

**WATERMAN GROUP PLC**

**ANNUAL REVIEW AND SUMMARY AND  
DETAILED FINANCIAL STATEMENT**

**30 JUNE 2005**

**Registered Number: 2188844**



LD4  
COMPANIES HOUSE

\*L2UPHC74\*

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19/01/2006

- **Waterman Group plc provides design services and specialist advice in all aspects of engineering and environmental sciences.**

IMAGE REMOVED AT  
THE REQUEST OF  
COMPANIES HOUSE

IMAGE  
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THE REQUEST  
OF  
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HOUSE

Civil & Transportation

IMAGE  
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OF  
COMPANIES  
HOUSE

Engineering Facilities  
Management

IMAGE  
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COMPANIES  
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Environmental

IMAGE  
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Health & Safety

IMAGE  
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Mechanical & Electrical

IMAGE  
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Outsourcing

IMAGE  
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Structural Engineering

IMAGE  
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HOUSE

Sustainable Energy

## Mission Statement

To develop innovative, economic and sustainable solutions that successfully meet the needs of our clients, whilst adding value and a better quality of life for all. In doing so, we aim to provide an exciting and rewarding work environment for our employees and a successful, dynamic Group, meeting the aspirations of all our stakeholders.

## Core Values

### Client Focus

The company recognises that its success is based on strong client relationships and will strive to provide economic, innovative and sustainable solutions that deliver their expectations.

### Sustainability

The company recognises its responsibility to the wider community, delivering sustainable solutions that anticipate the effects on future generations.

### Staff Care

The company values and rewards the contributions of all staff providing a safe, stimulating work environment and is committed to staff development, encouraging all to reach their potential.

### Technical Excellence

Solutions are to be provided in a highly professional manner in terms of delivery, reliability and value for money with staff having pride in their contribution.

### Teamwork

The company works with many partners to deliver solutions; it values their contributions and operates in a pro-active and co-operative manner to achieve the optimum solution.

### Corporate Development

The company is committed to being an economically secure and dynamic business, which provides real growth in value to its shareholders, whilst maintaining high professional and ethical standards at all levels.



## Operational & Financial Highlights

	2001	2002	2003	2004	2005
	£'000	£'000	£'000	£'000	£'000
Work done	40,615	52,070	61,315	65,019	<b>72,633</b>
Profit before taxation	5,765	3,779	1,886	2,012	<b>3,131</b>
Profit attributable to shareholders	4,413	2,518	1,451	1,408	<b>1,908</b>
Basic earnings per share	19.9p	10.1p	5.2p	5.1p	<b>6.9p</b>
Dividend per share	4.8p	4.9p	4.9p	4.9p	<b>5.2p</b>

- Work done increased to **£72.6m** (2004: £65.0m)
- Profit before tax increased to **£3.1m** (2004: £2.0m)
- Profit before tax and goodwill amortisation up to **£4.0m** (2004: £2.8m)
- Basic earnings per share increased to **6.9p** (2004: 5.1p)
- Basic earnings per share before goodwill amortisation up to **9.8p** (2004: 7.8p)
- Dividend increased to **5.2p** (2004: 4.9p)
- Net asset value increased to **95p** per share (2004: 92p)
- Substantial long term order book
- Acquisition of Quadrant Consulting Ltd
- Key international projects continuing in China, Dubai, Russia and Australia

**Note:** Profit before taxation, profit attributable to shareholders and basic earnings per share in 2001 are calculated after an exceptional profit of £2,247,000 realised on the disposal of the Group's freehold head office property during that year.

## Chairman's Statement

I am pleased to report that, in the year to 30 June 2005, Waterman Group achieved an increased pre tax profit of £3.1m (2004: £2.0m) on work done of £72.6m (2004: £65.0m). Basic earnings per share were 6.9p (2004: 5.1p) and net assets per share stand at 95p (2004: 92p).

The board is recommending an increased final dividend of 3.3p (2004: 3.0p) per share which with a maintained interim dividend of 1.9p makes a total for the year of 5.2p (2004: 4.9p) per share. Whilst profits have increased at a greater rate than dividends, the Board also wishes to rebuild the level of dividend cover and retained reserves. The final dividend will be payable on 15 December 2005 to shareholders on the register on 18 November 2005.

As recently announced, these results represent a significant improvement compared to last year, due to a number of factors including: projects releasing profits earlier than expected, the improved performance of the Group's regional and international companies and a reduction in property costs in London. Currently, all sectors are performing well and the Group continues to secure an excellent long term order book.

### Group Activities

Multi-discipline consultancy services continue to be provided on some of the UK's largest urban regeneration projects. These include whitecity™ in west London, Paradise Street in Liverpool, Eastgate in Leeds, Broadmead in Bristol, Park Place in Croydon, Shires in Leicester and Eastside in Nottingham. These projects, together with others in the same sector, have an aggregate capital value in excess of £6 billion and will provide income for the Group up to 2012. In London there are further signs of recovery in the commercial and mixed use sectors. The Group is currently advising on more than 20 projects in London including the former Stock Exchange tower, Thames Exchange and 90 Upper Thames Street in the City of London, together with the Quadrant and the Trocadero in the West End of London.

In accordance with its long term strategy the Group has recently completed a reorganisation of its operational subsidiaries. The Group's operations have been reorganised into four key disciplines in the UK with Waterman Group Ireland and Waterman International remaining separate operations. The objective is to achieve greater efficiency, and to provide a premium service to all clients. **Further details of the Group reorganisation are shown overleaf.**

All structural consultancy work in the UK has now been combined into one organisation trading as Waterman Structures, which operates UK wide and is one of the 'top 3' consultants in its field.<sup>(1)</sup> Major projects are in progress in London, Liverpool, Bristol, Manchester, Leeds, Leicester, Oxford and Wigan and in many cases other Group companies are providing specialist services, as part of a multi-discipline package. Current major projects include 125 Old Broad Street in the City of London, Paradise Street in Liverpool and Tabard Square in South East London. Waterman Structures has a substantial long term order book, with projects spanning to 2012.

The Group's civil engineering subsidiary, now renamed Waterman Civils, has expanded its operations during the year and has been increasingly involved in the rail, highways and transportation sectors. Projects in progress during the year include: White City stations and bridgeworks, Moor Street station in Birmingham, Oakham bypass in Rutland and A45 upgrades in the West Midlands. The Group's rail mapping database AutoRail™ is being extended to cover the entire Network Rail system, and further updates will be undertaken in future years. Waterman Aspen, the Group's specialist outsourcing company, has expanded during the year and currently employs 220 staff who are seconded to 90 separate clients, predominantly in the public sector, throughout the UK. This diversity means that the business is not over-exposed to any individual client.

The Group's three environmental consultancies have all grown during the year and currently cover an even wider range of expertise. All major planning applications now require an Environmental Impact Assessment (EIA) to demonstrate that the environmental effects of a new development are acceptable. Waterman is now one of the major providers of EIA services and the market is expected to grow rapidly in the future. CPM, the Group's specialist planning and design consultancy, has advised the Countryside Agency on the new South Downs National Park and has also advised on new residential developments in Cambridgeshire, West Sussex and Buckinghamshire. Waterman Sustainable Energy has now completed its second year of operations. During the year it has advised on a number of PFI waste management projects and is very active in the Biomass and Biofuel programmes together with the development of carbon management systems, which will significantly reduce fossil fuel CO<sub>2</sub> emissions in the years ahead.

The Group's mechanical and electrical consultancy, now renamed Waterman Building Services, has advised on a number

of major projects including whitecity™, west London where the designs of the stations, infrastructure and the retail centre have been progressed during the year. Other large projects in progress include Eastside in Nottingham and 14 Cornhill in the City of London. Further development work has been completed on the use of advanced 3D design software which provides effective co-ordination of building services and a comprehensive database as an aid to future facilities management.

In Ireland, the Group's Dublin based consultancy, Moylan, has had another year of strong growth. Staff numbers have increased to 70 during the year, in response to the increasing workload. The company has been particularly strong in the mixed use development sector in the Dublin area, advising on a number of major projects at the Grange in north Dublin, Pelletstown and Dun Laoghaire. In addition, the company is well placed to participate in the Irish Government's major infrastructure programme which is expected to provide a significant future source of work. The long term order book stands at a record level.

Waterman International, which handles all Waterman's work outside the UK and Ireland, has continued to make progress during the year. In particular, the new offices in Beijing and Dubai have been successful in generating substantial new projects. These include Haihe River masterplan, Tianjin in China and Dubai Festival City in the UAE. China and Dubai are two of the world's largest construction markets, offering considerable potential for future growth. In Moscow, where Waterman has been established for 14 years, there is an increasing number of new opportunities in the local property market, and the staffing level has been increased to 40 in response to greater client demand. In Australia, the Group's subsidiary, Waterman AHW has advised on Nortel headquarters and King Street Wharf in the Sydney area and is leading the Group's engineering teams in Dubai. As part of the Group's strategy a structural engineering team has been added in Sydney, creating a multi-discipline business. Consultancy advice is being given on new projects in Vietnam.

During the year the Group has continued to provide consultancy services to a number of consortia on PFI and PPP projects. These projects include Government offices, schools, hospitals, defence establishments and waste management projects. The final phase of HM Treasury building in Whitehall was successfully completed in November 2004. Currently, Waterman is advising on ten private finance projects, which are expected to provide a significant source of income in future years.

(1) Source – Construction News

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Scottish Natural Heritage Headquarters, Inverness  
Image courtesy of Keppie Architects

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Paradise Street Redevelopment, Liverpool  
Image courtesy of BDP

The Group has continued to secure a number of long term framework agreements. Around 40 agreements are currently active for clients which include British Nuclear Group, Crawley Borough Council, The Highways Agency and Sheffield University.

### Strategy

The Group's strategy is to build on its existing strengths and expertise in its current markets, whilst developing new areas of business which will deliver long term growth and profitability in the future. Recent new ventures in Dubai and China have already delivered better than expected results and the recent development of new Biofuel technology is seen as an excellent prospect for the future. The Group plans further expansion through organic growth, supplemented by selective acquisitions of high quality complementary businesses.

### Acquisition

On 6 April 2005 the Group acquired 100% of the share capital of Quadrant Consulting Ltd, a consulting engineer specialising in the design and management of civil and structural engineering projects, based in Cardiff. The acquisition of Quadrant secures the services of a well respected consultancy in Wales which will complement the Group's framework agreement with the Welsh Assembly and extends the Group's network of UK offices. Current projects include North Dock, Llanelli and Matrix Park, Swansea.

### Employee Relations

The quality, reliability and commitment of Waterman employees underpins the Group's reputation and success. The level of repeat business from regular clients is a testament to their respect for the professionalism and

reliability of our staff. Great emphasis is placed on development and training of all staff in order to facilitate continuous professional improvement both for the individual and the Group.

The Group rewards its staff through a range of salary and benefit packages including free shares in the company. A share option scheme operates to provide senior management with the opportunity to acquire ordinary shares and a proposal to introduce a long term incentive plan will be presented for shareholder approval at the annual general meeting.

Most engineering and environmental disciplines now operate a flexible benefit scheme which enables employees to select from a range of benefits. This new scheme forms an important part of the Group's recruitment and retention strategy and has been well received by staff. We hope to have the opportunity to extend the range of benefits offered in future years.

I welcome this opportunity to thank all members of staff for their valuable contribution to the success of the Group over the past year.

### Board Appointments

On 4 May 2005 the Group announced the retirement of William Mathieson from the post of non-executive chairman. The Board is very grateful for the support and leadership that William provided over a period of many years, during which the Group achieved considerable expansion. Following William's retirement I was delighted to be elected as Waterman's new chairman with effect from 4 May 2005.

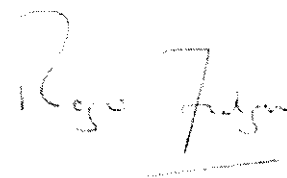
Roger Fidgen, Chairman

On 1 July 2005 the Board appointed John Waiting, aged 48, as a new executive director, with responsibility for the Group's civil engineering activities. John has considerable experience in the civil engineering sector and his appointment is in line with the Group's long term succession strategy.

### Future Prospects

The Group's substantial long term order book has been strengthened during the year and good progress has been made in all sectors. The urban regeneration sector continues to perform strongly and the Group has secured an increased number of new commissions for commercial projects in London. We anticipate that further gains in efficiency will be achieved following the reorganisation of the Group.

At this stage, it is difficult to anticipate whether the recent improvement in margins is sustainable in the longer term. However, having returned to higher levels of profitability in the last year and with all sectors currently performing well, the Group expects to make further progress in the current financial year.



Roger Fidgen  
Chairman  
21 October 2005

# New Waterman C

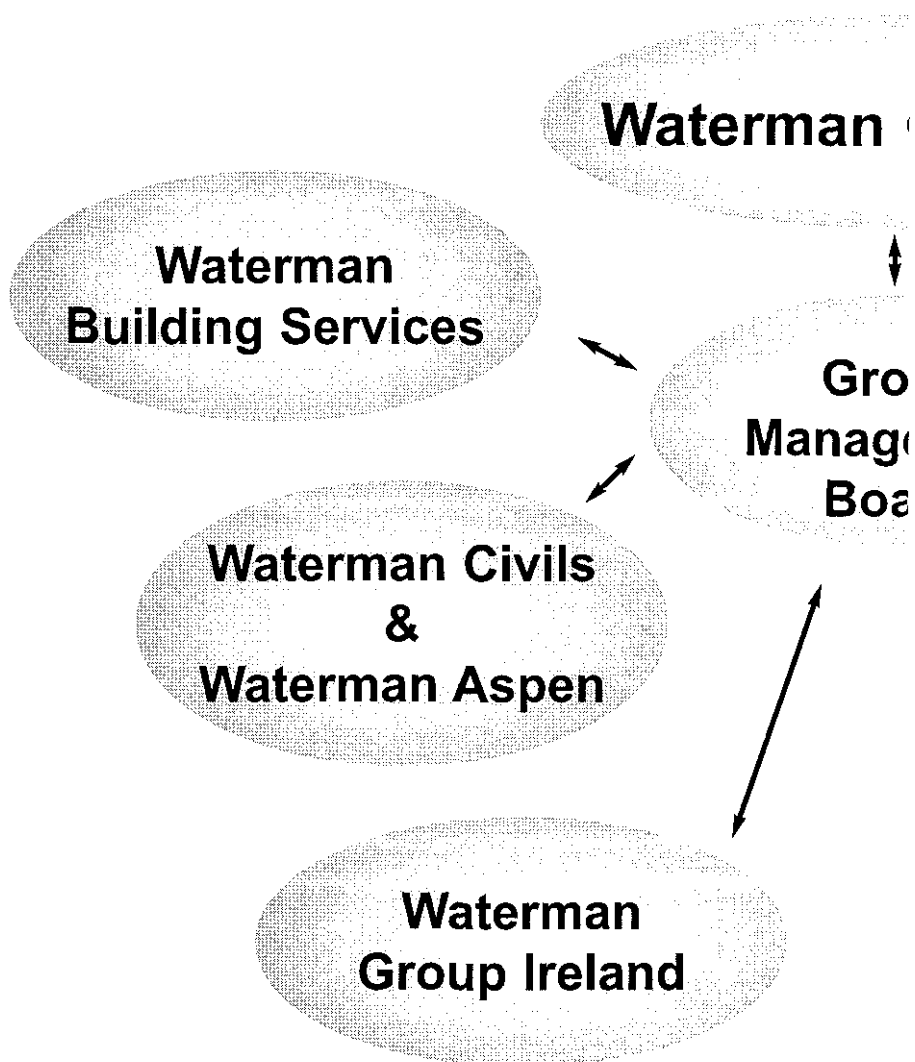
**Waterman Building Services** operates throughout the UK providing the full range of design expertise in mechanical, electrical and process engineering, including internal environmental assessments, energy audits, commissioning and project management. Waterman Building Services also provides a full range of 3D computer designs and asset management services.

Waterman Building Services - previously traded as Waterman Gore

**Waterman Civils** provides the full range of services throughout the UK to the following market sectors: highways, transportation, development planning and infrastructure, marine, airports, bridges and water.

**Waterman Aspen** provides a secondment and outsourcing service throughout the UK to both the public and private sectors.

Waterman Civils - previously traded as Waterman Burrow Crocker



**Waterman Group Ireland's** principal company Moylan, based in Dublin and Cork, provides civil, structural and project management services throughout the Republic of Ireland with specialist skills in large scale residential led mixed developments. Moylan is one of the leading consultants operating in Ireland.

**Specialist Activities:** Waterman Building Surveying, Waterman

## The New Structure

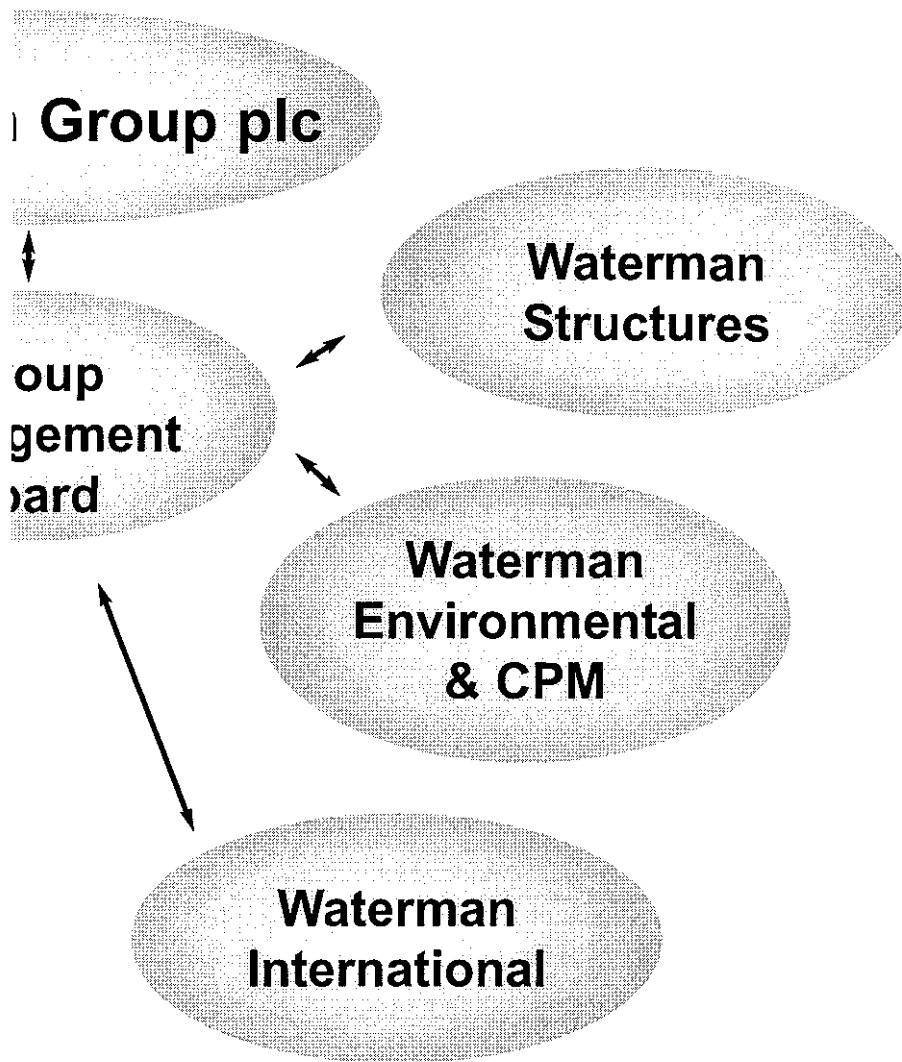
The Group will operate within the UK under four principal discipline based companies from 1 July 2005:

- Building Services
- Civils
- Environmental
- Structures

These companies will operate within the following regions:

- London and South East
- North and Midlands
- Scotland
- Wales and South West

# Group Structure



**Waterman Structures** provides design services forming one holistic company operating in all regions UK wide. The restructuring will provide continuity of design quality for services throughout the UK. Waterman Structures provides a full range of expertise to the private and public sectors.

Waterman Structures - previously traded as:  
 Waterman BBT  
 Waterman Partnership  
 Waterman Partnership Midlands  
 Waterman Structures Scotland

**Waterman's Environmental Consultancy** capability encompasses the combined expertise of Waterman Environmental and CPM throughout the UK. The consultancy delivers a wide range of services relating to the assessment, planning, design and management of environmental and sustainability issues.

**Waterman International** operates worldwide from its offices in London, Beijing, Brussels, Bucharest, Dubai, Moscow, Sydney and Warsaw. Waterman International provides the full scope of Waterman Group expertise in multi-disciplinary design and supervision services on a variety of projects including bridges, highways, building design, manufacturing plants and feasibility studies.

Waterman Health & Safety, Waterman IT, Waterman Sustainable Energy

The principal change is the amalgamation of all the UK structural engineering companies. We believe a single company, creating a more holistic approach, will enable us to provide the highest standards of design and technical excellence throughout the UK.

## Why the Change?

The new structure creates a more integrated approach to our operations which will allow our disciplines and regions to work more closely together. These changes will enable Waterman to provide rapid support throughout the UK with greater efficiency, in turn providing our clients with the highest calibre of service. By maintaining the individual disciplines as national companies, we ensure that our centres of technical excellence are enhanced to better serve both clients and projects.

UK teams are supported by experienced Waterman staff worldwide in Beijing, Brussels, Bucharest, Dubai, Dublin, Moscow, Sydney and Warsaw. We are confident that we have the full range of expertise to carry out any project worldwide.



## Review of Operations

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Swindon College, Phase 1

IMAGE REMOVED AT  
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HM Treasury Building, London

### Waterman Building Services

Waterman Building Services, the Group's mechanical and electrical engineering consultancy has experienced a challenging year due to increasingly competitive markets. The company has responded by investing in design development and planning on several major schemes, whilst maintaining core strengths. This has provided a substantial order book for the year ahead.

#### Overview

Strategy has focused on building the company's specialist services within the core business of M&E design. Of particular importance are thermal and CFD modelling and sustainable energy designs. These are required early in the planning process by architects and clients and the company also utilises a 3D integrated single project model for detailed design. The output from the model improves the procurement process, reduces waste during construction and reduces whole life costs in accordance with current Government initiatives.

In addition, specialist skills are continuing to be developed in asset management, fire and life safety, risk analysis and vertical transportation engineering.

#### Urban Regeneration

Infrastructure design and planning works on urban regeneration projects comprise an increasing proportion of the company's business. Design work has commenced on Nottingham Eastside, a 10 hectare mixed use development for Eastside and City

Developments and on a 22 hectare mixed use development in Luton for Southside & City Developments. Work continues on the £550 million whitecity™ development incorporating major London Underground rail works and services infrastructure design.

#### Retail

The company has been appointed for the M&E concept design of the revised retail scheme for whitecity™ on behalf of the new client, Westfield. Other retail projects with an aggregate value in excess of £80 million include schemes in Wrexham and Bolton for Wilson Bowden and a 70,000m<sup>2</sup> retail complex in Crewe for Modus Properties. Construction has continued on the 16,000m<sup>2</sup> Met Quarter in Liverpool, and work is ongoing on the planning for the 30,000m<sup>2</sup> Bracknell Town Centre scheme for Stanhope.

#### PFI

HM Customs & Excise and Inland Revenue moved into the refurbished HM Treasury Building (now 100 Parliament Street) in December 2004. Waterman Building Services undertook the M&E design on this PFI project. The company is also part of the Aspire Defence team at Aldershot working on the M&E design phases for the substantial PFI Allenby / Connaught construction project, covering the refurbishment / new build of 450 buildings.

#### Commercial

Commissions have been received on the 6,000m<sup>2</sup> Caxton Hall and the 15,000m<sup>2</sup> 14 Cornhill in London for Asticus and the 50,000m<sup>2</sup> 90 Upper Thames Street for UBS. Good progress is being made on a 10,000m<sup>2</sup> project for EDS in Newcastle. Major commercial office completions include K2 in

London for Taylor Woodrow Developments, 18-22 Smithfield Street, London for Jarvis, and the Lateral development for HBG Properties in Leeds.

#### Residential

The company is working as part of the Government's key worker housing initiative on 500 apartments at Newington Butts, 130 apartments at Adelaide Wharf in London and KX200, a student accommodation building with 850 apartments for First Base.

The first phase of 385 luxury flats and townhouse units for George Wimpey in Glasgow has commenced on site, as have 66 units at Buchanan Steps. The fit out design stage of 84 luxury apartments in Glasgow for Halladale has been completed and the phased waterfront development for 134 luxury apartments in Edinburgh for Gregor Shore is on site with the second phase commencing design.

#### Education

The education market has provided significant workload in the year. An appointment has been received for the Bradford Cathedral Community Academy as part of continuing work with the DFES Framework for City Academies. The new Swindon College Northstar Campus has started on site and works are complete on the Integrated Research Molecular Life Sciences project for the University of Sheffield. Other completions include the David Young Community Academy in Leeds; a new teaching block for the Kings High School for Girls in Warwick; and a new junior and primary school in Willenhall for Walsall Metropolitan Borough Council. Waterman is

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EDS, Newcastle

Crewe Town Centre

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12 Smithfield Street, London

also on the client's supervisory team for Tower Hamlets PFI schools programme.

### Health

The health care market has remained encouraging with an appointment for seven medical centres for LSP Developments and two for McAlpine Capital Projects. The Wand Medical Centre funded by British Health Enterprises, is due to start on site shortly and the new Stem Cell Laboratory facility has been completed at the National Blood Service facility in Birmingham.

### Hotels / Leisure

A number of projects were secured during the year, including ten new Ramada Hotels for McAlpine Capital Projects, to be constructed over a five year period and the expansion of the 'Apres' brand of wine bars for Town and Country Inns plc. Travelodge's new 54 bed Regent Hotel in Leamington Spa was completed in July 2005 as part of Wilson Bowden's mixed use urban renewal project, and the extension to The Deep Aquarium in Hull has now opened.

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The Broadway Theatre, Barking © James Morris

IMAGE REMOVED AT  
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whitecity™ Bridge Slide, London

IMAGE REMOVED AT  
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Slough Town Centre Improvements

Traffic Calming Measures

## Waterman Civils

Waterman Civils has performed strongly against a background of variable market conditions and a highly competitive business environment. Strategy will continue to focus on further diversification both geographically and in the range of services offered in order to achieve sustainable growth.

### Overview

The company strategy to progress with geographic expansion and increased market diversification has resulted in a growth in turnover and profit, whilst minimising the inherent risk of over-reliance on a particular market sector. The expansion of the company's regional operations has continued with the acquisition of Quadrant Consulting Limited, a 20 strong Cardiff based practice.

Consolidated operations in Wales and the South West are already showing benefits with increased turnover and lower operating costs.

### Rail

The rail division has performed well during the year, benefiting from a strengthening UK market. A notable milestone was the successful replacement of a bridge on the Hammersmith and City line as part of the whitecity™ rail works. This was a complex piece of engineering using a bridge slide technique over a 96 hour possession and was a key component of the construction of the new depot, due for completion in 2006. Design is underway on the new West London and Hammersmith & City line stations to serve the development.

At Moor Street Station in Birmingham, the team has provided a full range of consultancy services as lead consultant on major improvement works.

The rail asset mapping database, AutoRail™, is being heavily utilised by the rail industry. The company has mapped 8,000 route miles and has been commissioned by Network Rail to map the remaining 2,000 route miles over the coming year. In addition, it has an annual maintenance contract to keep the information updated. The information is a vital tool in the modernisation of the rail system and is used at all stages of planning, design and construction.

Reinforcing the company's commitment to delivering value added solutions, the new energy auditing service has created considerable cost savings for clients including Chiltern Rail and the Irish Rail Company.

### Term Contracts

An increasing volume of work is procured through term contracts, which provide a guaranteed workload primarily in the fields of highways and transportation. A number have been renewed during the year and it is the company strategy to expand this type of work. Contracts include Bexley, Crawley, Bournemouth, Cardiff, Solihull Councils, Highways Agency, Brixton Estates, and British Airways.

### Highways

Following the successful public inquiry, enabling works have commenced for Oakham Bypass. The company has won a number of other major highways projects including the Brierley Hill Sustainable Access

Network project which is an Early Contractor Involvement (ECI) contract, a red route study for Solihull Council and improvements to the A45 to provide better access to Birmingham Airport and the NEC. The company has recently been short listed for two trunk road improvement schemes; the A453 in Nottingham and the Weymouth relief road.

A number of projects have been carried out on urban roads and a contract was recently won for improvements to Slough town centre, which was awarded after being voted the best scheme by the public as part of the public consultation. The team has also designed the major urban highway improvements required as part of the Shires West development in Leicester. This followed the transport planning work which was required as part of the planning process.

### Transport and Development Infrastructure

The full range of advice and design services is being provided on a diverse project portfolio. Transportation teams have provided transport plans and assessments for projects ranging from PFI for schools and hospitals to the new printing plants for News International.

The hydrological team has undertaken a large number of flood studies, which are now an integral part of the planning and environmental assessment process. It has been working closely with the Environment Agency to develop the format for the flood study reports and these have been adopted as the standard for the London region.

Work is proceeding on major developments at Spondon in Derbyshire and Parkside in Cheshire. Other long-term projects have

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Dickins Heath Road Improvement

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Sewer Construction, Neston

progressed during the year with Dartford Park reaching the construction stage.

### Other Markets

The business has diversified into new market sectors. Teams are undertaking detailed design work on coastal improvements at Lyme Regis and are providing a full consultancy service for a biomass power station at Aberhaw in Wales. Work is also underway as part of a term commission to assist with decommissioning of nuclear power stations. This specialist skill is likely to be in demand, given recent announcements of the proposed long term programme to meet environmental requirements.

## Waterman Aspen

**Waterman Aspen, the Group's specialist outsourcing company, has maintained its steady growth and has traded successfully during the year. Investment in new markets has resulted in increased staff numbers which will deliver further growth in the future.**

### Operations

The company provides a specialist professional and technical staff secondment service across a range of engineering disciplines. Clients are predominantly from the public sector, including county, borough, district and City Councils as well as Government agencies such as the Highways

Moor Street Station, Birmingham

Agency, the Environment Agency and the Scottish Executive. The company has 220 staff currently working on a secondment basis with over 90 different clients throughout the UK. This diversity means that the business is not exposed to any individual client.

Demand for services remains high and has led to an increase in staff recruitment and resultant growth of the business. Whilst the business has been focused on the highways and civil engineering sectors, an increasing number of staff are being placed with clients in the building sector and further expansion in this area is planned.

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Tradeston Transport Assessment, Glasgow

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Riversdale, Dundrum, Dublin

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Riversdale, Dundrum, Dublin

## Moylan

The Group's Irish consultancy, Moylan, has continued the steady growth of recent years. The consultancy provides structural engineering, civil engineering and project management services in Ireland. It has consolidated its position as a leading consultancy in the country, advising on major urban mixed use developments and is at the forefront of the design of multi-storey precast concrete buildings.

### Overview

There has been a significant upturn in the number of enquiries received in all sectors. Activity in the commercial and industrial sectors in particular is increasing, having been depressed over the previous two years. As a result, staff numbers have grown rapidly to over 70 and further growth is expected.

Overall, prospects for the year ahead are good. The Irish economy is now growing strongly and this is reflected in improved investor confidence. The management structure is in place to achieve further growth and to increase market share.

### Residential and Mixed Development

Moylan is currently advising on the planning of large, mixed development schemes at Dun Laoghaire (3,000 residential units), Belcamp in north Dublin (3,000 residential units), and Drogheda (7,000 residential units). These projects will continue to provide a steady stream of work over the next five years. Work continues on further phases of developments at Casino and Robswall in

Malahide, at Pelletstown in west Dublin, the Grange development in north Dublin and further phases of Ballymun Regeneration. Significant new commissions include large apartment schemes at Porterstown, Rathbourne Village and Clonskeagh in Dublin and a social housing project at St Helena's Drive for Dublin City Council.

A number of major projects have been successfully completed and handed over during the year. The Rockfield development in Dundrum was completed this spring and the light rail station constructed as part of the scheme is one of the busiest on the line. *The Ongar Village development is nearing completion, with most of the village retail and commercial space occupied.*

### Building Structures

The most significant building design work undertaken in the year was the Hilton Airport Hotel, near Dublin Airport. The 170 bed, seven storey hotel opened mid 2005. *The scheme was constructed in just over twelve months and made extensive use of off-site construction.*

New building commissions include a new five star hotel and golf course at Abbeville in north Dublin; Dundalk Grammar School extension; and a number of retail, commercial and industrial developments in Wicklow, Dublin and Cork.

### Infrastructure

The Irish Government has established multi-annual budgets for all major capital spending departments and as a result, Moylan has targeted public sector appointments with the aim of gaining a proportion of this expanding market. A number of important public sector

commissions have been secured, including the Rock Road improvement scheme for Louth County Council, Dundalk, and a major pier upgrading project at Dun Laoghaire Harbour. Projects under construction include a trunk foul sewer scheme for Dublin City Council at Cherry Orchard; upgrading of a section of the Malahide Road to dual carriageway; and an innovative repaving project at the East Pier in Dun Laoghaire Harbour.

Moylan has been included on a number of local authority consultancy panels in the last year and is well placed to secure further public sector infrastructure commissions.

IMAGE REMOVED AT  
THE REQUEST OF  
COMPANIES HOUSE

Grange, Donaghmede, Dublin

IMAGE REMOVED AT  
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Royal Canal Park, Pelletstown, Dublin



IMAGE REMOVED AT  
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Barking Reach

IMAGE REMOVED AT  
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Retail Core Expansion, Wolverhampton

IMAGE REMOVED AT  
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IMAGE REMOVED AT  
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Exeter City Airport

## Environmental Consultancy

Waterman delivers integrated environmental consultancy services at both operational and strategic levels through three subsidiary companies.

### Waterman Environmental

Expertise includes brownfield regeneration, Environmental Impact Assessment (EIA), sustainability and corporate risk management.

### CPM

Specialises in environmental planning and design, with particular strengths in ecology, archaeology, landscape and rural land use.

### Waterman Sustainable Energy

Active in waste handling, recycling, renewable energy, carbon management and power generation.

## Waterman Environmental

The Company has been successful in expanding the business in response to new legislation and has strengthened its position as a leading advisor on urban and brownfield regeneration.

### Overview

A strong and sustained growth in workload has enabled Waterman Environmental to expand its team across the UK and to launch a variety of new services to clients. This has resulted in an increasingly diverse workload enabling the team to penetrate new markets successfully. It is expected that further expansion will be achieved over the year

ahead from increasing regeneration opportunities, together with new planning, waste and pollution legislation.

### Specialist Services

The land quality and development team has worked on some of the country's largest and most ambitious regeneration schemes including Paradise Street in Liverpool, the Pitwines Gas Works in Poole, Beam Reach in the Thames Gateway and a 160 hectare site at Ardersier near Inverness. The introduction of the Landfill Directive has resulted in more complex construction waste planning and has led to new appointments from Taylor Woodrow, Shepherd +Construction, Laing O'Rourke and Carillion.

The environmental assessment and design team has established itself as a leading provider of EIA services and has advised Land Securities at One New Change and Bresenden Place in London; Hammerson in Leeds, Leicester and Sittingbourne; Taylor Woodrow at Lots Road, Chelsea; and AMEC at Lingley Mere in Cheshire. The new Strategic Environmental Assessment (SEA) directive has resulted in a wide range of new appointments, including instructions from Tunbridge Wells, Leeds City, Wakefield and Selby Councils. The team is advising on the implications of the directive to major corporate clients.

The due diligence and environmental management team has benefited from an upturn in the corporate mergers and acquisitions market, and from pollution prevention legislation that is being progressively introduced to UK industry. EnviroRisk, a new due diligence service, was launched last autumn and has resulted in a growing stream of new appointments.

### Projects

During the year, a wide variety of new clients were secured, including Royal Mail Group, Confederation of British Industry, Edinburgh House Estates, Appleshaw Group, Highland Developments, United Utilities, Shepherd Construction and Circle 33 Housing Association.

Major projects in progress during the year included Greenwich Millennium Village, Barking Riverside, Eastgate in Leeds, Tradeston in Glasgow, East Bank in Hull and Shires West in Leicester. Key due diligence appointments included advising Macquarie Bank on the acquisition of Brussels International Airport, Chicago SkyWay, and ntl Broadcast; Legal and General Ventures acquisition of the Verna Group and Classic Hospitals; the acquisition of Trident Components Group by Vision Capital; and the sale of GB Holiday Parks by RBS. In addition, on-going support was given to key clients including Kier, Castlemore, British Land, UBS, F&C, Persimmon and Bellway Homes.

The increasing demand for sustainability credentials to be assessed during planning applications has resulted in many new appointments, including development of a sustainability strategy for Nottingham Eastside.

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IMAGE REMOVED AT  
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Hursley Home Farm, Hampshire

IMAGE REMOVED AT  
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Ferry Lane, Brentford

## CPM Environmental Planning and Design

CPM provides environmental planning and design services as part of the Group's overall environmental consultancy. The company has performed well during the year and has gained an excellent reputation within the environmental consultancy market.

### Overview

CPM Environmental Planning and Design has had another successful year and has continued to diversify into public sector work, as well as developing its well established private sector client base both in terms of new markets and in the regions. CPM has continued to maintain its reputation for the highest standards of quality, particularly in the area of expert witnesses for Public Inquiries.

### Private Sector

The private sector has continued to see growth, including the development of the north-west region. Trading with existing clients in the south and south west has remained at the same high levels as in previous years.

The bulk of growth in the private development sector has been led by legislation relating to planning and EIA, which has generated work for all disciplines in CPM. One of the most significant of these projects is a major new infrastructure project at East Grinstead, West Sussex where a large scale ecological survey and enhancement programme is due to begin in early 2006.

Several of the large scale, long term, residential developments in the south east have now received planning permission and CPM is providing input to mitigation strategies relating to ecological enhancement, landscape design and archaeological excavations in advance of development beginning. These large scale residential sites include St Neots, Cambridgeshire; West Durrington, West Sussex and Berryfields, Buckinghamshire.

### Public Sector

The public sector has provided strong growth for CPM including a range of contracts with the Countryside Agency. CPM's largest commission to date, the provision of expert witness services on behalf of the Countryside Agency at the Public Inquiry for the South Downs National Park, was completed late 2004.

CPM has continued to review estate management plans on behalf of the Countryside Agency who advise the Inland Revenue on land exempt from capital gains taxes due to reasons of outstanding scenic, scientific or historic interest. CPM also prepared and administered a consultation process on new approaches to boundary reviews for English National Parks and Areas of Outstanding Natural Beauty on behalf of The Countryside Agency.

### New Services

New services have been developed with strong demand for arboricultural surveys, GIS based analysis and industrial heritage surveys, which has involved working closely with other Waterman companies. A new service aimed at home owners, demonstrating environmental improvements has also been developed for new clients.

One of CPM's most successful innovations is a free online service to clients giving an overview of agricultural land classification. This popular service introduces clients to CPM's range of environmental planning services and has generated a great deal of awareness. This can be found at [www.aic-online.info](http://www.aic-online.info).

Cardiff Bay

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Wildlife Surveying

IMAGE REMOVED AT  
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Eggborough Power Station, Biomass co-firing plant, phase 2

## Waterman Sustainable Energy (WSE)

The company has met growth expectations in the year with increased enquiries and commissions for waste handling, green energy and carbon management projects, whilst maintaining and extending long term power contracts.

### Operations

WSE has continued to build on its already extensive relationships with major industrial companies and is increasingly appointed at strategic level in the power industry to provide bespoke specialist services. The company's co-operation agreements with providers of new technology is one of the most exciting new developments as it puts the Group at the forefront of green energy issues, enabling advice to be provided to local authorities on solutions to meet the carbon challenge of the future. Extensions to existing long term power contracts will continue to provide a base workload and will provide future opportunities for growth.

### Recycling and Renewable Energy

WSE has recently entered into co-operation agreements with three international technology suppliers, whose new processes will enable a major impact to be made on the emerging market for sustainable energy, in combination with carbon management systems. The new processes include:

1. A combination of hydro-mechanical and biological technologies used to treat waste, providing green energy via advanced UASB digesters. WSE has audited this process

and has submitted planning applications for a number of plants.

2. Waste plastics are treated using a pyrolysis process. An audit has been completed of this Japanese technology and WSE has identified opportunities to assist in the development of the process.

3. The use of an autoclave to improve the efficiency of biomass fuelled boilers. This assists in providing 'green energy' as part of the solution for waste management.

### Power and Carbon Management

The company has continued to undertake major projects in the traditional power sectors. A five year contract has been secured with British Energy for asset appraisal and repair. Waterman is currently trialling specialist software at Eggborough Power Station which will be used for recording purposes.

Building on earlier successful biomass co-firing projects including Kingsnorth and Ironbridge power stations, WSE has been appointed consultant to Ferrybridge Power Station, owned by Scottish and Southern Energy, for the direct biomass injection project. This will assist in obtaining Renewable Obligation Certificates for co-generation as a fossil fuel reduction programme and is likely to be the first of its kind in the UK.

A consultancy agreement is now in place to supply specialist services on three of Intergen's operational power stations.

WSE continues to provide consultancy services to power companies such as RWE,

npower, Drax Power, Alcan, Conoco Phillips and International Power. These services will enable clients to extend the operational life of their assets and to increase the use of renewable energy sources for fuel.

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Biomass Energy Crops

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Biomass Energy Crops

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Broadmead, Bristol urban regeneration

## Waterman Structures

Waterman Structures has performed strongly and a record level of work has been successfully completed during the year. Equally important has been the development of the strategy to combine all of the UK structural engineering companies. The four new regional businesses are performing strongly, delivering large scale projects nationally.

### Overview

With continuing emphasis on a diversified business portfolio both geographically and across market sectors, Waterman Structures has successfully expanded its operations. Regional activities have been improved and significant new appointments gained in the regeneration, commercial and residential markets. The involvement of regional offices in major developments and the increased use of 3D analysis and design have improved the overall efficiency of the structural business.

### Urban Regeneration

Work has commenced on site on the major project; Paradise Street in Liverpool for Grosvenor. Waterman is providing full design services on the 165,000m<sup>2</sup> mixed use development which is being undertaken as part of Liverpool's renaissance; the city will celebrate European Capital of Culture in 2008 and part of the site has been awarded World Heritage status. In Bristol, Waterman has completed tender designs on the Broadmead project incorporating over 87,000m<sup>2</sup> of retail, residential and leisure development and work has commenced on

site with early demolition and enabling works activities. Waterman has recently been appointed for the planning stage of the 22 hectare former Vauxhall car plant at Luton and the planning application is currently being considered for this mixed use development. Work has commenced on site on the 50,000m<sup>2</sup> Grand Arcade project in Wigan with completion anticipated in 2007. Detailed design on a 44,000m<sup>2</sup> development at Eagles Meadow, Wrexham is also progressing to meet a planned start on site in 2006.

### Commercial

Work is underway on 125 Old Broad Street for Hammerson UK Projects, involving significant refurbishment of the existing 30 storey former Stock Exchange building to create 34,000m<sup>2</sup> of high quality office space. In London, work has commenced on 1 Wood Street, a 20,000m<sup>2</sup> development for Land Securities and two projects in Gresham Street for Standard Life and Morley Fund Management. In Inverness, good progress has been made on the design of offices and support facilities for Scottish Natural Heritage, providing facilities for approximately 500 staff.

### Residential

The residential market has remained particularly active during the year. Design is about to commence on a 20 storey apartment building for Barratt Homes and recent completions include developments for Bellway Homes; a 23 storey tower for Berkeley Homes; the Green Building at Macintosh Village, Manchester, which incorporates a number of sustainable measures to create a low energy building; and a 500 bed student accommodation

building in Leeds which was completed for the start of the 2004 academic year. Waterman has been appointed for pre-planning advice at Silvertown Quays which is south of the new Olympic Site; a residential development at Founders Place for St Thomas' Hospital NHS Trust; and detailed design is due to commence on the 23 storey Mill 4 building at Macintosh Village.

Looking to the future, Waterman Structures is currently providing early pre-planning advice on a number of major mixed use developments in London containing landmark high-rise residential buildings. The unique technical challenges associated with these structures is well matched by significant analysis capability, resulting from ongoing software and training investment.

### PFI

Waterman has been on the winning teams for several important health care and educational projects, and has been selected as preferred bidders for three new major hospitals in Leicester and five schools in West Lothian, Scotland. A number of educational projects have commenced on site including six student accommodation buildings for the University of East London; five schools in Barnsley, with a further four schools due for construction in 2006; and the extension to Parkside School for the City of Bradford Metropolitan District Council. In addition, two new schools have been completed in Harrow.



125 Old Broad Street, London

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IMAGE REMOVED AT  
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Durham City Retail Park

IMAGE REMOVED AT  
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Leicester Pathway PFI Image Courtesy of BDP

IMAGE REMOVED AT  
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IMAGE REMOVED AT  
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Woodlands School, Harrow

The Green Building, Macintosh Village, Manchester

### Retail

Following the successful completion of the Bullring in Birmingham, Waterman has progressed with the design of several significant developments in Leicester, Cheltenham, Leeds, Oxford, Wigan and Peterborough which have a combined retail area of over 300,000m<sup>2</sup>. On the majority of these developments, additional professional services are being provided as part of a multidiscipline appointment. During 2004, the 22,500m<sup>2</sup> Durham City Retail Park was opened and the Met Quarter development in Liverpool is expected to be completed by the end of 2005.

### Industrial

Several large projects are currently being progressed and design work is ongoing on facilities for News International, Donkin Valves and Dagenham bus maintenance depot. Two new waste recycling plants were completed during the year as part of the PFI waste project in Leicester.

## Waterman Building Surveying

**Waterman Building Surveying has had a successful year, strengthening its position within core business areas, whilst expanding into new markets. The division has seen the benefits of synergy this year, working with other Group companies on a number of projects.**

### Operations

The division's building surveyors provide advice in the traditional building surveying fields but also in the more complex aspects of the Party Wall etc. Act 1996 and boundary dispute law. The division has a diverse workload ranging from single part-building tenancies to major building portfolios.

A steady workload of party wall surveying has been maintained with appointments from major housebuilders, Berkeley Homes, KingsOak Homes, Wimpey Homes and Ward Homes.

A number of shorter term projects have been completed for other clients including British Waterways, Crawley Council, Cirencester Council and John Lewis Partnership.

In addition to party wall surveying, the division has secured a number of contracts with Transport for London on a series of surveys in advance of street modernisation works and further commissions are anticipated.

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**IMAGE REMOVED AT  
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**IMAGE REMOVED AT  
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Tianjin Central Fishing and Leisure Port, China

**IMAGE REMOVED AT  
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Festival City, Phase 8b, Dubai

Lower Haihe River Masterplan, Tianjin, China

## **Waterman International**

International operations have again shown continued growth in the year in accordance with the company strategy. The international expansion policy has led to an increased number of clients with worldwide operations that utilise Waterman in a number of regions of the world. Recently established offices in Dubai and China have secured significant projects and are now operating successfully.

### **Overview**

International operations are located in offices in Beijing, Brussels, Bucharest, Dubai, Moscow, Sydney and Warsaw. Projects are also undertaken with established associate companies throughout the rest of the world from the London headquarters. International strategy has focused on developing the new offices and expansion of the multi-disciplinary capability in all offices.

The new offices in Dubai and China have secured an encouraging level of new business for the future. The Sydney office has formed a structural division, which is now working on projects in Sydney, Dubai and Vietnam. Operations in Moscow and Warsaw have expanded and increased turnover is forecast for the current year.

### **CIS**

Due to increased workload, the 40 strong Moscow team relocated to new offices in the city in September 2004. The multi-disciplinary office offers building services, structural engineering and infrastructure services.

New and existing clients are becoming increasingly aware of developing projects which have standards suitable for long term investment from large foreign institutions, placing the company's Russian operations in a strong position for future growth.

The retail market is strong, particularly outside Moscow in cities such as Novosibirsk and Togliatti where new commissions have been won. Refurbishment work has also been undertaken on the prestigious Tsum shopping mall in Moscow.

In leisure, the design of an aquapark has just been completed and is now under construction. The Moscow Aquarium, the first of its kind in Moscow, has been re-activated with the commencement of design stage. In Barhiva district, the design for a new hotel has been completed for a major Russian client.

### **Central and Eastern Europe**

The Warsaw and Bucharest offices serve this region and after several challenging years the market has significantly improved. Work has been secured in Poland, Bucharest, Ukraine and Kazakhstan, principally for international clients operating in the region.

Due to an expanding workload, the Warsaw office has moved to modern premises in the city allowing for further expansion. The team is now working closely with the Moscow office to provide an integrated service to clients across the region.

Consultancy services on the new paint shop for Peugeot in Trvana have been successfully completed.

### **Europe**

The construction market in the primary European countries has remained challenging, although the Brussels office has secured good turnover on major projects for key clients in Belgium, France and Luxembourg. Work has also commenced on a large oils and fats plant in Saudi Arabia for De Smet Group.

Design work on the prestigious Lex 2000 project for the European Union is nearing completion with construction well advanced on site. Final phases of the Kirchberg project are currently under design, with the development due for completion in 2006. A new commission has been secured for major client Codic at Tour Gaucheret in Brussels.

### **Middle East**

In November 2004, the Dubai office was appointed for building services design on Phase 8b and part of Phase 2 of the Dubai Festival City project comprising two hotels, conference centre and retail with associated car parking and residential tower. The team was subsequently appointed as structural and building services designer on the remainder of Phase 2 comprising offices and residential buildings. The total development area of these phases is over 300,000m<sup>2</sup> and will provide workload for the next two years. Due to expansion the team moved to larger offices in Dubai in July 2005.

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Sakarova, Moscow

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Lesnaya, Moscow

Tour Gaucheret, Brussels

### Asia Pacific

The Sydney office established a structural division during the year, which has rapidly expanded to a team of eight with good prospects for further growth. In Sydney, work has been completed on the prestigious Nortel headquarters at Macquarie Bank, together with the Ettalong Beach Resort and Towns Place projects. Work continues on new projects for key clients including Bankstown Shopping Centre, Woolworths Headquarters at Norwest and King Street

Wharf developments at Darling Harbour. The office has worked extensively with the Dubai team on major Dubai Festival City projects and these will continue into the current year. The Asian Development Bank has been targeted for funded projects in the Asia region and the company has been shortlisted for a significant highway study in China.

### China

The Chinese business has progressively grown over the year with five key appointments for projects in Tianjin, including the masterplan for a new port, a masterplan and transportation study for the lower reaches of the Haihe River and masterplanning for a new residential development. A feasibility study has also been undertaken for an international food manufacturer for a new facility in Eastern China.

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Lex 2000, Brussels

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Coventry Hospitals

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Derby City Hospital

Pupils from Snowfield School in Southwark attending The Canterbury Tales production sponsored by Better Bankside

## Waterman Health & Safety

Waterman Health and Safety is the Group's health and safety advisor and offers consultancy services to clients in the private and public sectors. It has maintained a steady workload throughout the year with a mix of long and short term commissions.

### Overview

Waterman Health & Safety has continued to provide planning supervision services on a number of long term commissions including whitecity™, Coventry Hospitals PFI, Derby Hospitals PFI, the Eden Project, Mayfair in Leeds city centre and The Beach in Cornwall.

New planning supervision commissions have been won including Mansfield Hospital PFI, Stroud College, Croydon Gateway, the Tank Museum and a series of projects for the University of Dundee. In addition, an increasing level of infrastructure related planning supervision work is being undertaken both as independent commissions and as part of Group projects. In the last year, this has included the Luton Butterfields development and Dartford Park in Kent together with schemes for Bexley Council and Bournemouth Borough Council.

Occupational health and safety advice is being provided to a broad range of clients and the need to undertake premises audits to show compliance with continually changing health and safety legislation has seen a significant increase in commissions.

## Sustainability

Waterman Group has continued to manage its affairs and offer professional services in accordance with its core values, sustainability policy and ISO 14001 Environmental Management System. The context within which the Group operates continues to evolve, with increasing levels of legislative change over the last year. The sustainability services offered by the Group are designed to meet these legislative imperatives.

The Group's sustainability activities in-house continue to be guided by the Director-level Sustainability Strategy Group; the group is assisting the plc Board in its production of the Operating and Financial Review, under Companies Act Regulations 2005. This will report upon the financial, environmental and social effects of Group activities and the progress made towards improving Group performance against industry standards.

*The Group continues to improve sustainability awareness within its staff body, in line with Government guidance in "Securing the Future" (Cmd 6467), so that all operations and advice encompass sustainability. Members of staff have contributed to industry consultations and advisory bodies over the year, as well as inputting to training programmes for others within the industry, to promote best practice procedures.*

The Group specifically continues to keep abreast of developments in connection with the EU Building Performance Energy

Directive. Energy labelling for buildings, (providing energy efficiency information to owners and occupiers) is due to be implemented for all new and refurbished public buildings during 2006.

Over the year, Group companies have worked on many flagship sustainability projects including Barking Riverside in Thames Gateway, Nottingham Eastside, The Grange in Dublin, Napier Park, Luton and The Guildhall, London. These projects have a combined project value in excess of £5 billion.

Waterman Group supports the local community through Better Bankside in London and has representation on its Corporate Social Responsibility and Environmental Groups. The role of these groups is to improve the local environment and build links with local schools and their education programmes, and to promote work with young people with emphasis on preventing economic inactivity.



## Board of Directors

IMAGE REMOVED AT  
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From left to right:

**Alex Burton**

Director - aged 62

**Bob Campbell**

Managing Director - aged 63

**Barry Gore**

Director - aged 57

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From left to right

**Arthur Austin**

Director - aged 58

**Craig Beresford**

Director - aged 46

**John Archibald**

Non-executive director - aged 62

**Graham Hiscocks**

Financial Director - aged 51

IMAGE REMOVED AT  
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From left to right

**Nick Taylor**

Director - aged 46

**Roger Fidgen**

Chairman - non-executive - aged 59

**John Waiting**

Director - aged 48

## Financial Review

### Trading results

The Group has delivered significantly improved performance in profits and margins. Work done from continuing operations has increased by 11.4% to £72.4m, supplemented by £0.2m from the acquisition of Quadrant Consulting Limited. Operating profit has increased by 60.1% to £3.4m (2004: £2.1m) and after interest charges of £0.3m, pre tax profit is up 55.6% to £3.1m.

Cash flow has remained healthy and net debt has reduced by £1.2m to £3.8m

### Work done and operating profit

Work done has grown by £7.6m (11.7%) to £72.6m, most of which has been organic. In particular, the UK environmental and structural engineering disciplines have recorded substantial progress from urban regeneration activities in response to strong demand.

Operating margins have risen from 3.3% to 4.7% reflecting projects releasing profits earlier than expected and tight control over increases in staff costs, depreciation and other operating charges.

### Goodwill amortisation

The Group amortises goodwill acquired on acquisitions over 20 years together with any further charge as a result of detailed impairment reviews. The charge of £833,000 (2004: £768,000) represents 1.2% of work done (2004: 1.2%).

### Interest

Net interest payable has fallen by £90,000 to £296,000 (2004: £386,000). This charge comprises interest receivable of £188,000 (2004: £88,000) from investment of short term cash balances offset by interest payable of £484,000 (2004: £474,000) on long term loans used to purchase freehold property and acquisitions.

Interest payable is nearly nine times covered by operating profit before goodwill amortisation.

### Taxation

Group taxation has been charged at an effective tax rate of 30% (2004: 24%) on profit before tax, exceptional items and goodwill amortisation. This reflects a change in the mix of profits between the UK and overseas operations experiencing a lower tax rate. This average rate takes account of the prevailing rates of corporate tax charged on profits earned in the UK and overseas countries from which the Group operates.

### Earnings per share

111,335 new ordinary shares have been issued during the year (0.4% of the total) following the exercise of share options and as part of the consideration for the acquisition of Quadrant Consulting Limited. Profit on ordinary activities after taxation increased by £533,000 to £1.94m (2004: £1.41m) and basic earnings per share increased by 35.3% to 6.9p (2004: 5.1p), reflecting the 37.9% increase in profit on ordinary activities after taxation. Basic earnings per share before goodwill amortisation was 9.8p (2004: 7.8p).

### Dividend

The board reviews the Group's earnings per share, cash position and future prospects when recommending the final dividend for approval. The board has recommended a final dividend of 3.3p (2004: 3.0p) per share to be paid on 15 December 2005 to ordinary shareholders on the register at 18 November 2005. With the interim dividend of 1.9p (2004: 1.9p) paid on 20 April 2005, a total dividend of 5.2p (2004: 4.9p) per share will be paid for the year. The board wishes to progress to a position whereby the dividend paid should be covered at least 2 times by basic earnings per share before goodwill amortisation.

### Cash flow

The Group's net debt position, which comprises liquid cash balances offset by long and short term borrowings, improved by £1.2m due to strong cash inflows and repayment of loans. Continuous effort is required to maintain work in progress at low levels and collect invoiced trade debts as promptly as possible. Write offs for irrecoverable debts and work in progress have been low and net debt of £3.8m (2004: £5.0m) represents low gearing of 14.8% based on net debt as a percentage of equity shareholders funds or 24.7% based on net debt as a percentage of equity shareholders funds excluding intangibles.

### Working capital

Net current assets increased by 1.6% (£0.2m) whilst work done increased by over 11.7% reflecting faster asset turnover and effective management of working capital assets. Increases in debtor and creditor values on the balance sheet include higher levels of amounts recoverable on contracts, payments in advance and accrued contract costs carried for long term contracts.

### Capital expenditure

The Group continued to invest in upgrades to its IT assets and improvements to its office premises. During the year, £1.2m was spent on hardware and software improvements with £300,000 spent on premises upgrades to the Group's Lingfield and Lockington offices. The depreciation charge of £1.5m matched the level of capital expenditure incurred.

## Acquisitions

On 6 April 2005, the Group acquired Quadrant Consulting Limited, a civil and structural engineering consultancy based in Cardiff, for a total consideration of £369,000 which included net assets of £54,000. Goodwill arising on acquisition of £315,000 has been capitalised. An operating profit of £11,000 is reported since acquisition.

In December 2001, the Group acquired the Aspen Consulting Group. Since that date, Aspen has been successfully integrated into the Waterman Group, strengthening its presence in the civil engineering sector and enhancing its proportion of public sector work. The consideration paid comprised an initial consideration of £5.5m and a deferred consideration based upon the profits delivered by Aspen over the following three years. The Aspen Consulting Group has reported profits in line with the Group's original expectations and the total deferred consideration payable has been agreed at £2.6m.

## Treasury

The Group manages its internal and external funding in response to its operational and investment requirements. Generally, the Group maintains sufficient cash to meet its day to day operations, but will consider external funding for major capital expenditures such as property, and smaller acquisitions.

The Group's financial instruments comprise borrowings, cash, liquid resources and trade debtors. The principal purpose of these is to finance its overseas operations and the main risks comprise interest rate risk, liquidity risk and foreign currency risk. The Group's policies for managing these risks are summarised in note 29 to the financial statements.

The Group does not trade in financial instruments.

## International Financial Reporting Standards (IFRS)

With effect from the next financial year, the Group will prepare its interim and end of year financial statements in accordance with IFRS guidelines. Conversion to IFRS will not affect the underlying business or its future prospects, but will represent a significant change to its reporting requirements.

The Group has created a programme to achieve a smooth transition to IFRS reporting and has already agreed the principles for restatement of its financial statements with its auditors. The adoption of IFRS will result in changes to the presentation of information in the financial statements. The principal areas which are expected to be affected by IFRS are listed below:

### Goodwill impairment

The current policy is to capitalise goodwill acquired on acquisition and amortise it on a straight line basis over its estimated useful life. An annual impairment review is also performed which may lead to an additional goodwill impairment charge if future cash flows of an acquired business are uncertain. Under IFRS, from the date of transition 1 July 2004, the straight line amortisation charge will be abandoned and replaced by the annual impairment review in accordance with IAS 36 'Impairment of Assets'.

### Share based payments

Under IFRS 2 'Share Based Payments', share options granted after 7 November 2002 require a charge against earnings based upon the fair value of the share options at the date of grant, spread on a straight line basis over the vesting period. For qualifying options in issue, this will require a charge against opening reserves as at 1 July 2004. Further charges against profit will be required if further share options are issued.

### Proposed dividends

Under IFRS, dividends are charged against earnings in the period in which they are declared and approved whereas under UK GAAP, dividends are accrued in the accounting period to which they relate. As a result of this change, the final dividend for 2005 and the interim dividend for 2006 will be charged against earnings in the financial year ended 30 June 2006.

### Taxation

Under IFRS, full provision is required for deferred tax in accordance with IAS 12 'Income Taxes'. The Group's policy under UK GAAP has been to make full provision only where an asset or liability is expected to crystallise in the foreseeable future. This change will create an additional charge against opening reserves at 1 July 2004.

### Freehold property

Under IFRS, companies have a first time implementation opportunity to revalue their freehold property assets without needing to undertake regular revaluations thereafter. The Group currently owns three freehold properties with a written down value of £8.6m which, in the opinion of the directors, are undervalued by around £2.5m against current market value. The directors will consider implementation of a one off revaluation to current market value as permitted under IFRS 1 'First time adoption of IFRS'.

Graham R Hiscocks  
Finance Director and Company Secretary  
21 October 2005

## Summary Directors' Report

The summary financial statement is only a summary of information in the Group's annual financial statements, Directors' Report and Directors' Remuneration Report.

The summary financial statement does not contain sufficient information to allow as full an understanding of the results of the Group and state of affairs of the Company and the Group and of the policies and arrangements concerning directors' remuneration as would be provided by the full financial statements and reports.

Members requiring more detailed information have the right to obtain, free of charge, a copy of the Group's last full financial statements and reports from the Company Secretary, Waterman Group plc, Pickfords Wharf, Clink Street, London, SE1 9DG.

Members may elect in writing to receive full financial statements and reports in place of summary financial statements for all future financial years.

The independent auditors' report on the financial statements and the auditable part of the Directors' Remuneration Report is unqualified and does not contain any statement concerning a failure to maintain proper accounting records or a failure to obtain necessary information and explanations.

### Principal Activities and Review of Business Operations

The principal activity of Waterman Group plc is that of a holding company. The principal activity of its subsidiary undertakings is the provision of design services and advice in the fields of civil, structural, mechanical, electrical and power engineering together with environmental and health and safety consultancy.

The Chairman's Statement together with the Review of Operations within the Annual Review contain a commentary on the Group's performance and activities during the year and details of its current activities and proposed developments.

### Results and Dividends

The financial results for the year are set out in the Summary Group Profit and Loss Account.

The profit on ordinary activities after taxation and minority interest was £1,908,000 (2004: £1,408,000). The directors propose the payment of a final dividend of 3.3p which, together with the interim dividend of 1.9p paid in April 2005 makes a total distribution of 5.2p (2004: 4.9p) for the year thereby absorbing £1,451,000 of profit (2004: £1,362,000) and leaving a retained profit of £457,000 to be taken to reserves (2004: £46,000). If approved at the Annual General Meeting to be held on 6 December 2005, the final dividend will be paid on 15 December 2005 to shareholders on the register at close of business on 18 November 2005.

### Directors and Their Remuneration

		Base salary & fees £'000	Benefits £'000	Bonus £'000	Share Incentive Plan £'000	Total 2005 £'000	Total 2004 £'000	Pension 2005 £'000	Pension 2004 £'000
Name									
Chairman	W Mathieson (i)	20	-	-	-	20	20	-	-
Chairman	R S Fidgen	20	-	-	-	20	-	-	-
Executive	R H Campbell	135	9	25	1	170	141	13	12
Executive	A C Burton	135	14	25	1	175	153	13	11
Executive	J A Austin	116	10	21	1	148	131	12	11
Executive	B J Gore	135	22	25	1	183	154	13	12
Executive	G R Hiscocks	115	13	21	1	150	127	11	10
Executive	N J Taylor	116	17	21	1	155	130	12	10
Executive	C W Beresford	116	14	21	1	152	122	12	10
Executive	J H Mathys	-	-	-	-	-	107	-	7
Non-exec	J G Archibald	20	-	-	-	20	18	-	-
Non-exec	D O Horne	-	-	-	-	-	8	-	-
		928	99	159	7	1,193	1,111	86	83

(i) William Mathieson resigned from the board on 3 May 2005.

G R Hiscocks  
Company Secretary  
21 October 2005

## Summary Directors' Remuneration Report

### Remuneration Policy

The Company's policy is to attract, motivate and retain executives of a high calibre who will assist it to maintain and develop its competitive position and enhance shareholder value. The Remuneration Committee comprising exclusively of non-executive directors sets the total remuneration packages for the executive directors and aims to achieve this by ensuring that remuneration packages are competitive whilst remaining in line with the performance of the Group and in the interests of shareholders.

### Composition of the Board

The Board of Directors comprises eight executive (2004: seven) and two non-executive directors (2004: three). Their total remuneration comprised salary, bonus and benefits of £1,193,000 (2004: £1,111,000) and pension contributions of £86,000 (2004: £83,000). A detailed schedule of directors and their remuneration is contained in the Summary Directors' Report.

All executive directors are employed under service contracts with a six month notice period and no termination payments. Bonuses are paid upon the performance of the Group as a whole and all executive directors participate in the Company's defined contribution pension scheme. They have all received one or more awards of share options, none of which carry any specific performance criteria.

Non-executive directors are employed under service agreements with either three month or no notice periods and no termination payments. They are not eligible to participate in the Group's pension scheme or share option scheme and receive no bonus payments.

### Performance Graph

This part of the remuneration report is unaudited.

**IMAGE REMOVED AT  
THE REQUEST OF  
COMPANIES HOUSE**

The graph shows a comparison of the Total Shareholder Return (TSR) for the Company's shares for each of the last five years against the TSR for the companies included in the FTSE Fledgling Index which is considered appropriate as it is a broad equity market index of which the Company is a constituent.

This graph has been produced in accordance with Schedule 7A of the Companies Act 1985 as required by the Directors' Remuneration Report Regulations 2002.

By Order of the Board  
Roger S Fidgen  
Chairman of the Remuneration Committee  
21 October 2005



## **Auditors' Report**

### **Statement of the Independent Auditors to the Members of Waterman Group plc**

We have examined the Summary Financial Statement of Waterman Group plc.

#### **Respective Responsibilities of Directors and Auditors**

The directors are responsible for preparing the summarised annual report in accordance with applicable law. Our responsibility is to report to you our opinion on the consistency of the summary financial statement within the summarised annual report with the annual financial statements, the Directors' Report and the Directors' Remuneration Report, and its compliance with the relevant requirements of section 251 of the United Kingdom Companies Act 1985 and the regulations made thereunder. We also read the other information contained in the summarised annual report, and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the summary financial statement.

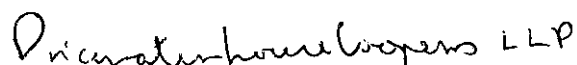
This statement, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 251 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

#### **Basis of Opinion**

We conducted our work in accordance with Bulletin 1999/6 "The Auditor's Statement on the Summary Financial Statement" issued by the Auditing Practices Board for use in the United Kingdom.

#### **Opinion**

In our opinion, the summary financial statement is consistent with the annual financial statements, the Directors' Report and the Directors' Remuneration Report of Waterman Group plc for the year ended 30 June 2005 and complies with the applicable requirements of section 251 of the Companies Act 1985, and the regulations made thereunder.



PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
London  
21 October 2005

## Summary Group Profit and Loss Account

for the year ended 30 June 2005

	2005 £'000	2004 £'000
<b>Work done</b>	<b>72,633</b>	<b>65,019</b>
Operating profit before goodwill amortisation	4,260	2,908
Goodwill amortisation	(833)	(768)
<b>Operating profit</b>	<b>3,427</b>	<b>2,140</b>
Exceptional item - profit on disposal of fixed asset	-	258
Net interest payable	(296)	(386)
<b>Profit on ordinary activities before taxation</b>	<b>3,131</b>	<b>2,012</b>
Taxation on profit on ordinary activities	(1,191)	(605)
<b>Profit on ordinary activities after taxation</b>	<b>1,940</b>	<b>1,407</b>
Equity minority interests	(32)	1
<b>Profit on ordinary activities after taxation and minority interest</b>	<b>1,908</b>	<b>1,408</b>
Dividends paid and proposed	(1,451)	(1,362)
<b>Retained profit for the year</b>	<b>457</b>	<b>46</b>
Basic earnings per share	6.9p	5.1p
Diluted earnings per share	6.7p	5.0p
Basic earnings per share before goodwill amortisation	9.8p	7.8p
Diluted earnings per share before goodwill amortisation	9.6p	7.7p

## Statement of Group Total Recognised Gains and Losses

for the year ended 30 June 2005

	£'000	£'000
<b>Profit for the financial year</b>	<b>1,908</b>	<b>1,408</b>
Exchange adjustment offset in reserves	150	(123)
<b>Total gains and losses recognised since last annual report</b>	<b>2,058</b>	<b>1,285</b>

## Reconciliation of Movement in Shareholders' Funds

for the year ended 30 June 2005

	£'000	£'000
<b>Opening shareholders' funds</b>	<b>25,010</b>	<b>24,979</b>
Profit attributable to shareholders	1,908	1,408
Exchange adjustment	150	(123)
Adjustment in respect of Share Incentive Plan	6	55
Profit on disposal of own shares	2	33
Dividends	(1,451)	(1,362)
Issues of new shares	76	20
<b>Net change in shareholders' funds</b>	<b>691</b>	<b>31</b>
<b>Closing shareholders' funds</b>	<b>25,701</b>	<b>25,010</b>

## Summary Group Balance Sheet

As at 30 June 2005

	2005 £'000	2004 £'000
<b>Fixed assets</b>		
Intangible assets	10,299	10,340
Tangible assets	12,087	12,084
Investments	10	10
	<b>22,396</b>	<b>22,434</b>
<b>Current assets</b>		
Work in progress	1,351	925
Debtors	32,697	29,128
Cash at bank and in hand	3,975	3,862
	<b>38,023</b>	<b>33,915</b>
<b>Creditors</b> (amounts falling due within one year)	<b>(27,362)</b>	<b>(23,418)</b>
<b>Net current assets</b>	<b>10,661</b>	<b>10,497</b>
Total assets less current liabilities	<b>33,057</b>	<b>32,931</b>
<b>Creditors</b> (amounts falling due after more than one year)	<b>(5,314)</b>	<b>(6,809)</b>
<b>Provision for liabilities and charges</b>	<b>(1,338)</b>	<b>(505)</b>
<b>Net assets</b>	<b>26,405</b>	<b>25,617</b>
<b>Capital and reserves</b>		
Called up share capital	2,791	2,780
Share premium account	11,452	11,423
Merger reserve	2,146	2,110
Profit and loss account	9,312	8,697
<b>Equity shareholders' funds</b>	<b>25,701</b>	<b>25,010</b>
Equity minority interest	704	607
<b>Capital employed</b>	<b>26,405</b>	<b>25,617</b>

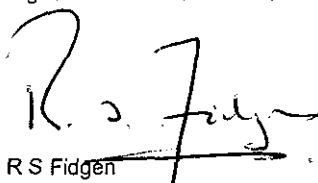
## Summary Group Cash Flow Statement

for the year ended 30 June 2005

	£'000	£'000
<b>Net cash inflow from operating activities</b>	<b>5,731</b>	<b>5,122</b>
Returns on investments and servicing of finance	(266)	(436)
Taxation paid	(782)	(519)
Capital expenditure and financial investment	(1,423)	(657)
Acquisitions	(1,208)	(1,377)
Equity dividends paid	(1,363)	(1,360)
<b>Cash inflow before financing</b>	<b>689</b>	<b>773</b>
Financing	(533)	(339)
<b>Increase in cash in the year</b>	<b>156</b>	<b>434</b>

These summary financial statements were approved by the Board of Directors on 21 October 2005

Signed on behalf of the Board:



R S Fiddgen  
Director



R H Campbell  
Director

## **Shareholder Information**

### **Financial Calendar**

16 November 2005	Ordinary shares quoted ex-dividend
18 November 2005	Record date for proposed final dividend
06 December 2005	Annual General Meeting 2005
15 December 2005	Final dividend payable
March 2006	Interim results announced for the six months to 31 December 2005
April 2006	Interim dividend payable
October 2006	Preliminary announcement of results for the year to 30 June 2006
December 2006	Annual General Meeting 2006

## **Advisers**

### **Stockbrokers and Financial Advisers**

Evolution Securities Ltd 100 Wood Street London EC2V 7AN

### **Auditors**

PricewaterhouseCoopers LLP 1 Embankment Place London WC2N 6RH

### **Solicitors**

Ashursts Broadwalk House 5 Appold Street London EC2A 2HA

### **Principal Bankers**

HSBC Bank plc 22 Victoria Street Westminster London SW1H 0NJ

### **Registrars and Transfer Office**

Capita Registrars The Registry 34 Beckenham Road Beckenham Kent BR3 4TU

### **Company Registration Number**

2188844

## **Financial Review**

### **Trading results**

The Group has delivered significantly improved performance in profits and margins. Work done from continuing operations has increased by 11.4% to £72.4m, supplemented by £0.2m from the acquisition of Quadrant Consulting Limited. Operating profit has increased by 60.1% to £3.4m (2004: £2.1m) and after interest charges of £0.3m, pre tax profit is up 55.6% to £3.1m.

Cash flow has remained healthy and net debt has reduced by £1.2m to £3.8m

### **Work done and operating profit**

Work done has grown by £7.6m (11.7%) to £72.6m, most of which has been organic. In particular, the UK environmental and structural engineering disciplines have recorded substantial progress from urban regeneration activities in response to strong demand.

Operating margins have risen from 3.3% to 4.7% reflecting projects releasing profits earlier than expected and tight control over increases in staff costs, depreciation and other operating charges.

### **Goodwill amortisation**

The Group amortises goodwill acquired on acquisitions over 20 years together with any further charge as a result of detailed impairment reviews. The charge of £833,000 (2004: £768,000) represents 1.2% of work done (2004: 1.2%).

### **Interest**

Net interest payable has fallen by £90,000 to £296,000 (2004: £386,000). This charge comprises interest receivable of £188,000 (2004: £88,000) from investment of short term cash balances offset by interest payable of £484,000 (2004: £474,000) on long term loans used to purchase freehold property and acquisitions.

Interest payable is nearly nine times covered by operating profit before goodwill amortisation.

### **Taxation**

Group taxation has been charged at an effective tax rate of 30% (2004: 24%) on profit before tax, exceptional items and goodwill amortisation. This reflects a change in the mix of profits between the UK and overseas operations experiencing a lower tax rate. This average rate takes account of the prevailing rates of corporate tax charged on profits earned in the UK and overseas countries from which the Group operates.

### **Earnings per share**

111,335 new ordinary shares have been issued during the year (0.4% of the total) following the exercise of share options and as part of the consideration for the acquisition of Quadrant Consulting Limited. Profit on ordinary activities after taxation increased by £533,000 to £1.94m (2004: £1.41m) and basic earnings per share increased by 35.3% to 6.9p (2004: 5.1p), reflecting the 37.9% increase in profit on ordinary activities after taxation. Basic earnings per share before goodwill amortisation was 9.8p (2004: 7.8p).

### **Dividend**

The board reviews the Group's earnings per share, cash position and future prospects when recommending the final dividend for approval. The board has recommended a final dividend of 3.3p (2004: 3.0p) per share to be paid on 15 December 2005 to ordinary shareholders on the register at 18 November 2005. With the interim dividend of 1.9p (2004: 1.9p) paid on 20 April 2005, a total dividend of 5.2p (2004: 4.9p) per share will be paid for the year. The board wishes to progress to a position whereby the dividend paid should be covered at least 2 times by basic earnings per share before goodwill amortisation.

### **Cash flow**

The Group's net debt position, which comprises liquid cash balances offset by long and short term borrowings, improved by £1.2m due to strong cash inflows and repayment of loans. Continuous effort is required to maintain work in progress at low levels and collect invoiced trade debts as promptly as possible. Write offs for irrecoverable debts and work in progress have been low and net debt of £3.8m (2004: £5.0m) represents low gearing of 14.8% based on net debt as a percentage of equity shareholders funds or 24.7% based on net debt as a percentage of equity shareholders funds excluding intangibles.

### **Working capital**

Net current assets increased by 1.6% (£0.2m) whilst work done increased by over 11.7% reflecting faster asset turnover and effective management of working capital assets. Increases in debtor and creditor values on the balance sheet include higher levels of amounts recoverable on contracts, payments in advance and accrued contract costs carried for long term contracts.

### **Capital expenditure**

The Group continued to invest in upgrades to its IT assets and improvements to its office premises. During the year, £1.2m was spent on hardware and software improvements with £300,000 spent on premises upgrades to the Group's Lingfield and Lockington offices. The depreciation charge of £1.5m matched the level of capital expenditure incurred.

### **Acquisitions**

On 6 April 2005, the Group acquired Quadrant Consulting Limited, a civil and structural engineering consultancy based in Cardiff, for a total consideration of £369,000 which included net assets of £54,000. Goodwill arising on acquisition of £315,000 has been capitalised. An operating profit of £11,000 is reported since acquisition.

In December 2001, the Group acquired the Aspen Consulting Group. Since that date, Aspen has been successfully integrated into the Waterman Group, strengthening its presence in the civil engineering sector and enhancing its proportion of public sector work. The consideration paid comprised an initial consideration of £5.5m and a deferred consideration based upon the profits delivered by Aspen over the following three years. The Aspen Consulting Group has reported profits in line with the Group's original expectations and the total deferred consideration payable has been agreed at £2.6m.

### **Treasury**

The Group manages its internal and external funding in response to its operational and investment requirements. Generally, the Group maintains sufficient cash to meet its day to day operations, but will consider external funding for major capital expenditures such as property, and smaller acquisitions.

The Group's financial instruments comprise borrowings, cash, liquid resources and trade debtors. The principal purpose of these is to finance its overseas operations and the main risks comprise interest rate risk, liquidity risk and foreign currency risk. The Group's policies for managing these risks are summarised in note 29 to the financial statements.

The Group does not trade in financial instruments.

### **International Financial Reporting Standards (IFRS)**

With effect from the next financial year, the Group will prepare its interim and end of year financial statements in accordance with IFRS guidelines. Conversion to IFRS will not affect the underlying business or its future prospects, but will represent a significant change to its reporting requirements.

The Group has created a programme to achieve a smooth transition to IFRS reporting and has already agreed the principles for restatement of its financial statements with its auditors. The adoption of IFRS will result in changes to the presentation of information in the financial statements. The principal areas which are expected to be affected by IFRS are listed below:

### **Goodwill impairment**

The current policy is to capitalise goodwill acquired on acquisition and amortise it on a straight line basis over its estimated useful life. An annual impairment review is also performed which may lead to an additional goodwill impairment charge if future cash flows of an acquired business are uncertain. Under IFRS, from the date of transition 1 July 2004, the straight line amortisation charge will be abandoned and replaced by the annual impairment review in accordance with IAS 36 'Impairment of Assets'.

### **Share based payments**

Under IFRS 2 'Share Based Payments', share options granted after 7 November 2002 require a charge against earnings based upon the fair value of the share options at the date of grant, spread on a straight line basis over the vesting period. For qualifying options in issue, this will require a charge against opening reserves as at 1 July 2004. Further charges against profit will be required if further share options are issued.

### **Proposed dividends**


Under IFRS, dividends are charged against earnings in the period in which they are declared and approved whereas under UK GAAP, dividends are accrued in the accounting period to which they relate. As a result of this change, the final dividend for 2005 and the interim dividend for 2006 will be charged against earnings in the financial year ended 30 June 2006.

### **Taxation**

Under IFRS, full provision is required for deferred tax in accordance with IAS 12 'Income Taxes'. The Group's policy under UK GAAP has been to make full provision only where an asset or liability is expected to crystallize in the foreseeable future. This change will create an additional charge against opening reserves at 1 July 2004.

### **Freehold property**

Under IFRS, companies have a first time implementation opportunity to revalue their freehold property assets without needing to undertake regular revaluations thereafter. The Group currently owns three freehold properties with a written down value of £8.6m which, in the opinion of the directors, are undervalued by around £2.5m against current market value. The directors will consider implementation of a one off revaluation to current market value as permitted under IFRS 1 'First time adoption of IFRS'.



Graham R Hiscocks  
Finance Director and Company Secretary  
21 October 2005

## Directors' Report

The directors present their report, together with the audited financial statements for the year ended 30 June 2005.

### Principal Activities and Review of Business Operations

The principal activity of Waterman Group plc is that of a holding company. The principal activity of its subsidiary undertakings is the provision of design services and advice in the fields of civil, structural, mechanical, electrical and power engineering together with environmental and health and safety consultancy.

The Chairman's Statement together with the Review of Operations within the Annual Review contain a detailed commentary on the Group's performance and activities during the year and details of its current activities and proposed developments.

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The profit on ordinary activities after taxation and minority interest was £1,908,000 (2004: £1,408,000). The directors propose the payment of a final dividend of 3.3p which, together with the interim dividend of 1.9p paid in April 2005 makes a total distribution of 5.2p (2004: 4.9p) for the year thereby absorbing £1,451,000 of profit (2004: £1,362,000) and leaving a retained profit of £457,000 to be taken to reserves (2004: £46,000). If approved at the Annual General Meeting to be held on 6 December 2005, the final dividend will be paid on 15 December 2005 to shareholders on the register at close of business on 18 November 2005.

### Acquisitions

On 6 April 2005, the Group acquired a 100% interest in Waterman Quadrant Limited (formerly Quadrant Consulting Limited), a trading company registered in England and Wales which provides civil engineering and project management services to a wide range of clients in Wales and south west England. The consideration of £340,000 was settled in cash and shares. Further details of this acquisition are contained in note 21 to the financial statements.

### Directors and Their Interests

The directors of the Company at the date of this report are shown in the Directors' Remuneration Report. On 3 May 2005, William Mathieson resigned as Chairman and a non-executive director of the Company. On 4 May 2005, Roger S Fidgeon was appointed as Chairman of the Company.

On 1 July 2005, John F Waiting was appointed as an executive director.

Robert H Campbell, James A Austin and Nicholas J Taylor retire by rotation at the forthcoming AGM and, being eligible, offer themselves for re-election. In accordance with the Articles of Association John F Waiting will retire and offer himself for election to the Board. Short biographies of the four directors referred to above are set out on a separate circular to shareholders accompanying the Annual Report and Summary Financial Statement.

None of the directors held any interest, either during or at the end of the financial year, in any material contract or arrangement with the Company or any subsidiary undertaking.

Details of directors' service contracts and directors' interests in shares and options are shown in the Directors' Remuneration Report.

### Substantial Interests in Shares

Other than directors' interests, as at 30 September 2005, the Company had been notified of the following material interests of over 3% or, in the case of non-material interests of 10% of its issued ordinary share capital:

	Number of shares held	%
Liontrust Asset Management	4,319,631	15.5%
F Clappitt Esq.	1,691,995	6.1%
Executors of A G Thomson deceased	1,159,400	4.2%

The directors are not aware of any other interest amounting to 3% or more of the issued share capital which requires to be reported under Section 211 of the Companies Act 1985.



### **Supplier Payment Policy**

The Group agrees payment terms with its suppliers when it enters into contracts or relationships. The Group complies with the payment terms when it is satisfied that the supplier has delivered the goods or services in accordance with the agreed terms and conditions. The Group does not follow an established standard for the payment of suppliers.

At 30 June 2005, the Group had 39 days (2004: 34 days) purchases outstanding. The Company had 25 days (2004: 25 days) purchases outstanding.

### **Employment Policy**

As a consultancy business, Waterman recognises that its staff are its most important asset. Staff are kept informed of developments within the Group through regular announcements, newsletters and electronic communications. Regular staff meetings enable their views to be taken into consideration.

The Group places great importance on its ability to attract and retain staff of the highest calibre. This is achieved by offering competitive salaries and benefits, accompanied by effective training and the creation of career development opportunities throughout the Group. Most companies now operate a flexible benefits scheme which enables staff to select from a range of benefits. In recognition of the contribution made by staff, an annual appropriation of free shares is distributed to all qualifying members of staff from its Share Incentive Plan, based on the Group's profit before taxation. A bonus payment scheme also exists for current staff to introduce new staff with the requisite skills to join the Group.

Waterman operates an equal opportunities policy and is committed to ensuring that its workplaces are free from discrimination of any kind. Recruitment and employment decisions are made on the basis of fair and objective criteria. The requirements of job applicants and existing members of staff who suffer from disability are considered to ensure that wherever possible, reasonable adjustments are made to enable them to enter into or remain in employment with the Group.

### **Corporate Social Responsibility**

A report on the Company's principles and compliance is set out in the Corporate Social Responsibility section of this report.

### **Corporate Governance**

A report on the Company's principles and compliance is set out in the Corporate Governance section of this report.

### **Going Concern**

After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

### **Donations**

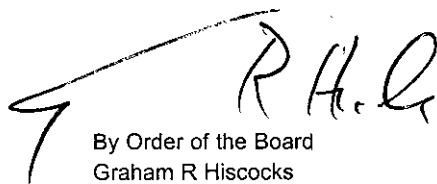
Charitable donations during the year amounted to £23,045 (2004: £5,617). Individual amounts of greater than £200 were donated for the following purposes: Child welfare £11,164, Third World Poverty £1,962, Tsunami Appeal £1,358 and Cancer Research £1,075. A further £6,570 was donated to non-specific charitable organisations.

### **Annual General Meeting**

The Annual General Meeting will be held at 12.00 noon on 6 December 2005. Formal notice and details of the meeting are set out on a separate circular to shareholders accompanying the Annual Report and Summary Financial Statement.

### **Auditors**

A resolution proposing the re-appointment of PricewaterhouseCoopers LLP, who have indicated their willingness to continue in office as auditors, and authorising the directors to determine their remuneration will be proposed at the Annual General Meeting.



By Order of the Board  
Graham R Hiscocks  
Company Secretary  
21 October 2005

## Corporate Social Responsibility (CSR)

Corporate social responsibility means integrating environmental and social concerns into commercial operations, and engaging more fully with all stakeholders: staff, clients, investors and the communities within which we work. Over the last few years, Waterman Group has worked hard to undertake this integration and to become more socially and environmentally aware.

The Group mission is:

"To develop innovative, economic and sustainable solutions that successfully meet the needs of our clients, whilst adding value and a better quality of life for all. In doing so, we aim to provide an exciting and rewarding work environment for our employees and a successful, dynamic Group, meeting the aspirations of all our stakeholders."

To help us meet our mission, we embarked in 2000, on a programme of review of our internal management processes and all of our main UK offices are now registered to both ISO 9000 and ISO 14001. The manager of our Integrated Management System reports to a Director and to the plc Board.

ISO 14001 requires that the Group operates in accordance with its Environmental Policy which is set out in full later in this section of the report. Specifically, we seek to minimise the use of natural resources such as energy, water and paper, during our work; to measure, manage and minimise the amount of waste created and to keep our staff and suppliers abreast of new developments about sustainability and the environment.

As of next year, new non-financial reporting regulations come into force. These will require listed companies to consider and publicly report upon environmental, employment, social and community policies, so that stakeholders can understand how these affect the business and the wider community. As part of our continual improvement of operations, we are preparing for this reporting change by setting baseline data against targets for performance in a number of financial and non-financial areas of business.

The Group's Sustainability Policy is an overarching commitment to sustainable working practices; it is reproduced in full on page 7. The formulation and subsequent implementation of this policy to all Group activities has meant that we are well prepared to face the challenges of corporate social reporting, as now required. Specifically, we are encouraging and recording all aspects of staff development and particularly encouraging training and research in the areas of sustainable design and construction; members of our staff have appeared in training videos to help the industry generally to learn more about sustainable working practices. We are similarly examining and recording all aspects of our charitable giving, not just in terms of direct financial contributions, but also in working time donated to community endeavours, such as acting as a school governor. The effect of adopting a sustainable approach to working is reflected within the range of projects with which the Group companies are now involved, including elements of geothermal heating and cooling, photovoltaic cells, Combined Heating and Power (CHP) plants and Sustainable Urban Drainage Systems (SUDS).

The Ethical Investment Research body (EIRIS) regards Waterman Group's work as of low environmental impact; it considers Group internal governance procedures as compliant with requirements and commends the Group's advanced code of ethics, its clear policy in relation to bribery and its commitment to ISO 9000. EIRIS regards the Group's environmental management of process, as evidenced by ISO 14001 certification, as exceptional.

The Group is well aware of its legislative and pastoral duties as regards health and safety and the Group policy on this matter is reproduced in full, below. During the past year the Group has had no serious incidents of breach of its policy and has been involved in no prosecutions or complaints concerning health and safety.

The following is a summary of Group policies with regard to sustainability, health and safety and the environment.

### **Sustainability Policy**

The Group is committed to achieving a high level of awareness of the ethical and commercial importance of sustainability to the organisation and wherever practicable, to integrating sustainable and responsible practice into its day-to-day operations.

Sustainable development is the means of ensuring a better quality of life for all, now and in the future. It means effective conservation of the environment and prudent use of resources. It also means equality of social progress and the maintenance of high and stable levels of economic growth.

Within its working practices the Group will:

- Clarify to all companies and staff the aims of sustainability

- Strive to select contractors and suppliers on the basis of shared values and standards of sustainable practice

- Work in partnership with clients, contractors, architects and other consultants to achieve the aims of sustainability so as to:

  - Protect and enhance the natural environment, including the noise environment, wherever possible*

  - Encourage the sustainable use of resources at all times

  - Reduce waste generation where practicable and dispose of waste responsibly

  - Strive to reduce consumption of energy in construction and use

  - Promote the use of sustainable modes of transport and reduce the number of motorised vehicle journeys so as to reduce emissions and improve air quality

  - Comply with relevant legislation and adopt working standards based on international best practice

  - Promote sustainable design, development and construction practices

- Reward continual improvement in the sustainability performance of all aspects of our business and report our performance for the benefit of all stakeholders

Within the operation and management of its internal affairs, the Group will strive to:

  - Adopt an holistic approach to business planning and practice, to include non-financial measures of success

  - Implement quality, health and safety and environmental management systems to maintain continual improvements in these areas

  - Provide a high standard of working environment for all employees and promote the adoption of a healthy work-life balance

  - Promote efficiency in energy use and paper recycling in all its places of business

  - Support and encourage wherever possible staff members' participation in charitable or community activities

  - Promote Green Travel Plans for all offices

  - Support all professional and administrative activities with appropriate training, coaching and advice

  - Conduct its business with the highest standards of professional and personal integrity and honesty

### **Health and Safety Policy**

The Group's policy aims to prevent accidents, incidents and ill health by providing and maintaining adequate control of risks arising from all work activities within its offices or at associated site locations. The Group place the highest priority on the protection of its employees, construction industry workers not in its employment, individuals affected by our activities and the environment.

Through correct delegation of responsibilities, the principal objectives are to undertake to:

- Maintain a safe and healthy working environment

- Provide and maintain safe plant and equipment

- Provide information, instruction, training and supervision

- Ensure safe handling and use of substances

- Consult employees on matters affecting their health and safety

The Group's senior management offers its full support and commitment on all health and safety issues and provides sufficient funds and resources to enable correct implementation of the policy, while meeting the expectations of our stakeholders. The successful implementation of the policy relies on all responsibilities being fulfilled and continuous improvement through regular monitoring and reviews.

Waterman Health and Safety, a division of Waterman Civils Limited, acts as health and safety advisors to all operating companies within the Group. The division reviews the Group's health and safety policy, advises upon new and impending changes to legislation, provides training to staff on general health and safety matters, provides training to designers on CDM regulations and construction site safety, and advises senior management on staff wellbeing.

Staff visiting construction sites are now required to hold the nationally recognised Construction Skills Certification Scheme (CSCS) cards. A program of training to achieve this accreditation is now underway and many design staff are now fully qualified.

The Group provides a health and safety consultative forum comprising representatives from operating companies which is responsible for consulting with staff on health and safety matters and passing concerns and recommendations to senior management.

Waterman Health and Safety undertook the second annual office and company health and safety inspections to determine overall health and safety performance and compliance with existing legislation and good practice. There was a general improvement in the health and safety performance of each company and office.

In order to further confirm the Group's commitment to health and safety, we are working towards expanding our integrated management system to include health and safety accreditation in addition to the already implemented quality and environmental management systems.

### **Environmental Policy**

The Group is committed to achieving a high standard of environmental awareness at all levels within the organisation and to promoting environmentally responsible practice both within the workplace and beyond. The Group believes that everyone has a part to play in safeguarding and enhancing the environment. The guiding principles of the Group's environmental policy are to strive to:

- Prevent pollution and protect and enhance the natural environment wherever possible
- Encourage the sustainable use of natural resources
- Regularly set, and monitor the achievement of, objectives and targets to promote the continual improvement in environmental performance of all aspects of our business
- Reduce waste generation where practicable and dispose of all waste responsibly and safely
- Comply with all relevant environmental legislation and adopt internal standards based on international best practice
- Encourage the adoption of energy, water and resource efficiency and conservation measures
- Promote awareness of environmental issues amongst staff, clients and other interested parties
- Select contractors, suppliers and materials that meet acceptable environmental standards
- Promote environmentally sympathetic design and construction practices wherever possible
- Promote the best use of environmentally sustainable modes of transport
- Document, implement, maintain and communicate this policy to all employees

The Group aims to develop and refine its environmental policy by remaining abreast of current and future best practice developments and corporate environmental standards. To this end it supports the work of organisations such as the Environmental Council, CIRIA, The Chartered Institute of Waste Management, the British Urban Regeneration Association and the Institute of Environmental Management and Assessment. The majority of the Group's offices are now registered to the internationally recognised environmental management system ISO 14001.

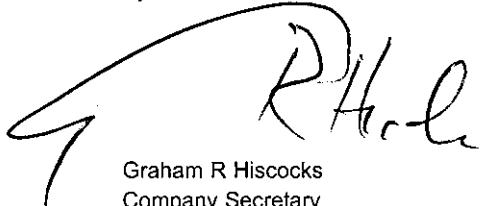
## Statement of Directors' Responsibilities

The directors are required by company law to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group as at the end of the financial year and of the profit or loss of the Group for that period. The directors are responsible for and consider that, in preparing the financial statements, the Group has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates. All accounting standards which they consider to be applicable have been followed and the financial statements have been prepared on the going concern basis. The directors also have responsibility for maintaining the integrity of the Group's website.

The directors have responsibility for ensuring that the Company and the Group keep accounting records which disclose with reasonable accuracy at any time, the financial position of the Company and of the Group and which enable them to ensure that the financial statements comply with the Companies Act 1985. The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and of the Group and to prevent and detect fraud and other irregularities.

Information published on the internet is accessible in many countries with different legal requirements. UK legislation governing preparation and dissemination of financial statements may therefore differ from that in other jurisdictions.

By Order of the Board

A handwritten signature in black ink, appearing to read 'G R Hiscocks', is written over a large, stylized, curved line that starts from the left margin and arches over the signature.

Graham R Hiscocks  
Company Secretary  
21 October 2005

## Directors' Remuneration Report

The Directors' Remuneration Report has been prepared in compliance with Part 2 and 3 of Schedule 7A of the Companies Act 1985 as required by the Directors' Remuneration Report Regulations 2002 and the provisions of Schedule B to the Combined Code annexed to the UK Listing Authority Listing Rules.

This report sets out the Company's policy on the remuneration of executive and non-executive directors together with details of directors' remuneration packages and service contracts. The report consists of unaudited information with the exception of the sections entitled Remuneration of Directors and Interest in Share Options. This report will be submitted to the Company's shareholders for their approval at the AGM on 6 December 2005.

### Unaudited Information

#### Remuneration Committee

Remuneration policy for executive and non-executive directors and the determination of individual directors' remuneration packages have been delegated to this Committee which consists only of independent non-executive directors.

The Committee comprises Roger S Fidgen (Chairman from 4 May 2005) and John G Archibald, who have served throughout the year. In addition, William Mathieson served as Chairman until his resignation from the Board on 3 May 2005. The members of the Committee have no personal financial interests in the Company other than as shareholders, no potential conflicts of interest and no day to day responsibility for business operations.

The terms of reference of the Committee are to review and set the total remuneration packages for the executive directors and to consider incentive remuneration for the senior management of the Group as a whole. The remuneration of the non-executive directors is determined by the executive directors. Total remuneration packages are reviewed annually.

During the year, no external party has provided advice that materially assisted the Remuneration Committee.

#### Remuneration Policy

The Company's policy is to attract, motivate and retain executives of a high calibre who will assist it to maintain and develop its competitive position and enhance shareholder value. The Committee aims to achieve this by ensuring that remuneration packages are competitive whilst remaining in line with the performance of the Group and in the interests of shareholders.

The main elements of the executive directors' remuneration packages are:

- a) Basic salary, pension contributions and benefits in kind
- b) Performance related annual bonus payment
- c) Share options and free shares

##### a) Basic salary, pension contributions and benefits in kind

Basic salary is reviewed annually having regard to:

- individual performance
- salaries paid by companies of similar size in the same sector
- the current financial performance of the Group
- the relationship between the remuneration of directors and other employees
- the effect of local living costs if directors are resident overseas

Pension contributions are currently paid at the rate of 10% of base salary.

Benefits in kind include company car or car allowance, private health insurance and rail season ticket.

#### **b) Performance related annual bonus payment**

An executive bonus scheme was introduced in 1995, which rewards executive directors and management within the Group upon achievement of financial targets.

Under the scheme, 15% of profit on ordinary activities before taxation is made available for distribution between executive directors and management, subject to a maximum of 25% of base salary for each individual. Bonuses payable to executive directors and management will take account of the performance of the Group, its operating divisions and the individual. The bonus reported in the Remuneration of Directors table is the bonus paid in the financial year. The bonus earned by directors in the year ended 30 June 2005 will be paid in December 2005 following approval by the Remuneration Committee.

The current bonus scheme is considered to be both challenging and an incentive to management to meet the Group's strategic objectives.

#### **c) Share options and free shares**

During the year no new share options were awarded and none were exercised as shown in the Interests in Share Options table.

Historically, the exercise of share options issued has not required any performance criteria to be achieved. In future, the Remuneration Committee will set performance targets when future awards of share options are granted.

The Remuneration Committee also approves the distribution of free shares in the Company to staff under the Group's Share Incentive Plan arrangements. The directors also participate in this scheme and receive an appropriation of shares in line with the scheme rules.

#### **Directors' Service Contracts**

Currently, executive directors' service contracts are not for a fixed term, but may be terminated by either party on six month's notice. There are no specific contractual provisions in relation to the payment of any termination payments over and above the stated notice period.

The details of the service contracts of those who served as directors during the year are as follows:

Name	Contract date	Notice period
R S Fidgen (non-executive)	1 July 2004	None
R H Campbell	27 April 1988	6 months
A C Burton	27 April 1988	6 months
J A Austin	27 April 1988	6 months
B J Gore	20 December 1991	6 months
G R Hiscocks	7 June 1993	6 months
N J Taylor	6 January 2003	6 months
C W Beresford	6 January 2003	6 months
J G Archibald (non-executive)	6 January 2003	3 months
W Mathieson (non-executive)	11 August 1993	3 months

## Performance Graph

The graph shows a comparison of the Total Shareholder Return (TSR) for the Company's shares for each of the last five years against the TSR for the companies included in the FTSE Fledgling Index which is considered appropriate as it is a broad equity market index of which the Company is a constituent. TSR is measured as the growth in share price plus re-invested dividends from year to year.

IMAGE REMOVED AT  
THE REQUEST OF  
COMPANIES HOUSE

This graph has been produced in accordance with Section 234B of the Companies Act 1985 and the information specified in Schedule 7A as required by the Directors' Remuneration Report Regulations 2002.

## Directors' Interests in Shares

The beneficial interest of the directors in office at 30 June 2005 in the share capital of the Company on the dates set out below were:

Name	30 June 2005	30 June 2004
R S Fidgen	10,000	-
R H Campbell	1,063,645	1,062,969
A C Burton	1,039,810	1,039,199
J A Austin	441,614	448,529
B J Gore	60,045	74,369
G R Hiscocks	38,436	37,864
N J Taylor	13,278	22,706
C W Beresford	52,698	52,126
J G Archibald	6,052	6,052

Since 30 June 2005, N J Taylor has sold 5,000 ordinary shares and his shareholding at 30 September 2005 was 8,278. All other directors' shareholdings remained unchanged at 30 September 2005.



## Audited Information

### Remuneration of Directors

		Base salary & fees £'000	Benefits £'000	Bonus £'000	Share Incentive Plan £'000	Total 2005 £'000	Total 2004 £'000	Pension 2005 £'000	Pension 2004 £'000
Name									
Chairman	W Mathieson	20	-	-	-	20	20	-	-
Chairman	R S Fidgen	20	-	-	-	20	-	-	-
Executive	R H Campbell	135	9	25	1	170	141	13	12
Executive	A C Burton	135	14	25	1	175	153	13	11
Executive	J A Austin	116	10	21	1	148	131	12	11
Executive	B J Gore	135	22	25	1	183	154	13	12
Executive	G R Hiscocks	115	13	21	1	150	127	11	10
Executive	N J Taylor	116	17	21	1	155	130	12	10
Executive	C W Beresford	116	14	21	1	152	122	12	10
Executive	J H Mathys	-	-	-	-	-	107	-	7
Non-exec	J G Archibald	20	-	-	-	20	18	-	-
Non-exec	D O Horne	-	-	-	-	-	8	-	-
		928	99	159	7	1,193	1,111	86	83

Benefits provided to executive directors are detailed within the Remuneration Policy section of this report. Bonuses paid to executive directors reflect their contribution to the Group's performance, the performance of the operating unit for which they are responsible and their personal performance as assessed by the Remuneration Committee. Pension contributions are only paid upon base salary and are paid to personal pension plans. Remuneration reported for William Mathieson relates to the period from the start of the year to the date of his retirement on 3 May 2005. John F Waiting joined the Board after the year end.

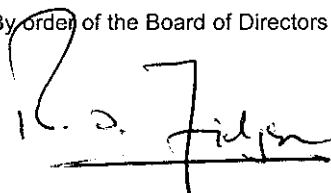
### Interests in Share Options

At 30 June 2005, the following directors held options to subscribe for shares in the Company:

	Award Date	No. of shares under option at 01.07.04	No. of shares under option at 30.06.05	Exercise price	Exercise period
J A Austin	15/11/2002	50,000	50,000	44.5p	15/11/2005 - 14/11/2012
B J Gore	19/11/1998	25,000	25,000	50.0p	19/11/2001 - 18/11/2008
	15/11/2002	100,000	100,000	44.5p	15/11/2005 - 14/11/2012
G R Hiscocks	15/11/2002	50,000	50,000	44.5p	15/11/2005 - 14/11/2012
N J Taylor	15/11/2002	50,000	50,000	44.5p	15/11/2005 - 14/11/2012
C W Beresford	15/11/2002	50,000	50,000	44.5p	15/11/2005 - 14/11/2012
		325,000	325,000		

No share options were granted, none were exercised and none lapsed during the year. The closing mid market price of the Company's shares on 30 June 2005 was 98.5p (2004: 75.0p) and ranged between 116p and 67p during the year.

By order of the Board of Directors



Roger S Fidgen  
Chairman of the Remuneration Committee  
21 October 2005

## Corporate Governance

A new code of principles and detailed provisions of Corporate Governance was issued by the Financial Reporting Council in July 2003. The new Combined Code, developed from the Higgs Review of the role and effectiveness of non-executive directors issued in January 2003 and the Smith Guidance on audit committees issued in July 2003 became effective from 1 November 2003.

This is the first year that Waterman Group has been required to comply with the new Code and this report sets out its compliance with the new Combined Code.

### Statement of compliance

The Company considers that, for the year ended 30 June 2005, it has complied with all provisions of the Combined Code 2003. The Company has taken advantage of code provision A.3.2 permitting a smaller company to have only two independent non-executive directors on its board.

### The Board of Directors

The board is responsible to stakeholders for the effective management of the business. It provides entrepreneurial leadership within a framework of prudent and effective controls which enables risk to be assessed and managed. It sets the strategic aims, ensures that resources are adequate and reviews management performance. It sets the Company's standards and values and ensures that its obligations to all stakeholders are met.

The board meets its corporate governance obligations in the following manner:

### Board balance and independence

The board currently comprises eight executive and two independent non-executive directors. It believes that the composition reflects an appropriate balance of skills, knowledge and experience with which to conduct its business.

The executive directors have a wide range of experience and represent the key disciplines and activities performed within the business. On 1 July 2005, following a review process undertaken by the Group's nomination committee, John Waiting, managing director of the Group's civil engineering business was appointed to the board as an executive director.

The independent non-executive directors have wide-ranging experience developed over many years in business. In May 2005, our former Chairman William Mathieson retired after 12 years of service. Following a review process undertaken by the Group's nomination committee, Roger Fidgen was appointed as the new Chairman. Mr Fidgen joined the company as a non-executive director in 2004 and has worked in the property industry for over 30 years until his retirement and most recently as managing director of the leading international cost consultancy, Gardiner and Theobald. Our senior independent non-executive director, John Archibald joined the board in 2003 and has worked in banking and finance for over 30 years, most recently with Flemings until his retirement in 2000. The board believes that two influential and effective independent non-executive directors provide sufficient and appropriate experience to meet shareholder needs and corporate governance obligations.

### Operation of the board and its committees

The board carries ultimate responsibility for the conduct and stewardship of the business. The board meets monthly to consider matters reserved for its attention and other matters of significance to the business. An executive committee of the board comprising Robert Campbell, Alexander Burton and Barry Gore consider key business matters and issues and make recommendations to the board for approval.

An agenda with appropriate supporting papers including management accounts are issued in advance of each board meeting in a timely manner to enable directors to be made aware of the matters to be discussed. Minutes of each board meeting are issued and approved at the following meeting.

The three principal committees of the board are the audit and risk committee, the remuneration committee and the nomination committee. The terms of reference for these committees are set by the board and reviewed annually. These committees exclusively comprise the independent non-executive directors with the exception of the nomination committee of which Robert Campbell is also a member. Minutes of all committee meetings are circulated to and reviewed by the board.

The Chairman and non-executive director meet without the executive directors present at least once each year. At least one third of the board is required to retire by rotation each year. In addition, newly appointed directors will stand for election by shareholders at the first annual general meeting following their appointment.

## **Responsibilities of the board**

There is a formal schedule of matters reserved for decision by the board or its committees including strategy, approval of annual budgets, approval of company accounts, major capital investments, risk management, senior management appointments, acquisitions, disposals and significant financing matters.

All directors have access to the advice and services of the Company Secretary and to independent professional advice at the company's expense.

The Company has purchased insurance against the legal costs of defending directors and officers against civil proceedings taken against them and in respect of damages resulting from an unsuccessful defence, unless the director or officer were found to have acted dishonestly or fraudulently.

## **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.

**Audit and Risk Committee** – this committee operates to meet the company's audit and internal control responsibilities. The committee currently comprises John Archibald as Chairman and Roger Fidgen, both of whom are independent non-executive directors. John Archibald is a chartered accountant. On 3 May 2005, William Mathieson retired from the company and from this committee. All members have relevant business and financial experience.

In relation to its audit role, the committee monitors the effectiveness of the audit process taking account of relevant UK regulatory and professional requirements, approves the terms of engagement and remuneration of the auditor and recommends the re-appointment of the auditor to the board. The committee met with the auditor on two occasions. The committee monitors the accuracy of the financial statements and reviews significant reporting judgements used. The committee also reviews any formal announcements made by the company and takes account of the relevant ethical guidance regarding the provision of non audit services provided by the external auditor.

In relation to its internal control and risk management role, the committee met on two occasions to review the adequacy and effectiveness of the procedures operated by the company. The committee also considered the arrangements in place by which staff can raise any concerns about financial matters and the procedures for the investigation of matters brought to its attention.

Following each meeting, the Chairman of the Audit Committee reports to the board and makes recommendations for any actions or improvements that are required. The full terms of reference for the Audit and Risk Committee are available on request from the company's registered office.

**Remuneration Committee** – the Directors' Remuneration Report describes the work of the committee.

**Nomination Committee** – this committee leads the process for board appointments, taking account of the balance of skills, knowledge and experience on the board. It currently comprises Roger Fidgen as Chairman and John Archibald, both of whom are independent non-executive directors and Robert Campbell. On 3 May 2005, William Mathieson retired from the company and from this committee.

During the year, the committee met on two occasions to consider and make recommendations for the appointment of a new Chairman and a new executive director.

When selecting a new non-executive Chairman to succeed William Mathieson, a list of prospective candidates was prepared and the suitability of each candidate was compared to a job specification for the position. Upon selection, Roger Fidgen confirmed that he had no other significant commitments which would adversely affect his ability to meet the demands of the role.

The committee also considered the balance of professional disciplines represented by the currently appointed directors and determined that the Group's largest discipline, civil engineering, should have a dedicated representative on the board. A job specification was prepared and the managing director of Waterman Civils Limited, Mr John Waiting, was interviewed and subsequently appointed to the board.

In view of the committee's extensive knowledge of the requirements for potential candidates for the above positions, the committee considered the use of external recruitment consultants to be unnecessary.

## Board and committee meeting attendance

The following table details the attendance of directors at board and committee meetings during the year.

	Board		Audit and Risk Committee		Remuneration Committee		Nomination Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
<b>Executive Directors</b>								
R H Campbell	12	11	-	-	-	-	2	2
A C Burton	12	9	-	-	-	-	-	-
J A Austin	12	10	-	-	-	-	-	-
B J Gore	12	10	-	-	-	-	-	-
G R Hiscocks	12	11	-	-	-	-	-	-
N J Taylor	12	10	-	-	-	-	-	-
C W Beresford	12	12	-	-	-	-	-	-
<b>Non-Executive Directors</b>								
W Mathieson	12	9	4	2	3	3	2	1
R S Fidgen	12	11	4	3	3	3	2	2
J G Archibald	12	12	4	4	3	3	2	2

## Performance evaluation

An evaluation of the performance of the board, its committees and its members has been undertaken during the year. Performance measurement criteria were developed during a series of informal meetings of directors and incorporated the suggestions for good practice from the Higgs Report. The board considered that the use of an external third party advisor was unnecessary.

### Board performance

The criteria used for the performance evaluation included the effectiveness of strategic planning and implementation, risk management and internal control, effectiveness of board members and meetings and the company's relationship with its stakeholders – shareholders, employees, clients and the community. The evaluation process reassured the board that it was operating effectively, however in those areas where improvements can be made, a programme for action has been prepared. This process will be repeated annually.

### Committee performance

The criterion used for the performance evaluation was based upon the terms of reference for each committee. Some small areas for improvement have been identified and actions are in process to address these.

### Individual performance

Evaluations were undertaken against a checklist of tailored criteria and objectives. Performance evaluations for the executive directors were performed by the managing director and reviewed by the non-executive directors. An evaluation of the performance of the managing director and non-executive director was performed by the Chairman. The evaluation of the performance of the Chairman was deferred until next year since the interval between his date of appointment and the date of the review process was too short. However, the process by which to evaluate his performance has been put in place. Where performance weaknesses have been identified, programmes for individual improvement have been prepared.

## Internal control

The board is responsible for reviewing and approving the adequacy and effectiveness of the system of internal control operated by the Group. These include its business, financial, compliance and operational risks. On behalf of the board, the audit and risk committee performs an annual review of these risks affecting all operating companies and the procedures by which these risks are promptly identified and effectively communicated for attention. A summary of key issues is presented for attention by the board. The board confirms that there is a continuing process in operation for identifying, evaluating and managing risks to which the Group is exposed, and that the process has operated throughout the year under review and continues to operate.

The key features of the system of internal control operated by the Group are as follows:

- The Group publishes its mission statement and core values which emphasise a culture of integrity, technical excellence, fairness and sustainability.
- Regular meetings of the Group board are held to discuss corporate governance, risk management, strategic and financial matters. The Group purchases insurance at levels which are reviewed each year to provide protection against losses arising from claims from clients.
- A clearly defined organisational structure exists with levels of authority and division of responsibility.
- A director on the Group board is nominated to sit on the board of each principal operating company board and conveys significant matters for their attention or decision.
- Detailed budgets are prepared annually by operating company management and approved by the Group board. Financial performance of all companies is reviewed monthly against budget and prior year results.
- Procedures operate to review the progress of each ongoing project each month. Profits are only recognised when the ultimate outcome of a project can be reasonably foreseen and anticipated losses are written off as soon as they are identified. Fees negotiated for larger projects are approved by two or more experienced directors and unexpected risks identified during an ongoing project are reported to the board.
- The Group board approves the annual capital expenditure budget and authorises the purchase of major items of capital expenditure.
- Operating company boards exercise operational and financial management and the managing director of each operating company board sits as its representative on the Group Management Board which has responsibility for operational matters which are common to all Group companies.
- The Group employs suitably qualified management who are responsible and accountable for the operation of effective financial systems and controls for all operating companies.
- The Board reviews the need for an internal audit function annually and has currently determined that it is not necessary in view of the size of the Group.

There are inherent limitations in any system of internal control. Any system, however effective, can only provide reasonable but not absolute assurance against material misstatement and loss. The Group's controls and procedures are reviewed each year with the objective of managing rather than limiting the risk of failure to meet objectives.

## Investor relations

The Company communicates with its shareholders by providing full disclosure in its annual and interim reports. All shareholders are encouraged to attend the Annual General Meeting at which the Group's finances and operations are reviewed, and when all Group directors will be present to respond to questions. The Chairmen of the Group's committees will answer questions relating to the operation of the committees and the work undertaken.

The managing director and finance director meet with the company's principal shareholders following the announcement of the annual and interim results and on other occasions when required. The Chairman and senior independent non-executive director also make themselves available to meet with principal shareholders when required.

## Report of the Independent Auditors

### Independent Auditors' Report to the Members of Waterman Group plc

We have audited the financial statements which comprise the Group Profit and Loss Account, the Group and Company Balance Sheets, the Group Cash Flow Statement, the Statement of Group Total Recognised Gains and Losses and the related notes. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the Directors' Remuneration Report ("the auditable part").

### Respective Responsibilities of Directors and Auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the Statement of Directors' Responsibilities. The directors are also responsible for preparing the Directors' Remuneration Report.

Our responsibility is to audit the financial statements and the auditable part of the Directors' Remuneration Report in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. 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 auditable part of the Directors' Remuneration Report have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if 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 or the Listing Rules regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Directors' Report, the unaudited part of the Directors' Remuneration Report, the Financial Review and the Corporate Governance Statement.

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.

### Basis of Audit Opinion

We conducted our audit in accordance with auditing standards 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 auditable part of the Directors' Remuneration Report. 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 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 auditable part of the Directors' Remuneration Report 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.

## Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group at 30 June 2005 and of the profit and cash flows of the Group for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the Directors' Remuneration Report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

London

21 October 2005

## Group Profit and Loss Account

for the year ended 30 June 2005

	Notes	Continuing operations £'000	Acquisitions £'000	Year ended 30 June 2005 £'000	Year ended 30 June 2004 £'000
Turnover		72,477	235	72,712	67,533
Movement in work in progress and accrued contract costs		(43)	(36)	(79)	(2,514)
<b>Work done</b>	2	72,434	199	72,633	65,019
Staff costs	3	(39,683)	(142)	(39,825)	(36,183)
Depreciation	12	(1,464)	(5)	(1,469)	(1,552)
Other operating charges	4	(27,038)	(41)	(27,079)	(24,376)
Operating expenses before goodwill amortisation		(68,185)	(188)	(68,373)	(62,111)
Operating profit before goodwill amortisation		4,249	11	4,260	2,908
Goodwill amortisation	11	(833)	-	(833)	(768)
<b>Operating profit</b>		3,416	11	3,427	2,140
Exceptional item - profit on disposal of fixed asset	5			-	258
Net interest payable	6			(296)	(386)
<b>Profit on ordinary activities before taxation</b>				3,131	2,012
Taxation on profit on ordinary activities	7			(1,191)	(605)
<b>Profit on ordinary activities after taxation</b>				1,940	1,407
Equity minority interests				(32)	1
<b>Profit on ordinary activities after taxation and minority interests</b>				1,908	1,408
Dividends	8			(1,451)	(1,362)
<b>Retained profit for the year</b>	19			457	46
Basic earnings per share	9			6.9p	5.1p
Diluted earnings per share	9			6.7p	5.0p
Basic earnings per share before goodwill amortisation	9			9.8p	7.8p
Diluted earnings per share before goodwill amortisation	9			9.6p	7.7p

## Statement of Group Total Recognised Gains and Losses

for the year ended 30 June 2005

	£'000	£'000
Profit for the financial year	1,908	1,408
Exchange adjustment offset in reserves	150	(123)
<b>Total gains and losses recognised since last annual report</b>	<b>2,058</b>	<b>1,285</b>

There have been no discontinued operations during the year.

There is no difference between the profit on ordinary activities before taxation and retained profit for the year stated above and their historical equivalents.

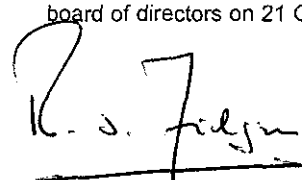


# Group Balance Sheet

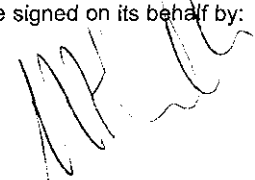
As at 30 June 2005

	Notes	2005 £'000	2004 £'000
<b>Fixed assets</b>			
Intangible assets	11	10,299	10,340
Tangible assets	12	12,087	12,084
Investments	13	10	10
		<b>22,396</b>	<b>22,434</b>
<b>Current assets</b>			
Work in progress	14	1,351	925
Debtors	15	32,697	29,128
Cash at bank and in hand		3,975	3,862
		<b>38,023</b>	<b>33,915</b>
<b>Creditors</b> (amounts falling due within one year)	16	<b>(27,362)</b>	<b>(23,418)</b>
<b>Net current assets</b>		<b>10,661</b>	<b>10,497</b>
<b>Total assets less current liabilities</b>		<b>33,057</b>	<b>32,931</b>
<b>Creditors</b> (amounts falling due after more than one year)	17	<b>(5,314)</b>	<b>(6,809)</b>
<b>Provision for liabilities and charges</b>	24	<b>(1,338)</b>	<b>(505)</b>
<b>Net assets</b>		<b>26,405</b>	<b>25,617</b>
<b>Capital and reserves</b>			
Called up share capital	18	2,791	2,780
Share premium account	19	11,452	11,423
Merger reserve	19	2,146	2,110
Profit and loss account	19	9,312	8,697
<b>Equity shareholders' funds</b>	20	<b>25,701</b>	<b>25,010</b>
Equity minority interest		704	607
<b>Capital employed</b>		<b>26,405</b>	<b>25,617</b>

The financial statements which comprise the Group Profit and Loss Account, the Group and Company Balance Sheets, the Group Cash Flow Statement, the Statement of Group Total Recognised Gains and Losses and the related notes were approved by the board of directors on 21 October 2005 and were signed on its behalf by:



R S Fidgen  
Director



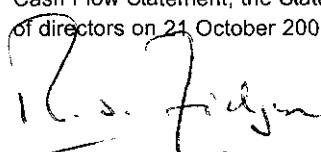
R H Campbell  
Director

# Company Balance Sheet

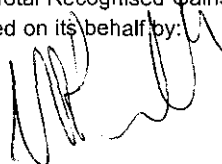
As at 30 June 2005

	Notes	2005 £'000	2004 £'000
<b>Fixed assets</b>			
Tangible assets	12	10,487	10,292
Investments	13	11,905	12,109
		<b>22,392</b>	<b>22,401</b>
<b>Current assets</b>			
Debtors	15	9,809	8,909
Cash at bank and in hand		1,148	609
		<b>10,957</b>	<b>9,518</b>
<b>Creditors</b> (amounts falling due within one year)	16	<b>(10,649)</b>	<b>(7,595)</b>
<b>Net current assets</b>		<b>308</b>	<b>1,923</b>
<b>Total assets less current liabilities</b>		<b>22,700</b>	<b>24,324</b>
<b>Creditors</b> (amounts falling due after more than one year)	17	<b>(5,237)</b>	<b>(6,651)</b>
<b>Provision for liabilities and charges</b>	24	<b>(27)</b>	<b>-</b>
<b>Net assets</b>		<b>17,436</b>	<b>17,673</b>
<b>Capital and reserves</b>			
Called up share capital	18	2,791	2,780
Share premium account	19	11,452	11,423
Merger reserve	19	2,146	2,110
Other reserve	19	790	790
Profit and loss account	19	257	570
<b>Equity shareholders' funds</b>	20	<b>17,436</b>	<b>17,673</b>

The financial statements which comprise the Group Profit and Loss Account, the Group and Company Balance Sheets, the Group Cash Flow Statement, the Statement of Group Total Recognised Gains and Losses and related notes were approved by the board of directors on 21 October 2005 and were signed on its behalf by:



R S Fidgen  
Director



R H Campbell  
Director

# Group Cash Flow Statement

for the year ended 30 June 2005

	Note	Year ended 30 June 2005 £'000	Year ended 30 June 2004 £'000
<b>Net cash inflow from operating activities</b>		<b>5,731</b>	<b>5,122</b>
<b>Returns on investments and servicing of finance</b>			
Interest received		188	88
Interest paid		(452)	(463)
Dividend paid to equity minority interest		-	(50)
Interest paid on hire purchase contracts		(2)	(11)
		<b>(266)</b>	<b>(436)</b>
<b>Taxation</b>			
Taxation paid		<b>(782)</b>	<b>(519)</b>
<b>Capital expenditure and financial investment</b>			
Purchase of tangible fixed assets		<b>(1,463)</b>	<b>(1,044)</b>
Proceeds from sale of tangible fixed assets		<b>40</b>	<b>387</b>
		<b>(1,423)</b>	<b>(657)</b>
<b>Acquisitions</b>			
Purchase of subsidiary undertakings		<b>(1,140)</b>	<b>(1,415)</b>
(Overdraft) / cash acquired with subsidiary		<b>(68)</b>	<b>38</b>
		<b>(1,208)</b>	<b>(1,377)</b>
<b>Equity dividends paid</b>		<b>(1,363)</b>	<b>(1,360)</b>
<b>Cash inflow before financing</b>		<b>689</b>	<b>773</b>
<b>Financing</b>			
Issue of ordinary share capital		<b>36</b>	<b>20</b>
Receipt of bank loans		-	<b>128</b>
Repayment of loans		<b>(409)</b>	<b>(402)</b>
Capital element of hire purchase payments		<b>(64)</b>	<b>(87)</b>
Purchase of shares by Waterman Trustees Limited		<b>(96)</b>	<b>(89)</b>
Sale of shares by Waterman Trustees Limited		-	<b>91</b>
		<b>(533)</b>	<b>(339)</b>
<b>Increase in cash in the year</b>	22	<b>156</b>	<b>434</b>
<b>Reconciliation of operating profit to net cash inflow from operating activities</b>			
Operating profit		<b>3,427</b>	<b>2,140</b>
Profit on disposal of fixed assets		<b>(18)</b>	<b>(2)</b>
Depreciation		<b>1,469</b>	<b>1,552</b>
Goodwill amortisation		<b>833</b>	<b>768</b>
Shares granted under the Share Incentive Plan		<b>104</b>	<b>86</b>
Movement in work in progress		<b>(225)</b>	<b>3,391</b>
Movement in debtors		<b>(3,275)</b>	<b>(8,552)</b>
Movement in creditors		<b>2,583</b>	<b>6,128</b>
Movement in provision for liabilities and charges		<b>833</b>	<b>(389)</b>
<b>Net cash inflow from operating activities</b>		<b>5,731</b>	<b>5,122</b>

# Notes to the Accounts

## 1 Accounting Policies

### Accounting Convention

The financial statements have been prepared in accordance with the Companies Act 1985, under the historical cost convention and on a going concern basis. They have been prepared in accordance with applicable United Kingdom accounting standards and the principal accounting policies have been applied consistently. A summary of the more important Group accounting policies is set out below.

### Basis of Consolidation

The Group financial statements consolidate the financial statements of the Company and all its subsidiary undertakings. The financial statements for each subsidiary undertaking in the Group have been prepared to 30 June 2005. The results of the subsidiary undertakings have been included from the date of acquisition being the date when control passed. All intra group trading and profits are eliminated on consolidation.

### Goodwill

Goodwill arising on acquisition of a subsidiary or a trade is the difference between the fair value of the consideration paid and the fair value of the assets and liabilities acquired. Financial Reporting Standard No. 10 (FRS 10) - Goodwill and intangible assets requires goodwill to be capitalised and amortised over its useful economic life.

- a) Goodwill arising on acquisitions made prior to 1 July 1998 was eliminated against reserves in the year in which it arose. The goodwill would be charged to the profit and loss account in the event of any subsequent disposal of the business to which it relates.
- b) For acquisitions since 1 July 1998, goodwill has been capitalised and amortised. Amortisation is calculated to write off the cost of the intangible assets on a straight line basis over its expected useful economic life in accordance with FRS10. Goodwill is being amortised over periods between 5 and 20 years.

### Investments

Investments are included in the balance sheet at cost less amounts written off, representing impairment in value.

### Work in Progress

Work in progress on short term contracts and contracts where the Group is remunerated on the basis of time expended is stated at cost, less provision for any foreseeable losses and progress payments received or receivable. Cost comprises direct labour, direct expenses and attributable overheads. Amounts relating to long term contracts are included on the basis of the following specific policies:

#### a) Turnover

The proportion of contract activity that is estimated to have been completed, whether the client has been invoiced or not, has been shown as turnover exclusive of VAT.

#### b) Attributable profit

In accordance with SSAP 9 (Revised), attributable profit is recognised for that part of the work performed on each contract at the accounting date when the outcome can be assessed with reasonable certainty before its conclusion, which is normally after the contract has reached 30% or 40% completion.

#### c) Long term contract balances

Long term contract balances represent total costs incurred in respect of work carried out to date, after deducting cost of sales and providing for foreseeable losses. Costs comprise direct labour, direct expenses and attributable overheads.

#### d) Amounts recoverable on contracts

These represent the amounts by which turnover exceeds payments on account and are disclosed in debtors.

#### e) Accrued contract costs

These represent the amounts by which provisions or accruals for foreseeable losses exceed costs incurred, after transfers to costs of sales and are disclosed in creditors. Other contract work entered into on a time and material basis is billed as incurred.

### Tangible Fixed Assets and Depreciation

Tangible fixed assets are stated at cost or fair value when acquired, less depreciation and when appropriate, provision for impairment. Depreciation is provided at rates calculated to write off the cost of tangible fixed assets less estimated residual values over the expected useful economic lives of the assets concerned.

The annual rates used are:

Freehold buildings and long leasehold property - 2% per annum straight line or lease period if less

Plant, equipment and motor vehicles - 15%-33% per annum straight line

Freehold land is not depreciated.

### Pension Costs

The Group operates a defined contribution scheme including a stakeholder scheme which is open to all qualifying staff. Company contributions to these schemes are charged to the profit and loss account in the year to which they relate.

## 1 Accounting Policies (continued)

### Deferred Taxation

Deferred taxation is provided in full on an undiscounted basis, on all timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallize based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in tax computations in periods different from those in which they are included in the financial statements.

A net deferred tax asset is regarded as recoverable and is recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be sufficient taxable profits in the foreseeable future from which the reversal of the underlying timing differences can be deducted.

### Finance and Operating Leases

Costs in respect of operating leases are charged on a straight line basis over the lease term.

Finance lease agreements which transfer to the company substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital element of the leasing commitments is shown as obligations under hire purchase contracts. The lease rentals are treated as capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest is charged against income in proportion to the reducing capital element outstanding. The assets are depreciated over the shorter of the lease term and the useful life of equivalent owned assets.

### Foreign Currencies

Trading results of overseas operations are expressed in sterling at average rates of exchange ruling during the financial year.

Assets and liabilities denominated in foreign currencies are expressed in sterling at the rates of exchange ruling at the balance sheet date. Unrealised exchange differences arising on the translation into sterling of net assets of overseas subsidiary undertakings and on related foreign currency borrowings are recorded as a movement on reserves. Exchange differences arising in the normal course of trade are included in the profit and loss account.

### Financial Instruments

The Group's financial assets and liabilities are recorded at historic cost, apart from the net assets and liabilities of overseas subsidiary undertakings which are translated into sterling at rates of exchange ruling at the balance sheet date. Income and expenditure are also recorded at historic cost. To the extent that foreign currency loans hedge foreign currency investments, the exchange differences are offset in reserves.

## 2 Segmental Information

	Year ended 30 June 2005			Year ended 30 June 2004		
	UK £'000	Overseas £'000	Total £'000	UK £'000	Overseas £'000	Total £'000
Work done	60,002	12,631	72,633	54,954	10,065	65,019
Operating profit	3,066	361	3,427	2,074	66	2,140
Net interest payable and exceptional item	(296)	-	(296)	(128)	-	(128)
Profit before taxation	2,770	361	3,131	1,946	66	2,012
Net assets	21,440	4,965	26,405	21,227	4,390	25,617

All work done in the years ended 30 June 2005 and 2004 arose from the Group's principal activity as engineering and environmental consultants. Details of work done and operating profit relating to the acquisition in the year are disclosed in note 21.

## 3 Staff Costs

	Year ended 30 June 2005 £'000	Year ended 30 June 2004 £'000
Staff costs including executive directors remuneration amounted to:		
Wages and salaries	34,494	31,349
Social security costs	4,044	3,708
Other pension costs	1,287	1,126
	39,825	36,183
The average monthly number of employees including executive directors during the year was as follows:		
	Number	Number
Technical	906	859
Non-technical	187	189
	1,093	1,048

Pension contributions outstanding at 30 June 2005 were £75,000 (2004: £63,000).

#### 4 Other Operating Charges

	Year ended 30 June 2005 £'000	Year ended 30 June 2004 £'000
These include:		
Auditors' remuneration for audit services	161	130
Operating lease rentals - premises	1,549	1,450
- plant and equipment	477	371
Profit on foreign exchange	(24)	(8)
Profit on disposal of fixed assets	(18)	(2)
Rents receivable	(27)	(53)

Remuneration paid to PricewaterhouseCoopers LLP in respect of taxation services amounted to £nil (2004: £9,500) and accounting advisory work totalled £21,000 (2004: £20,000). Auditors' remuneration for the audit of the Company was £7,000 (2004: £7,000).

#### 5 Exceptional Item

During the year ended 30 June 2004 the Group disposed of a long leasehold property in London for net proceeds of £375,000. This resulted in an exceptional profit of £258,000. No tax charge is expected to arise on this profit due to the existence of capital allowances and capital losses within the Group.

#### 6 Net Interest Payable

	£'000	£'000
Interest receivable	(188)	(88)
Interest payable on bank loans and overdrafts	407	447
Interest payable on other loans	75	16
Interest payable on hire purchase contracts	2	11
<b>Net interest payable</b>	<b>296</b>	<b>386</b>

#### 7 Taxation on Profit on Ordinary Activities

	£'000	£'000
United Kingdom		
Corporation tax at 30% (2004: 30%)	1,103	695
Adjustments in respect of prior years	(127)	(146)
	976	549
Foreign tax		
Corporation taxes	207	198
Adjustments in respect of prior years	-	7
<b>Total current tax</b>	<b>1,183</b>	<b>754</b>
United Kingdom		
Origination and reversal of timing differences	(28)	(124)
Adjustments in respect of prior years	82	(1)
	54	(125)
Foreign tax		
Origination and reversal of timing differences	(46)	(18)
Adjustments in respect of prior years	-	(6)
<b>Total deferred tax</b>	<b>8</b>	<b>(149)</b>
<b>Taxation on profit on ordinary activities</b>	<b>1,191</b>	<b>605</b>

## 7 Taxation on Profit on Ordinary Activities (continued)

The total current tax charge for the year differs from the standard rate of corporation tax in the UK (30%) as explained below:

	Year ended 30 June 2005 £'000	Year ended 30 June 2004 £'000
<b>Profit on ordinary activities before tax</b>	<b>3,131</b>	<b>2,012</b>
Taxation on profit at standard UK rate of 30%	939	604
Effects of:		
Rate adjustments relating to overseas profits	(129)	(130)
Expenses not allowed for tax purposes	395	277
Losses not utilised	31	-
Depreciation in excess of capital allowances / other timing differences	74	142
Adjustments in respect of prior years	(127)	(139)
<b>Total current tax</b>	<b>1,183</b>	<b>754</b>

The total tax charge in future years will be affected by any changes in the corporation tax rates in force in the countries in which the Group operates.

## 8 Dividends

	£'000	£'000
Proposed final dividend of 3.3p (2004: 3.0p)	921	836
Paid interim dividend of 1.9p (2004: 1.9p)	529	528
Adjustment to dividend paid in prior year	1	(2)
	<b>1,451</b>	<b>1,362</b>

The Employee Benefit Trust has waived its entitlement to dividends which has reduced the interim dividend by £744 (2004: £2,517) and the final dividend by £180 (2004: £499). Accordingly dividends paid and proposed are calculated on the basis of 27,821,494 (2004: 27,670,683) ordinary shares for the interim dividend paid and 27,926,525 (2004: 27,786,494) ordinary shares for the final proposed dividend.

## 9 Earnings per Share

	Earnings £'000	2005 Weighted average number of shares Thousand	Per share amount Pence	Earnings £'000	2004 Weighted average number of shares Thousand	Per share amount Pence
<b>Basic earnings per share:</b>						
Earnings attributed to ordinary shareholders	1,908	27,845	6.9	1,408	27,793	5.1
Effect of dilutive share options	-	729	(0.2)	-	627	(0.1)
<b>Diluted earnings per share</b>	<b>1,908</b>	<b>28,574</b>	<b>6.7</b>	<b>1,408</b>	<b>28,420</b>	<b>5.0</b>

The basic earnings per share has been calculated on the profit after taxation and equity minority interests for the year and based on a weighted average of 27,844,927 (2004: 27,792,927) ordinary shares in issue and ranking for dividend during the year. The diluted earnings per share also takes account of options potentially convertible into new shares and the calculation is based on a weighted average of 28,574,478 (2004: 28,419,608) shares in issue during the year.

The basic earnings per share before goodwill amortisation has been calculated on the profit on ordinary activities after taxation and minority interest and after adding back goodwill amortisation of £833,000 (2004: £768,000) and is based on a weighted average of 27,844,927 (2004: 27,792,927) ordinary shares in issue and ranking for dividend during the year.

The diluted earnings per share before goodwill amortisation also takes account of options potentially convertible into new shares and the calculation is based on a weighted average of 28,574,478 (2004: 28,419,608) shares in issue during the year. This additional disclosure is provided for the benefit of institutional shareholders.

## 9 Earnings per Share (continued)

	Earnings before goodwill amortisation £'000	2005 Weighted average number of shares Thousand	Per share amount Pence	Earnings before goodwill amortisation £'000	2004 Weighted average number of shares Thousand	Per share amount Pence
<b>Basic earnings per share before goodwill amortisation:</b>						
Earnings attributed to ordinary shareholders	2,741	27,845	9.8	2,176	27,793	7.8
Effect of dilutive share options	-	729	(0.2)	-	627	(0.1)
<b>Diluted earnings per share before goodwill amortisation</b>	<b>2,741</b>	<b>28,574</b>	<b>9.6</b>	<b>2,176</b>	<b>28,420</b>	<b>7.7</b>

## 10 Holding Company Profit and Loss Account

The Company has not presented its own profit and loss account as permitted by Section 230(1) of the Companies Act 1985. The consolidated result for the year includes a profit attributable to shareholders of £1,142,000 which has been dealt with in the accounts of the Company (2004: profit of £1,345,000).

## 11 Intangible Assets

	Group £'000
Goodwill	
Cost	
1 July 2004	12,140
Additions	607
Exchange adjustments	202
<b>30 June 2005</b>	<b>12,949</b>
Amortisation	
1 July 2004	1,800
Charge for the year	833
Exchange adjustments	17
<b>30 June 2005</b>	<b>2,650</b>
Net book amount	
<b>30 June 2005</b>	<b>10,299</b>
30 June 2004	10,340

The goodwill arising on the acquisition of Waterman Quadrant Limited of £315,000 is being amortised on a straight line basis over 20 years. This period is the period over which the directors estimate that the value of the underlying business acquired is expected to exceed the value of the underlying assets.

The final instalment of the three year profit related deferred consideration has been agreed with the vendors of Aspen Consulting Group. This has resulted in an additional sum of £292,000 becoming payable and the Group's goodwill has increased by a corresponding amount.

There are no intangible assets or goodwill in the Company.



## 12 Tangible Assets

Group	Land & freehold property £'000	Plant equipment & motor vehicles £'000	Total £'000
<b>Cost</b>			
1 July 2004	8,980	9,530	18,510
Additions	-	1,463	1,463
Subsidiary undertaking acquired	-	14	14
Disposals	-	(1,882)	(1,882)
Exchange adjustments	-	24	24
<b>30 June 2005</b>	<b>8,980</b>	<b>9,149</b>	<b>18,129</b>
<b>Depreciation</b>			
1 July 2004	302	6,124	6,426
Charge for the year	70	1,399	1,469
Disposals	-	(1,860)	(1,860)
Exchange adjustments	-	7	7
<b>30 June 2005</b>	<b>372</b>	<b>5,670</b>	<b>6,042</b>
<b>Net book amount</b>			
<b>30 June 2005</b>	<b>8,608</b>	<b>3,479</b>	<b>12,087</b>
30 June 2004	8,678	3,406	12,084

Included in the above are fixed assets that have been acquired under finance leases. The net book value of these assets is £142,808 (2004: £159,818) and accumulated depreciation on these assets is £77,605 (2004: £387,574).

Company	Land & freehold property £'000	Plant equipment & motor vehicles £'000	Total £'000
<b>Cost</b>			
1 July 2004	8,980	2,974	11,954
Additions	-	829	829
Disposals	-	(134)	(134)
<b>30 June 2005</b>	<b>8,980</b>	<b>3,669</b>	<b>12,649</b>
<b>Depreciation</b>			
1 July 2004	302	1,360	1,662
Charge for the year	70	564	634
Disposals	-	(134)	(134)
<b>30 June 2005</b>	<b>372</b>	<b>1,790</b>	<b>2,162</b>
<b>Net book amount</b>			
<b>30 June 2005</b>	<b>8,608</b>	<b>1,879</b>	<b>10,487</b>
30 June 2004	8,678	1,614	10,292

Included in the above are fixed assets that have been acquired under finance leases. The net book value of these assets is £nil (2004: £nil) and accumulated depreciation on these assets is £nil (2004: £179,015).

## 13 Investments

Group	30 June 2005 £'000	30 June 2004 £'000
Other unlisted investments at cost and net book value	10	10

Company	Shares in Group undertaking £'000	Long term loan to Group undertaking £'000	Total £'000
1 July 2004	10,246	1,863	12,109
Additions	392	-	392
Provision	(596)	-	(596)
<b>30 June 2005</b>	<b>10,042</b>	<b>1,863</b>	<b>11,905</b>

Additions during the year comprise additional consideration of £292,000 in respect of Aspen Consulting Group and £100,000 in respect of the Company's investment in Waterman Group Insurance Company Limited.

The following companies are the principal subsidiary undertakings at 30 June 2005 and all are consolidated:

	Country of registration / incorporation	Class and percentage of equity and votes held	Nature of business
Waterman AHW Pty Limited	Australia	60% ordinary	Mechanical and electrical consultancy*
Waterman Aspen Limited	England	100% ordinary	Engineering outsourcing consultancy**
Waterman BBT Limited	England	100% ordinary	Civil and structural engineering consultancy
Waterman Civils Limited	England	100% ordinary	Civil engineering consultancy
Waterman Environmental Limited	England	100% ordinary	Environmental consultancy
Waterman Building Services Limited	England	100% ordinary	Building services design and project management consultancy
Waterman Group Insurance Company Limited	Guernsey	100% ordinary	Insurance
Waterman HDC Limited	England	100% ordinary	Civil and structural engineering consultancy****
Waterman Health & Safety Limited	England	100% ordinary	Health and safety consultancy
Waterman International Limited	England	100% ordinary	Engineering consultancy*
Waterman International (Asia) Pty Limited	Australia	60% ordinary	Intermediate holding company*
Waterman International Holdings Limited	England	100% ordinary	Intermediate holding company
Waterman IT Limited	England	100% ordinary	Marketing and sale of computer software
Waterman Partnership Limited	England	100% ordinary	Civil and structural engineering consultancy
Waterman Partnership Midlands Limited	England	100% ordinary	Civil and structural engineering consultancy
Waterman Polska Sp z o.o.	Poland	100% ordinary	Engineering consultancy
Waterman Quadrant Limited	England	100% ordinary	Civil and structural engineering consultancy**
Waterman Structures Limited	England	100% ordinary	Civil and structural engineering consultancy
Waterman Sustainable Energy Limited	England	100% ordinary	Energy, waste and power engineering consultancy
Waterman TCA N.V.	Belgium	100% ordinary	Structural engineering and project management consultancy
Waterman Technology Ltd Co (Beijing)	China	100% ordinary	Civil and structural engineering consultancy*
CPM Environmental Planning & Design Limited	England	100% ordinary	Environmental planning and design
Moylan Consulting Engineers Limited	Republic of Ireland	100% ordinary	Civil and structural engineering consultancy***
Moylan Engineering Limited	Republic of Ireland	100% ordinary	Intermediate holding company

The equity of these subsidiary undertakings is directly held by the Company except where indicated by asterisks.

\* interest held indirectly through Waterman International Holdings Limited.

\*\* interest held indirectly through Waterman Civils Limited.

\*\*\* interest held indirectly through Moylan Engineering Limited.

\*\*\*\* interest held indirectly through Waterman Structures Limited.

## 14 Work in Progress

	Group 30 June 2005 £'000	Group 30 June 2004 £'000
Cost less foreseeable losses	328	500
Long term contract balances	1,725	756
	2,053	1,256
Payments on account	(702)	(331)
	1,351	925

## 15 Debtors

	Company 30 June 2005 £'000	Company 30 June 2004 £'000	Group 30 June 2005 £'000	Group 30 June 2004 £'000
Amounts falling due within one year:				
Trade debtors	-	-	20,030	17,611
Amounts recoverable on contracts	-	-	10,757	9,542
Amounts owed by subsidiary undertakings	8,625	7,606	-	-
Other debtors	183	110	544	638
Corporation Tax	560	793	-	-
Prepayments and accrued income	441	400	1,366	1,337
	9,809	8,909	32,697	29,128

Included within Group other debtors is £305,000 relating to deferred taxation (2004: £302,000). Included within the Company's other debtors is £120,000 relating to deferred taxation (2004: £72,000). Further disclosure on deferred taxation can be found in note 24.

## 16 Creditors Amounts Falling Due Within One Year

	Company 30 June 2005 £'000	Company 30 June 2004 £'000	Group 30 June 2005 £'000	Group 30 June 2004 £'000
Bank overdrafts, loans and finance leases	6,236	4,176	1,191	1,171
Payments received on account	-	-	11,719	10,635
Trade creditors	478	251	2,384	1,918
Accrued contract costs	-	-	1,525	1,020
Amounts owed to subsidiary undertakings	409	50	-	-
Corporation tax	-	-	1,041	621
Other taxes and social security	-	-	2,990	2,859
Other creditors	11	11	585	254
Deferred consideration	1,272	888	1,272	888
Accruals	1,319	1,383	3,731	3,216
Dividends	924	836	924	836
	10,649	7,595	27,362	23,418

## 17 Creditors Amounts Falling Due After More Than One Year

	Company 30 June 2005 £'000	Company 30 June 2004 £'000	Group 30 June 2005 £'000	Group 30 June 2004 £'000
Bank loan	5,237	5,701	5,264	5,748
Finance leases	-	-	50	111
Deferred consideration	-	950	-	950
	<b>5,237</b>	<b>6,651</b>	<b>5,314</b>	<b>6,809</b>
<b>Bank loan repayable by instalments</b>				
Between one and two years	563	599	586	646
Between two and five years	1,084	1,299	1,088	1,299
Between five and ten years	3,590	3,803	3,590	3,803
	<b>5,237</b>	<b>5,701</b>	<b>5,264</b>	<b>5,748</b>
Due within one year	607	518	678	598
	<b>5,844</b>	<b>6,219</b>	<b>5,942</b>	<b>6,346</b>
<b>Finance leases repayable</b>				
Between one and two years	-	-	50	61
Between two and five years	-	-	-	50
	-	-	50	111
Due within one year	-	-	61	61
	-	-	111	172
<b>Deferred consideration</b>				
Between one and two years	-	950	-	950
Due within one year	1,272	888	1,272	888
	<b>1,272</b>	<b>1,838</b>	<b>1,272</b>	<b>1,838</b>

The Group has five existing loans which are as follows:

- Loan to refurbish the Group's head office premises in London which bears interest at 1.25% above LIBOR and is secured on the property concerned.
- Loan to purchase the Group's head office in London which bears interest at a mixture of fixed and LIBOR based interest rates and is secured on the property concerned.
- Loan to purchase the Group's office premises in Bramley, Leeds. This loan is secured on the property and bears interest at 1.55% above the HSBC base rate.
- Loan to purchase Moylan Engineering Limited and its subsidiary Moylan Consulting Engineers Limited. This loan bears interest at Euro LIBOR based interest rates and is secured by a fixed and floating charge over certain of the Group's assets.
- Loan to purchase Technical Computer Associates N.V. This loan bears interest at 1.25% above Euro LIBOR and is secured by a fixed and floating charge over certain of the Group's assets.

The finance lease interest rates are in the range 7.9% to 12.0%. Assets held under finance leases are secured on the assets concerned.

## 18 Called up Share Capital

	30 June 2005 £'000	30 June 2004 £'000
Authorised - 41,000,000 ordinary shares of 10p each	4,100	4,100
Allotted, called up and fully paid - 27,914,470 (2004: 27,803,135) ordinary shares of 10p each	2,791	2,780

Under the Company's executive share option schemes, options may be granted to Group employees (including the directors) enabling them to subscribe for ordinary shares.

## 18 Called up Share Capital (continued)

During the year options for 72,500 ordinary shares (2004: 30,000) were exercised and satisfied by the creation of new ordinary shares for a total consideration of £36,250 (2004: £15,000) and options over 15,000 ordinary shares lapsed (2004: 70,000). At 30 June 2005, options exercisable between 2005 and 2014 by the issue of new ordinary shares at prices ranging from 44.5p to 90p remained unexercised in respect of 1,510,000 ordinary shares (2004: 1,597,500). No new share options were granted during the year (2004: 15,000). The details of these shares subject to options are given below:

	Date option granted	Exercise price per share	Exercisable from	Exercisable to	2005 unexercised	2004 unexercised
Executive directors and management	19/11/1998	50.0p	19/11/2001	18/11/2008	295,000	367,500
	13/02/2001	90.0p	13/02/2004	12/02/2011	30,000	30,000
	15/11/2002	44.5p	15/11/2005	14/11/2012	1,170,000	1,185,000
	10/02/2004	74.0p	10/02/2007	09/02/2014	15,000	15,000
					1,510,000	1,597,500

No further options for ordinary shares (2004: 157,500) were exercised and satisfied by the issue of ordinary shares held by Waterman Trustees Limited (2004: total consideration £91,350) and no options for ordinary shares (2004: 7,500) were exercised and satisfied by the creation of new shares (2004: total consideration £4,350) (see note 28). No options over ordinary shares lapsed (2004: 45,000).

## 19 Reserves

	Share premium account Company and Group £'000	Merger reserve account Company and Group £'000	Non-distributable reserve account Company £'000	Profit and loss account Company £'000	Group £'000
At 1 July 2004	11,423	2,110	790	570	8,697
Premium on the issue of new shares	29	-	-	-	-
Premium on the issue of new shares for acquisition	-	36	-	-	-
(Loss) / profit for the year	-	-	-	(309)	457
Exchange adjustment	-	-	-	(4)	150
Adjustment in respect of Share Incentive Plan	-	-	-	-	6
Profit on disposal of own shares	-	-	-	-	2
<b>30 June 2005</b>	<b>11,452</b>	<b>2,146</b>	<b>790</b>	<b>257</b>	<b>9,312</b>

The merger reserve arises from the issue of shares at a premium, in accordance with S.131 of Companies Act 1985. Included within the profit and loss account balance brought forward is an amount of £1,133,000 (2004: £1,133,000) relating to the write off of purchased goodwill prior to the introduction of FRS 10.

The non-distributable reserve within the Company arose from a group re-organisation.

## 20 Movements in Shareholders' Funds

	Company 30 June 2005 £'000	Company 30 June 2004 £'000	Group 30 June 2005 £'000	Group 30 June 2004 £'000
Opening shareholders' funds	17,673	17,622	25,010	24,979
Profit attributable to shareholders	1,142	1,345	1,908	1,408
Exchange adjustment	(4)	48	150	(123)
Adjustment in respect of Share Incentive Plan	-	-	6	55
Profit on disposal of own shares	-	-	2	33
Dividends	(1,451)	(1,362)	(1,451)	(1,362)
Issue of new shares	76	20	76	20
Net change in shareholders' funds	359	26	691	31
Closing shareholders' funds	17,436	17,673	25,701	25,010

## 21 Acquisitions

	Book and provisional fair value £'000
Provisional values of assets acquired	
Fixed assets	14
Work in progress	185
Debtors	218
Creditors	(363)
<b>Net assets acquired</b>	<b>54</b>
Goodwill	315
<b>Consideration</b>	<b>369</b>
<b>Satisfied by:</b>	
Cash	250
Deferred consideration	50
Shares	40
Related costs of acquisition	29
	<b>369</b>

On 6 April 2005, the Group purchased 100% of the issued share capital of Quadrant Consulting Limited, a company based in Cardiff, Wales. The combination has been accounted for using acquisition accounting from this date. The provisional fair values equalled the book values taken from the accounting records at the date of acquisition.

Since the date of acquisition the Company changed its name to Waterman Quadrant Limited and has contributed £199,000 to work done and £11,000 to operating profit. Waterman Quadrant Limited also contributed net operating cash inflows of £83,000, received £1,000 of interest, paid £6,000 in respect of taxation and repaid loans of £2,000. Operating profit in the year to 31 August 2004 amounted to £84,000.

No further adjustments have been made to the provisional fair values recorded in the 2004 financial statements in relation to the acquisition of Technical Computer Application N.V. in the prior year. The provisional fair values are equal to the final fair values recorded.

## 22 Reconciliation of Net Cash Flow to Net Debt

	30 June 2005 £'000	30 June 2004 £'000
Increase in cash in the year	156	434
Net reduction in borrowings	1,039	334
Inception of hire purchase leases	(2)	(18)
	1,193	750
Exchange adjustments	12	34
Net debt at 1 July 2004	(5,006)	(5,790)
<b>Net debt at 30 June 2005</b>	<b>(3,801)</b>	<b>(5,006)</b>

## 23 Analysis of Net Debt

	1 July 2004 £'000	Cashflow £'000	Other non-cash changes £'000	Exchange movements £'000	30 June 2005 £'000
Cash at bank and in hand	3,862	101	-	12	3,975
Bank overdrafts	(512)	55	-	6	(451)
	3,350	156	-	18	3,524
Debts due within one year	(1,486)	1,297	(1,756)	(5)	(1,950)
Debts due after one year	(6,698)	-	1,434	-	(5,264)
Hire purchase due within one year	(61)	64	(63)	(1)	(61)
Hire purchase due after one year	(111)	-	61	-	(50)
	(8,356)	1,361	(324)	(6)	(7,325)
<b>Total</b>	<b>(5,006)</b>	<b>1,517</b>	<b>(324)</b>	<b>12</b>	<b>(3,801)</b>

Other non-cash changes include £292,000 in respect of additional deferred consideration and £30,000 interest payable on this amount for Aspen Consulting Group.

## 24 Provision for Liabilities and Charges

### Liability Insurance Provision

	Liability insurance provision £'000
Group	
1 July 2004	505
Charged to the profit and loss account	855
Utilised	(22)
<b>30 June 2005</b>	<b>1,338</b>

	Liability insurance provision £'000
Company	
1 July 2004	-
Charged to the profit and loss account	27
<b>30 June 2005</b>	<b>27</b>

This represents management's best estimate of costs to be incurred in respect of potential liability insurance claims. The directors believe that all potential claims will be settled within 18 months.

## 24 Provision for Liabilities and Charges (continued)

### Deferred Tax

	Company 30 June 2005 £'000	Company 30 June 2004 £'000	Group 30 June 2005 £'000	Group 30 June 2004 £'000
The deferred tax asset comprises:				
Depreciation in excess of capital allowances	(90)	(63)	(245)	(202)
Short-term timing differences	(30)	(9)	(60)	(100)
	(120)	(72)	(305)	(302)
Asset at the beginning of the year including deferred tax asset on pension accrual	(72)	(2)	(302)	(157)
Adjustments in respect of prior years	-	(7)	82	(7)
Acquired on acquisition of Waterman Quadrant Limited	-	-	(12)	-
Amount credited to profit and loss account	(48)	(63)	(74)	(142)
Exchange adjustment	-	-	1	4
Asset at the end of the year including deferred tax asset on pension accrual	(120)	(72)	(305)	(302)

## 25 Directors' Emoluments

	Year ended 30 June 2005 £'000	Year ended 30 June 2004 £'000
Aggregate emoluments for qualifying services	1,193	1,111
Aggregate gains made on the exercise of share options	-	7
Company contributions to money purchase pension schemes	86	83
Seven directors have retirement benefits accruing under money purchase pension schemes (2004: 7)		
<b>Highest paid director</b>		
Aggregate emoluments including gains on exercise of share options	183	156
Company contributions to money purchase pension scheme	13	12

Further details regarding directors are included in the Directors' Remuneration Report and form part of these financial statements.

## 26 Related Party Transactions

FRS 8 Related Party Transactions requires disclosure of the details of material transactions between the Company and related parties. The Company has taken advantage of the exemptions within FRS 8 not to disclose transactions between wholly owned Group companies.

The Group does have an interest in two subsidiary undertakings where less than 90% of the voting rights are controlled within the Group. Transactions occur with these subsidiaries in the normal course of business. Material balances are disclosed below:

	Amounts owed by related party £'000
Waterman AHW Pty Limited	93
Waterman International (Asia) Pty Limited	86



## 27 Financial Commitments

### Capital Expenditure

There was £48,000 of capital expenditure contracted but not provided at year end (2004: £24,000).

### Lease commitments

At 30 June 2005 the Group had annual commitments under non-cancellable operating leases expiring as follows:

	Premises		Plant and equipment	
	30 June 2005	30 June 2004	30 June 2005	30 June 2004
	£'000	£'000	£'000	£'000
Commitment expiring:				
- within one year	-	53	128	48
- within two to five years	641	849	352	346
- after five years	1,159	169	-	-
	1,800	1,071	480	394

## 28 Employee Benefit Trust

The Group operates a share option scheme and a share incentive plan to reward and encourage its executives and staff. The Share Incentive Plan is satisfied by issued shares and controlled through the Employee Benefit Trust (EBT).

The Share Incentive Plan appropriates Company shares to staff up to a value of 5% of the Group's profit before taxation each year. The EBT is able to appropriate such shares using funds provided by the Group to meet obligations under the Share Incentive Plan. During the year, 103,974 shares were appropriated to staff in respect of profits earned during the year ended 30 June 2004. A charge equal to the value of the shares at the time of appropriation has been borne by the participating Group companies. The EBT purchased 92,778 issued shares during the year.

The distribution of shares through this plan is arranged through Waterman Trustees Limited, a related company formed to administer the EBT and which held 5,445 (2004: 15,909) ordinary shares of 10p in the company at 30 June 2005. At 30 June 2005 the market value of these shares was £5,363 (2004: £11,932). Dividends on these shares are payable to Waterman Trustees and set against the costs of operating the schemes unless waived.

The assets of the EBT at 30 June 2005 have been incorporated into the Group Balance Sheet in accordance with UITF 38 as follows:

	30 June 2005	30 June 2004
	£'000	£'000
Cash	2	29
Amounts due from parent company	142	98
	144	127
Represented by:		
Corporation tax	3	40
Accruals	12	2
Retained reserves	133	95
Own shares at cost	(4)	(10)
	144	127

## 29 Derivatives and Other Financial Instruments

### Treasury Management

The Group centrally manages borrowings, investing of surplus funds and financial risks. The objective of holding financial investments is to provide efficient cash and tax management and effective funding for the Group. The Group's financial instruments comprise borrowings, cash, deferred consideration and provisions along with various items, such as trade debtors and creditors. The Group also has overdraft facilities in place to optimise the use of its resources. It is and continues to be the Group's policy that no speculative trading in derivatives shall be undertaken. The main risks arising from the Group's financial instruments are liquidity risk, foreign currency risk and interest rate risk. The Board reviews and agrees policies for managing each of these risks which have remained unchanged throughout the year.

### Liquidity Risk

The Group finances its operations through a mixture of retained profits, new equity, deferred consideration and bank borrowings. The Group has continued with its policy of ensuring that there are sufficient funds to meet the expected funding requirements of the Group's operations and investment opportunities. The Group has continued to monitor its liquidity position through budgetary procedures and cash flow analysis.

### Foreign Currency Risk

The Group's principal exposure to exchange rate fluctuations arises on the translation of overseas net assets and profits into sterling for accounting purposes. The Board continues to regularly consider and monitor the issue of such balance sheet exposure to minimise the impact of any exchange rate movements on operating profit by regular reporting to management. Should a potential material risk be identified, management will implement appropriate hedging procedures to manage the risk.

### Interest Rate Risk

Interest expense reflects the cost of the Group's borrowings. Interest income arises from investment of cash and short term deposits held by the Group. Interest rate risk is managed by regular reviews against market rates.

### Financial Assets

The profile of the Group's financial assets was:

Floating rate financial assets earn interest based on UK, US, Chinese, Euro, Australian, Polish and Russian base interest rates. The fair value of the financial assets equates to their book values. All the Group's debtors falling due within one year (other than bank and cash) are excluded from the table below.

	30 June 2005 Floating rate financial assets £'000	30 June 2005 Fixed rate financial assets £'000	30 June 2005 Total £'000	30 June 2004 Floating rate financial assets £'000
Cash				
- Sterling	1,758	1,052	2,810	2,959
- US dollars	50	-	50	82
- Chinese RMB	253	-	253	137
- Euros	608	-	608	500
- Australian dollars	61	-	61	184
- Polish zloty	23	-	23	-
- Russian roubles	170	-	170	-
	2,923	1,052	3,975	3,862

## 29 Derivatives and Other Financial Instruments (continued)

### Financial Liabilities

		30 June 2005 Floating rate financial liabilities £'000	30 June 2005 Fixed rate financial liabilities £'000	30 June 2005 Total £'000	30 June 2004 Floating rate financial liabilities £'000	30 June 2004 Fixed rate financial liabilities £'000	30 June 2004 Total £'000
Bank loans and overdrafts							
	- Sterling	2,485	2,684	5,169	2,724	2,778	5,502
	- Euros	1,197	-	1,197	1,356	-	1,356
	- Australian Dollars	28	-	28	-	-	-
Deferred consideration	- Sterling	-	1,272	1,272	-	1,838	1,838
Finance lease obligations	- Sterling	-	56	56	-	89	89
	- Euros	-	55	55	-	83	83
Provisions	- Sterling	-	1,338	1,338	-	505	505
		3,710	5,405	9,115	4,080	5,293	9,373

Details of the above financial instruments can be found in notes 16, 17 and 24.

All of the Group's creditors falling due within one year (other than bank borrowings, finance leases and deferred consideration) are excluded from the above table. The fair value of the financial liabilities approximates to their book values. The floating rate financial liabilities bear interest at 1.55% above LIBOR (2004: 1.55% above LIBOR).

At 30 June 2005, the weighted average rate of interest on the fixed rate liabilities comprises 6.99% (2004: 6.99%) on sterling bank loans with a weighted average of 16 years (2004: 17 years) and 7.7% (2004: 8.8%) on the finance lease obligations with a weighted average of 2 years (2004: 2 years). The deferred consideration does not ordinarily attract interest over its average period to maturity in 1 year (2004: 1 year). The provisions do not attract interest and are expected to mature within 2 years.

Short term flexibility in liquid resources is achieved by overdraft facilities. At 30 June 2005, these facilities, where all conditions precedent have been met, were £3.0m (2004: £3.1m) which expire within one year.

### Net Foreign Currency Monetary Assets / (Liabilities)

The tables below show the extent to which group companies have monetary assets and liabilities in currencies other than their local currency. Foreign exchange differences on retranslation of these balances are taken to the profit and loss account, except when they are set against an investment and the foreign exchange differences are offset in reserves.

	2005 Sterling £'000	2004 Sterling £'000	2005 Euros £'000	2004 Euros £'000	2005 Australian Dollars £'000	2004 Australian Dollars £'000	2005 Other £'000	2004 Other £'000	2005 Total £'000	2004 Total £'000
Functional currency of Group operation										
Sterling	-	-	(522)	(348)	206	156	582	980	266	788
Euros	(64)	(315)	-	-	-	-	1	-	(63)	(315)
Australian Dollars	(179)	(156)	-	-	-	-	-	-	(179)	(156)
Other	(362)	(50)	(1)	-	-	-	-	-	(363)	(50)
Total	(605)	(521)	(523)	(348)	206	156	583	980	(339)	267

## 30 Ultimate Controlling Party

In the opinion of the directors the Company has no controlling party.

## • Five Year Results Summary

	2001 £'000	2002 £'000	2003 £'000	2004 £'000	2005 £'000
Work done	40,615	52,070	61,315	65,019	72,633
Profit before taxation	5,765	3,779	1,886	2,012	3,131
Profit attributable to shareholders	4,413	2,518	1,451	1,408	1,908
Basic earnings per share	19.9p	10.1p	5.2p	5.1p	6.9p

**Note:** Profit before taxation, profit attributable to shareholders and basic earnings per share in 2001 are calculated after an exceptional profit of £2,247,000 was realised on the disposal of the Group's freehold head office property during that year.

## Advisers

### Stockbrokers and Financial Advisers

Evolution Securities Ltd 100 Wood Street London EC2V 7AN

### Auditors

PricewaterhouseCoopers LLP 1 Embankment Place London WC2N 6RH

### Solicitors

Ashursts Broadwalk House 5 Appold Street London EC2A 2HA

### Principal Bankers

HSBC Bank plc 22 Victoria Street Westminster London SW1H 0NJ

### Registrars and Transfer Office

Capita Registrars The Registry 34 Beckenham Road Beckenham Kent BR3 4TU

### Company Registration Number

2188844

## Financial Calendar

16 November 2005	Ordinary shares quoted ex-dividend
18 November 2005	Record date for proposed final dividend
06 December 2005	Annual General Meeting 2005
15 December 2005	Final dividend payable
March 2006	Interim results announced for the six months to 31 December 2005
April 2006	Interim dividend payable
October 2006	Preliminary announcement of results for the year to 30 June 2006
December 2006	Annual General Meeting 2006