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1 Atkins is designing and developing the journey planning software for Transport Direct, the UK government's comprehensive journey planning service.

2 Network Rail draws upon Faithful & Gould's quantity surveying and commercial management skills such as here at Newark Dyke through a five year framework contract.



Operating review

Atkins is well established in the top priority upgrade schemes identified by the Strategic Rail Authority.

Transport

Turnover in our Transport division rose by 31.2% to £312.0m (2002: £237.8m), excluding Joint Ventures.

Highways & Transportation (H&T)

H&T experienced strong growth in large integrated service contracts, including a £172m contract renewal with Somerset County Council over five years. The intelligent transport systems business secured a two year extension to its travel information and traffic control contract in South Wales, won a key role in the Transport Direct national journey planning project, and is participating in a major road user charging trial in Leeds. The two new management projects for the Highways Agency (Areas 10 and 11) operated well during the year, and the Connect Joint Venture was awarded the concession to design, build, finance and operate the £130m M77 Glasgow Southern Orbital in May 2003.

Transport Planning undertook major studies for the Department for Transport, the Strategic Rail Authority, the Commission for Integrated Transport, Transport for London, the Highways Agency and the European Commission.

Prospects

Looking ahead, market trends include increasing use of technology to improve transport efficiencies and an increasing emphasis on integrated solutions – both areas in which the Group excels. We also expect to gain additional work from regional planning bodies in the UK. H&T is also well-placed to respond effectively to greater use of private finance in highways

contracts with the Highways Agency and local authorities. We already support many such opportunities in-house but will develop strategic relations with other service providers and suppliers where appropriate.

Rail

Atkins Rail benefited from strong demand for safety-related upgrades, the extension of existing fleet lifecycles and independent certification of new vehicle classes. The Rail Civils business successfully re-bid its structural examination contracts in Scotland and Southern England. Atkins is the only company to hold more than one of these new 10-year contracts.

Atkins continues to play a significant role in supporting major investment programmes such as the West Coast Route Modernisation.

Prospects

Atkins Rail is well established in the top priority upgrade schemes identified by the Strategic Rail Authority and we expect to see increasing work from our multi-functional framework contract with Network Rail. Our biggest single project will be the work on the London Underground, which commenced in April 2003 when Metronet was awarded a 30 year modernisation and maintenance contract (see case study opposite).

In December 2002, the UK government unveiled a £5.5bn package of national and local transport measures to accelerate the delivery of the 10-year transport plan. Atkins is well-placed to take advantage of opportunities which may arise as these measures are introduced.

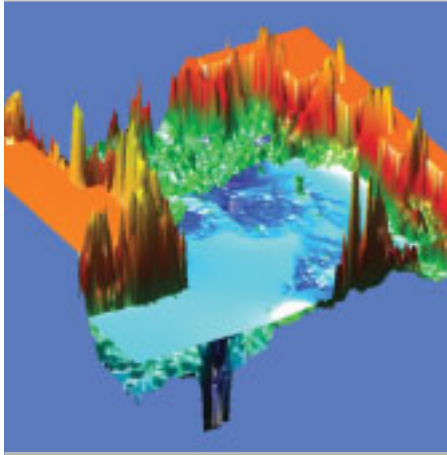


Working for a better Tube

Responsibility for managing the infrastructure of the London Underground system has now passed to two private sector consortia, one of which is Metronet in which the Group is a 20% shareholder.

Metronet's 30 year partnership with London Underground covers the SSL (Metropolitan, District, Circle, Hammersmith & City and East London) and BCV (Bakerloo, Central, Victoria and Waterloo & City) lines. Together these lines make up over two thirds of the underground network.

Atkins brings a diverse range of skills to the project. We will design premises as well as new passenger information, CCTV and public address systems, help points and destination indicators. Atkins will also manage the structural inspections, assessments and design work on some 3,800 bridges and structures, 80 miles of tunnels and nearly 100 miles of earth structures.



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- 1 Atkins is working with the Environment Agency to mitigate the increasing problem of flooding by producing models to predict where floods will occur.
- 2 Tony Fletcher, Managing Director of Atkins Rail (left) and Mike Willmore, Director of Trans4m, discussing the modernisation of the London Underground.



Our consultants responded to strong public-sector demand for technology consulting and project management.

Design & Government Services

Market conditions were good in the year, with our design and engineering teams benefiting from growth in the UK construction market and our consultants responding to strong public sector demand for technology consulting and project management. Turnover, at £195.9m, was up 10.1% (2002: £177.9m), excluding Joint Ventures.

It was a particularly good year for Design, Environment and Engineering (DE²), which benefited from growth in the UK construction market, winning a design commission for the Colchester Garrison PFI project and securing design partnerships with the Department for the Environment, Food and Rural Affairs, the Department for Work and Pensions and Derbyshire County Council. We also won a new commission to design the Wiltshire and Swindon Archive Centre, one of the largest heritage centres in the country.

Recent legislation has placed the environment high on the agenda for both public and private organisations, and we capitalised on these opportunities during the year. We are market leaders in geotechnical and environmental consultancy for the infrastructure engineering market, and our planning and landscape business is one of the largest in the UK.

In the education sector we provided an extensive range of services to schools in Merton, Cornwall, Oxford, Essex and Somerset. We foresee continued demand for design and facilities management services in this sector, however there has been a discernible shift away from large-scale intervention outsourcing and we are withdrawing from the provision of these services to the London Borough of Southwark.

In Asset Management, the focus was on restructuring for the future, with some unattractive projects being terminated or renegotiated. The business is now streamlined into its four principal market sectors of Government & Education, Defence, Health, and Corporate & Retail, with shared support services. Our national helpdesk handles in excess of five million calls each year and was categorised as best in class in a recent BT survey. We are also developing a series of supply chain partnerships in order to respond to the growing demand for total asset management solutions.

Financial performance in Business Services improved due to a number of long-term contracts with local and central government departments. These included programme and project management services at GCHQ, the Foreign and Commonwealth Office, the Highways Agency, the Office of National Statistics and the Environment Agency. We also continued to operate long-term contracts to provide business technology management and support to the Food Standards Agency, Department for Education and Skills and Swindon Borough Council.

Atkins Investments (our PPP/PFI unit) had a busy year, reaching financial close on the London Borough of Merton Schools PFI project. We were also made provisional preferred bidder for the Royal School of Military Engineering, as well as providing support to Metronet for the London Underground PPP and the M77 road project in Scotland. The Colchester Garrison PFI project made good progress, with planning permission finally being achieved in July 2003.



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3 Atkins has embarked on detailed designs for Colchester Garrison.

4 Airbus has chosen Atkins to support the development of its new A380 airliner and, right, A400M military transport aircraft.



Prospects

Looking ahead, our appointment as preferred bidder for the Colchester Garrison PFI project demonstrates the scope of our capabilities. Atkins' involvement in the project includes multi-discipline planning design, asset management, cost consultancy, and other specialist services. Against this background, medium term plans for public sector investment are expected to provide significant opportunities for Design and Government Services in the coming year.

UK Joint Ventures

Operating profit was £10.5m (2002: £10.6m). Profit before tax was £2.9m (2002: £3.5m).

The majority of the Group's UK Joint Ventures performed as expected during the year. Half of the Group's Joint Venture operating profit was from Connect Roads Limited in which Atkins has a 32.1% stake. A limited refinancing of the Connect projects was completed in November 2002, enabling the Joint Venture company to distribute a dividend to its shareholders.

Joint Ventures in the UK health and education sectors continued to perform in line with expectations.

Following a review of prospects in the prison sector, we sold our 5.3% stake in Bridgend Custodial Services. We will continue to review our PFI portfolio to ensure we make best use of the Group's capital.

Industry

Turnover in Industry rose by 24.2% to £116.4m (2002: £93.7m).

Aviation and Defence Systems (A&DS)

A&DS delivered profitable growth in 2003. Aerospace prime contractors are faced with a significant level of design activity for major new programmes such as A380, A400M and Joint Strike Fighter (JSF). We are well positioned as Airbus' selected engineering solutions partner for both A400M and A380 projects and are well-placed to build on our involvement in these and the JSF project.

Nuclear

The year was challenging for Nuclear. There was some uncertainty in the market as BNFL and UKAEA developed their strategies and this led to delays in contract awards. However, our forward order book is healthy, and performance in 2004 is expected to benefit from measures taken to improve the efficiency of the business.

Power

It was a profitable year for Power. Regulatory requirements and government targets are driving growth in our key markets of energy solutions and renewable energy. We have forged close working relationships with key clients, particularly on our framework and alliance contracts which should provide the platform for success in 2004.

Process

Much of our work for the oil and gas sector involves ensuring the safety and integrity of existing assets. As a result we were able to maintain our workload during 2003 despite reduced investment in the UK market. Looking ahead, we will seek to capitalise on our expertise in niche oil and gas markets.

Telecoms

The telecoms market remained weak, with little sign of immediate improvement. Despite this backdrop, performance on our key contracts improved during the year and we believe that our cost base will enable us to continue to deliver acceptable returns in this sector.

Water

Water is one of the UK's leading water consultancies, having major framework contracts with the Environment Agency (EA) and many of the privatised water companies. Our business performed well during the year, winning significant work from the EA in the area of flood prevention and prediction.

Commercial Services

Turnover in Commercial Services fell 0.9% to £118.4m (2002: £119.5m).

Cost management – Faithful & Gould (F&G)

During 2003 the public sector market remained particularly buoyant. Investment in the renewal, repair and improvement of the national rail network was maintained, and several regions continued to invest in light rail or similar systems. Regulatory obligations imposed upon utility providers, particularly the water and power sectors, continued to drive investment. The private property sector showed signs of decline, especially in the South East.

F&G consolidated its lead in the cost management market by focusing on service improvements, offering a broader range of skills and applying the latest asset planning and maintenance management tools.

During the year F&G won a Network Rail contract for cost management support, a new four year commission to provide cost management services for Scottish Water and a contract to provide outsourced technical services to Derby City Council.



Managing Britain's highways

During the year our Highways & Transportation business led by Managing Director Richard Deacon (above right, seen here with Technical Director David Jenkins) began work on two new management and operational contracts for the Highways Agency (Area 10 and 11).

These latest commissions reflect the trend towards large, long-term, multi-discipline contracts.

The £190m Highways Agency Managing Agent Contract for Area 11 in the Midlands was secured through Optima Infrastructure Management (Atkins working in partnership with Accord-Jarvis).

We are also creating strategic alliances to bid for multi-activity contracts for Local Authorities and private finance highway maintenance schemes.

Connect, our Joint Venture with Balfour Beatty, was awarded the contract to design, build, finance and operate the £130m M77 and Glasgow Southern Orbital motorway in Scotland.



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1 Atkins is helping to build a new systems development centre for the Royal Navy. The facility will develop combat systems for the T45 destroyer.

2 Atkins Power is managing energy trading for Growers CHP, which provides combined heat and power to the horticulture industry.

Prospects

We expect that the government's commitment to public sector investment will continue to provide significant opportunities. We will be looking to build upon very strong positions in the transport and utilities sectors, where framework arrangements provide future workload.

Property management and agency services – Lambert Smith Hampton (LSH)

The year was characterised by contrasting conditions in different market sectors. The retail sector benefited from an upturn as a result of a strong consumer sector and growth in the service sector was sustained by demand for distribution and warehousing space. The investment market continued to be dominated by private investors, reflecting low interest rates and high returns compared to the underperforming equity market. Conversely the office and manufacturing sectors suffered from rationalisation, reduced investment and slower rental growth.

Against this background, LSH had a successful year. Of particular note was the performance of our West End investment business, which successfully negotiated three multi-million pound property transactions on behalf of Praedia/Cardinal Lysander, Sydney & London and Dawnay Day. Our Industry team was named Best Industrial Agency in *Property Week's* 2002 Property awards. Significant new contracts won in the year included provision of estates and valuation services to Hertfordshire County Council (a contract worth £6m over five years), and management of Henderson Global Investment's UK property portfolio. Across all sectors, we transacted over 33million sq ft of space during the year.

Prospects

Looking ahead, the UK's economic performance will depend on the global economic recovery and in particular recovery in the US. Domestic consumer spending and the housing market have been the main driving forces behind the UK's economic performance during 2003: a significant downturn in either of these areas could pose a threat, particularly to the domestic and retail sectors. Over supply of office space is likely to mean that rental growth will not return to this sector until 2004.

International

Turnover in International grew by 8.6% to £192.6m (2002: £177.4m).

Our USA operations experienced mixed fortunes during the year, reflecting challenging market conditions due to uncertainty over the situation in Iraq.

Hanscomb International Corp. (Hanscomb), acquired in June 2002, performed well, winning a major construction management contract with Honda. While Faithful & Gould also made progress, Atkins Americas Inc., formerly the Benham Group Inc., had to contend with weak demand in its core markets and a generally weak private sector economy.

Workload remained unpredictable during the period, with fewer projects commencing and more intense competition to win work. A number of projects for which we had been commissioned were delayed or cancelled. In response to these difficult conditions, we undertook a thorough review of the business to align both operational and corporate overhead costs with business activity and productivity.

Prospects

Looking ahead, our North American operations continue to pursue privatisation projects. Over half of all federal construction contracts are being executed using a design-build delivery approach, and that percentage is expected to grow the next few years, providing significant opportunities in this sector for the foreseeable future.

International Joint Ventures

Operating profit was £3.7m (2002: £3.9m). Profit before tax was £3.8m (2002: £4.1m).

Rest of the world

Elsewhere in the world the skills of our designers continued to be in demand. Our design team prepared schemes for prestigious new hotels in Tunisia and Saudi Arabia. In Hong Kong, we were awarded two major rail contracts to provide design and construction services for extensions to commuter rail lines.

International Joint Ventures continue to perform in line with expectations. TFMC (Proprietary) Ltd which manages South Africa Telekom's entire property portfolio, is one of the world's largest outsourcing agreements.