedging instrument and is assessed as being effective in accordance with IAS 39, the gain or loss on re-measurement is recognised in equity. In all other cases the gain or loss is taken to the income statement.

# Notes to the financial statements

continued

## 1. Accounting policies (continued)

### Share-based payments

In accordance with IFRS 2, *Share-based payments*, the cost of share-based payments awarded after 7 November 2002 is charged to the income statement over the performance and vesting periods of the instruments. The cost is based on the fair value of the awards made at the date of grant adjusted for the number of awards expected to vest. In accordance with the transitional provisions within IFRS 2, no charge is made in respect of instruments awarded before 7 November 2002. The credits associated with the amounts charged to the income statement are included in retained earnings/loss until the awards are exercised. Where awards are settled by new issue shares any proceeds received in respect of share options are credited to share capital and share premium. Where awards are settled in shares held by the EBTs any proceeds are credited to retained earnings/loss.

### Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

The Group is organised into seven operating segments for management purposes, reflecting its key markets and service offerings. The segments are Design and Engineering Solutions, Highways and Transportation, Rail, Middle East and China, Management and Project Services, Asset Management and Equity Investments. These segments form the basis for reporting the Group's primary segment information as it is the main determinant of the Group's risks and returns. The basis for reporting the secondary segment information is the geographical sectors of the United Kingdom, other European countries, Middle East, North America and Asia Pacific. These represent the Group's most significant geographical sectors. The majority of central costs are allocated to segments based on revenue or utilisation of resource. All revenue relates to revenue from services.

### New IFRS standards and interpretations not applied

During the year the IASB and IFRIC issued additional standards and interpretations which are effective for periods starting after the date of these financial statements. The following standards and interpretations have yet to be adopted by the Group:

- Amendment to IAS 1, *Presentation of financial statements*.
- Amendment to IAS 21, *The effects of changes in foreign exchange rates*.
- IFRIC amendment to the scope of SIC 12.
- Amendment to IAS 39, *Cash flow hedge accounting of forecast intra-group transactions*.
- Amendment to IAS 39, *Financial instruments: recognition and measurement of the fair value option*.
- Amendment to IAS 39, *Financial instruments: recognition and measurement* and IFRS 4, *Insurance contracts*.
- IFRS 7, *Financial instruments: disclosures*.
- IFRIC 4, *Determining whether an arrangement contains a lease*.
- IFRIC 5, *Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds*.
- IFRIC 6, *Liabilities arising from participating in a specific market – waste electrical and electronic equipment*.
- IFRIC 7, *Applying the restatement approach under IAS 29 Financial reporting in hyperinflationary economies*.
- IFRIC 8, *Scope of IFRS 2* (not yet endorsed by the EU).
- IFRIC 9, *Re-assessment of embedded derivatives* (not yet endorsed by the EU).

**2. Segmental reporting**  
**a) Group business segments**  
**Revenue and results**

2006	Total revenue £m	Inter-segment revenue £m	Revenue £m	Operating profit £m	Operating margin £m	Share of post-tax profit from Joint Ventures £m
Design and Engineering Solutions	303.7	(17.4)	286.3	23.4	8.2%	–
Highways and Transportation	231.5	(16.1)	215.4	11.0	5.1%	0.7
Rail	190.6	(14.1)	176.5	2.6	1.5%	–
Middle East and China	72.8	(5.7)	67.1	3.0	4.5%	–
Management and Project Services	179.5	(7.6)	171.9	13.9	8.1%	–
Asset Management	63.0	(1.5)	61.5	4.0	6.5%	–
Equity Investments	74.1	(0.3)	73.8	5.0	6.8%	8.1
<b>Total continuing segments</b>	<b>1,115.2</b>	<b>(62.7)</b>	<b>1,052.5</b>	<b>62.9</b>	<b>6.0%</b>	<b>8.8</b>

2005	Total revenue £m	Inter-segment revenue £m	Revenue £m	Operating profit £m	Operating margin %	Share of post-tax profit from Joint Ventures £m
Design and Engineering Solutions	261.8	(17.4)	244.4	21.0	8.6 %	0.1
Highways and Transportation	220.6	(13.8)	206.8	9.4	4.5 %	0.5
Rail	206.7	(19.1)	187.6	8.9	4.7 %	–
Middle East and China	44.0	–	44.0	2.1	4.8 %	–
Management and Project Services	156.8	(4.6)	152.2	9.2	6.0 %	0.4
Asset Management	59.5	(0.9)	58.6	(4.7)	(8.0)%	–
Equity Investments	61.4	–	61.4	4.3	7.0 %	9.2
Total before impairment of goodwill	1,010.8	(55.8)	955.0	50.2	5.3 %	10.2
Impairment of goodwill						
– Management and Project Services	–	–	–	(7.2)	n/a	–
<b>Total continuing segments</b>	<b>1,010.8</b>	<b>(55.8)</b>	<b>955.0</b>	<b>43.0</b>	<b>4.5 %</b>	<b>10.2</b>

Reconciliation of segmental analysis to profit for the year attributable to equity shareholders:

	2006 £m	2005 £m
Operating profit	62.9	43.0
Profit on disposal of Joint Ventures	6.4	3.7
Share of post-tax profit from Joint Ventures	8.8	10.2
<b>Profit from operations</b>	<b>78.1</b>	<b>56.9</b>
Finance income	7.9	6.8
Finance cost	(11.2)	(10.7)
Net finance cost	(3.3)	(3.9)
<b>Profit before taxation</b>	<b>74.8</b>	<b>53.0</b>
Taxation	(17.9)	(14.1)
<b>Profit for the year from continuing operations</b>	<b>56.9</b>	<b>38.9</b>
<b>Profit for the year attributable to equity shareholders</b>	<b>56.9</b>	<b>38.9</b>

# Notes to the financial statements

continued

## 2. Segmental reporting (continued)

### Balance sheet

2006	Goodwill £m	Investments in Joint Ventures £m	Other segment assets £m	Total segment assets £m	Total segment liabilities £m	Net assets/ (liabilities) £m
Design and Engineering Solutions	6.0	–	131.6	137.6	(214.9)	(77.3)
Highways and Transportation	–	0.7	74.7	75.4	(155.7)	(80.3)
Rail	4.9	–	103.4	108.3	(186.5)	(78.2)
Middle East and China	–	–	53.6	53.6	(33.4)	20.2
Management and Project Services	9.7	0.6	56.7	67.0	(57.2)	9.8
Asset Management	–	–	24.0	24.0	(49.7)	(25.7)
Equity Investments	15.0	44.9	31.6	91.5	(22.1)	69.4
Total continuing segments	35.6	46.2	475.6	557.4	(719.5)	(162.1)
Unallocated assets/(liabilities)	–	–	178.2	178.2	(52.2)	126.0
Total for Group	35.6	46.2	653.8	735.6	(771.7)	(36.1)

2005	Goodwill £m	Investments in Joint Ventures £m	Other segment assets £m	Total segment assets £m	Total segment liabilities £m	Net assets/ (liabilities) £m
Design and Engineering Solutions	0.7	0.1	109.1	109.9	(172.9)	(63.0)
Highways and Transportation	–	0.8	117.8	118.6	(191.6)	(73.0)
Rail	4.5	–	75.1	79.6	(139.6)	(60.0)
Middle East and China	–	–	34.2	34.2	(20.3)	13.9
Management and Project Services	9.1	0.8	49.9	59.8	(48.9)	10.9
Asset Management	–	–	28.5	28.5	(49.0)	(20.5)
Equity Investments	15.0	39.9	22.9	77.8	(22.6)	55.2
Total continuing segments	29.3	41.6	437.5	508.4	(644.9)	(136.5)
Unallocated assets/(liabilities)	–	–	120.4	120.4	(37.3)	83.1
Total for Group	29.3	41.6	557.9	628.8	(682.2)	(53.4)

Unallocated assets/(liabilities) primarily consist of financial assets, cash and cash equivalents, bank loans and tax balances that cannot be readily allocated to segments.

### Other segmental information

2006	Share based payments £m	Capital additions £m	Depreciation and amortisation £m	Goodwill impairment £m
Design and Engineering Solutions	1.0	14.7	6.9	–
Highways and Transportation	0.6	6.8	4.8	–
Rail	0.6	5.0	4.3	–
Middle East and China	–	2.9	1.0	–
Management and Project Services	0.6	9.0	4.5	–
Asset Management	0.2	1.5	1.3	–
Equity Investments	–	2.9	1.5	–
Total continuing segments	3.0	42.8	24.3	–

## 2. Segmental reporting (continued)

2005	Share based payments £m	Capital additions £m	Depreciation and amortisation £m	Goodwill impairment £m
Design and Engineering Solutions	0.6	5.3	7.6	–
Highways and Transportation	0.5	5.0	5.7	–
Rail	0.5	3.2	6.1	–
Middle East and China	–	0.8	0.5	–
Management and Project Services	0.5	6.0	4.9	7.2
Asset Management	0.1	1.3	1.8	–
Equity Investments	–	2.5	1.2	–
<b>Total continuing segments</b>	<b>2.2</b>	<b>24.1</b>	<b>27.8</b>	<b>7.2</b>

Capital additions includes additions to goodwill, other intangible assets and property, plant and equipment.

### b) Group geographical segments

The Group's operations are based in five main geographical areas. The United Kingdom is the home country of the parent company.

External revenue is measured by location of operation. There was no material difference between geographic revenue by location of operation and by location of customer.

	2006 £m	Revenue 2005 £m	Total segment assets 2006 £m	2005 £m	Capital additions 2006 £m	2005 £m
United Kingdom	<b>895.3</b>	831.9	<b>606.2</b>	502.7	<b>39.2</b>	22.7
Other European countries	<b>42.0</b>	40.6	<b>29.5</b>	28.7	<b>0.4</b>	0.2
Middle East	<b>42.0</b>	22.9	<b>43.5</b>	24.1	<b>2.5</b>	0.4
North America	<b>41.6</b>	32.0	<b>41.4</b>	61.2	<b>0.3</b>	0.4
Asia Pacific	<b>31.6</b>	27.6	<b>15.0</b>	12.1	<b>0.4</b>	0.4
<b>Total for Group</b>	<b>1,052.5</b>	955.0	<b>735.6</b>	628.8	<b>42.8</b>	24.1

### c) Company

The Company's business is to invest in its subsidiaries and hence it operates in a single segment.

## 3. Joint Ventures

### a) Share of post-tax profit from Joint Ventures

2006	Metronet £m	Other £m	Disposed £m	Total £m
Revenue	<b>246.9</b>	<b>108.9</b>	<b>2.7</b>	<b>358.5</b>
Operating expenditure	<b>(235.1)</b>	<b>(108.5)</b>	<b>(1.5)</b>	<b>(345.1)</b>
Operating profit	<b>11.8</b>	<b>0.4</b>	<b>1.2</b>	<b>13.4</b>
Finance cost	<b>(19.7)</b>	<b>(4.3)</b>	<b>(1.2)</b>	<b>(25.2)</b>
Finance income	<b>18.7</b>	<b>4.6</b>	<b>1.3</b>	<b>24.6</b>
Profit before taxation	<b>10.8</b>	<b>0.7</b>	<b>1.3</b>	<b>12.8</b>
Taxation	<b>(3.3)</b>	<b>(0.3)</b>	<b>(0.4)</b>	<b>(4.0)</b>
<b>Share of post-tax profit from Joint Ventures</b>	<b>7.5</b>	<b>0.4</b>	<b>0.9</b>	<b>8.8</b>

# Notes to the financial statements

continued

## 3. Joint Ventures (continued)

2005	Metronet £m	Other £m	Disposed £m	Total £m
Revenue	135.5	62.0	4.8	202.3
Operating expenditure	(118.1)	(56.7)	(4.3)	(179.1)
Operating profit	17.4	5.3	0.5	23.2
Finance cost	(15.0)	(3.6)	(2.6)	(21.2)
Finance income	7.6	3.1	3.2	13.9
Profit before taxation	10.0	4.8	1.1	15.9
Taxation	(3.4)	(1.5)	(0.8)	(5.7)
Share of post-tax profit from Joint Ventures	6.6	3.3	0.3	10.2

As permitted by IFRS 1, *First time adoption of IFRS*, the Group has elected to adopt IAS 32, *Financial instruments: Disclosure and presentation*, IAS 39, *Financial Instruments: Recognition and measurement* and IFRIC draft interpretations in respect of PPP/PFI concessions, prospectively from 1 April 2005. Hence the comparative figures have not been restated.

The impact of adoption of IAS 32, IAS 39 and the IFRIC draft interpretations in respect of PPP/PFI concessions on the Group's results had they been implemented in the comparative period is set out in note 41.

2005 disposed includes the comparative results of current year disposals.

## b) Investments in Joint Ventures

2006	Metronet £m	Other £m	Disposed £m	Total £m
<b>Non-current assets</b>				
Goodwill	7.8	–	–	7.8
Property, plant and equipment	314.4	53.8	–	368.2
	322.2	53.8	–	376.0
<b>Current assets</b>				
Cash and cash equivalents	79.1	21.2	–	100.3
Other current assets	29.4	70.8	–	100.2
	108.5	92.0	–	200.5
<b>Current liabilities</b>				
Trade and other payables	(47.9)	(44.9)	–	(92.8)
	(47.9)	(44.9)	–	(92.8)
<b>Non-current liabilities</b>				
Borrowings	(251.5)	(76.9)	–	(328.4)
Other non-current liabilities	(87.1)	(24.7)	–	(111.8)
	(338.6)	(101.6)	–	(440.2)
<b>Share of net assets</b>				
Loans to Joint Ventures	44.2	(0.7)	–	43.5
	2.7	–	–	2.7
<b>Investments in Joint Ventures</b>	<b>46.9</b>	<b>(0.7)</b>	<b>–</b>	<b>46.2</b>

### 3. Joint Ventures (continued)

2005	Metronet £m	Other £m	Disposed £m	Total £m
<b>Non-current assets</b>				
Goodwill	7.8	–	–	7.8
Property, plant and equipment	182.1	2.0	–	184.1
	189.9	2.0	–	191.9
<b>Current assets</b>				
Cash and cash equivalents	76.1	13.3	1.6	91.0
Other current assets	101.3	97.4	20.8	219.5
	177.4	110.7	22.4	310.5
<b>Current liabilities</b>				
Trade and other payables	(81.5)	(22.7)	(0.5)	(104.7)
	(81.5)	(22.7)	(0.5)	(104.7)
<b>Non-current liabilities</b>				
Borrowings	(233.8)	(80.9)	(20.4)	(335.1)
Other non-current liabilities	(16.5)	(6.2)	–	(22.7)
	(250.3)	(87.1)	(20.4)	(357.8)
<b>Share of net assets</b>				
Loans to Joint Ventures	35.5	2.9	1.5	39.9
	–	–	1.7	1.7
<b>Investments in Joint Ventures</b>	35.5	2.9	3.2	41.6

#### c) Metronet

On 4 April 2003, financial close was reached on the 30-year Metronet London Underground PPP in which the Group is a 20% equal partner.

At financial close, Atkins received £20.1m in respect of bid cost recoveries and project development fees from Metronet. In line with the Group's accounting policy in relation to pre-contract costs incurred on PPP/PFI investments, this sum was recognised on the balance sheet and will be released to the income statement over 30 years.

Atkins is required to invest £70m in Metronet by way of equity and shareholder subordinated debt over the first six years of the concession. During the year ended 31 March 2006, the Group invested £11.2m (2005: £11.1m). The outstanding investment required is £37.3m (2005: £48.5m).

#### The contract

Metronet has two separate 30-year performance-based contracts which together cover over two thirds of the London Underground network. The contracts, which are split into four 7.5-year periods, cover inter alia the repair, refurbishment and modernisation of the infrastructure. The contracts are subject to periodic review at the end of each 7.5-year period. The periodic reviews allow for restating the scope of the work, the level of payment, the contractual terms and the performance requirements.

Metronet has contracted with Trans4m Ltd, a Joint Venture company in which Atkins has a 25% shareholding, to undertake the civil engineering work and the refurbishment programme. Trans4m Ltd has signed a 7.5-year contract with Atkins for premises and civil design, inspection and assessment work and the design and build of new communication systems.

Metronet's revenue consists of a fixed element (Underlying Infrastructure Service Charge) which is adjusted for performance. Performance is measured under three categories: capability, availability and ambience. Shareholder returns are sensitive to these performance-based measures.

#### Consolidation of Metronet's results

In line with the Group's accounting policies on Joint Ventures, the results of Metronet have been accounted for under the equity method of accounting.

As part of its consolidation of Metronet's balance sheet, Atkins initially recognised £8.7m of goodwill associated with liabilities inherited when the PPP companies were acquired from London Underground Limited. Under the transition rules for the implementation of IFRS this balance was frozen at the carrying amount on 1 April 2004 of £7.8m and will be subject to an annual impairment review.

# Notes to the financial statements

continued

## 3. Joint Ventures (continued)

In the year ended 31 March 2006 a provision of £15.5m (2005: £14.0m) was made within Metronet's books for the financial impact of the potential late delivery of station improvements. No account has been taken of the potential recovery through either extension of time or negotiated claims unless Metronet is virtually certain that such mitigations will be delivered.

## 4. Operating profit

	Group		Company	
	2006 £m	2005 £m	2006 £m	2005 £m
Operating profit is arrived at after charging/(crediting):				
Employee benefit costs (see note 6)	<b>536.3</b>	496.2	–	–
Net foreign exchange losses/(gains)	<b>0.5</b>	(1.4)	<b>0.3</b>	(1.6)
Depreciation and impairment of property, plant and equipment:				
– owned assets	<b>11.9</b>	16.6	–	–
– assets held under finance leases	<b>2.8</b>	2.5	–	–
Loss/(profit) on sale of property, plant and equipment	<b>0.7</b>	(0.4)	–	–
Impairment of trade receivables				
– included in cost of sales	<b>4.3</b>	3.4	–	–
– included in administrative expenses	<b>0.3</b>	0.3	–	–
Amortisation of other intangible assets (included in administrative expenses)	<b>9.6</b>	8.7	–	–
Impairment of goodwill (included in administrative expenses)	–	7.2	–	–
Payments under operating leases:				
– plant and machinery	<b>6.7</b>	7.0	–	–
– property	<b>20.8</b>	23.5	–	–

## Services provided by the Group's auditors

During the year the Group (including its overseas subsidiaries) obtained the following services from the Group's auditors at costs as detailed below:

	Group		Company	
	2006 £m	2005 £m	2006 £m	2005 £m
Statutory audit	<b>0.8</b>	0.8	<b>0.1</b>	0.1
Audit-related regulatory reporting	<b>0.2</b>	–	–	–
Audit services	<b>1.0</b>	0.8	<b>0.1</b>	0.1
Compliance services	<b>0.1</b>	0.1	–	–
Advisory services	<b>0.1</b>	0.1	–	–
Tax services	<b>0.2</b>	0.2	–	–
Other services	<b>0.1</b>	0.2	–	–
Total	<b>1.3</b>	1.2	<b>0.1</b>	0.1

## 5. Profit on disposal of Joint Ventures

In line with the Group's stated strategy to recycle cash invested in PFI project companies at the appropriate time, the Group disposed of its 25% stake in South Manchester Healthcare (Holdings) Limited and its 42.5% stake in NewSchools (Penweddig) Holdings Limited during the year.

The disposal of South Manchester Healthcare (Holdings) Limited was completed on 23 November 2005 for a consideration of £7.8m resulting in a profit of £5.7m in the year to 31 March 2006. Atkins' contract for the maintenance and upkeep of the Wythenshawe Hospital NHS Trust estate will remain in place. The Group's share of post-tax profit from Joint Ventures up to the date of disposal in relation to South Manchester Healthcare (Holdings) Limited was £0.3m (2005: £0.2m).

The disposal of NewSchools (Penweddig) Holdings Limited was completed on 22 December 2005 for a consideration of £1.4m resulting in a profit of £0.7m in the year to 31 March 2006. The Group's share of post-tax profit from Joint Ventures up to the date of disposal in relation to NewSchools (Penweddig) Holdings Limited was £0.6m (2005: £nil).

The Joint Ventures disposed were all attributed to the Equity Investments segment.

## 5. Profit on disposal of Joint Ventures (continued)

	South Manchester (Holdings) Limited £m	NewSchools (Penweddig) Holdings Limited £m	Group Total £m
<b>2006</b>			
Net assets	3.6	0.9	4.5
Deferred income released	(1.5)	(0.2)	(1.7)
Profit on disposal	5.7	0.7	6.4
Disposal proceeds – cash	7.8	1.4	9.2
<b>2005</b>		Mercia Healthcare (Holdings) Limited £m	Group Total £m
Net assets		2.8	2.8
Deferred income released		(0.9)	(0.9)
Profit on disposal		3.7	3.7
Disposal proceeds – cash		5.6	5.6

Taxation on profit on disposal of Joint Ventures was £0.5m (2005: £0.3m).

## 6. Employee benefit costs

Number of full time equivalent people (including executive directors) employed by the Group:

	2006 No.	Average 2005 No.	2006 No.	Year-end 2005 No.
By class of business:				
Design and Engineering Solutions	3,456	3,358	3,639	3,339
Highways and Transportation	2,690	2,603	2,734	2,641
Rail	1,720	1,766	1,757	1,735
Middle East and China	1,313	1,037	1,482	1,106
Management and Project Services	1,973	1,875	2,062	1,957
Asset Management	800	956	628	890
Equity Investments	880	881	887	874
Corporate	468	444	462	455
	<b>13,300</b>	12,920	<b>13,651</b>	12,997

Aggregate employee benefit costs of those people amounted to:

	2006 £m	Group 2005 £m
Wages and salaries	446.4	415.9
Profit share and performance-related bonus	20.5	15.3
Social security costs	40.8	36.6
Pension costs (see note 26)	33.8	35.3
Share based payments (see note 29)	3.0	2.2
	<b>544.5</b>	505.3

2006 costs include £1.0m redundancy costs (2005: £1.3m).

Details of remuneration (including pensions) and interests for directors are included in the Remuneration Report, which forms part of these financial statements. Details of remuneration for key management are included in note 36.

The Company has no employees (2005: nil).

# Notes to the financial statements

continued

## 7. Net finance cost

	2006 £m	Group 2005 £m
Interest payable on borrowings	0.9	0.6
Hire purchase and finance leases	0.6	0.6
Letters of credit charges	2.0	2.6
Unwinding of discount	0.7	0.5
Net finance cost on retirement benefit liabilities	6.7	5.4
Other	0.3	1.0
Finance cost	11.2	10.7
Finance income	(7.9)	(6.8)
<b>Net finance cost</b>	<b>3.3</b>	<b>3.9</b>

## 8. Taxation

### a) Analysis of charge for the year

	2006 £m	Group 2005 £m
Current taxation		
– Current year	13.2	17.1
– Adjustment in respect of prior year	(0.4)	(1.2)
Deferred taxation (see note 17)	5.1	(1.8)
Taxation on profit on ordinary activities per income statement	17.9	14.1
Adjust for:		
– Joint Venture taxation	4.0	5.7
– Taxation on profit on disposal of Joint Ventures	(0.5)	(0.3)
Normalised taxation	21.4	19.5
Profit before taxation per income statement	74.8	53.0
Adjust for:		
– Joint Venture taxation	4.0	5.7
– Profit on disposal of Joint Ventures	(6.4)	(3.7)
– Impairment of goodwill	–	7.2
Normalised profit before taxation (adjusted for impairment of goodwill in 2005)	72.4	62.2
<b>Effective taxation rate</b>	<b>23.9%</b>	<b>26.6%</b>
<b>Normalised effective taxation rate (adjusted for impairment of goodwill in 2005)</b>	<b>29.6%</b>	<b>31.4%</b>

## 8. Taxation (continued)

### b) Factors affecting tax charge

The tax charge for the year is lower than the standard rate of corporation tax in the UK (30%), as explained below:

	2006 %	Group 2005 %
UK statutory tax rate	30.0	30.0
Increase/(decrease) resulting from:		
Expenses not deductible for tax purposes	1.1	1.7
Impairment of goodwill	–	3.7
Adjustment in respect of overseas tax rates	(0.7)	0.8
Disposal of Joint Ventures	(1.8)	(1.1)
Effect of share based payments	0.1	(0.4)
Joint Ventures	(3.8)	(7.1)
Other	(1.0)	(1.0)
<b>Effective tax rate</b>	<b>23.9</b>	<b>26.6</b>

### c) Taxation credit on items charged to equity

	Retirement benefit liability £m	2006 Share based payments £m	Group		2005 Share based payments £m	Total £m
			Total £m	Retirement benefit liability £m		
At 1 April	6.8	2.1	8.9	–	2.0	2.0
Credited to equity during the year	11.3	0.1	11.4	6.8	0.1	6.9
At 31 March	18.1	2.2	20.3	6.8	2.1	8.9

## 9. Dividends

	2006 pence	2005 pence	Group	
	2006 £m	2005 £m	2006 £m	2005 £m
Final dividend paid for the year ended 31 March 2005 (2004)	8.0	7.0	7.9	6.8
Interim dividend paid for the period ended 30 September 2005 (2004)	4.5	4.0	4.5	3.9
<b>Dividends recognised in the year</b>	<b>12.5</b>	<b>11.0</b>	<b>12.4</b>	<b>10.7</b>
Interim dividend paid for the period ended 30 September 2005 (2004)	4.5	4.0	4.5	3.9
Final dividend proposed for the year ended 31 March 2006 (2005)	11.5	8.0	11.5	7.9
<b>Dividends relating to the year</b>	<b>16.0</b>	<b>12.0</b>	<b>16.0</b>	<b>11.8</b>

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

The Employee Benefit Trusts, which hold 4,367,989 ordinary shares (2005: 5,451,801) representing 4.1% of the Company's share capital (2005: 5.1%), have agreed to waive all dividends due for the period, which reduced the dividend paid in the year by £0.5m (2005: £0.6m) and the final dividend proposed by £0.5m (2005: £0.4m).

## 10. Earnings per share (EPS)

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of shares in issue during the year excluding shares held by the Employee Benefit Trusts (EBTs) which have not unconditionally vested in the employees.

Fully diluted earnings per share is the basic earnings per share after allowing for the dilutive effect of the conversion into ordinary shares of the number of options outstanding during the year. The options relate to the SAYE schemes, Equity Participation Plans and Long Term Incentive Plans.

# Notes to the financial statements

continued

## 10. Earnings per share (EPS) (continued)

Reconciliations of the earnings and weighted average number of shares used in the calculations are set out below:

	2006 Number ('000)	Group 2005 Number ('000)
Number of shares		
Weighted average number of shares used in basic EPS	<b>99,790</b>	99,064
Effect of dilutive securities		
– Share options	<b>2,028</b>	1,486
Weighted average number of shares used in fully diluted EPS	<b>101,818</b>	100,550
	£m	£m
Earnings	<b>56.9</b>	38.9
Impairment of goodwill	–	7.2
Post-tax profit on disposal of Joint Ventures	<b>(5.9)</b>	(3.4)
Normalised earnings (adjusted for impairment of goodwill in 2005)	<b>51.0</b>	42.7
	pence	pence
Basic earnings per share	<b>57.0</b>	39.3
Fully diluted earnings per share	<b>55.9</b>	38.7
Normalised basic earnings per share (adjusted for impairment of goodwill in 2005)	<b>51.1</b>	43.1
Normalised fully diluted earnings per share (adjusted for impairment of goodwill in 2005)	<b>50.1</b>	42.5

All of the above relate to continuing operations.

Normalised EPS is considered to be a more representative measure of underlying trading.

## 11. Parent company income statement

The parent company has not presented its own income statement as permitted by Section 230 of the Companies Act 1985. The profit for the year attributable to equity shareholders was £7.3m (2005: £25.4m).

## 12. Goodwill

	2006 £m	Group 2005 £m
Cost at 1 April	<b>36.5</b>	36.8
Additions	<b>5.6</b>	–
Difference on exchange	<b>1.0</b>	(0.3)
Cost at 31 March	<b>43.1</b>	36.5
Aggregate impairment at 1 April	<b>7.2</b>	–
Impairment charge for the year	–	7.2
Difference on exchange	<b>0.3</b>	–
Aggregate impairment at 31 March	<b>7.5</b>	7.2
Net book value at 31 March	<b>35.6</b>	29.3

Additions to goodwill during the year represent goodwill arising on acquisitions (see note 38).

Goodwill is tested for impairment in accordance with IAS 36, *Impairment of assets* at least annually. The recoverable amount of goodwill has been based on value in use as represented by the net present value of future cash flows. Cash flows are projected forward for five years based on approved budgets and plans, beyond which they are inflated by a GDP-based growth factor. They are then discounted using a discount rate based on the Group's post-tax nominal weighted average cost of capital.

Following the impairment test during the year, no charge has been recognised through the income statement in respect of goodwill impairment. In 2005 an impairment of £7.2m was recorded in relation to the North American business.

The allocation of goodwill to cash generating units has been completed during the year. The carrying amounts of goodwill by segment are set out in note 2.

### 13. Other intangible assets

	Corporate information systems £m	Software licences £m	Group Total £m
Cost at 1 April 2004	15.3	2.4	17.7
Additions	–	5.5	5.5
Disposals	–	(3.9)	(3.9)
Cost at 31 March 2005	15.3	4.0	19.3
Additions	–	8.3	8.3
Acquisitions	–	0.5	0.5
Disposals	–	(4.1)	(4.1)
<b>Cost at 31 March 2006</b>	<b>15.3</b>	<b>8.7</b>	<b>24.0</b>
Amortisation at 1 April 2004	3.7	–	3.7
Amortisation charge for the year	2.9	5.8	8.7
Disposals	–	(3.9)	(3.9)
Amortisation at 31 March 2005	6.6	1.9	8.5
Amortisation charge for the year	2.9	6.7	9.6
Disposals	–	(4.1)	(4.1)
<b>Amortisation at 31 March 2006</b>	<b>9.5</b>	<b>4.5</b>	<b>14.0</b>
<b>Net book value at 31 March 2006</b>	<b>5.8</b>	<b>4.2</b>	<b>10.0</b>
Net book value at 31 March 2005	8.7	2.1	10.8

Included within corporate information systems is £0.4m (2005: £0.7m) of internally generated intangible assets.

### 14. Property, plant and equipment

	Freehold land & property £m	Short term leasehold property £m	Plant machinery & vehicles £m	Group Total £m
Cost at 1 April 2004	9.6	7.5	68.4	85.5
Additions	0.5	0.7	17.4	18.6
Disposals	–	–	(13.5)	(13.5)
Cost at 31 March 2005	10.1	8.2	72.3	90.6
Additions	0.3	2.9	25.7	28.9
Disposals	–	–	(13.0)	(13.0)
Difference on exchange	–	0.1	0.5	0.6
<b>Cost at 31 March 2006</b>	<b>10.4</b>	<b>11.2</b>	<b>85.5</b>	<b>107.1</b>
Depreciation at 1 April 2004	6.7	1.8	40.6	49.1
Depreciation charge for the year	0.3	1.2	17.6	19.1
Disposals	–	–	(11.8)	(11.8)
Depreciation at 31 March 2005	7.0	3.0	46.4	56.4
Depreciation charge for the year	0.1	1.5	13.1	14.7
Disposals	–	–	(11.8)	(11.8)
Difference on exchange	–	0.1	0.5	0.6
<b>Depreciation at 31 March 2006</b>	<b>7.1</b>	<b>4.6</b>	<b>48.2</b>	<b>59.9</b>
<b>Net book value at 31 March 2006</b>	<b>3.3</b>	<b>6.6</b>	<b>37.3</b>	<b>47.2</b>
Net book value at 31 March 2005	3.1	5.2	25.9	34.2

The market value of freehold land and property is estimated at £10.8m (2005: £10.5m).

# Notes to the financial statements

continued

## 14. Property, plant and equipment (continued)

Included in plant, machinery and vehicles above are equipment and vehicles held under finance leases and hire purchase contracts as follows:

	2006 £m	2005 £m
Cost	20.7	14.9
Depreciation	(8.1)	(6.8)
Net book value	12.6	8.1

Additions to fixed assets funded by finance leases were £7.9m (2005: £2.4m).

Included in the above are equipment and vehicles leased to customers under operating leases as follows:

	2006 £m	2005 £m
Cost	3.2	2.5
Depreciation	(1.7)	(1.2)
Net book value	1.5	1.3

Rents receivable from operating leases of £0.6m (2005: £0.6m) are included in revenue.

## 15. Investments in subsidiaries

	Subsidiaries £m	Company Joint Ventures £m	Total £m
Cost at 1 April 2004	111.9	4.1	116.0
Additions	1.0	–	1.0
Disposals	(0.1)	(2.4)	(2.5)
Transfers from other Group companies	57.3	–	57.3
Transfers to other Group companies	(61.1)	–	(61.1)
Cost at 31 March 2005	109.0	1.7	110.7
Additions	16.6	–	16.6
Disposals	–	(1.7)	(1.7)
Transfers to other Group companies	(14.8)	–	(14.8)
<b>Cost at 31 March 2006</b>	<b>110.8</b>	<b>–</b>	<b>110.8</b>
Impairment at 1 April 2004	22.0	–	22.0
Impairment charge for the year	0.3	–	0.3
Impairment at 31 March 2005	22.3	–	22.3
Impairment charge for the year	0.4	–	0.4
<b>Impairment at 31 March 2006</b>	<b>22.7</b>	<b>–</b>	<b>22.7</b>
<b>Net book value at 31 March 2006</b>	<b>88.1</b>	<b>–</b>	<b>88.1</b>
Net book value at 31 March 2005	86.7	1.7	88.4

WS Atkins plc disposed of its investment in South Manchester Healthcare (Holdings) Limited on 23 November 2005 for a consideration of £7.8m resulting in a profit of £6.1m in the year to 31 March 2006.

During the year, WS Atkins plc transferred 100% of its interest in Atkins (US) Ltd to WS Atkins International Ltd in return for an increased investment in WS Atkins International Ltd. This resulted in a profit on disposal of £1.8m.

The Group's principal subsidiaries are disclosed in note 39.

## 16. Financial assets – non-current

	Group	
	2006 £m	2005 £m
Restricted cash deposits	<b>20.1</b>	20.1

Restricted cash deposits relate to accounts where withdrawals are restricted under contractual agreements. The effective interest rate on restricted deposits was 4.55% (2005: 3.87%).

The directors consider that the carrying amount of restricted cash deposits approximates their fair value.

## 17. Deferred tax assets

### a) Deferred tax assets

	Group	
	2006 £m	2005 £m
Accelerated depreciation	<b>6.3</b>	7.6
Share based payments	<b>4.2</b>	3.4
Overseas	<b>0.2</b>	0.5
Deferred tax asset on retirement benefit liability	<b>89.9</b>	82.3
Deferred income	<b>3.2</b>	2.1
Lease incentives	–	1.6
Total deferred taxation	<b>103.8</b>	97.5

### b) Analysis of movements during the year

	Group	
	2006 £m	2005 £m
Deferred tax asset at 1 April	<b>97.5</b>	88.8
Deferred tax (charged)/credited to the income statement (note 8)	<b>(5.1)</b>	1.8
Deferred tax credited to equity (note 8)	<b>11.4</b>	6.9
Deferred tax asset at 31 March	<b>103.8</b>	97.5

## 18. Trade and other receivables

	Group		Company	
	2006 £m	2005 £m	2006 £m	2005 £m
Current assets:				
Trade receivables	<b>190.1</b>	174.0	–	–
Less: Provision for impairment of receivables	<b>(12.2)</b>	(8.1)	–	–
Trade receivables – net	<b>177.9</b>	165.9	–	–
Amounts recoverable on contracts	<b>52.4</b>	68.6	–	–
Amounts due from subsidiary undertakings	–	–	<b>21.9</b>	41.4
Amounts due from Joint Ventures	<b>17.3</b>	9.0	–	–
Other receivables	<b>17.8</b>	18.7	–	–
Other prepayments and accrued income	<b>7.5</b>	4.5	–	–
	<b>272.9</b>	266.7	<b>21.9</b>	41.4
Non-current assets:				
Other receivables	<b>1.5</b>	2.7	–	–
	<b>1.5</b>	2.7	–	–

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

# Notes to the financial statements

continued

## 19. Inventories

	2006 £m	Group 2005 £m
Raw materials and consumables	0.2	0.2

## 20. Financial assets – current

	2006 £m	Group 2005 £m
Marketable securities	20.7	11.1

## 21. Cash and cash equivalents

	2006 £m	Group 2005 £m
Cash at bank and in hand	62.0	48.2
Short term bank deposits	115.4	66.4
	<b>177.4</b>	<b>114.6</b>

Included in cash and cash equivalents above are amounts held on behalf of sub-contractors of £8.0m (2005: £16.0m) and amounts held by the Employee Benefit Trusts of £5.6m (2005: £4.4m).

## 22. Borrowings

	2006 £m	Group 2005 £m
<b>Current</b>		
Bank loans	2.7	–
Hire purchase and finance leases	3.8	2.6
	<b>6.5</b>	<b>2.6</b>
<b>Non-current</b>		
Bank loans	20.6	10.5
Hire purchase and finance leases	14.5	11.0
	<b>35.1</b>	<b>21.5</b>

The maturity profile of the carrying amount of the non-current borrowings was as follows:

	Bank loans £m	Hire purchase and finance leases £m	2006 Total £m	Bank loans £m	Hire purchase and finance leases £m	Group 2005 Total £m
Repayable between one and two years	–	3.6	3.6	–	2.8	2.8
Repayable between two and five years	20.6	7.0	27.6	10.5	4.4	14.9
Repayable after more than five years	–	3.9	3.9	–	3.8	3.8
	<b>20.6</b>	<b>14.5</b>	<b>35.1</b>	<b>10.5</b>	<b>11.0</b>	<b>21.5</b>

The carrying amount of the borrowings are denominated in the following currencies:

	Bank loans £m	Hire purchase and finance leases £m	2006 Total £m	Bank loans £m	Hire purchase and finance leases £m	Group 2005 Total £m
Sterling	–	18.3	18.3	–	13.6	13.6
US Dollar	10.2	–	10.2	10.5	–	10.5
Euro	5.6	–	5.6	–	–	–
Singapore Dollar	1.2	–	1.2	–	–	–
Hong Kong Dollar	6.3	–	6.3	–	–	–
	<b>23.3</b>	<b>18.3</b>	<b>41.6</b>	<b>10.5</b>	<b>13.6</b>	<b>24.1</b>

## 22. Borrowings (continued)

The minimum lease payments under finance leases fall due as follows:

	2006 £m	Group 2005 £m
Not later than one year	4.7	3.3
Later than one year but not more than five	11.9	8.1
More than five years	3.9	3.8
	<b>20.5</b>	15.2
Future finance charges on finance leases	<b>(2.2)</b>	(1.6)
Present value of finance lease liabilities	<b>18.3</b>	13.6

Bank borrowings bear interest rates fixed in advance for periods ranging from three to six months by reference to the relevant currency's inter-bank rate.

Finance leases are on a fixed repayment basis, with interest rates fixed at the contract date. The average effective borrowing rate was 7.2% (2005: 7.9%) over a weighted average remaining period of 34 months (2005: 29 months).

The carrying value of the Group's borrowings approximates their fair value.

### Borrowing facilities

The Group has the following undrawn committed borrowing facilities available at 31 March expiring as follows:

	2006 £m	Group 2005 £m
Between two and five years	36.7	–
After more than five years	–	49.5
	<b>36.7</b>	49.5

All of the Group's undrawn committed borrowing facilities will be subject to floating rates of interest.

The Group's principal borrowing facilities of £60.0m (2005: £60.0m) are unsecured. The Group's hire purchase and finance lease creditors are secured over the assets to which they relate.

On 21 June 2006, the Group signed new five-year committed banking facilities of £100m with its principal lending banks. These facilities include borrowings and letter of credit facilities.

## 23. Derivative financial instruments

The fair value of forward currency contracts at the year-end, based on their market value, is detailed below:

	2006 Book value £m	2006 Fair value £m	Group	
			2005 Book value £m	2005 Fair value £m
Forward currency hedges	6.8	4.5	5.7	5.8

The Group did not use any derivative instrument other than forward currency contracts during the year or at the year-end.

# Notes to the financial statements

continued

## 24. Trade and other payables

	Group		Company	
	2006 £m	2005 £m	2006 £m	2005 £m
Trade payables	39.1	34.5	–	–
Fees invoiced in advance	155.8	145.9	–	–
Amounts due to subsidiary undertakings	–	–	–	13.9
Amounts due to Joint Ventures	1.7	0.4	–	–
Social security and other taxation	34.3	26.0	–	–
Deferred consideration on acquisitions	1.2	0.9	–	–
Deferred PPP/PFI bid costs recovered and development fees	0.8	0.8	–	–
Accruals and deferred income	118.9	104.3	–	–
Other creditors	27.7	19.9	–	–
	<b>379.5</b>	<b>332.7</b>	<b>–</b>	<b>13.9</b>

Deferred consideration represents the balance outstanding in respect of the purchase of MSL Engineering Limited on 31 March 2006. The prior year balance was in respect of the acquisition of Hanscomb Inc.

Of the trade payables and accruals above, £0.6m relates to the purchase of fixed assets (2005: £1.7m) and £8.0m (2005: £16.0m) relates to amounts due to sub-contractors.

The carrying value of the Group's trade and other payables approximates their fair value.

## 25. Provisions for liabilities and charges

	Onerous contracts £m	Vacant property £m	2006 Group Total £m	Onerous contracts £m	Vacant property £m	2005 Group Total £m
<b>Current</b>	<b>1.3</b>	<b>1.5</b>	<b>2.8</b>	1.1	1.7	2.8
Between one and two years	1.0	1.3	2.3	0.9	1.7	2.6
Between two and five years	2.4	2.3	4.7	2.2	1.4	3.6
Over five years	2.4	2.3	4.7	3.6	1.3	4.9
<b>Non-current</b>	<b>5.8</b>	<b>5.9</b>	<b>11.7</b>	6.7	4.4	11.1
<b>Total</b>	<b>7.1</b>	<b>7.4</b>	<b>14.5</b>	7.8	6.1	13.9

	Onerous contracts £m	Vacant property £m	Group Total £m
<b>Group</b>			
Balance at 1 April 2005	7.8	6.1	13.9
Charge to income statement	–	3.0	3.0
Provisions utilised	(1.2)	(1.9)	(3.1)
Unwinding of discount	0.5	0.2	0.7
<b>Balance at 31 March 2006</b>	<b>7.1</b>	<b>7.4</b>	<b>14.5</b>

The onerous contracts and vacant property provisions are discounted. No provision has been released or utilised for any purpose other than that for which it was established.

The onerous contracts provision relates to PFI school and hospital facilities management contracts in the Management and Project Services segment. The provisions are expected to be utilised over the next 24 years.

The vacant property provision is expected to be utilised over the next 14 years.

## 26. Retirement benefit liabilities

The Group operates both defined benefit and defined contribution pension schemes. The two main defined benefit schemes are the Atkins Pension Plan and the Railways Pension Scheme, both of which are funded final salary schemes. The assets of both schemes are held in separate trustee administered funds. Other pension schemes include the Atkins McCarthy Pension Plan in the Republic of Ireland, which is a final salary funded defined benefit scheme, and a range of defined contribution schemes or equivalent.

The defined benefit section of the Atkins Pension Plan is closed to new entrants, who are now offered membership of the defined contribution section.

Membership of the Group's principal pension schemes is as follows:

	Defined benefit schemes				Defined contribution schemes			F&G	2005 No.
	Atkins Pension Plan		Railways Pension Scheme		Atkins Pension Plan		2006		
	2006 No.	2005 No.	2006 No.	2005 No.	2006 No.	2005 No.	2006 No.		
Members	<b>2,729</b>	3,208	<b>493</b>	562	<b>4,479</b>	3,982	<b>813</b>	698	
Deferred pensioners	<b>6,251</b>	6,118	<b>307</b>	279	<b>2,205</b>	1,602	<b>661</b>	756	
Pensioners	<b>2,105</b>	1,947	<b>144</b>	110	–	–	–	–	
	<b>11,085</b>	11,273	<b>944</b>	951	<b>6,684</b>	5,584	<b>1,474</b>	1,454	

The main assumptions used for the IAS 19 valuation of the retirement benefit liabilities for the Atkins Pension Plan and the Railways Pension Scheme are listed in the table below:

	2006	2005
Price inflation	<b>2.85%</b>	2.80%
Rate of increase of pensions in payment		
Limited Price Indexation	<b>2.85%</b>	2.80%
Limited Price Indexation to 2.5%	<b>2.50%</b>	n/a
Fixed	<b>5.00%</b>	5.00%
Rate of increase in salaries	<b>4.35%</b>	4.30%
Rate of increase for deferred pensioners	<b>2.85%</b>	2.80%
Discount rate	<b>5.00%</b>	5.40%
Expected rate of return on plan assets	<b>6.90%</b>	6.70%
Expected rate of social security increases	<b>2.85%</b>	2.80%
Longevity at age 65 for current pensioners		
Men	<b>18.7 years</b>	18.2 years
Women	<b>21.7 years</b>	21.2 years
Longevity at age 65 for future pensioners (current age 45)		
Men	<b>20.9 years</b>	19.0 years
Women	<b>23.9 years</b>	21.9 years

The actuarial tables used to calculate the retirement benefit liabilities for the Atkins Pension Plan and the Railways Pension Scheme were PMA92 for males and PFA92 with adjustment to reflect experience and an age rating allowance for future improvements made via a discount rate reduction of 0.25%.

# Notes to the financial statements

continued

## 26. Retirement benefit liabilities (continued)

The components of the pension cost are as follows:

2006	Atkins Pension Plan £m	Railways Pension Scheme £m	Other £m	Total £m
<b>Cost of sales</b>				
Current service cost	14.4	3.7	0.5	18.6
Curtailment gain	(0.5)	–	–	(0.5)
Total service cost	13.9	3.7	0.5	18.1
<b>Finance (income)/cost</b>				
Finance cost	38.1	4.7	0.1	42.9
Expected return on plan assets	(30.5)	(5.4)	(0.3)	(36.2)
Net finance cost	7.6	(0.7)	(0.2)	6.7
Total charge to income statement for defined benefit schemes	21.5	3.0	0.3	24.8
Charge for defined contribution schemes	–	–	9.0	9.0
Total charge to income statement	21.5	3.0	9.3	33.8
<b>Statement of recognised income and expense</b>				
Gain on pension scheme assets	60.5	27.8	0.1	88.4
Changes in assumptions	(108.7)	(17.3)	(0.1)	(126.1)
Actuarial loss	(48.2)	10.5	–	(37.7)
Deferred tax charged to equity	14.5	(3.2)	–	11.3
Actuarial loss (net of deferred tax)	(33.7)	7.3	–	(26.4)
2005	Atkins Pension Plan £m	Railways Pension Scheme £m	Other £m	Total £m
<b>Cost of sales</b>				
Current service cost	16.4	3.1	0.3	19.8
<b>Finance (income)/cost</b>				
Finance cost	33.3	4.3	0.2	37.8
Expected return on plan assets	(27.3)	(4.9)	(0.2)	(32.4)
Net finance cost	6.0	(0.6)	–	5.4
Total charge to income statement for defined benefit schemes	22.4	2.5	0.3	25.2
Charge for defined contribution schemes	–	–	10.1	10.1
Total charge to income statement	22.4	2.5	10.4	35.3
<b>Statement of recognised income and expense</b>				
Gain on pension scheme assets	7.4	8.7	–	16.1
Changes in assumptions	(28.2)	(10.6)	–	(38.8)
Actuarial loss	(20.8)	(1.9)	–	(22.7)
Deferred tax charged to equity	6.2	0.6	–	6.8
Actuarial loss (net of deferred tax)	(14.6)	(1.3)	–	(15.9)

## 26. Retirement benefit liabilities (continued)

The expected return on plan assets is based on market expectation at the beginning of the period for returns over the entire life of the benefit obligation.

	Atkins Pension Plan £m	Railways Pension Scheme £m	Other £m	Total £m
<b>2006</b>				
Defined benefit obligation	<b>(843.6)</b>	<b>(173.8)</b>	<b>(4.5)</b>	<b>(1,021.9)</b>
Fair value of plan assets	<b>566.2</b>	<b>151.8</b>	<b>4.0</b>	<b>722.0</b>
Retirement benefit liabilities	<b>(277.4)</b>	<b>(22.0)</b>	<b>(0.5)</b>	<b>(299.9)</b>
<b>2005</b>				
Defined benefit obligation	(687.6)	(152.1)	(4.2)	(843.9)
Fair value of plan assets	444.8	121.3	3.6	569.7
Retirement benefit liabilities	(242.8)	(30.8)	(0.6)	(274.2)

Other includes the Atkins McCarthy defined benefit pension scheme and an unfunded pension obligation in relation to a former director for £0.5m (2005: £0.3m).

The major categories of plan assets as a percentage of total plan assets are as follows:

	Expected asset return %	Atkins Pension Plan %	Atkins Pension Plan £m	Railways Pension Scheme %	Railways Pension Scheme £m
<b>2006</b>					
Equities	<b>7.50</b>	<b>67.3</b>	<b>381.0</b>	<b>83.1</b>	<b>126.2</b>
Bonds	<b>4.60</b>	<b>31.4</b>	<b>178.0</b>	<b>8.8</b>	<b>13.4</b>
Property	<b>5.95</b>	–	–	<b>8.9</b>	<b>13.5</b>
Other/cash	<b>4.50</b>	<b>1.3</b>	<b>7.2</b>	<b>(0.8)</b>	<b>(1.3)</b>
		<b>100.0</b>	<b>566.2</b>	<b>100.0</b>	<b>151.8</b>
<b>2005</b>					
Equities	7.75	64.8	288.4	81.9	99.4
Bonds	5.00	30.9	137.3	9.9	12.0
Property	6.40	–	–	8.3	10.1
Other/cash	4.75	4.3	19.1	(0.1)	(0.2)
		100.0	444.8	100.0	121.3

The plan assets do not include any of the Group's own financial instruments or property occupied by the Group.

# Notes to the financial statements

continued

## 26. Retirement benefit liabilities (continued)

Movements in the present value of the defined benefit obligation are as follows:

2006	Atkins Pension Plan £m	Railways Pension Scheme £m	Other £m	Total £m
Defined benefit obligations at beginning of year	687.6	152.1	4.2	843.9
Service cost	14.4	3.7	0.5	18.6
Interest cost	38.1	4.7	0.1	42.9
Curtailment gain	(0.5)	–	–	(0.5)
Change of assumptions	108.7	17.3	0.1	126.1
Employee contributions	7.3	0.8	0.1	8.2
Benefit payments	(12.0)	(4.8)	(0.7)	(17.5)
Foreign exchange	–	–	0.2	0.2
Defined benefit obligation at end of year	843.6	173.8	4.5	1,021.9

2005	Atkins Pension Plan £m	Railways Pension Scheme £m	Other £m	Total £m
Defined benefit obligations at beginning of year	614.7	134.6	3.7	753.0
Service cost	16.4	3.1	0.3	19.8
Interest cost	33.3	4.3	0.2	37.8
Change of assumptions	28.2	10.6	–	38.8
Employee contributions	6.0	0.8	0.1	6.9
Benefit payments	(11.0)	(1.3)	–	(12.3)
Foreign exchange	–	–	(0.1)	(0.1)
Defined benefit obligation at end of year	687.6	152.1	4.2	843.9

Movements in the fair value of plan assets are as follows:

2006	Atkins Pension Plan £m	Railways Pension Scheme £m	Other £m	Total £m
Fair value of plan assets at beginning of year	444.8	121.3	3.6	569.7
Expected return on plan assets	30.5	5.4	0.3	36.2
Company contributions	35.1	1.3	0.7	37.1
Employee contributions	7.3	0.8	0.1	8.2
Benefits paid	(12.0)	(4.8)	(0.7)	(17.5)
Actuarial gain	60.5	27.8	0.1	88.4
Foreign exchange	–	–	(0.1)	(0.1)
Fair value of plan assets at end of year	566.2	151.8	4.0	722.0

2005	Atkins Pension Plan £m	Railways Pension Scheme £m	Other £m	Total £m
Fair value of plan assets at beginning of year	390.7	106.9	2.7	500.3
Expected return on plan assets	27.3	4.9	0.2	32.4
Company contributions	24.4	1.3	0.5	26.2
Employee contributions	6.0	0.8	0.1	6.9
Benefits paid	(11.0)	(1.3)	–	(12.3)
Actuarial gain	7.4	8.7	–	16.1
Foreign exchange	–	–	0.1	0.1
Fair value of plan assets at end of year	444.8	121.3	3.6	569.7

## 26. Retirement benefit liabilities (continued)

Movements in the retirement benefit liabilities are as follows:

	Atkins Pension Plan £m	Railways Pension Scheme £m	Other £m	Total £m
<b>2006</b>				
Retirement benefit liabilities at beginning of year	(242.8)	(30.8)	(0.6)	(274.2)
Service cost	(14.4)	(3.7)	(0.5)	(18.6)
Net finance (cost)/income	(7.6)	0.7	0.2	(6.7)
Curtailment gain	0.5	–	–	0.5
Contributions	35.1	1.3	0.7	37.1
Actuarial (loss)/gain	(48.2)	10.5	–	(37.7)
Foreign exchange	–	–	(0.3)	(0.3)
Retirement benefit liabilities at end of year	(277.4)	(22.0)	(0.5)	(299.9)
<b>2005</b>				
Retirement benefit liabilities at beginning of year	(224.0)	(27.7)	(1.0)	(252.7)
Service cost	(16.4)	(3.1)	(0.3)	(19.8)
Net finance (cost)/income	(6.0)	0.6	–	(5.4)
Contributions	24.4	1.3	0.5	26.2
Actuarial loss	(20.8)	(1.9)	–	(22.7)
Foreign exchange	–	–	0.2	0.2
Retirement benefit liabilities at end of year	(242.8)	(30.8)	(0.6)	(274.2)

Cumulative net actuarial losses recognised in equity are as follows:

	Atkins Pension Plan £m	Railways Pension Scheme £m	Other £m	Total £m
<b>2006</b>				
At beginning of year	(20.8)	(1.9)	–	(22.7)
Net actuarial loss recognised in the year	(48.2)	10.5	–	(37.7)
At end of year	(69.0)	8.6	–	(60.4)
<b>2005</b>				
At beginning of year	–	–	–	–
Net actuarial loss recognised in the year	(20.8)	(1.9)	–	(22.7)
At end of year	(20.8)	(1.9)	–	(22.7)

The return on plan assets is as follows:

	Atkins Pension Plan £m	Railways Pension Scheme £m	Other £m	Total £m
<b>2006</b>				
Expected return on plan assets	30.5	5.4	0.3	36.2
Actuarial gain on plan assets	60.5	27.8	0.1	88.4
Experience gain on plan assets	91.0	33.2	0.4	124.6
<b>2005</b>				
Expected return on plan assets	27.3	4.9	0.2	32.4
Actuarial gain on plan assets	7.4	8.7	–	16.1
Experience gain on plan assets	34.7	13.6	0.2	48.5

# Notes to the financial statements

continued

## 26. Retirement benefit liabilities (continued)

History of experience gains and losses:

	2006 Total	2005 Total
Experience adjustments on scheme assets	<b>£84.4m</b>	£16.1m
Percentage of scheme assets	<b>12%</b>	3%
Experience adjustments on scheme liabilities	<b>£(126.1)m</b>	£(38.8)m
Percentage of defined benefit obligation	<b>12%</b>	5%
Defined benefit obligation	<b>£(1,021.9)m</b>	£(843.9)m
Fair value of plan assets	<b>£722.0m</b>	£569.7m
Retirement benefit liability	<b>£(299.9)m</b>	£(274.2)m

The Group expects employer contributions paid during the financial year to 31 March 2007 to be c. £38m and employee contributions paid to be c. £9m. Expected benefit payments made directly by the Group to pensioners in the financial year to 31 March 2007 are £0.1m.

The approximate effect on the liabilities from changes in the main assumptions used to value the liabilities are as follows:

	Change in assumption	Effect on plan liabilities	
		Atkins Pension Plan	Railways Pension Scheme
Discount rate	increase/decrease 0.5%	decrease/increase 10.0%	decrease/increase 9.0%
Inflation	increase/decrease 0.5%	increase/decrease 6.5%	increase/decrease 9.0%
Real rate of increase in salaries	increase/decrease 0.5%	increase/decrease 2.0%	increase/decrease 3.0%
Longevity	increase 1 year	increase 4.0%	increase 3.0%

The effect of the change in inflation on liabilities assumes a corresponding increase in salary increases and inflation-related pension increases.

## 27. Other non-current liabilities

	2006 £m	Group 2005 £m
Deferred PPP/PFI bid costs recovered and development fees:		
Maturing between one and two years	<b>1.8</b>	0.8
Maturing between two and five years	<b>3.6</b>	2.6
Maturing after more than five years	<b>18.5</b>	23.1
	<b>23.9</b>	26.5

## 28. Ordinary shares

	2006 Number	Group and Company		2005 £m
		2006 £m	2005 Number	
<b>Authorised</b>				
Authorised ordinary shares of 0.5p each at 1 April and 31 March	<b>150,000,000</b>	<b>0.8</b>	150,000,000	0.8
<b>Issued and fully paid ordinary shares of 0.5p each</b>				
At 1 April	<b>104,450,418</b>	<b>0.5</b>	104,443,551	0.5
Issued in respect of:				
International sharesave	<b>1,381</b>	–	6,867	–
<b>At 31 March</b>	<b>104,451,799</b>	<b>0.5</b>	104,450,418	0.5

Consideration for shares allotted in the year was £0.0m (2005: £0.1m).

## **29. Share based payments**

### **Long Term Incentive Plans**

#### **WS Atkins 2003 Senior Executive and Key Employee Long Term Incentive Plan (LTIP) September 2003 onwards**

A share plan for senior executives and key employees to make awards to employees which are settled in equity or, in limited circumstances, in cash. The performance condition is total shareholder return (TSR) with an earnings per share (EPS) growth underpin measured over three financial years starting with the financial year beginning immediately after the award is granted. Full vesting of any award will take place for a top 20% ranking against a group of up to 16 comparator companies, 30% vesting for a median ranking and no award if TSR falls below the median. The EPS growth underpin is the UK Retail Price Index (RPI) plus 2% per annum. As a general rule awards made to participants who leave employment prior to vesting will lapse. In the event that a participant leaves as a result of a qualifying reason they receive a pro-rated entitlement.

#### **WS Atkins 2003 Senior Executive and Key Employee Long Term Incentive Plan (LTIP) pre-September 2003**

A share plan for senior executives and key employees used to make awards to employees which are settled in equity. Awards have an EPS performance condition. EPS growth is required to be more than 12% per annum above the UK RPI in the relevant three-year performance period to enable all of the ordinary shares to be acquired, but if the EPS growth is less than 5% per annum above the UK RPI then none of the ordinary shares can be acquired. A sliding scale in relation to the number of ordinary shares that can be acquired operates for growth in EPS between 5% and 12% above the UK RPI. Participants are entitled to receive the benefit of dividends declared, without interest, on the shares subject to the award between vesting and exercise. As a general rule awards made to participants who leave employment prior to vesting will lapse. In the event that a participant leaves as a result of a qualifying reason they receive a pro-rated entitlement.

#### **WS Atkins Pre-Tax Equity Participation Plan (Pre-Tax EPP)**

A share plan for senior executives and key employees which was designed to encourage investment in the Group by taking all or part of their bonus in the form of a right to acquire ordinary shares (the Bonus Award) which, if retained for a three-year period, gave them a right to obtain a matching number of ordinary shares (the Matching Award). The right to the matching ordinary shares is subject to a performance condition identical to those in the WS Atkins 2003 Senior Executive and Key Employee Long Term Incentive Plan prior to amendment on 16 September 2003. Participants are entitled to receive the benefit of dividends declared following award, without interest, on the shares subject to the Bonus Award after exercise and the benefit of dividends declared, without interest, on the shares subject to the Matching Award between vesting and exercise. As a general rule Matching Awards made to participants who leave employment prior to vesting will lapse. In the event that a participant leaves as a result of a qualifying reason they receive a pro-rated entitlement.

#### **WS Atkins Post-Tax Equity Participation Plan (Post-Tax EPP)**

A share plan for senior executives and key employees which was designed to encourage investment in the Group by taking all or part of their bonus in the form of ordinary shares (the Deposited Shares) which, if retained for a three-year period, gave them a right to obtain a matching number of ordinary shares (the Matching Award). The right to the matching ordinary shares is subject to a performance condition identical to those in the WS Atkins 2003 Senior Executive and Key Employee Long Term Incentive Plan prior to amendment on 16 September 2003. Participants are entitled to receive the benefit of dividends declared, without interest, on the shares subject to the Matching Award between vesting and exercise. All awards have now vested.

#### **WS Atkins Employees' Stock Option Plan (ESOP)**

A share plan used to make awards to key employees in the US, which are settled in equity or in cash, that permits options to be granted at an exercise price no lower than the market price of a share at the time of grant. Options vest after three years and must be exercised within ten years of the date of grant. All awards have now vested.

#### **WS Atkins Restricted Stock Unit Plan for Key Employees (RSU)**

A share plan used to make awards to key employees following the acquisition of Hanscomb. There is no performance condition but awards are restricted for three years from the date of award. As a general rule awards made to participants who leave employment prior to vesting will lapse. In the event that a participant leaves as a result of a qualifying reason they will receive their award in full.

### **Deferred Bonus Plan**

#### **WS Atkins Deferred Bonus Plan (DBP)**

A share plan for senior executives and key employees which is settled in equity or, in limited circumstances, in cash. There is no performance condition but awards are restricted for at least three years from the date of award. As a general rule awards made to participants who leave employment prior to vesting will lapse. In the event that a participant leaves as a result of a qualifying reason they will receive their award in full. In the case of awards to executive directors and senior executives, the value of the shares over which an award may be granted under the plan shall be taken to form part of the annual bonus payable to that participant. Awards may also be granted under the plan to employees below the level of senior executives which do not form part of their annual bonus (for instance, on recruitment of the employee).

# Notes to the financial statements

continued

## 29. Share based payments (continued)

### Sharesave Schemes

#### WS Atkins Sharesave Scheme (Sharesave)

A savings-related share option plan, under which employees save on a monthly basis, over a three-year period, towards the purchase of shares at a fixed price determined when the option is granted. The option price was set at a 20% discount to the market price at the time of grant. The option must be exercised within six months of maturity of the savings contract; otherwise it lapses. Participants leaving for a qualifying reason have six months in which to use their savings to exercise their options on a pro-rated basis.

The Group's share-based payments charge for the year of £3.0m (2005: £2.2m) has been included in administrative expenses in the income statement. There is no charge in the Company (2005: £nil).

As at 31 March 2006 the following awards were outstanding:

	LTIPs		DBP		Sharesave	
	Number	Weighted average exercise/transfer price	Number	Weighted average exercise/transfer price	Number	Weighted average exercise/transfer price
Awards outstanding at 1 April 2005	3,086,871	0.98p	792,299	–	534,548	267.10p
Granted	469,100	–	323,028	–	–	–
Exercised/transferred	(350,781)	3.69p	(259,629)	–	(476,875)	264.30p
Lapsed	(128,728)	–	(53,673)	–	(40,339)	305.20p
<b>Awards outstanding at 31 March 2006</b>	<b>3,076,462</b>	<b>0.56p</b>	<b>802,025</b>	<b>–</b>	<b>17,334</b>	<b>259.00p</b>

The weighted average share price at the date of exercise was 687.50 pence (2005: 675.57 pence).

A summary of awards outstanding as at 31 March 2006 is as follows:

Scheme	Award date	Exercise price	Scheme maturity	Maximum term	Weighted average remaining contractual life	Awards outstanding at 31 March 2006	Awards exercisable at 31 March 2006
<b>LTIPs</b>							
LTIP (September 2003 onwards)	17/09/2003 to 24/06/2005	0.0p	3 to 4 years	3 to 10 years	6.99 years	2,163,738	–
LTIP (pre -September 2003)	30/11/2001 to 30/06/2003	0.0p	3 years	7 to 10 years	5.67 years	224,113	2,297
Pre-Tax EPP	18/11/2001 to 30/06/2003	0.0p	3 years	7 to 10 years	6.96 years	495,219	260,219
Post-Tax EPP	18/07/2001	0.0p	3 years	7 years	2.30 years	139	139
ESOP	01/06/2000 to 29/07/2002	324.0p to 832.5p	3 years	10 years	5.30 years	2,900	2,900
RSU	22/07/2003 to 01/12/2005	0.0p	3 years	3 years	0.59 years	190,353	–
<b>Deferred Bonus Plan</b>							
DBP	04/12/2000 to 01/12/2005	0.0p	3 to 4 years	3 to 10 years	8.14 years	802,025	54,890
<b>Sharesave Schemes</b>							
Sharesave	22/08/2002	259.2p	3 years 3 months	3 years 9 months	0.08 years	17,334	15,651

## 29. Share based payments (continued)

On 24 June 2005 the Group issued awards over 454,100 shares to employees under the WS Atkins 2003 Senior Executive and Key Employee Long Term Incentive Plan (LTIP) and awards over 289,014 shares to employees under the WS Atkins Deferred Bonus Plan (DBP). On 1 December 2005 the Group issued awards over 34,014 shares to employees under the DBP and awards over 15,000 shares to employees under the WS Atkins Restricted Stock Unit Plan for Key Employees (RSU). For the purposes of arriving at the fair value of the awards a Monte Carlo option pricing model has been used. The assumptions used in the model are as follows:

	LTIP	DBP	RSU
Risk-free interest rate	5%	5%	5%
Dividend yield	2%	2%	2%
Volatility	26%	26%	26%
Share price at grant date			
– 24/06/2005	670.0p	670.0p	670.0p
– 01/12/2005	742.5p	742.5p	742.5p
Option life	3 to 10 years	10 years	3 years
Expected exercise behaviour			
– awards	70% year 4 15% year 5 10% year 6	70% year 4 15% year 5 10% year 6	70% year 4 15% year 5 10% year 6
– allocations	5% years 7 to 10 100% year 4	5% years 7 to 10 100% year 4	5% years 7 to 10 100% year 4

Volatility for 2006 was determined based on a two-year share price history (2005: one-year) in order to eliminate exceptional share price volatility. The fair value of share plans involving performance conditions takes into account market information. Expected lives of options have been determined based on historic exercise prices.

In accordance with the rules of the plan the Monte Carlo model simulates TSR for WS Atkins plc and the comparator group over the three-year performance period of the plan. The model takes into account historic dividends and share price volatilities for WS Atkins plc and the comparator group to produce a predicted distribution of relative share performance.

The weighted average fair value of awards granted during the year was 477.81 pence (2005: 394.98 pence).

# Notes to the financial statements

continued

## 30. Statement of changes in equity

	Share capital £m	Share premium account £m	Merger reserve £m	Retained loss/earnings £m	Equity shareholders' (deficit)/funds £m
<b>Group</b>					
Balance at 1 April 2004	0.5	62.3	8.9	(140.5)	(68.8)
Profit for the year	–	–	–	38.9	38.9
Dividends	–	–	–	(10.7)	(10.7)
Actuarial loss on retirement benefit liabilities	–	–	–	(15.9)	(15.9)
Share based movements	–	–	–	1.2	1.2
Employee Benefit Trusts	–	–	–	2.0	2.0
Net differences on exchange	–	–	–	(0.2)	(0.2)
Issue of new shares	–	0.1	–	–	0.1
Balance at 31 March 2005	0.5	62.4	8.9	(125.2)	(53.4)
Adoption of IAS 39 and IFRIC D12 to D14 (note 41)	–	–	–	<b>(6.2)</b>	<b>(6.2)</b>
Balance at 1 April 2005 restated	<b>0.5</b>	<b>62.4</b>	<b>8.9</b>	<b>(131.4)</b>	<b>(59.6)</b>
Profit for the year	–	–	–	<b>56.9</b>	<b>56.9</b>
Dividends	–	–	–	<b>(12.4)</b>	<b>(12.4)</b>
Actuarial loss on retirement benefit liabilities	–	–	–	<b>(26.4)</b>	<b>(26.4)</b>
Share based movements	–	–	–	<b>1.2</b>	<b>1.2</b>
Employee Benefit Trusts	–	–	–	<b>3.2</b>	<b>3.2</b>
Share of Joint Venture financial derivatives	–	–	–	<b>(0.5)</b>	<b>(0.5)</b>
Net differences on exchange	–	–	–	<b>1.5</b>	<b>1.5</b>
Balance at 31 March 2006	<b>0.5</b>	<b>62.4</b>	<b>8.9</b>	<b>(107.9)</b>	<b>(36.1)</b>
<b>Company</b>					
Balance at 1 April 2004	0.5	62.3	8.9	28.0	99.7
Profit for the year	–	–	–	25.4	25.4
Dividends	–	–	–	(10.7)	(10.7)
Issue of new shares	–	0.1	–	–	0.1
Balance at 31 March 2005	<b>0.5</b>	<b>62.4</b>	<b>8.9</b>	<b>42.7</b>	<b>114.5</b>
Profit for the year	–	–	–	<b>7.3</b>	<b>7.3</b>
Dividends	–	–	–	<b>(12.4)</b>	<b>(12.4)</b>
Balance at 31 March 2006	<b>0.5</b>	<b>62.4</b>	<b>8.9</b>	<b>37.6</b>	<b>109.4</b>

The amounts above are shown net of taxation.

### Share capital

The balance of the share capital account represents the aggregate nominal value of all ordinary shares in issue.

### Share premium account

The balance on the share premium account represents the amounts received in excess of the nominal value of the ordinary shares in issue.

### Merger reserve

The balance on the merger reserve represents the fair value of the consideration given in excess of the nominal value of the ordinary shares issued in an acquisition made by shares where the Group took relief under Section 131 of the Companies Act 1985 from the requirement to establish a share premium account.

### Retained loss/earnings

The balance held in retained loss/earnings is the accumulated profits and losses of the Group. WS Atkins plc shares held by the EBTs are deducted from retained loss/earnings.

Goodwill that arose prior to 1 April 1997, amounting to £15.9m, of which positive and negative goodwill totalled £26.3m and £10.4m respectively, has been written off to retained loss/earnings.

### 31. Cash generated from operations

	Group		Company	
	2006 £m	2005 £m	2006 £m	2005 £m
Profit for the year	56.9	38.9	7.3	25.4
Adjustments for:				
Taxation	17.9	14.1	–	0.7
Finance income	(7.9)	(6.8)	–	(23.5)
Finance cost	11.2	10.7	–	–
Share of post-tax profit from Joint Ventures	(8.8)	(10.2)	–	–
Profit on disposal of Joint Ventures	(6.4)	(3.7)	(6.1)	(3.1)
(Profit)/loss on disposal of subsidiaries	–	–	(1.8)	1.6
Depreciation charges	14.7	19.1	–	–
Amortisation charges	9.6	8.7	–	–
Release of deferred income	(0.8)	(0.8)	–	–
Impairment of investments in subsidiaries	–	–	0.4	0.3
Impairment of goodwill	–	7.2	–	–
Share options charge	3.0	2.2	–	–
Result on disposal of property, plant and equipment	0.7	(0.4)	–	–
Movement in provisions	(0.1)	2.8	–	–
Movement in inventories	–	0.3	–	–
Movement in trade and other receivables	(2.3)	(15.8)	26.5	9.5
Movement in payables	42.4	27.8	(13.9)	(0.2)
Movement in pensions	(18.4)	(5.9)	–	–
Exchange rate effect on current assets	–	(0.1)	–	–
<b>Cash generated from continuing operations</b>	<b>111.7</b>	<b>88.1</b>	<b>12.4</b>	<b>10.7</b>

### 32. Analysis of net funds

	At 31 March 2005 £m	Cash flow £m	Other non- cash changes £m	Exchange movement £m	At 31 March 2006 £m
Cash and cash equivalents	114.6	61.9	–	0.9	177.4
Financial assets	31.2	9.6	–	–	40.8
Debt due within one year	–	–	(2.5)	(0.2)	(2.7)
Debt due after one year	(10.5)	(11.4)	2.5	(1.2)	(20.6)
Finance leases	(13.6)	3.2	(7.9)	–	(18.3)
<b>Net funds</b>	<b>121.7</b>	<b>63.3</b>	<b>(7.9)</b>	<b>(0.5)</b>	<b>176.6</b>

### 33. Contingent liabilities

The Group has given indemnities in respect of overseas office overdrafts, performance bonds, advance payment bonds, Letters of Credit and import duty guarantees issued on its behalf. The amount outstanding at 31 March 2006 was £66.7m (2005: £104.2m) including £37.3m in respect of Metronet (2005: £54.0m). The indemnities, which arose in the ordinary course of business, are not expected to result in any material financial loss.

# Notes to the financial statements

continued

## 34. Operating lease arrangements

Group	2006		2005	
	Property £m	Vehicles, plant and equipment £m	Property £m	Vehicles, plant and equipment £m
Commitments under non-cancellable operating leases expiring:				
Within one year	21.3	1.3	22.6	2.0
Later than one year but less than five years	76.7	11.2	62.4	9.2
After five years	65.5	0.1	80.2	0.2
	<b>163.5</b>	<b>12.6</b>	165.2	11.4

The Company had no operating lease commitments as at 31 March 2006 (2005: nil).

Group	2006		2005	
	Vehicles, plant and equipment £m		Vehicles, plant and equipment £m	
Amounts receivable under non-cancellable operating leases expiring:				
Within one year		0.6		0.6
Later than one year but less than five years		1.1		1.3
After five years		0.1		0.3
		<b>1.8</b>		2.2

The Company had no operating lease receivables as at 31 March 2006 (2005: nil).

## 35. Capital and other financial commitments

Group	2006		2005	
	£m		£m	
Capital expenditure contracted for but not provided – property, plant and equipment		1.6		1.9
Group share of capital commitments of Joint Ventures		984.9		1,025.4

The Group share of capital commitments of Joint Ventures includes £950.9m (2005: £1,025.3m) for Metronet. These capital commitments represent long term contractual commitment under the 30-year PPP contract signed with London Underground Limited on 4 April 2003. The 30-year contract is broken down into four 7.5-year periods.

In addition to the above, the Group is committed to make payments for equity and debt into Special Purpose Companies under Public Private Partnership (PPP) and Private Finance Initiative (PFI) contracts of £44.9m (2005: £55.9m).

### 36. Related party transactions

Details of the directors' shareholdings, share options and remuneration are given in the Remuneration Report, which forms part of these financial statements.

Transactions with the retirement benefit schemes are shown in note 26.

Details of the Company's principal subsidiaries are shown in note 39.

#### a) Group sales and purchases of goods and services to/from Joint Ventures

	2006 £m	Group 2005 £m
Sales of goods and services to Joint Ventures		
– Metronet	6.8	4.7
– Other	96.5	81.4
	103.3	86.1
Purchases of goods and services from Joint Ventures		
– Metronet	0.2	0.4

#### b) Group year-end balances arising from sales/purchases of goods and services to/from Joint Ventures

	2006 £m	Group 2005 £m
Receivables from Joint Ventures		
– Metronet	1.7	1.4
– Other	15.6	7.6
	17.3	9.0
Payables to Joint Ventures		
– Metronet	1.7	0.4

#### c) Company sales/purchases of goods and services to/from subsidiaries

The Company did not sell any goods or services to subsidiaries during the year (2005: £nil). The Company did not purchase any goods or services from its subsidiaries during the year (2005: £nil).

#### d) Company year-end balances with subsidiaries

	2006 £m	Company 2005 £m
Receivables from subsidiaries	21.9	41.4
Payables to subsidiaries	–	13.9

Provision of goods and services to and purchases of goods and services from related parties were made at the rates charged to external customers. The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No provision has been made for doubtful debts in respect of amounts owed by related parties and £nil charged to income and expense (2005: £nil).

#### e) Key management compensation

Key management comprises the executive and non-executive directors, and certain senior managers who are members of the Group Executive.

	2006 £m	Group 2005 £m
Short term benefits	3.0	3.1
Post-employment benefits	0.3	0.3
Share based payments	0.9	0.9
	4.2	4.3

# Notes to the financial statements

continued

## 37. Events after the balance sheet date

On 21 June 2006 the Group acquired 100% of the share capital of Mantix Group Limited, a specialist programme management consultancy, for a net cash consideration of £8.8m.

It is impractical to provide disclosure of the fair value of the assets and liabilities acquired, intangible assets and goodwill recognised on acquisition as the fair values are not yet finalised due to the timing of the acquisition.

## 38. Business combinations

On 31 March 2006 the Group acquired 100% of the share capital of MSL Engineering Limited, a UK registered entity, and 100% of the share capital of MSL Services Corp, a US registered entity for consideration of £5.8m, consisting of £4.6m in cash and £1.2m of deferred consideration.

On 31 December 2005 the Group acquired 100% of the share capital of NovaPlan Holding AB and its subsidiary NovaPlan AB, both registered in Sweden, for consideration of £0.3m in cash.

	Total provisional carrying value £m	Group Provisional fair value adjustments £m	Total provisional fair value £m
Other intangible assets	–	0.5	0.5
Accounts receivable	2.0	–	2.0
Cash overdraft	(0.2)	–	(0.2)
Short term trade and other payables	(1.4)	–	(1.4)
Tax liabilities	(0.4)	–	(0.4)
	–	0.5	0.5
Goodwill on acquisition			5.6
Consideration			6.1
Consideration:			
Cash paid			4.9
Deferred consideration			1.2
			6.1

Included in the goodwill recognised above are items that cannot be individually separated and reliably measured due to their nature. These include new customers and synergy benefits.

The initial accounting for the acquisition of MSL Engineering Limited and MSL Services Corp has been determined provisionally. Any adjustments to the accounting required following finalisation of the fair values to be assigned to the acquired assets and liabilities will be recorded from the acquisition date within 12 months of the acquisition date.

Included in the Group's results for the year is £nil profit before taxation and £nil profit after taxation in relation to the acquisitions above. If the acquisitions had been made at the beginning of the year then the Group's results would have included £5.4m revenue, £0.5m profit before taxation and £0.3m profit after taxation for the year in relation to the acquisitions.

### 39. Subsidiary undertakings

The following companies were the principal subsidiary undertakings as at 31 March:

	Country of registration/ incorporation	Class and percentage of shares held	Nature of business
Atkins China Limited	China	100% ordinary	Consulting engineers
Atkins Facilities Management Limited	England and Wales	100% ordinary	Property services
Atkins Investments Limited <sup>(1)</sup>	England and Wales	100% ordinary	Investment company
Atkins Limited <sup>(1)</sup>	England and Wales	100% ordinary	Consulting engineers
Atkins Metro Limited	England and Wales	100% ordinary	Holding company
Faithful+Gould Inc <sup>(1)</sup>	USA	100% ordinary	Project and programme management consultants
Faithful+Gould Limited <sup>(1)</sup>	England and Wales	100% ordinary	Quantity surveyors and cost estimators
Lambert Smith Hampton Group Limited <sup>(1)</sup>	England and Wales	100% ordinary	Property consultants
WS Atkins & Partners Overseas <sup>(1)</sup>	Gibraltar	100% ordinary	Consulting engineers
WS Atkins Insurance (Guernsey) Limited	Guernsey	100% ordinary	Insurance
WS Atkins International Limited	England and Wales	100% ordinary	Consulting engineers

(1) Owned by a subsidiary undertaking other than WS Atkins plc.

The percentage of the issued share capital held by the Group is equivalent to the percentage of voting rights held. The Group holds the whole of all classes of issued share capital.

All the above operate in the country of registration, except for WS Atkins & Partners Overseas which operates in the Middle East.

A full list of subsidiary companies will be filed at Companies House.

### 40. Joint Ventures

The following represents the principal Joint Ventures in which the Group participated during the year:

Name	Nature of business	Proportion of share held <sup>(2)</sup>	Date of last audited financial statements	External auditors
Metronet BCV Holdings Limited <sup>(1)</sup>	Holding company for the infraco which has contracted with LUL for the repair, refurbishment and modernisation of part of the London Underground.	20.0%	31 March 2005	Deloitte & Touche LLP
Metronet SSL Holdings Limited <sup>(1)</sup>	Holding company for the infraco which has contracted with LUL for the repair, refurbishment and modernisation of part of the London Underground.	20.0%	31 March 2005	Deloitte & Touche LLP
Modern Housing Solutions (Prime) Limited <sup>(1)</sup>	Responsible for the maintenance and upgrade of MoD family accommodation in England and Wales.	25.0%	Not yet published	Deloitte & Touche LLP
RMPA Holdings Limited <sup>(1)</sup>	Holding company for companies involved in the design, financing and construction of the MoD garrison facility at Colchester.	14.0%	31 March 2005	KPMG LLP
Trans4m Limited <sup>(1)</sup>	Managing contractor for the provision of refurbishment and modernisation of station assets and the maintenance and remediation of civil assets as part of the LUL PPP.	25.0%	31 March 2005	Deloitte & Touche LLP

All Joint Ventures operate in the United Kingdom unless otherwise stated.

(1) Owned by a subsidiary undertaking other than WS Atkins plc.

(2) Proportion of shares held are in respect of ordinary share capital. There are no special rights or constraints on the shares. There are no restrictions on distributions from any of these Joint Ventures.

# Notes to the financial statements

continued

## 41. Reconciliation of net assets and profit under UK GAAP to IFRS

The Group reported under UK GAAP in its previously published financial statements for the year ended 31 March 2005. As required by IFRS 1, *First-time adoption of IFRS*, the analysis below shows a reconciliation of equity and profit as reported under UK GAAP as at 31 March 2005 to the revised equity and profit under IFRS and a reconciliation of equity under UK GAAP to IFRS as at the transition date of 1 April 2004.

As permitted by IFRS 1, *First time adoption of IFRS*, the Group has elected to adopt IAS 32, *Financial instruments: Disclosure and presentation*, IAS 39, *Financial Instruments: Recognition and measurement* and IFRIC draft interpretations in respect of PPP/PFI concessions prospectively from 1 April 2005. Hence, the comparative figures have not been restated.

The impact of adoption of IAS 32, IAS 39 and the IFRIC draft interpretations in respect of PPP/PFI concessions on the Group's profit after tax and net assets if they had been implemented in the years shown have been included in the table below as pro forma adjustments.

Reconciliation of profit	Notes	Group 31 March 2005 £m	Company 31 March 2005 £m
<b>Profit on ordinary activities after taxation under UK GAAP</b>		38.6	25.4
<b>Effect of transition to IFRS:</b>			
Lease incentives	a	(0.9)	–
Retirement benefit liabilities	b	(5.2)	–
Intangible assets	c	1.6	–
Share based payments	d	0.6	–
Goodwill	e	4.2	–
Profit for the year attributable to equity shareholders under IFRS		38.9	25.4
<b>Pro forma adjustments:</b>			
IAS 32, IAS 39 and IFRIC D12 to D14	g	2.0	–
<b>Pro forma profit for the year attributable to equity shareholders under IFRS</b>		40.9	25.4

Reconciliation of equity	Notes	Group 31 March 2005 As at £m	Group 1 April 2004 As at £m	Company 31 March 2005 As at £m	Company 1 April 2004 As at £m
<b>Total equity presented under UK GAAP</b>		118.2	88.7	106.6	92.9
<b>Effect of transition to IFRS:</b>					
Lease incentives	a	(3.8)	(2.9)	–	–
Retirement benefit liabilities	b	(181.0)	(159.9)	–	–
Intangible assets	c	(4.6)	(6.2)	–	–
Share based payments	d	5.7	4.7	–	–
Goodwill	e	4.2	–	–	–
Dividends	f	7.9	6.8	7.9	6.8
Total equity presented under IFRS		(53.4)	(68.8)	114.5	99.7
<b>Pro forma adjustments:</b>					
IAS 32, IAS 39 and IFRIC D12 to D14	g	(6.2)	(1.8)	–	–
<b>Pro forma total equity presented under IFRS</b>		(59.6)	(70.6)	114.5	99.7

#### 41. Reconciliation of net assets and profit under UK GAAP to IFRS (continued)

Group income statement reconciliation from UK GAAP to IFRS and pro forma IFRS:

2005	UK GAAP in IFRS format £m	Lease incentives <sup>(a)</sup> £m	Retirement benefit liabilities <sup>(b)</sup> £m	Intangible assets <sup>(c)</sup> £m	Share based payments <sup>(d)</sup> £m	Goodwill <sup>(e)</sup> £m	Dividends <sup>(f)</sup> £m	Income statement under IFRS £m	Pro forma adjustments <sup>(g)</sup> £m	Group pro forma income statement £m
<b>Continuing operations</b>										
Revenue (Group and share of Joint Ventures)	1,157.3	–	–	–	–	–	–	1,157.3	85.6	1,242.9
<b>Revenue</b>	955.0	–	–	–	–	–	–	955.0	–	955.0
Cost of sales	(579.3)	–	–	–	–	–	–	(579.3)	–	(579.3)
<b>Gross profit</b>	375.7	–	–	–	–	–	–	375.7	–	375.7
Administrative expenses	(336.7)	(1.3)	(2.0)	2.3	0.8	4.2	–	(332.7)	–	(332.7)
<b>Operating profit</b>	39.0	(1.3)	(2.0)	2.3	0.8	4.2	–	43.0	–	43.0
Profit on disposal of Joint Ventures	3.7	–	–	–	–	–	–	3.7	–	3.7
Share of post-tax profit from Joint Ventures	10.2	–	–	–	–	–	–	10.2	2.0	12.2
<b>Profit from operations</b>	52.9	(1.3)	(2.0)	2.3	0.8	4.2	–	56.9	2.0	58.9
Finance income	6.8	–	–	–	–	–	–	6.8	–	6.8
Finance cost	(5.3)	–	(5.4)	–	–	–	–	(10.7)	–	(10.7)
Net finance cost	1.5	–	(5.4)	–	–	–	–	(3.9)	–	(3.9)
<b>Profit before taxation</b>	54.4	(1.3)	(7.4)	2.3	0.8	4.2	–	53.0	2.0	55.0
Taxation	(15.8)	0.4	2.2	(0.7)	(0.2)	–	–	(14.1)	–	(14.1)
<b>Profit for the year from continuing operations</b>	38.6	(0.9)	(5.2)	1.6	0.6	4.2	–	38.9	2.0	40.9
<b>Profit for the year attributable to equity shareholders</b>	38.6	(0.9)	(5.2)	1.6	0.6	4.2	–	38.9	2.0	40.9

# Notes to the financial statements

continued

## 41. Reconciliation of net assets and profit under UK GAAP to IFRS (continued)

Group balance sheet reconciliation from UK GAAP to IFRS and pro forma IFRS as at 31 March 2005:

As at 31 March 2005	UK GAAP in IFRS format £m	Lease incentives <sup>(a)</sup> £m	Retirement benefit liabilities <sup>(a)</sup> £m	Intangible assets <sup>(a)</sup> £m	Share based payments <sup>(a)</sup> £m	Goodwill <sup>(a)</sup> £m	Dividends <sup>(a)</sup> £m	Balance sheet under IFRS £m	Pro forma adjustments <sup>(a)</sup> £m	Group Pro forma balance sheet £m
<b>Assets</b>										
<b>Non-current assets</b>										
Goodwill	25.1	–	–	–	–	4.2	–	29.3	–	29.3
Intangible assets	–	–	–	10.8	–	–	–	10.8	–	10.8
Property, plant and equipment	49.6	–	–	(15.4)	–	–	–	34.2	–	34.2
Investments in Joint Ventures	41.6	–	–	–	–	–	–	41.6	(6.2)	35.4
Financial assets	20.1	–	–	–	–	–	–	20.1	–	20.1
Deferred tax assets	13.0	1.6	77.6	2.0	3.3	–	–	97.5	–	97.5
Trade and other receivables	2.7	–	–	–	–	–	–	2.7	–	2.7
	152.1	1.6	77.6	(2.6)	3.3	4.2	–	236.2	(6.2)	230.0
<b>Current assets</b>										
Inventories	0.2	–	–	–	–	–	–	0.2	–	0.2
Trade and other receivables	268.7	–	–	(2.0)	–	–	–	266.7	–	266.7
Financial assets	11.1	–	–	–	–	–	–	11.1	–	11.1
Cash and cash equivalents	114.6	–	–	–	–	–	–	114.6	–	114.6
	394.6	–	–	(2.0)	–	–	–	392.6	–	392.6
<b>Liabilities</b>										
<b>Current liabilities</b>										
Borrowings	(2.6)	–	–	–	–	–	–	(2.6)	–	(2.6)
Trade and other payables	(343.0)	–	–	–	2.4	–	7.9	(332.7)	–	(332.7)
Current tax liabilities	(10.8)	–	–	–	–	–	–	(10.8)	–	(10.8)
Provisions for liabilities and charges	(2.8)	–	–	–	–	–	–	(2.8)	–	(2.8)
	(359.2)	–	–	–	2.4	–	7.9	(348.9)	–	(348.9)
<b>Net current assets</b>	35.4	–	–	(2.0)	2.4	–	7.9	43.7	–	43.7
<b>Non-current liabilities</b>										
Borrowings	(16.1)	(5.4)	–	–	–	–	–	(21.5)	–	(21.5)
Provisions for liabilities and charges	(11.1)	–	–	–	–	–	–	(11.1)	–	(11.1)
Retirement benefit liabilities	(15.6)	–	(258.6)	–	–	–	–	(274.2)	–	(274.2)
Other non-current liabilities	(26.5)	–	–	–	–	–	–	(26.5)	–	(26.5)
	(69.3)	(5.4)	(258.6)	–	–	–	–	(333.3)	–	(333.3)
<b>Net assets/(liabilities)</b>	118.2	(3.8)	(181.0)	(4.6)	5.7	4.2	7.9	(53.4)	(6.2)	(59.6)
<b>Capital and reserves</b>										
Ordinary shares	0.5	–	–	–	–	–	–	0.5	–	0.5
Share premium account	62.4	–	–	–	–	–	–	62.4	–	62.4
Merger reserve	8.9	–	–	–	–	–	–	8.9	–	8.9
Retained earnings/(loss)	46.4	(3.8)	(181.0)	(4.6)	5.7	4.2	7.9	(125.2)	(6.2)	(131.4)
<b>Equity shareholders' funds/(deficit)</b>	118.2	(3.8)	(181.0)	(4.6)	5.7	4.2	7.9	(53.4)	(6.2)	(59.6)

#### 41. Reconciliation of net assets and profit under UK GAAP to IFRS (continued)

Group balance sheet reconciliation from UK GAAP to IFRS and pro forma IFRS as at 1 April 2004:

As at 1 April 2004	UK GAAP in IFRS format £m	Lease incentives <sup>(a)</sup> £m	Retirement benefit liabilities <sup>(b)</sup> £m	Intangible assets <sup>(c)</sup> £m	Share based payments <sup>(d)</sup> £m	Goodwill <sup>(e)</sup> £m	Dividends <sup>(f)</sup> £m	Balance sheet under IFRS £m	Pro forma adjustments <sup>(g)</sup> £m	Group Pro forma balance sheet £m
<b>Assets</b>										
<b>Non-current assets</b>										
Goodwill	36.8	–	–	–	–	–	–	36.8	–	36.8
Intangible assets	–	–	–	14.0	–	–	–	14.0	–	14.0
Property, plant and equipment	56.9	–	–	(20.5)	–	–	–	36.4	–	36.4
Investments in Joint Ventures	25.9	–	–	–	–	–	–	25.9	(1.8)	24.1
Financial assets	20.1	–	–	–	–	–	–	20.1	–	20.1
Deferred tax assets	12.8	1.2	68.6	2.7	3.5	–	–	88.8	–	88.8
Trade and other receivables	4.6	–	–	–	–	–	–	4.6	–	4.6
	157.1	1.2	68.6	(3.8)	3.5	–	–	226.6	(1.8)	224.8
<b>Current assets</b>										
Inventories	0.5	–	–	–	–	–	–	0.5	–	0.5
Trade and other receivables	257.9	–	–	(2.4)	–	–	–	255.5	–	255.5
Financial assets	9.9	–	–	–	–	–	–	9.9	–	9.9
Cash and cash equivalents	86.2	–	–	–	–	–	–	86.2	–	86.2
	354.5	–	–	(2.4)	–	–	–	352.1	–	352.1
<b>Liabilities</b>										
<b>Current liabilities</b>										
Borrowings	(4.0)	–	–	–	–	–	–	(4.0)	–	(4.0)
Trade and other payables	(314.1)	–	–	–	1.2	–	6.8	(306.1)	–	(306.1)
Current tax liabilities	(13.9)	–	–	–	–	–	–	(13.9)	–	(13.9)
Provisions for liabilities and charges	(2.3)	–	–	–	–	–	–	(2.3)	–	(2.3)
	(334.3)	–	–	–	1.2	–	6.8	(326.3)	–	(326.3)
<b>Net current assets</b>	20.2	–	–	(2.4)	1.2	–	6.8	25.8	–	25.8
<b>Non-current liabilities</b>										
Borrowings	(28.6)	(4.1)	–	–	–	–	–	(32.7)	–	(32.7)
Provisions for liabilities and charges	(8.3)	–	–	–	–	–	–	(8.3)	–	(8.3)
Retirement benefit liabilities	(23.5)	–	(228.5)	–	–	–	–	(252.0)	–	(252.0)
Other non-current liabilities	(28.2)	–	–	–	–	–	–	(28.2)	–	(28.2)
	(88.6)	(4.1)	(228.5)	–	–	–	–	(321.2)	–	(321.2)
<b>Net assets/(liabilities)</b>	88.7	(2.9)	(159.9)	(6.2)	4.7	–	6.8	(68.8)	(1.8)	(70.6)
<b>Capital and reserves</b>										
Ordinary shares	0.5	–	–	–	–	–	–	0.5	–	0.5
Share premium account	62.3	–	–	–	–	–	–	62.3	–	62.3
Merger reserve	8.9	–	–	–	–	–	–	8.9	–	8.9
Retained earnings/(loss)	17.0	(2.9)	(159.9)	(6.2)	4.7	–	6.8	(140.5)	(1.8)	(142.3)
<b>Equity shareholders' funds/(deficit)</b>	88.7	(2.9)	(159.9)	(6.2)	4.7	–	6.8	(68.8)	(1.8)	(70.6)

# Notes to the financial statements

continued

## 41. Reconciliation of net assets and profit under UK GAAP to IFRS (continued)

Company balance sheet reconciliation from UK GAAP to IFRS and pro forma IFRS as at 31 March 2005 and 1 April 2004.

	UK GAAP in IFRS format £m	Dividends <sup>(b)</sup> £m	As at 31 March 2005 Balance sheet under IFRS £m	UK GAAP in IFRS format £m	Dividends <sup>(b)</sup> £m	Company As at 1 April 2004 Balance sheet under IFRS £m
<b>Assets</b>						
<b>Non-current assets</b>						
Investments in subsidiaries	88.4	–	88.4	94.0	–	94.0
	88.4	–	88.4	94.0	–	94.0
<b>Current assets</b>						
Trade and other receivables	41.4	–	41.4	21.6	–	21.6
	41.4	–	41.4	21.6	–	21.6
<b>Liabilities</b>						
<b>Current liabilities</b>						
Borrowings	–	–	–	(0.7)	–	(0.7)
Trade and other payables	(21.8)	7.9	(13.9)	(20.9)	6.8	(14.1)
Current tax liabilities	(1.4)	–	(1.4)	(1.1)	–	(1.1)
	(23.2)	7.9	(15.3)	(22.7)	6.8	(15.9)
<b>Net current assets</b>	18.2	7.9	26.1	(1.1)	6.8	5.7
<b>Net assets</b>	106.6	7.9	114.5	92.9	6.8	99.7
<b>Capital and reserves</b>						
Ordinary shares	0.5	–	0.5	0.5	–	0.5
Share premium account	62.4	–	62.4	62.3	–	62.3
Merger reserve	8.9	–	8.9	8.9	–	8.9
Retained earnings	34.8	7.9	42.7	21.2	6.8	28.0
<b>Equity shareholders' funds</b>	106.6	7.9	114.5	92.9	6.8	99.7

## Notes

### a. Lease incentives

Under UK GAAP, lease incentives were amortised over the period from inception of the lease until the first rent review. Under IAS 17, *Leases*, lease incentives are amortised over the whole lease term. As a result the Group's net assets as at 31 March 2005 decreased by £3.8m (1 April 2004: £2.9m) and Group profit before tax decreased for the year ended 31 March 2005 by £1.3m.

### b. Retirement benefit liabilities

Under UK GAAP the Group accounted for retirement benefit liabilities under SSAP 24, *Accounting for pension costs*. The cost of providing defined benefit pensions was charged against operating profit. Under IAS 19, *Employee benefits*, the cost of providing pension benefits and the retirement benefit obligation are determined annually by independent actuaries. The interest arising on the projected obligations and the returns on the schemes' assets is recognised in finance income/cost. Actuarial gains and losses are recognised in the statement of recognised income and expense in the period in which they occur. As a result, the Group's net assets decreased by £181.0m as at 31 March 2005 (1 April 2004: £159.9m) and Group profit before tax decreased by £7.4m for the year ended 31 March 2005.

### c. Intangible assets

Under UK GAAP, the software for the Group's corporate information systems was treated as part of the associated hardware as a tangible fixed asset. Under IAS 38, *Intangible assets*, software is treated as an intangible asset unless it is an integral part of the related hardware. Hence the remaining value of the Group's corporate information systems was re-classified as an intangible asset on transition to IFRS. On transition, the Group's corporate information systems were written down by £8.9m, reducing the annual amortisation charge by £2.3m due to differing treatment of internally generated development costs under IFRS. In addition, other software licences previously classified as prepayments within accounts receivable will now also be classified as intangible assets. As a result the Group profit before tax for the year ended 31 March 2005 increased by £2.3m and the Group's net assets decreased by £4.6m as at 31 March 2005 (1 April 2004: £6.2m).

### d. Share based payments

Under UK GAAP, the cost recognised in respect of share options was based on the share price of the underlying shares at the date of grant. The cost was spread over the vesting period for all schemes except the Deferred Bonus Plan (DBP) which was charged in full in the year the performance was measured. Under IFRS 2, *Share based payments*, the cost, which is based on the fair value of the options, is spread over the vesting and performance period for all schemes granted after 7 November 2002. As a result the Group profit before tax for the year ended 31 March 2005 increased by £0.8m and the net assets increased by £5.7m (1 April 2004: £4.7m) to reflect the release of the accumulated accrual in respect of the DBP scheme.

### e. Goodwill

Under UK GAAP goodwill was amortised on a straight-line basis over its estimated useful economic life. Under IFRS 3, *Business combinations*, goodwill is no longer amortised but is carried at cost and subject to annual impairment review as at 31 March.

The Group has elected to apply the exemption available under IFRS 1 not to apply IFRS 3 retrospectively to business combinations prior to 1 April 2004.

The result of these changes is to increase Group profit before tax by £4.2m. This represents the write back of the £5.9m of goodwill amortisation for the year ended 31 March 2005 of which £1.7m related to Hanscomb and £4.2m related to other acquisitions. Under IFRS Hanscomb goodwill is written down by £7.2m to bring the carrying value at the end of the year into line with the UK GAAP carrying value at the end of the year. Under UK GAAP, the charge consisted of £5.5m exceptional impairment charge for the year ended 31 March 2005 and £1.7m annual amortisation charge (included in the £5.9m above). The Group's net assets increased by £4.2m as at 31 March 2005 (1 April 2004: £nil).

### f. Dividends

Under UK GAAP, proposed dividends were accrued in the accounting period to which they related. Under IAS 10, *Events after the balance sheet date*, dividends are recognised in the accounting period in which they are approved.

Under UK GAAP, a liability of £7.9m (1 April 2004: £6.8m) was included in the results for the year ended 31 March 2005 in respect of the final dividend for the Group and the Company. This dividend had not been declared by the shareholders at 31 March 2005 and as a result the liability has been reversed under IFRS.

### g. IAS 32, IAS 39 and IFRIC D12 to D14

Under UK GAAP, the Group treated PFI/PPP assets as tangible fixed assets. Under IFRS and the draft interpretations issued by IFRIC, D12 to D14, on accounting for service concessions, the assets of the Group's PPP/PFI concessions will be treated as financial assets from 1 April 2005.

### Reconciliation of cash flows

The restatement of the results to IFRS has no impact on the Group's cash generation. The only significant impact of IFRS on the cash flow statement is the reclassification of movements in software licences from working capital movements to movements in other intangible assets. Movements in software licences are split into amortisation, which is included in cash generated from operations, and purchases of other intangible assets, which is included within cash flows from investing activities.

# Five year summary

Consolidated income statement for years ended 31 March

	IFRS 2006 £m	IFRS 2005 £m	Restated <sup>(1)</sup> UK GAAP 2004 £m	Restated <sup>(1)</sup> UK GAAP 2003 £m	Restated <sup>(1)</sup> UK GAAP 2002 £m
<b>Revenue (Group and share of Joint Ventures)</b>	<b>1,411.0</b>	1,157.3	1,241.8	1,012.2	880.9
<b>Revenue</b>	<b>1,052.5</b>	955.0	991.8	935.3	806.3
Cost of sales	<b>(637.3)</b>	(579.3)	(619.2)	(576.1)	(546.1)
Gross profit	<b>415.2</b>	375.7	372.6	359.2	260.2
Administrative expenses	<b>(352.3)</b>	(332.7)	(338.1)	(409.2)	(246.5)
<b>Operating profit</b>	<b>62.9</b>	43.0	34.5	(50.0)	13.7
Profit on disposal of Joint Ventures	<b>6.4</b>	3.7	–	–	–
Share of post-tax profit from Joint Ventures	<b>8.8</b>	10.2	14.5	4.9	5.5
<b>Profit from operations</b>	<b>78.1</b>	56.9	49.0	(45.1)	19.2
Finance income	<b>7.9</b>	6.8	3.4	3.8	3.0
Finance cost	<b>(11.2)</b>	(10.7)	(10.0)	(5.8)	(3.6)
Net finance cost	<b>(3.3)</b>	(3.9)	(6.6)	(2.0)	(0.6)
Profit before taxation	<b>74.8</b>	53.0	42.4	(47.1)	18.6
Taxation	<b>(17.9)</b>	(14.1)	(18.5)	9.1	(7.0)
Profit for the year from continuing operations	<b>56.9</b>	38.9	23.9	(38.0)	11.6
Profit for the year from discontinued operations	–	–	13.5	–	–
<b>Profit for the year attributable to equity shareholders</b>	<b>56.9</b>	38.9	37.4	(38.0)	11.6
Basic earnings per share					
– continuing operations	<b>57.0p</b>	39.3p	24.8p	(41.1)p	12.8p
– discontinued operations	–	–	14.0p	–	–
	<b>57.0p</b>	39.3p	38.8p	(41.1)p	12.8p
Fully diluted earnings per share					
– continuing operations	<b>55.9p</b>	38.7p	24.5p	(41.1)p	12.5p
– discontinued operations	–	–	14.5p	–	–
	<b>55.9p</b>	38.7p	39.0p	(41.1)p	12.5p

(1) Comparatives have been reformatted to present results in IFRS format. No adjustments have been made to reflect the differences in accounting treatment under IFRS compared to UK GAAP. The adjustments required have been set out in note 41.

(2) Comparatives have been restated following the adoption of FRS 19, UITF 34, UITF 38 and UITF 17, as amended.

# Five year summary

Consolidated balance sheets as at 31 March

	IFRS 2006 £m	IFRS 2005 £m	IFRS 2004 £m	Restated <sup>(1)(2)</sup> UK GAAP 2003 £m	Restated <sup>(1)(2)</sup> UK GAAP 2002 £m
<b>Assets</b>					
<b>Non-current assets</b>					
Goodwill	35.6	29.3	36.8	49.5	72.7
Intangible assets	10.0	10.8	14.0	–	–
Property, plant and equipment	47.2	34.2	36.4	65.4	74.5
Investments in Joint Ventures	46.2	41.6	25.9	19.5	17.4
Financial assets	20.1	20.1	20.1	–	0.7
Deferred tax assets	103.8	97.5	85.4	0.3	–
Trade and other receivables	1.5	2.7	4.6	8.3	–
	<b>264.4</b>	236.2	223.2	143.0	165.3
<b>Current assets</b>					
Inventories	0.2	0.2	0.5	0.4	0.8
Trade and other receivables	272.9	266.7	255.5	235.6	228.8
Financial assets	20.7	11.1	9.9	7.5	9.3
Cash and cash equivalents	177.4	114.6	86.2	44.8	25.8
	<b>471.2</b>	392.6	352.1	288.3	264.7
<b>Liabilities</b>					
<b>Current liabilities</b>					
Borrowings	(6.5)	(2.6)	(4.0)	(53.1)	(33.4)
Trade and other payables	(379.5)	(332.7)	(306.0)	(247.4)	(238.5)
Current tax liabilities	(12.3)	(10.8)	(13.9)	(2.0)	(4.4)
Provisions	(2.8)	(2.8)	(2.3)	(2.1)	–
	<b>(401.1)</b>	(348.9)	(326.2)	(304.6)	(276.3)
<b>Net current assets/(liabilities)</b>	<b>70.1</b>	43.7	25.9	(16.3)	(11.6)
<b>Non-current liabilities</b>					
Borrowings	(35.1)	(21.5)	(32.7)	(44.4)	(38.2)
Provisions	(11.7)	(11.1)	(8.3)	(2.7)	–
Retirement benefit liabilities	(299.9)	(274.2)	(240.9)	(17.9)	(23.9)
Other non-current liabilities	(23.9)	(26.5)	(28.2)	(6.7)	(5.2)
	<b>(370.6)</b>	(333.3)	(310.1)	(71.7)	(67.3)
<b>Net (liabilities)/assets</b>	<b>(36.1)</b>	(53.4)	(61.0)	55.0	86.4
<b>Capital and reserves</b>					
Ordinary shares	0.5	0.5	0.5	0.5	0.5
Share premium account	62.4	62.4	62.3	55.4	42.1
Merger reserve	8.9	8.9	8.9	8.9	8.9
Retained	(107.9)	(125.2)	(132.7)	(9.8)	34.9
<b>Equity shareholders' (deficit)/funds</b>	<b>(36.1)</b>	(53.4)	(61.0)	55.0	86.4

(1) Comparatives have been reformatted to present results in IFRS format. No adjustments have been made to reflect the differences in accounting treatment under IFRS compared to UK GAAP. The adjustments required have been set out in note 41.

(2) Comparatives have been restated following the adoption of FRS 19, UITF 34, UITF 38 and UITF 17, as amended.

# Five year summary

Consolidated cash flow statement for the years ended 31 March

	IFRS 2006 £m	IFRS 2005 £m	Restated <sup>(1)(2)</sup> UK GAAP 2004 £m	Restated <sup>(1)(2)</sup> UK GAAP 2003 £m	Restated <sup>(1)(2)</sup> UK GAAP 2002 £m
<b>Continuing operations</b>					
Profit/(loss) for the year	56.9	38.9	23.9	(38.0)	11.6
Adjustments for:					
Taxation	17.9	14.1	18.5	(9.1)	7.0
Finance income	(7.9)	(6.8)	(3.4)	(3.8)	(3.0)
Finance cost	11.2	10.7	10.0	5.8	3.6
Share of post-tax profits from Joint Ventures	(8.8)	(10.2)	(14.5)	(4.9)	(5.5)
Profit on disposal of Joint Ventures	(6.4)	(3.7)	–	–	–
Depreciation charges	14.7	19.1	19.0	22.2	17.1
Amortisation charges	9.6	8.7	7.8	11.1	9.4
Release of deferred income	(0.8)	(0.8)	(5.6)	–	–
Impairment of fixed assets	–	–	–	1.8	–
Impairment of goodwill	–	7.2	–	30.7	–
Share options charge	3.0	2.2	1.3	–	2.0
Profit/(loss) on disposal of tangible fixed assets	0.7	(0.4)	(0.1)	0.3	(0.3)
Movement in provisions	(0.1)	2.8	6.0	4.6	–
Working capital movements	21.7	6.3	31.5	5.9	(20.8)
Cash generated from continuing operations	111.7	88.1	94.4	26.6	21.1
<b>Discontinued operations</b>					
Profit for the year	–	–	13.5	–	–
Movement in working capital	–	–	20.8	–	–
Cash generated from discontinued operations	–	–	34.3	–	–
Cash generated from operations	111.7	88.1	128.7	26.6	21.1
Interest received	7.6	7.0	3.5	3.3	3.0
Interest paid	(2.4)	(2.4)	(8.0)	(5.5)	(3.4)
Tax paid	(10.9)	(18.3)	(3.1)	(1.8)	(11.0)
<b>Net cash from operating activities</b>	<b>106.0</b>	74.4	121.1	22.6	9.7
<b>Cash flows from investing activities</b>	<b>(41.2)</b>	(20.9)	(4.0)	(17.5)	(53.3)
<b>Cash flows from financing activities</b>	<b>(2.9)</b>	(25.6)	(69.4)	25.2	(11.5)
<b>Effect of exchange rate changes</b>	<b>0.9</b>	0.5	(4.1)	1.1	(0.1)
<b>Net increase/(decrease) in cash in the year</b>	<b>62.8</b>	28.4	43.6	31.4	(55.2)
Cash and cash equivalents at beginning of year	114.6	86.2	42.6	11.2	66.4
<b>Cash and cash equivalents at end of year</b>	<b>177.4</b>	114.6	86.2	42.6	11.2
<b>Financial assets</b>	<b>40.8</b>	31.2	30.0	6.9	8.5
<b>Debt due within one year</b>	<b>(2.7)</b>	–	(0.7)	(48.8)	(18.8)
<b>Debt due after more than one year</b>	<b>(20.6)</b>	(10.5)	(23.2)	(39.6)	(38.2)
<b>Finance leases</b>	<b>(18.3)</b>	(13.6)	(8.7)	(6.9)	–
<b>Net funds/(debt)</b>	<b>176.6</b>	121.7	83.6	(45.8)	(37.3)

(1) Comparatives have been reformatted to present results in IFRS format. No adjustments have been made to reflect the differences in accounting treatment under IFRS compared to UK GAAP. The adjustments required have been set out in note 41.

(2) Comparatives have been restated following the adoption of FRS 19, UITF 34, UITF 38 and UITF 17, as amended.

# Investors' information

## **WS Atkins plc**

Registered in England. Company No. 1885586

## **Company Secretary and registered office**

Philip Davis  
WS Atkins plc  
Woodcote Grove  
Ashley Road  
Epsom, Surrey KT18 5BW

## **Financial calendar**

Ex-dividend date	23 August 2006
Record date	25 August 2006
Annual General Meeting	6 September 2006
Final dividend payment date	29 September 2006

## **Shareholder services**

### **Registrar**

Enquiries and notifications concerning dividends, share certificates, transfers and address changes should be sent to the Registrar, whose address is:

The Registrar  
The Registry  
34 Beckenham Road  
Beckenham  
Kent BR3 4TU

Telephone: 0870 162 3100

Other shareholder enquiries should be addressed to the Company Secretary at the registered office.

### **Investor relations website**

The Company's investor relations website can be visited at <http://ir.atkinsglobal.com>. Many commonly asked investor questions are addressed under the shareholder services section.

### **E-communications**

Shareholders can now choose to receive company communications electronically rather than receiving printed copies through the post. To register please access our new shareholder services portal at [www.myatkinsshares.com](http://www.myatkinsshares.com).

### **Dividend reinvestment plan (DRIP)**

The Company offers a dividend reinvestment plan to shareholders as a cost efficient way of increasing their shareholding in the Company. Should you wish to participate in the DRIP please contact the Registrar on 0870 162 3100 to request a form of mandate and an explanatory booklet. Your completed mandate form must be received by the Registrar no later than 30 August 2006 if you wish your final dividend for the year to be reinvested to buy additional shares.

## **Amalgamation of accounts**

Shareholders who receive duplicate sets of Company mailings owing to multiple accounts in their name should write to the Registrar to have their accounts amalgamated.

## **Unsolicited mail**

The Company is obliged by law to make its share register available to other organisations who may then use it for a mailing list. If you wish to limit the receipt of unsolicited mail you may do so by registering with the Mailing Preference Service (MPS). Registration can be made in writing to: The Mailing Preference Service (MPS), Freepost 29 LON20771, London W1E 0ZT or online at [www.mpsonline.org.uk](http://www.mpsonline.org.uk).

## **Gifting your shares to charity**

If you only have a small number of shares whose value makes it uneconomic to sell them, you may wish to consider donating them to charity through ShareGift, an independent share donation scheme. The relevant share transfer form can be obtained from the Registrar. ShareGift is administered by The Orr Mackintosh Foundation, registered charity number 1052686. Further information may be obtained on 020 7828 1151 or from [www.ShareGift.org](http://www.ShareGift.org).

## **Advisors**

### **Auditors**

PricewaterhouseCoopers LLP  
1 Embankment Place  
London WC2N 6RH

### **Bankers**

The Royal Bank of Scotland plc  
280 Bishopsgate  
London EC2M 4RB

Barclays Bank plc  
1 Churchill Place  
Canary Wharf  
London E14 5HP

HSBC Bank plc  
70 Pall Mall  
London SW1Y 5EZ

### **Stockbrokers**

JPMorgan Cazenove  
20 Moorgate  
London EC2R 6DA

Design and production: **CollegeDesign** [www.collegedesign.com](http://www.collegedesign.com)

Printing: This report has been printed by Royle Corporate Print, one of the most environmentally friendly printers in the UK. Under the framework of ISO 14001 a structured approach is taken to measure improve and audit their environmental status on an ongoing basis. The main environmental areas targeted for continual reduction arise from the use of solvents, energy consumption and waste generation. Royle Corporate Print is also Forestry Stewardship Council (FSC) chain of custody certified.

The printing inks and varnishes in this report contain the maximum amount of renewable vegetable oil based raw material. They combine with hard resins that also have their origins in natural materials. They contain no heavy metal or toxic products and offer greater recycling possibilities than standard inks.

This publication is printed on 9lives 80 paper. It is produced from 80% recovered fibre comprising: 10% packaging waste, 10% best white waste, 60% de-inked waste fibre and 20% virgin TCF (totally chlorine free) fibre sourced from sustainable forests. The supplier of 9Lives 80 is accredited with the ISO 14001 standard.

If you have finished reading the report and no longer wish to retain it please pass it on to other interested readers, return it to Atkins or dispose of it in your recycled paper waste. Thank you.

The Atkins logo, the "open A" device and the strapline "Plan Design Enable" are trademarks of Atkins Limited, a WS Atkins plc company.

© Atkins Limited except where stated otherwise.

WS Atkins plc  
Woodcote Grove  
Ashley Road  
Epsom  
Surrey KT18 5BW  
England

Telephone +44 (0)1372 726140  
Fax +44 (0)1372 740055

[info@atkinsglobal.com](mailto:info@atkinsglobal.com)  
[www.atkinsglobal.com](http://www.atkinsglobal.com)