

# Business Review

## Principal risks and uncertainties

In order to achieve our business objectives the Group must respond effectively to the associated risks. The Group has 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 strategic planning processes. It is, however, not possible to fully mitigate all risks that the Group encounters. In addition to market risk, credit risk and liquidity risk, which are covered under Treasury policies and objectives above, the principal key risks for the Group have been assessed as follows:

### Economic environment

A decrease in GDP as a result of a world economic slowdown could have an adverse impact on workload for both private and public sector clients. The Group mitigates this risk by monitoring economic indicators and sentiment in the markets in which we operate, as well as by maintaining a strong balance sheet, working in a diverse portfolio of sectors and markets and by building flexibility into future plans.

### Competition

In common with all companies, the Group faces competition from others in all of our markets. Some of the markets in which the Group works serve limited clients and barriers to entry are high. In other markets, such as architectural design and environment, there are numerous competitors and barriers to entry are lower. To ensure that the Group continues to win work, we work hard to develop long-term relationships with our clients at multiple levels. A measure of this success is our work in hand, which measures our secured workload over the next year. Our overall work in hand is 54%, representing over six months of 2009/10 revenue that is already contractually committed.

### Matching staffing levels to workload

The Group balances resources (staffing) to workload to control the level of non-productive time. There is a risk, in an economic downturn, that there is insufficient work to match current resources in some

parts of our business. This risk is managed by working in a diverse portfolio of sectors and markets, and the redeployment of staff from those parts of the business where the workload is reducing to other parts of the business where the workload is strong. The risk can also be managed by selective restructuring and downsizing.

### Project management

Managing clients' and our own projects is core to our business. Inadequate project management skills could lead to financial loss and reputational damage. The Group mitigates these risks by encouraging adherence to internal processes augmented by ongoing training and selective recruitment.

### 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.

### Pandemic influenza

An influenza pandemic could affect a significant number of our staff who maybe unable to report for work either because they are personally unwell or because they need to care for dependents. The risk is heightened this year due to the current swine flu pandemic. This risk is closely monitored and advice is taken from the governments and medical authorities in the countries in which we operate as well as from our own private medical and travel advisors. Contingency plans are in place to limit the spread of infection within our offices and to enable continuity of work commitments through home and remote working.

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

The Group's staff are its key resource and the recruitment and retention of top quality people are crucial to our future success. Failure to do so would constrain the growth of the business and prevent the Group from achieving its potential. Whilst the current recession has reduced the recruitment pressure in some areas, failure to retain key staff is still a risk. Also, the skills needed in some parts of our business are still in short supply and the Group has to compete with a large number of other organisations to secure the best staff. The Group expends a great deal of management effort and resource in this area, a summary of the approach being shown in the Human Resources Review.

### Health, safety and environment

The Group's business is concerned with the built environment and this entails significant health, safety and environmental risks. Should the Group's policy or practice in this area prove inadequate, there is a consequent risk to employees, clients, contractors and third parties. The Group takes health, safety and environment issues seriously and ensures that all staff are appropriately trained and that procedures are continuously reviewed and improved. We look to take a leadership role on health and safety matters in our sector and we have representation on a number of committees. Many of our clients insist on the Group attaining appropriate standards in health and safety and environment. We are regularly independently audited by external consultants against these industry standards.

### Reputation risk

Our reputation for delivering complex projects relies on the perception of our clients and how this is portrayed in the public arena. There is a risk that a major failure from poor design, poor project management or delivery could impact our ability to win future work. We mitigate this risk by ensuring we have robust cost and project management systems linked to our internal quality processes. These are regularly independently audited by external consultants against industry standards.