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WATERMAN GROUP PLC provides design services and expert advice in all aspects of engineering and associated sciences to its clients within the built environment.

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Image opposite:
Bullring opening day parade, courtesy of The Birmingham Alliance

GROUP DISCIPLINES

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Civil & transportation

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Engineering facilities management

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Health & safety

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Secondment & outsourcing

WATERMAN GROUP PLC provides a full and complementary range of consulting engineering and environmental services to its clients. By drawing upon the Group's extensive resources, specialist skills can be introduced to projects as required. The diversity of expertise available

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Environmental sciences, planning & design

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Information technology

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Structural engineering

from within the Group produces cost effective and innovative designs that generate high volumes of repeat business.

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Mechanical & electrical

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Sustainable waste & energy

OPERATIONAL AND FINANCIAL HIGHLIGHTS

Work done increased by 18% to £61.3m (2002: £52.1m)

Profit before tax £1.9m (2002: £3.8m)

Profit before tax and goodwill amortisation £2.4m (2002: £4.1m)

Basic earnings per share of 5.2p (2002: 10.1p)

Basic earnings per share before goodwill amortisation of 7.1p (2002: 11.4p)

Dividend maintained at 4.9p (2002: 4.9p)

Acquisition of AHW (Australia) continues international and regional diversification

TCA (Belgium) acquired immediately following year end

Substantial orders for long term urban regeneration projects

	1999 £'000	2000 £'000	2001 £'000	2002 £'000	2003 £'000
Work done	30,340	34,169	40,615	52,070	61,315
Profit before taxation (excl. exceptional items)	2,432	2,913	3,518	3,779	1,886
Profit attributable to shareholders (excl. exceptional items and related tax)	1,597	1,864	2,406	2,518	1,451
Basic earnings per share (excl. exceptional items)	8.1p	8.9p	10.8p	10.1p	5.2p

CHAIRMAN'S STATEMENT

For the year to 30 June 2003, your company reports a pre tax profit of £1.9m (2002: £3.8m) on work done of £61.3m (2002: £52.1m). Basic earnings per share were 5.2p (2002: 10.1p) and net assets per share increased to 93p (2002: 89p).

The Board is recommending a maintained final dividend of 3.0p which, with a maintained interim dividend of 1.9p, paid on 24 April 2003, makes a total of 4.9p for the year (2002: 4.9p). The final dividend will be paid on 10 December 2003 to shareholders on the register on 14 November 2003.

Against a background of more difficult trading conditions, our strategy of diversification has enabled the Group to expand into new markets and to complete a record volume of work during the year. The recently acquired Aspen Group has performed in line with expectations and has delivered a substantial increase in the Group's public sector workload and the addition of AHW in Australia has created new business opportunities in the Asia Pacific Region.

As I reported at the interim stage, there has been a general reduction in the number of new commissions available in the commercial property sector. Major urban regeneration projects and public sector appointments have largely offset this shortfall. In common with all service providers the Group's insurance costs have risen sharply accompanied by higher National Insurance charges. These cost increases are currently having to be absorbed by the Group, which has resulted in lower profitability during this year.

GROUP ACTIVITIES

Multi-discipline consultancy services have been provided for some of the UK's most prestigious projects. During the year, Paternoster Square in the City of London, the HM Treasury Building (Phase I) in Whitehall and Bullring in Birmingham have been successfully completed. Major projects in progress include White City in West London, HM Treasury Building (Phase II), Spinningfields in Manchester and 229-247 Regent Street in London. The Group's order book of future work includes a number of long term major urban regeneration projects including projects in Croydon, Bristol, Peterborough, Leeds, Leicester, Liverpool and Glasgow. These projects are expected to provide work for the Group up to the end of 2009.

During the year Waterman Burrow Crocker, an amalgamation of Aspen Consulting Group and Waterman's civil engineering teams, has handled the Group's civil engineering consultancy work. Current projects include White City (London Underground), station refurbishments for Network Rail, Oakham bypass for Rutland CC and a new deep berth at the Port of Bristol. Waterman Aspen, the Group's public sector outsourcing specialist, employs 200 staff, seconded to government agencies and local authorities.

Waterman Gore, the Group's mechanical and electrical consultancy, has had a successful year. Major projects in progress include HM Treasury building (Phase II) and White City, London. New industry leading levels of service are being provided for projects using an innovative 3D modelling system for the design, procurement and installation of building services. These projects include the K2 building, St Katharine's Estate, London and Admiral's Park in Kent.

In Ireland, the Group's Dublin based consultancy, John Moylan & Associates successfully completed a record volume of work. In the Dublin area progress has been made on a number of large projects at Ballymun, Pelletstown, Balbriggan and Dundrum. Recent appointments include The Grange in north Dublin, a substantial project which is expected to be built in phases over a ten year period. A new office has been opened in Swords, north Dublin, to assist with the increased workload in the area.

Waterman International has expanded its operations with the acquisitions in Australia and Belgium. During the year, a number of projects were completed including Kursky retail centre and Reuters offices, Moscow; the Metropolitan Centre, Warsaw; CERN, Geneva and Hutchison 3G mobile network rollout, Australia. In Russia a number of new commissions have been secured in St Petersburg. In Australia, Waterman AHW has performed in line with expectations in its first year as part of the Group.

The Group continues to work as a consultant to a number of PFI consortia, under the government's private finance schemes. Projects include the HM Treasury Building, Harrow Schools and the MOD main building in Whitehall. Further PFI bids are in progress.

STRATEGY

The Group's strategy is to provide a wider range of innovative services to clients, accompanied by investment in regions and sectors which will achieve long term growth and profitability. A new range of services based on sustainability of new projects is being provided to clients, placing increasing importance on the 'green issues' affecting all new developments. Recent investments in Australia and Belgium have increased the Group's international presence and further expansion is planned for the future.

ACQUISITIONS

On 1 July 2002, Waterman acquired a 60% interest in AHW Consulting Engineers Pty Ltd, a mechanical and electrical consulting engineer, based in Sydney, Australia. A new company, Waterman International (Asia) Pty Ltd, 60% of which is owned by Waterman and 40% by the key management of AHW, has been formed to develop new business in the Asia Pacific region. Waterman has options to acquire the remaining 40% of the business in the future. New projects secured during the year include upgrades to Concord Hospital and a 44 storey apartment tower in Sydney.

Immediately after the end of the financial year, on 1 July 2003, Waterman acquired 100% of the share capital of Technical Computer Applications NV (TCA), a civil and structural consulting engineer based in Brussels, Belgium with a branch office in Bucharest, Romania. The company, now re-named *Waterman TCA*, is a *high quality engineering consultancy* working on a number of large and prestigious projects for leading Belgian and international development companies. Their projects include The Corporate Village, a 200,000m² business park near Brussels airport and Espace Kirchberg, an 80,000m² office development in Luxembourg. As part of Waterman Group, TCA will provide access to the European market for multi-disciplinary engineering services and its established base in Romania will provide new opportunities in the EU accession countries, where the construction markets are expected to grow strongly in the future.

EMPLOYEE RELATIONS

As a service business providing consultancy advice to its clients, Waterman's most valuable asset is its staff. The level of repeat business from our clients is a testament to their professionalism and desire to deliver the highest quality of service.

The Group rewards its staff through a range of salary and benefit packages including an appropriation of shares from pre-tax profits. The Share Incentive Plan introduced in 2002 replaced the earlier profit sharing scheme and will enable a range of new share based opportunities to be introduced at a suitable time. A share option scheme operates to provide senior management with the opportunity to acquire shares in the Group.

I would like to thank all members of staff for their efforts over the last year and welcome new staff who have joined the Group, AHW in Australia and TCA in Belgium and Romania in particular.

BOARD APPOINTMENTS

On 6 January 2003 the Board appointed Craig Beresford and Nicholas Taylor as new executive directors and John Archibald as a new non-executive director. David Horne, who has served as a non-executive director since January 1991, has indicated his intention to retire at our Annual General Meeting on 27 November 2003. I would like to thank David for his valuable advice and support over a long period of time, during which there has been a considerable increase in the volume and diversity of the Group's activities.

FUTURE PROSPECTS

The Group has maintained a strong long term order book of future work in a number of different sectors and locations. The lower volume of commercial work has been offset largely by mixed use urban regeneration projects together with public sector consultancy and outsourcing which now represents 30% of the Group's business, following the acquisition of the Aspen Group in December 2001. The Group's operations in the environmental sector are currently expanding due to increased client demand. There are encouraging prospects for business outside the UK, in Ireland, Australia, Russia and Belgium, *where the local economies are supporting high levels of construction activity.*

The margin pressures I reported last year remain in place, however the Board is introducing measures aimed at improving our operating margins in future years. In the long term we expect to benefit from the increased diversity of the Group, which has resulted in less dependence on any one sector of the market. The forward order book has considerable depth, with a number of large long term contracts secured. Our balance sheet remains strong and we are committed to developing our business in the future from a position of strength.



W Mathieson
Chairman
27 October 2003

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REVIEW OF OPERATIONS

IRISH OPERATIONS

The last year has seen a contraction in the construction market in Ireland, with activity in the commercial and industrial sectors in particular slowing down. Public sector spending on new infrastructure projects has also reduced. Despite this, the Group's Dublin based consultancy, Moylan, has had another very successful year and has continued to expand.

Moylan provides civil and structural engineering consulting and project management services throughout Ireland to a wide range of private and public sector clients, including many of the country's leading development companies. This diversity of client base has proved invaluable over the last year, and has seen the business of the company continue to grow, in contrast to the industry as a whole.

The involvement of Moylan at the forefront of large scale new community development and urban renewal schemes is a key factor in the firm's growth. The strength of the firm in this sector is clearly demonstrated by the fact that Moylan has been appointed as civil and structural engineering consultant for The Grange, a new town of some 3,600 residential units, numerous retail and commercial units, including an eleven storey commercial block, schools, hospital, railway station and public transport interchange, and extensive civil infrastructure works. Planning permission for this significant development has been granted this year. The success of the project rests very much on the principles of sustainable development, which were applied in the design of the scheme, and which included, for example, the prioritisation of public transport in the design of the transport network, and the application of sustainable urban drainage systems and extensive river basin modelling of the River Mayne, which borders the site. This substantial scheme will be constructed in stages over the next ten years.

Other major projects on which work continued this year included Pelletstown in west Dublin, Balbriggan in north Dublin, Rockfield in Dundrum, Porterstown in west Dublin and Ballymun Regeneration. Construction of the initial phases of these projects is underway, but with further phases either planned or at design stage, continuous input will be required over a number of years to come.

A number of significant new projects have been awarded to Moylan this year including the main drainage design for the Cherry Orchard development area in Dublin; a major hotel and residential development at Donaghmede, Dublin; project management of the restoration of a prestigious Georgian building on one of Dublin's finest squares; the second phase of a major new commercial/retail park at Carrickmines, south Dublin; schools at Co. Meath and at Kilbarrack in Dublin; and significant residential commissions in Ennis, Tuam, Enfield, Cappagh and Meakstown.

Projects completed during the year include leisure centres at Donabate and Applewood Village, Station Court apartments and Porterstown Bridge.

Moylan has worked closely with Waterman Sustainable Energy over the last year to explore the opportunities in waste management in Ireland. This is a sector of the market in which considerable growth in activity is predicted over the next several years. This co-operation has resulted in the Group being awarded a commission to assess the feasibility of a major thermal treatment plant.

A new office has been opened at Swords, in north Dublin, from which services for a number of major projects in the area will be provided. It is expected that further work will be generated as a result of this new location.

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STRUCTURAL ENGINEERING

The structural engineering activities of the Group are principally carried out by Waterman Partnership from London with additional offices in Scotland, the north of England and the Midlands.

Despite a downturn in commercial office development, over the year Waterman has maintained its position as one of the top three structural engineers in the UK. The company has continued to secure some of the UK's most prestigious projects and has seen a number successfully completed over the year. Projects include: Paternoster Square and No. 1 London Wall in the City of London; the HM Treasury Building (Phase I) in Whitehall; Croydon Centrale Retail Centre; and Bullring in Birmingham, one of the largest regeneration projects in Europe. Completed retail projects also included Fenwick, Canterbury and Morrisons, Camborne.

Progress has been made on many projects this year including White City, West London's largest regeneration and transport scheme and HM Treasury Building (Phase II). Detailed design and supervision on the retail, residential and office buildings at 229-247 Regent Street, London, will continue, through the next year and early design work has commenced on our projects at Finsbury Circus in the City of London, and Brompton Road, West London.

The Group's order book on structural projects stands at its highest level and is particularly strong in retail, residential and regeneration schemes, many of which provide additional services for the Group in mechanical, electrical, civil, transportation and environmental engineering. The major long term projects are in Bristol, Peterborough, Leeds, Liverpool and Glasgow. All of these projects are major regeneration schemes which have or are in the process of securing planning permission. Additional major retail schemes are also progressing at Croydon, Leicester and Bradford.

Waterman has also secured a number of new public health care projects at Purley Hospital, University College London and the Royal College of Medicine, together with work in the private sector at the London Clinic and Cromwell Hospital. In the education sector, the term contract continues at Imperial College with the refurbishment of the Bio-chemistry Building and a new PFI project is under way with Carillion at Harrow Schools.

Work in the arts sphere this year involved designing a new building to best standards for the Royal Ballet School, Covent Garden and on London's Southbank, Waterman advised on the new Saatchi Gallery in County Hall.

In addition to providing engineering advice on new work, Waterman specialises in the field of heritage structures and has continued to be successful in securing a number of new commissions. The Scottish office is particularly well established in this market where we are working on a number of National Trust schemes.

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Images, this page:
Morrisons, Cambourne
Greenwich Millennium Village

Porterstown, west Dublin
Rochfield, south Dublin

Images, opposite:
University of Dundee
10 Gresham Street, London
Donabate Leisure Centre, Porterstown
1 London Wall, London
Royal Ballet School, London
Saatchi Gallery, County Hall London

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RESIDENTIAL CONSULTANCY

The residential market remained consistent over the past year and the healthy level of enquiries and new commissions confirm the trend for the coming year.

Work has been completed on long term projects for Waltham Forest Housing Action Trust and at Lakelands, Colchester both of which have included estate, infrastructure and highway works.

Successful project completions have also been achieved on various phases for Sunley Homes at Kingshill; Peabody Estates; master planning for the Woodberry Down Estate, Hackney; and the Carpenters Estate, Newham, together with several civil engineering commissions in Wandsworth, London as well as many smaller scale developments.

Current principal projects that are being progressed are Greenwich Millennium Village, Grosvenor Dock, London;

Macintosh Village, Manchester and 27-29 Long Acre, London for St. James Capital Ltd; together with commissions for highways, drainage and transport including the Salamanca project for Laing O'Rourke, works at Wandsworth and further phases of the Kingshill development for Sunley Homes. Further progress has also been made on Lots Road, London, the multi-phase residential development and power station conversion.

A new division, Waterman Building Surveying, has been created within Waterman Partnership which specialises in building surveying, boundary dispute resolution and party wall negotiations. They have achieved good progress throughout the year with commissions from many existing and new clients. Of particular note is the term commission for party wall works for the London Borough of Bexley and for the South East Division of Wimpey Homes.

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CIVIL ENGINEERING

Following the acquisition of the Aspen Consulting Group in December 2001, the Group's civil engineering activities have been rationalised. All civil engineering consultancy work is now handled by Waterman Burrow Crocker, which incorporates the Aspen and Waterman civil engineering teams. All civil engineering outsourcing activities are handled by Waterman Aspen, formerly known as Aspen Associates.

CONSULTANCY

Waterman Burrow Crocker, the Group's specialist civil and transportation consultancy, created by the merger of Waterman Civil and Transportation and Aspen Burrow Crocker 18 months ago, has had a successful year with profits and turnover exceeding budget.

The restructuring necessitated by the merger of the two companies has proceeded smoothly and the resultant cost reductions are leading to increased profitability throughout the company's various divisions. Each division provides a full range of civil and transportation consultancy services to its clients in both the public and private sector. The new company, as is evidenced by the projects undertaken during the year, has maintained both its client base and its wide range of markets.

The company has a key role of the White City project in west London. It is responsible for the entire rail related infrastructure associated with this development and work has continued throughout the year with construction starting soon on site. In addition to the main development, the company has also been appointed to design the new facilities for Shepherd's Bush underground station, a new station on the West London Line, and a new underground station on the Hammersmith and City Line. The design of these will move forward over the next twelve months.

A number of other commissions have been secured from the rail industry, including the design of new facilities at over 150 stations and work on the Channel Tunnel Rail Link facilities at St Pancras. Work has also been won on rail facilities outside London from both Network Rail and rail operators such as Chiltern Rail.

The company has a number of term and framework commissions with clients such as The Highways Agency and a number of Local and County Councils and these provide a long-term partnership with the client together with a steady and predictable income stream. Other framework agreements are actively being targeted.

Another area of growth during the year has been the design of a number of bridges throughout the country. These range from high quality footbridges to rail and major road bridges. It is anticipated that the bridge division will continue to increase in size over the next twelve months.

The development planning and transportation teams have maintained their workload with transportation studies, input into environmental impact statements, and flood studies. Of note is a major transportation study associated with the Shires Development in Leicester, the Environmental Impact Statement for the Greenwich Peninsula and a large number of flood studies throughout the country.

Work on the Bristol Port has continued throughout the year with further phases of a new deep berth facility at Portbury. Work on this project will continue over the next twelve months with further major infrastructure and design work. Airport work has continued with small design studies at Heathrow, Gatwick and Birmingham Airports.

As of 1 July 2003, Waterman Health and Safety Limited became a division of Waterman Burrow Crocker. This will achieve cost savings in terms of management and also allows the health and safety consultancy functions of both companies

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Images:
Capacity Study, M42 Motorway, Birmingham
Harrow & Wealdstone Station, London

Images:
Beijing Bridge Proposal
Paddington Station, London
Heathrow Airport

to be merged. The division will continue to trade as Waterman Health and Safety but will double in size with the addition of staff from Waterman Burrow Crocker.

OUTSOURCING

The Group's outsourcing specialist, Waterman Aspen, employs 200 staff who are placed in clients' offices, in 98 locations throughout the UK. Clients include Transport for London, The Highways Agency, Nottingham City Council, London Borough of Greenwich and Warwickshire County Council. The majority of staff are engaged in the design and management of highway maintenance works. It is intended to introduce other disciplines such as building surveying in order to expand the business in the future, to take advantage of the government's spending plans for the public sector.

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MECHANICAL & ELECTRICAL ENGINEERING

Waterman Gore, the Group's specialist mechanical and electrical engineering consultancy has had another successful year with turnover and profitability close to last year's record figures, in spite of difficult trading conditions.

The company has expanded its specialist services obtaining new commissions for the 3D interactive design (single project model) including work at Admiral's Park in Kent working with Laing O'Rourke on their model office building scheme and Taylor Woodrow Developments' 17,500m² K2 building at St Katharine's Estate. On both projects, new levels of service were provided with the production of fully co-ordinated installation and manufacturing drawings from the 3D model by Waterman Gore.

The engineering facilities management department has been involved in developing an interactive interface which links into the Group's design drawings (including 3D). This interface allows users to access full construction and operational maintenance data via the 3D model. Considerable interest from developers and property management companies has already been shown in these initial stages of development.

A new building control compliance division has been launched, which will undertake the preparation of full fire and life safety appraisals of new and existing buildings. This service is aimed at public and private sectors to provide a design solution maintained for the lifetime of the building.

Continued expansion of the building physics section has been driven by client demand for accurate cost in use and environmental comfort information and the requirement for buildings to comply with the new building regulations. This activity is an important contributor to the Group's sustainability initiative.

Several major projects have been successfully completed during the year including the Paternoster Square development; the Fenwick department store in Canterbury, 95 Queen Victoria Street for Legal and General; The Ebor Stand at York Race Course; The Gate retail development in Newcastle for Land Securities; and Phase 1 of the Clyde Shopping Centre, which was recently opened by Her Majesty The Queen.

Work continues on existing major projects including the White City retail development for Chelsfield; the 50,000m² refurbishment of HM Treasury (Phase II); Allied London's Spinningfields development in Manchester; 17,000m² K2 building at St Katharine's Estate; Project Artisan an 11,500m² headquarters building in London for Jarvis plc; and a £16 million mixed use development in Leamington Spa.

New commissions include two new buildings on the Spinningfields development including the £33 million Project Weaver building, Graffan House a 9,000m² headquarters building in Belfast City Centre; a 140,000m² office building in Leeds for HBG Properties; and a continued workload from our partnering arrangement with Brixton plc. In Scotland, we are due to start work on the £10 million residential development in Cochrane Square, Glasgow and further phases of the St Enoch Shopping Centre refurbishment.

Notable appointments this year have been with GHM Rock Townsend for the engineering site management of 26 school refurbishments in Tower Hamlets; the development of design for replacement of one of the chillers at Tower 42, London; assisting Donaldsons (Europe) in the development of maintenance contracts for a number of German shopping centres and with Aegon UK, for the refurbishment of their offices.

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ENVIRONMENTAL CONSULTANCY

The Group delivers integrated environmental consultancy services at both operational and strategic level through three subsidiary companies.

WATERMAN ENVIRONMENTAL – expertise includes urban regeneration, environmental assessment and corporate risk management.

CPM – specialises in environmental planning and design, with particular strengths in ecology, archaeology and landscape.

WATERMAN SUSTAINABLE ENERGY – active in the waste disposal and power industries.

WATERMAN ENVIRONMENTAL

During the year, improving market conditions combined with successful business development initiatives have resulted in an increasing number of appointments being secured in the early stages of projects, resulting in more opportunities for involvement of the multi-disciplinary skills of the Group.

The national Environmental Impact Assessment (EIA) team has expanded considerably and is now appointed as EIA co-ordinator for many major regeneration schemes across the UK. These include Barking Reach for Bellway Homes and English Partnerships; the Shires in Leicester for Hammerson; Quartermile in Edinburgh for Southside Capital; Wilmslow Business Park near Manchester Airport for Hines Air Property; New Street Square in the City of London for Land Securities; Founders Place in London for Taylor Woodrow and Chiswick Park for Stanhope.

Following the launch of new sustainability consultancy services last year, strong growth has been achieved in this sector. Regular BREEAM and EcoHomes assessments have been completed for new developments and an increasing number of sustainability appraisals have been commissioned in support of planning applications.

During the year, commissions were secured from many new clients including British Land, Castlemore, GVA Grimley, H J Banks and Weston Homes. New projects included the remediation of a former landfill in the West Midlands for Persimmon Homes; the decommissioning and remediation of a former oil refinery in Derbyshire for Bimoto Developments; environmental assessment and air quality appraisal of retail schemes in Chesterfield and Bury for Thornfield and the remediation of a former gasworks at Poole for Crest Homes. In addition, new appointments were received from Morris Homes for the investigation and remediation of Brackendale Mill near Bradford and Daysbrook Barracks in Liverpool.

A drive to increase public sector work has resulted in new appointments with many councils including Hammersmith & Fulham, Surrey, Barking and Dagenham, Lincoln, Newcastle City, Widnes, Argyll and Bute and the London Development Agency. Also, due diligence appointments were received for the NHS modernisation programme from west of Cornwall,

Wolverhampton and Ealing and landscape consultancy has been secured for a PFI scheme at St. George's Hospital, Morpeth.

An increase in corporate advisory services was achieved including due diligence work for Dunedin Capital Partners during their acquisition of Hickson & Welch; due diligence work for Capio Healthcare; pollution prevention advice to the Jeyes Group and a joint environmental management training programme was launched with BSI Business Solutions.

Major projects that progressed during the year included environmental management of the White City development for Chelsfield; remediation assessment of the Lots Road power station site for Taylor Woodrow/Hutchison Whampoa; environmental assessment of the Greenwich Peninsula; remediation of the Macintosh Village in Manchester for Taylor Woodrow; environmental management of basin infill at Glasgow Harbour for Clydeport and landscape design at Cobalt Business Park in Newcastle for Highbridge.

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The term consultancy appointment with SecondSite (formerly British Gas) continued with land remediation projects at Maidstone, Newmarket, Maldon and Letchworth and a major landfill treatment and removal project has commenced for Hicks Persimmon near Reading.

The year ahead will see increased diversification into the public sector together with a strengthening of the range of environmental services provided by the Group.

CPM ENVIRONMENTAL PLANNING AND DESIGN

CPM provides environmental planning and design services as part of the Group's environmental consultancy services. The past year has seen continued success in diversifying into new business sectors, as well as consolidating their existing client base in the residential, commercial, retail and leisure markets.

A number of long term, high profile projects are nearing completion. These include a residential development on the River Thames at Ferry Lane in Brentford and the Vodafone World Headquarters in Newbury. Large-scale residential development projects continue to progress through the planning system. These include Berryfields, near Aylesbury, West Stevenage, West Durrington, near Worthing, Arbury Camp, Cambridge, as well as Sao Paulo in Brazil. These have involved high levels of input in terms of EIA and mitigation design.

For West Stevenage, the submitted planning applications and environmental statements for up to five thousand houses and mixed use development are now to be considered at a public inquiry opening in January 2004. Apart from being joint co-ordinators of the environmental statement with Barton Willmore Planning, CPM has contributed to the project in terms of overall sustainable development, alongside ecological, archaeological, agricultural, soils and rights of way issues. Waterman Environmental has also provided project input related to contaminated land issues on part of the site.

Private clients continue to provide new and challenging projects. CPM has been appointed to design and project manage the construction of a garden near Winchester at a cost in excess of £1m. The garden, which will include a lake, bowling green and formal gardens will take almost twelve months to implement.

New clients include public bodies such as the Countryside Agency, Network Rail and English Nature and represent important diversification into new sectors. Against stiff competition from other leading national practices, members of the CPM landscape team have been appointed as the lead expert witness for the South Downs National Park Public Inquiry, opening in November 2003, which is expected to last between nine and twelve months. The proposed National Park would replace the Sussex Downs and East Hampshire Areas of Outstanding Natural Beauty designations and would stretch from Eastbourne to Winchester, covering an area of 1,637km².

For much of this year, CPM has been preparing for the July–October 2003 public inquiry on behalf of Riverside Resource Recovery Limited and Cory Environmental Limited. Contributing with combined landscape and ecological design, alongside scheme photomontages and rights of way assessment, the plant would principally comprise a power station which would burn 585,000 tonnes of London waste per annum, over its thirty year life, to generate some 72 megawatts of electricity.

Outsourcing ecological consultants into the offices of Network Rail in Swindon and Waterloo is providing additional diversification into new business sectors. The ecologists, together with some geological input, are providing technical assistance to the environment managers for both these regions. Input includes preparing Site Management Plans for land on or near to Sites of Special Scientific Interest (SSSIs), expert survey for protected species such as bats and general advice regarding vegetation management along railways.

English Nature has appointed CPM onto their Advisory Panel to assist in peatland restoration at South Solway Mosses Area of Conservation in Cumbria (an area designated as a site of European importance). The peatlands have been subjected to peat extraction, agricultural improvement and drainage. The project, known as Peatlands for People, aims to restore much of the peatland and has involved ecological, archaeological, landscape and arboricultural surveys and the results have been presented as a GIS database.

These major commissions for CPM reaffirm the company's lead status in environmental planning, whilst also continuing a trend for diversified project involvements in both the public and private sectors.

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SUSTAINABLE ENERGY

Waterman Sustainable Energy is an integration of the Group's waste and power divisions, which offers waste, power and carbon management consultancy advice.

The company has actively sought work in the field of biomass co-firing, in line with the government renewable energy obligation legislation.

Recent commissions include advice on the first dedicated biomass co-firing facility at Kingsnorth and Ironbridge Power Station and a feasibility study for a new thermal solution technology for the recycling of all domestic waste, removing the need to landfill. *Waterman is also preferred consultant for a number of power companies.*

Waterman Sustainable Energy has assisted Biffa Waste Services in being awarded a 25 year waste management contract for Leicester City Council. The new facilities attracting £30 million in PFI credits from the government are to service 117,000 households and to be operational by 2005.

The Group has been appointed to advise as lead consultant to various integrated waste management projects: Cory Environmental, 30 year PFI contract for Wandsworth District, developing an 86,000 tonne modern automated recycling solution; Onyx Sheffield, 30 year PFI contract for the City of Sheffield, lead consultant for all recycling solutions; Sita Newcastle, 25 year contract to assist the City of Newcastle with an integrated recycling solution.

Waterman Sustainable Energy has seen continued growth over the last financial year with staff recruitment in both the Leeds and London offices.

Work secured has exceeded the original forecast and the division has been in the position to introduce work to other sections and offices within the Waterman Group. In the forthcoming year it is expected to recruit further technical staff in Leeds, consolidate in London, and establish a permanent presence in Ireland and Scotland.

Waterman Sustainable Energy is committed to creating a better quality of life for everyone, now and for generations to come.

SUSTAINABILITY

Waterman Group's mission to provide cost-and-time-effective solutions to clients' challenges, has not altered in essence since the practice was formed over 50 years ago. The Group continues to champion its clients' needs and to reward and support its staff on the basis of innovation, connected thinking and client satisfaction.

The context in which Waterman operates has altered, however, particularly with respect to the need to integrate sustainable development considerations at the heart of scheme assessments, designs, specifications and implementation. In

reflection of its commitment to sustainability, the Group operates in accordance with the international management standard ISO 14001.

The specialised sustainability services offered include BREEAM and EcoHomes, integrated travel plans, sustainable urban drainage schemes (SUDS), flood risk assessment and environmental assessment and management. Operational energy, for heating, lighting and ventilation, accounts for the majority of emissions and costs from a building over its design life; the mechanical and electrical engineering expertise allows Waterman to design the most effective systems to meet the needs of the triple bottom line of sustainability. The Building Physics Group uses sophisticated computer modelling of air-flow, daylight, artificial light and shading to monitor accurately energy use and efficiency within and external to buildings and structures. This work can then be joined with that of the Group structures team to provide whole life costing and assessment, as required.

Over the year, Group companies have worked on many flagship projects, where sustainability was central to their clients' objectives, including Greenwich Peninsula, The Green Building in Manchester, Paternoster Square and Lots Road redevelopment.

There is no doubt that our industry is changing to accommodate the imperatives of sustainable development and Waterman Group has invested early in this expertise, so that it can offer clients the necessary advice with integrity and from a position of technical strength.

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INTERNATIONAL OPERATIONS

International operations have continued to grow over the past year in line with the overall Group strategy and a positive contribution was again made to the overall profitability of the Group. Activities are now split into five main operating areas: Russia and CIS; Continental Europe; Africa; Asia Pacific; China.

RUSSIA AND CIS

The Moscow office has again had a successful year with consolidation of its position as one of the leading international engineering consultancies in the Moscow market and a natural expansion into St. Petersburg has commenced.

In St Petersburg, work has continued on the extension to the manufacturing facility for an international company and the project is now on site with completion due next year. Further projects have been won in St. Petersburg and the Group is currently carrying out full engineering due diligence on a four star hotel project in the city centre.

Waterman was lead consultant for the prestigious fit out for Reuters in central Moscow which was completed on programme prior to Christmas.

Staff numbers have been stable over the year and technical support has been provided by the London and Sydney offices on a number of new commissions won during the year. These include detailed scheme design for a new 40,000m² office and hotel development in Ufa; civil engineering design for a new factory for Pilkington in the Moscow region; and a new fitness centre for children at the Kursky Retail and Leisure Centre, Moscow.

The level of enquiries for new projects in the region is high and recent appointments include full engineering design for a major aquarium and leisure project in Moscow and as lead consultant on a major distribution park.

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CONTINENTAL EUROPE

The Warsaw office has become the centre of operations in the EU accession countries in Central and Eastern Europe and project opportunities have been identified throughout the region. In Poland the 38,000m², Foster and Partners designed Metropolitan project for leading US developer, Hines, was completed in September. Currently, mechanical and electrical consultancy is being provided for an office development in Bucharest. The facilities management and due diligence teams carried out emergency inspections and reports following the unfortunate floods in the Czech Republic and Germany in January and are still involved in advising some of the loss adjusters on the ensuing insurance claims.

The term contract at CERN, Geneva, to provide health and safety co-ordination services for the major civil engineering and tunnelling projects for the new LHC experiment, was completed in June following a further extension of the contract. Installation of the mechanical equipment is now proceeding, ready for the first experiments to commence in 2007.

Waterman's contract as project manager and engineering consultant for Skypark's European programme of mechanised car park projects is progressing well with the tender design for the Hannover project due for completion at the end of August 2004 with construction complete some twelve months later.

AFRICA

In Senegal, Waterman won two World Bank funded infrastructure projects involving feasibility studies and design of transportation improvements to the Greater Dakar region. Both commenced in February and Waterman Burrow Crocker is working with our local partners to complete the projects later this year. Further funded projects have been identified in the region to continue the development of this important market sector.

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ASIA PACIFIC REGION

The Asia Pacific region is controlled by the Group's 60% owned Australian company Waterman AHW based in Sydney. Local market conditions have been turbulent over the past year due to prolonged drought in rural Australia, the Bali bombing, the Iraq war and underperformance in the local stock market. All this has led to a downturn in the commercial sector. However, the residential and manufacturing sectors have performed well and company performance was in line with expectations. Signs of a resurgence in the commercial sector starting to appear with an upturn expected in 2004.

Major projects carried out during the past year include project management and engineering design for manufacturing clients Arnotts and Goodman Fielder; facilities management at Sydney Airport; rollout programme for Hutchison 3G mobile network throughout Australia, including data centres, new exchanges and engineering design for new developments, upgrades at Concord Hospital, Sydney and the 44 storey Cove Apartment Tower in Sydney.

New appointments have been secured for a regional headquarters for Nortel networks, project management and engineering design for upgrade to a paint manufacturing facility and major residential and office developments. Future plans for Australian operations include expansion of the structural division in Sydney, the establishment of Waterman offices in other capital cities and further expansion throughout the Asia Pacific region.

CHINA

The lightweight aggregate project in Daqing was successfully completed in November 2002 and currently Waterman International is leading a team on the restricted competition for the design of a 100,000m² data centre in Shanghai for a major Chinese bank. Registration as a wholly owned foreign entity in China is now complete and co-operation agreements have been signed with leading design institutes in Shanghai and

Chongqing. The level of enquiries in the country is increasing and it is hoped that these will result in further commissions during the next financial year.

ACQUISITIONS

On 1 July 2003 Waterman completed the 100% purchase of a Belgian structural engineering consultancy called TCA N.V., with offices in Brussels and Bucharest. The company, now trading as Waterman TCA N.V., is one of the top three structural engineering consultancies in Brussels with an excellent reputation and the Group intends to gradually support the extension of services offered by the company to include building services and environmental consultancy. Recently completed projects include the first phases on The Corporate Village, a 200,000m² business park and hotel development near to Brussels Airport, Boreal, a major office development in the centre of Brussels, Espace Kirchberg, a phased 80,000m² business park development in Luxembourg and Botanic, a 30,000m² office tower development in Brussels.

The level of enquiries and firm projects for next year is encouraging and major projects secured include the refurbishment and extension of the 33 storey office tower, Tour Madou, in the centre of Brussels, Lex 2000, an 84,000m² conference and office centre for the European Union; and a further phase of Espace Kirchberg in Luxembourg for client CODIC, Atenor, Leasinvest.

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BOARD OF DIRECTORS

IMAGE REMOVED AT REQUEST OF COMPANIES HOUSE

WILLIAM MATHIESON
Non-Executive Chairman Aged 73
A chartered surveyor joined Waterman in 1993 following retirement as a director of Land Securities plc. He served as a non-executive director of House of Fraser plc until June 2002. He was appointed Chairman of Waterman Group plc on 20 November 1997.

IMAGE REMOVED AT REQUEST OF COMPANIES HOUSE

ROBERT H CAMPBELL
Managing Director Aged 61
Chartered engineer appointed Group managing director upon flotation in 1988. Since joining Waterman in 1970 he has been responsible for structural design on projects at Canada Tower, Docklands, 60 London Wall and the Hilton Hotel at Roissy, Charles de Gaulle airport, Paris.

IMAGE REMOVED AT REQUEST OF COMPANIES HOUSE

ALEXANDER C BURTON Aged 60
Director since flotation of the Company in 1988. Formerly a partner of HL Waterman & Partners since 1973. Qualified as a chartered engineer in 1973 and winner of the BCSA steelwork award in 1965 having joined Waterman in 1964. Responsible for design of the Bluewater retail centre, Kent; the Bullring, Birmingham and White City, London.

IMAGE REMOVED AT REQUEST OF COMPANIES HOUSE

JAMES H MATHYS Aged 61
Director since flotation of the Company in 1988. Formerly a partner with HL Waterman & Partners since 1973 having joined in 1963. Responsible for many major projects including Broadgate, Cutlers Gardens and Little Britain in the City of London, London Bridge City and 10 Gresham Street and Paternoster Square around the north side of St Paul's Cathedral.

IMAGE REMOVED AT REQUEST OF COMPANIES HOUSE

J ARTHUR AUSTIN Aged 56
Director since 1989. Formerly a partner with HL Waterman & Partners since 1984. Qualified as a chartered engineer in 1973 from Brixton School of Building having joined Waterman in 1967. Joint responsibility for engineering design of Cutlers Gardens in London, London Bridge City and primary responsibility for Chelsea & Westminster Hospital and Imperial College of Science and Technology.

IMAGE REMOVED AT REQUEST OF COMPANIES HOUSE

BARRY J GORE Aged 55
Chartered building services engineer. Formerly a director of YRM Engineers. Founded Gore Partnership in 1986 and joined Waterman in 1991 following the acquisition of his company. Appointed to plc Board in 1998. Currently heads Waterman Gore, the Group's specialist building services consultancy.

IMAGE REMOVED AT REQUEST OF COMPANIES HOUSE

GRAHAM R HISCOCKS Aged 49
Finance director and company secretary since 1993. Qualified as a chartered accountant 1981 before joining Dowty Group as financial accountant and RJ Reynolds Tobacco (UK) Ltd as finance director. Joined Waterman in 1993 as finance director.

IMAGE REMOVED AT REQUEST OF COMPANIES HOUSE

NICHOLAS J TAYLOR Aged 44
Graduated from Oxford University in 1980 and joined Waterman in 1982. He qualified as a chartered engineer in 1986 and has been involved in the successful completion of major projects including 99 Bishopsgate and Globe House in London. He is currently involved in major projects at White City, London and Paradise Street Liverpool.

IMAGE REMOVED AT REQUEST OF COMPANIES HOUSE

CRAIG W BERESFORD Aged 44
Joined Waterman in 1984 and qualified as a chartered engineer in 1985 and has been involved in the structural design of a number of concrete and steel frame buildings including London Bridge City, Europier at Heathrow Airport and Thames Court, London.

IMAGE REMOVED AT REQUEST OF COMPANIES HOUSE

DAVID O HORNE
Non-Executive Aged 71
Joined Waterman in 1991 whilst chairman of Lloyds Merchant Bank. In addition to Waterman he is currently a non-executive director of Black Arrow Group plc.

IMAGE REMOVED AT REQUEST OF COMPANIES HOUSE

JOHN G ARCHIBALD
Non-Executive Aged 60
Qualified as a chartered accountant in 1965 before joining Robert Fleming and Co in 1969 where he held many responsible positions in both investment banking and risk management, becoming a director of its principal banking subsidiary and its holding company before retiring in 2000.

FINANCIAL REVIEW

TRADING RESULTS

Work done for the year increased by 18% to £61.3m (2002: £52.1m) due to the inclusion of a full year's trading from Aspen Consulting Group ("Aspen") which was acquired in December 2001, and AHW Consulting Engineers Pty Limited ("AHW"), 60% of which was acquired in July 2002.

Operating profit fell by 44% to £2.28m (2002: £4.06m) due to a reduction in the volume of higher margin commercial work undertaken, accompanied by higher insurance and property costs and higher salary related charges.

Interest costs rose to £0.40m (2002: £0.28m) due to the higher average level of net debt carried during the year.

Taxation of £0.37m (2002: £1.26m) represents an effective rate of 19.4% on profit before tax (2002: 33.4%). The standard rate of 30% has been reduced by the write back of provisions following closure of tax assessments from 2001 in the Group's favour, together with the beneficial effect of the low tax rate on profits earned in Ireland.

Basic earnings per share have fallen to 5.2p (2002: 10.1p). An interim dividend of 1.9p per share was paid in April 2003 (2002: 1.9p) and a final dividend of 3.0p per share will be recommended for approval at the Annual General Meeting (2002: 3.0p).

OPERATING EXPENSES

As noted in last year's Chairman's Statement, the liability insurance market for professional service providers hardened substantially in 2002/3 resulting in large increases in insurance costs. The market for consultancy services is becoming increasingly price competitive and the Group must absorb the higher insurance costs for the duration of existing contracts. Provision has been made against the self insured excess payable in respect of potential liability claims.

Internal reorganisations, which have taken place during the year, have resulted in £0.3m of redundancy costs. An onerous lease provision of £0.3m has been made against surplus property costs.

Goodwill amortisation charges increased to £0.52m (2002: £0.33m) reflecting the additional charges arising from the recent Aspen and AHW acquisitions.

SHARE CAPITAL AND SHAREHOLDERS FUNDS

At 30 June 2003, the Company had 27,765,635 ordinary shares of 10p in issue (2002: 27,750,635). Equity shareholders funds increased by £0.3m from £24.7m to £25.0m during the year and net assets per share increased from 89p to 93p.

CAPITAL EXPENDITURE AND FREEHOLD PROPERTY

Waterman Group continues to invest in its business systems in order to remain a market leader offering effective technical solutions to client problems. Capital expenditure of £1.31m arose during the year of which £0.53m related to IT equipment and network services and £0.70m related to property improvements.

The Group owns the freehold interest in three office properties, two in London and one in Leeds. These are recorded on the balance sheet at historic cost of £9.0m less depreciation of £0.2m. In the opinion of the directors, the current market value of these properties exceeds £11m.

WORKING CAPITAL

During the year, the Group has sought to maintain effective control over working capital by ensuring prompt invoicing of work in progress and tight credit control procedures over trade debtors. Despite an 18% increase in work done, net current assets increased by only 3% and represent 18% of work done.

CASH FLOW AND NET DEBT

Net cash inflow from operating activities was £6.82m and, after payment of interest, taxation and dividends, there was free cash flow of £3.91m.

Cash expended in respect of tangible fixed assets, purchase of own shares and acquisitions absorbed £2.76m leaving net cash inflow of £1.15m during the year. After financing of £0.12m, cash balances improved by £1.27m. Net debt fell by £0.58m to £5.79m (2002: £6.37m) and the Group's gearing ratio (net debt to capital employed) remains healthy at under 23%.

CASH FLOW AND NET DEBT (CONTINUED)

Deferred consideration of £1.98m (2002: £1.46m) is forecast to be payable following the Aspen acquisition in December 2001. This forecast has increased by £0.52m in respect of the enhanced performance reported by the Aspen outsourcing business. The first year payment of £0.73m, arising from profits earned in 2002, will become payable in December 2003.

NEW ACCOUNTING AND CORPORATE GOVERNANCE GUIDELINES

The Group does not operate a final salary pension scheme and consequently has no exposure to be disclosed under FRS 17, Retirement Benefits.

The Audit Committee has considered the recommendations of the working group chaired by Sir Robert Smith into Audit Committees, which came into effect on 1 July 2003. The role of the Committee has been extended to include a wider review of the risks affecting our business and its title has been amended to become the Audit and Risk Committee. Its terms of reference have been revised to reflect the recommendations of the new Combined Code issued in July 2003 and its extended role.

The Board has also considered the review of the role and effectiveness of non-executive directors undertaken by Mr Derek Higgs. The Combined Code was updated in July 2003 to incorporate many of his recommendations and these will become effective from 1 November 2003. The Board will implement such changes to its existing governance procedures as it considers appropriate to meet the requirements of the new Code.

POST BALANCE SHEET EVENT

On 1 July 2003, the Group purchased 100% of the share capital of Technical Computer Associates NV, a structural engineering consultancy based in Brussels, Belgium. The initial consideration of 1.0m was funded by a term loan from HSBC Bank plc repayable over 10 years. This acquisition, which is in line with the Group's strategy of selective acquisitions and international diversification, will enable the Group to expand its operations within Europe.



Graham R Hiscocks
Finance Director
27 October 2003

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.

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 contain a commentary on the Group's performance and activities during the year and details of current activities and proposed developments.

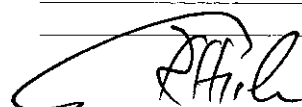
RESULTS AND DIVIDENDS

The financial results for the year are set out in the summary consolidated profit and loss account on page 26.

The profit on ordinary activities after taxation and minority interest was £1,451,000 (2002: £2,518,000). The directors propose the payment of a final dividend of 3.0p which, together with the interim dividend of 1.9p paid in April 2003 makes a total distribution of 4.9p (2002: 4.9p) for the year thereby absorbing £1,334,000 of profit (2002: £1,342,000) and leaving a retained profit of £117,000 to be taken to reserves (2002: £1,176,000). If approved at the Annual General Meeting to be held on 27 November 2003, the final dividend will be paid on 10 December 2003 to shareholders on the register at close of business on 14 November 2003.

DIRECTORS AND THEIR REMUNERATION

	Name	Base salary & fees	Benefits	Bonus	Total 2003 £'000	Total 2002 £'000	Pension 2003 £'000	Pension 2002 £'000
Chairman	W Mathieson	20	-	-	20	18	-	-
Executive	R H Campbell	114	9	14	137	134	11	11
Executive	A C Burton	111	13	14	138	134	11	11
Executive	J H Mathys	101	12	14	127	134	10	11
Executive	J A Austin	107	17	13	137	129	11	10
Executive	B J Gore	109	22	16	147	133	11	10
Executive	G R Hiscocks	96	16	12	124	119	10	9
Executive	N J Taylor	42	8	-	50	-	4	-
Executive	C W Beresford	42	5	-	47	-	4	-
Non-exec	D O Horne	20	-	-	20	18	-	-
Non-exec	J G Archibald	8	-	-	8	-	-	-
		770	102	83	955	819	72	62


G R Hiscocks
Company Secretary
27 October 2003

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 (2002: 6) and three non-executive directors (2002: 2). Their total remuneration comprised salary, bonus and benefits of £955,000 (2002: £819,000) and pension contributions of £72,000 (2002: £62,000). A detailed schedule of directors and their remuneration is contained in the Summary Directors' Report.

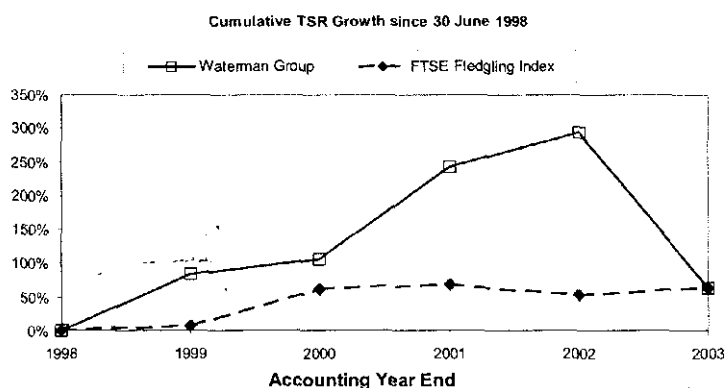
All executive directors are employed under service contracts with a six month notice period and no termination payments. Bonuses are paid upon the performance of the Group as a whole and all executive directors participate in the Company's defined contribution pension scheme. They have all received one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

Non-executive directors are employed under service agreements with three month 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.

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 introduced by the Directors' Remuneration Report Regulations 2002.

By Order of the Board
William Mathieson
Chairman of the Remuneration Committee
27 October 2003

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 2003 and complies with the applicable requirements of section 251 of the Companies Act 1985, and the regulations made thereunder.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

London

27 October 2003

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.

SUMMARY GROUP PROFIT AND LOSS ACCOUNT

for the year ended 30 June 2003

	2003 £'000	2002 £'000
Work done	61,315	52,070
Operating profit	2,284	4,063
Net interest payable	(398)	(284)
Profit on ordinary activities before taxation	1,886	3,779
Taxation on profit on ordinary activities	(366)	(1,261)
Profit on ordinary activities after taxation	1,520	2,518
Equity minority interests	(69)	-
Profit on ordinary activities after taxation and minority interest	1,451	2,518
Dividends paid and proposed	(1,334)	(1,342)
Retained profit for the year	117	1,176
Basic earnings per share	5.2p	10.1p
Diluted earnings per share	5.1p	9.9p
Basic earnings per share before goodwill amortisation	7.1p	11.4p
Diluted earnings per share before goodwill amortisation	7.0p	11.2p

STATEMENT OF TOTAL GROUP RECOGNISED GAINS AND LOSSES

for the year ended 30 June 2003

	£'000	£'000
Profit for the financial year	1,451	2,518
Exchange adjustment offset in reserves	166	18
Total gains and losses recognised since last annual report	1,617	2,536

RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

for the year ended 30 June 2003

	£'000	£'000
Profit attributable to shareholders	1,451	2,518
Exchange adjustment	166	18
Dividends	(1,334)	(1,342)
Issue of new shares	4	6,622
Net change in shareholder funds	287	7,816
Opening shareholders' funds	24,757	16,941
Closing shareholders' funds	25,044	24,757

SUMMARY GROUP BALANCE SHEET

As at 30 June 2003

	2003 £'000	2002 £'000
Fixed assets		
Intangible assets	10,281	8,144
Tangible assets	12,575	12,758
Investments	75	224
	22,931	21,126
Current assets		
Work in progress	4,099	3,029
Debtors	20,183	19,745
Cash at bank and in hand	3,420	3,618
	27,702	26,392
Creditors (amounts falling due within one year)	(16,592)	(15,604)
Net current assets	11,110	10,788
Total assets less current liabilities	34,041	31,914
Creditors (amounts falling due after more than one year)	(7,408)	(7,157)
Provision for liability and charges	(894)	-
Net assets	25,739	24,757
Capital and reserves		
Called up share capital	2,776	2,775
Share premium account	11,407	11,404
Merger reserve	2,110	2,110
Profit and loss account	8,751	8,468
Equity shareholders' funds	25,044	24,757
Equity minority interest	695	-
Capital employed	25,739	24,757

SUMMARY GROUP CASH FLOW STATEMENT

for the year ended 30 June 2003

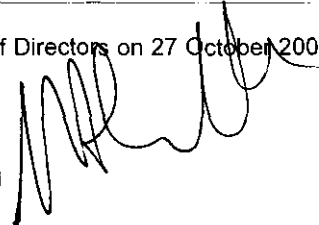
	£'000	£'000
Net cash inflow from operating activities	6,818	4,848
Returns on investments and servicing of finance	(398)	(350)
Taxation paid	(1,175)	(1,527)
Capital expenditure and financial investment	(1,429)	(1,962)
Acquisitions	(1,336)	(5,890)
Equity dividends paid	(1,333)	(1,170)
Cash inflow/(outflow) before financing	1,147	(6,051)
Financing	118	5,685
Increase/ (decrease) in cash in the period	1,265	(366)

These summary financial statements were approved by the Board of Directors on 27 October 2003

Signed on behalf of the Board:



W Mathieson
Director


R H Campbell
Director

SHAREHOLDER INFORMATION

FINANCIAL CALENDAR

12 November 2003	Ordinary shares quoted ex-dividend
14 November 2003	Record date for proposed final dividend
27 November 2003	Annual General Meeting 2003
10 December 2003	Final dividend payable
March 2004	Interim results announced for the six months to 31 December 2003
April 2004	Interim dividend payable
October 2004	Preliminary announcement of results for the year to 30 June 2004
November 2004	Annual General Meeting 2004

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FINANCIAL REVIEW

TRADING RESULTS

Work done for the year increased by 18% to £61.3m (2002: £52.1m) due to the inclusion of a full year's trading from Aspen Consulting Group ("Aspen") which was acquired in December 2001, and AHW Consulting Engineers Pty Limited ("AHW"), 60% of which was acquired in July 2002.

Operating profit fell by 44% to £2.28m (2002: £4.06m) due to a reduction in the volume of higher margin commercial work undertaken, accompanied by higher insurance and property costs and higher salary related charges.

Interest costs rose to £0.40m (2002: £0.28m) due to the higher average level of net debt carried during the year.

Taxation of £0.37m (2002: £1.26m) represents an effective rate of 19.4% on profit before tax (2002: 33.4%). The standard rate of 30% has been reduced by the write back of provisions following closure of tax assessments from 2001 in the Group's favour, together with the beneficial effect of the low tax rate on profits earned in Ireland.

Basic earnings per share have fallen to 5.2p (2002: 10.1p). An interim dividend of 1.9p per share was paid in April 2003 (2002: 1.9p) and a final dividend of 3.0p per share will be recommended for approval at the Annual General Meeting (2002: 3.0p).

OPERATING EXPENSES

As noted in last year's Chairman's Statement, the liability insurance market for professional service providers hardened substantially in 2002/3 resulting in large increases in insurance costs. The market for consultancy services is becoming increasingly price competitive and the Group must absorb the higher insurance costs for the duration of existing contracts. Provision has been made against the self insured excess payable in respect of potential liability claims.

Internal reorganisations, which have taken place during the year, have resulted in £0.3m of redundancy costs. An onerous lease provision of £0.3m has been made against surplus property costs.

Goodwill amortisation charges increased to £0.52m (2002: £0.33m) reflecting the additional charges arising from the recent Aspen and AHW acquisitions.

SHARE CAPITAL AND SHAREHOLDERS FUNDS

At 30 June 2003, the Company had 27,765,635 ordinary shares of 10p in issue (2002: 27,750,635). Equity shareholders funds increased by £0.3m from £24.7m to £25.0m during the year and net assets per share increased from 89p to 93p.

CAPITAL EXPENDITURE AND FREEHOLD PROPERTY

Waterman Group continues to invest in its business systems in order to remain a market leader offering effective technical solutions to client problems. Capital expenditure of £1.31m arose during the year of which £0.53m related to IT equipment and network services and £0.70m related to property improvements.

The Group owns the freehold interest in three office properties, two in London and one in Leeds. These are recorded on the balance sheet at historic cost of £9.0m less depreciation of £0.2m. In the opinion of the directors, the current market value of these properties exceeds £11m.

WORKING CAPITAL

During the year, the Group has sought to maintain effective control over working capital by ensuring prompt invoicing of work in progress and tight credit control procedures over trade debtors. Despite an 18% increase in work done, net current assets increased by only 3% and represent 18% of work done.

CASH FLOW AND NET DEBT

Net cash inflow from operating activities was £6.82m and, after payment of interest, taxation and dividends, there was free cash flow of £3.91m.

Cash expended in respect of tangible fixed assets, purchase of own shares and acquisitions absorbed £2.76m leaving net cash inflow of £1.15m during the year. After financing of £0.12m, cash balances improved by £1.27m. Net debt fell by £0.58m to £5.79m (2002: £6.37m) and the Group's gearing ratio (net debt to capital employed) remains healthy at under 23%.

CASH FLOW AND NET DEBT (CONTINUED)

Deferred consideration of £1.98m (2002: £1.46m) is forecast to be payable following the Aspen acquisition in December 2001. This forecast has increased by £0.52m in respect of the enhanced performance reported by the Aspen outsourcing business. The first year payment of £0.73m, arising from profits earned in 2002, will become payable in December 2003.

NEW ACCOUNTING AND CORPORATE GOVERNANCE GUIDELINES

The Group does not operate a final salary pension scheme and consequently has no exposure to be disclosed under FRS 17, Retirement Benefits.

The Audit Committee has considered the recommendations of the working group chaired by Sir Robert Smith into Audit Committees, which came into effect on 1 July 2003. The role of the Committee has been extended to include a wider review of the risks affecting our business and its title has been amended to become the Audit and Risk Committee. Its terms of reference have been revised to reflect the recommendations of the new Combined Code issued in July 2003 and its extended role.

The Board has also considered the review of the role and effectiveness of non-executive directors undertaken by Mr Derek Higgs. The Combined Code was updated in July 2003 to incorporate many of his recommendations and these will become effective from 1 November 2003. The Board will implement such changes to its existing procedures as it considers appropriate to meet the requirements of the new Code.

POST BALANCE SHEET EVENT

On 1 July 2003, the Group purchased 100% of the share capital of Technical Computer Associates NV, a structural engineering consultancy based in Brussels, Belgium. The initial consideration of €1.0m was funded by a term loan from HSBC Bank plc repayable over 10 years. This acquisition, which is in line with the Group's strategy of selective acquisitions and international diversification, will enable the Group to expand its operations within Europe.



Graham R Hiscocks
Finance Director
27 October 2003

DIRECTORS' REPORT

The directors present their report, together with the audited financial statements for the year ended 30 June 2003.

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 current activities and proposed developments.

RESULTS AND DIVIDENDS

The financial results for the year are set out in the Group profit and loss account on page 14.

The profit on ordinary activities after taxation and minority interest was £1,451,000 (2002: £2,518,000). The directors propose the payment of a final dividend of 3.0p which, together with the interim dividend of 1.9p paid in April 2003 makes a total distribution of 4.9p (2002: 4.9p) for the year thereby absorbing £1,334,000 of profit (2002: £1,342,000) and leaving a retained profit of £117,000 to be taken to reserves (2002: £1,176,000). If approved at the Annual General Meeting to be held on 27 November 2003, the final dividend will be paid on 10 December 2003 to shareholders on the register at close of business on 14 November 2003.

ACQUISITIONS

On 1 July 2002, the Group acquired a 60% interest in Waterman International (Asia) Pty Limited, a newly formed intermediate holding company registered in New South Wales, Australia. This company owns 100% of Waterman AHW Pty Limited, which provides mechanical and electrical consultancy services to a wide range of clients in the Asia Pacific region. The initial consideration of Aus\$3,850,200 was settled in cash. Further details of this acquisition are contained in note 20 to the financial statements.

DIRECTORS

The directors' beneficial interests in the share capital of the Company are set out below. Three new directors were appointed during the year and all previously appointed directors held office throughout the year.

	15 October 2003		30 June 2003*		30 June 2002
	Ordinary shares	Ordinary shares	Share options	Ordinary shares	Share options
W Mathieson (non-exec)	35,000	35,000	-	15,000	-
R H Campbell	1,062,287	1,062,287	7,500	1,043,231	7,500
A C Burton	1,031,090	1,031,090	7,500	1,012,430	7,500
J H Mathys	841,810	941,810	7,500	923,150	7,500
J A Austin	440,391	440,391	57,500	421,650	7,500
B J Gore	73,702	93,702	132,500	89,829	32,500
G R Hiscocks	35,784	35,784	77,500	32,409	27,500
N J Taylor	22,213	22,213	50,000	20,101	-
C W Beresford	51,633	51,633	50,000	49,521	-
D O Horne (non-exec)	30,000	30,000	-	30,000	-
J G Archibald (non-exec)	6,052	6,052	-	6,052	-

*or at date of appointment

DIRECTORS (CONTINUED)

J G Archibald (non-executive), N J Taylor and C W Beresford were appointed to the Board on 6 January 2003. Details of the directors' remuneration and changes to share options can be found in the Directors' Remuneration Report on pages 7 to 10.

The non-executive directors on the Board are as follows:

W Mathieson, aged 73, a chartered surveyor, joined Waterman in 1993 following retirement as a director of Land Securities plc. He recently retired as a non-executive of House of Fraser plc.

D O Horne, aged 71, a chartered accountant and formerly chairman of Lloyds Merchant Bank joined Waterman in 1991. He is also a non-executive director of Black Arrow Group plc.

J G Archibald, aged 60, a chartered accountant, and formerly a director of Robert Fleming & Company Limited joined Waterman on 6 January 2003.

ELECTION, RE-ELECTION AND RETIREMENT OF DIRECTORS

R H Campbell and J A Austin retire by rotation and being eligible, offer themselves for re-election. Being aged over 70, W Mathieson will retire and offers himself for re-election. The retiring directors have service contracts which do not extend beyond one year.

J G Archibald, N J Taylor and C W Beresford offer themselves for election following their appointment during the year. These directors have service contracts which do not extend beyond six months.

D O Horne has announced his intention to retire from the Board immediately following this year's Annual General Meeting.

No other contract in which any director had a material interest subsisted at any time during the financial year.

SUBSTANTIAL INTERESTS IN SHARES

Other than directors' interests, as at 15 October 2003, the Company had been notified of the following interests of 3% or more in its issued ordinary share capital:

	Number of shares held	%
Executors of A G Thomson deceased	1,000,000	3.6%
B J White Esq.	838,809	3.0%
F Clappitt Esq.	1,691,995	6.1%
Isis Asset Management	875,000	3.2%
Liontrust Investment Services Ltd	3,440,988	12.4%
Jupiter Asset Management	1,005,450	3.6%

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 2003, the Group had 32 days (2002: 32 days) purchases outstanding. The company had 25 days (2002: 19 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. In recognition of the contribution made by staff, an annual appropriation of shares

EMPLOYMENT POLICY (CONTINUED)

is distributed to all qualifying members of staff, based on the Group's profit before taxation. A Share Incentive Plan was introduced in 2002 which enables the Group to continue to appropriate shares to staff in relation to profits earned.

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 reviewed to ensure that wherever possible, reasonable adjustments are made to enable them to enter or remain in employment with the Group.

HEALTH AND SAFETY

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

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 all materials
- 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.

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. Waterman 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 the natural environment wherever possible
- Encourage the sustainable use of natural resources
- 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
- Adopt energy, water and resource 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 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 Institute of Waste Management, the British Urban Regeneration Council 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.

CORPORATE GOVERNANCE

A report on the Company's corporate governance principles and compliance is set out on pages 11 and 12.

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 £7,800 (2002 £2,250). No political donations were made.

POST YEAR END EVENT

On 1 July 2003, the Group acquired 100% of the issued share capital of Technical Computer Applications NV, a company based in Brussels, Belgium providing consultancy services. The initial consideration of €1,000,000 was settled by payment of €825,000 in cash on completion with a further payment of €175,000 due upon acceptance of the completion accounts and subject to a net asset value adjustment. Deferred consideration of up to €425,000 will be payable in cash based upon the financial performance of the business during the five years ending 30 June 2008.

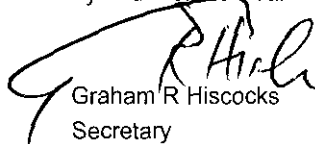
ANNUAL GENERAL MEETING

The Annual General Meeting will be held at 12.00 noon on 27 November 2003. 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

Following the conversion of our auditors, PricewaterhouseCoopers, to a limited liability partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned and the directors appointed its successor, PricewaterhouseCoopers LLP as auditors. A resolution proposing their re-appointment and authorising the directors to determine their remuneration will be proposed at the Annual General Meeting.

By Order of the Board



Graham R Hiscocks
Secretary
27 October 2003

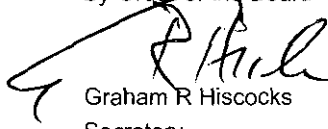
STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 consider that, in preparing the financial statements on pages 14 to 32, 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 that 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 relating to the preparation and dissemination of financial statements. UK legislation governing preparation and dissemination of financial statements may therefore differ from that in other jurisdictions.

By Order of the Board



Graham R Hiscocks
Secretary
27 October 2003

DIRECTORS' REMUNERATION REPORT

This report has been prepared in compliance with Schedule 7A of the Companies Act 1985 as introduced by the Directors' Remuneration Report Regulations 2002, Section B of the Best Practice Provisions on Directors' Remuneration annexed to the Listing Rules of the UK Listing Authority and the Listing Rules.

The directors' remuneration 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 non-auditable information with the exception of the sections entitled Remuneration of Directors and Interest in Share Options. Various sections in the report are marked audited and unaudited as appropriate.

REMUNERATION COMMITTEE

This part of the remuneration report is unaudited.

The Committee comprises Mr W Mathieson (Chairman) and Mr D O Horne, who have served throughout the year. In addition, Mr J G Archibald joined the committee on 6 January 2003 upon his appointment to the Board. All members of the Committee are non-executive. They 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. According to the Combined Code, Mr Mathieson and Mr Horne are technically no longer fully independent having served for more than nine years.

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

This part of the remuneration report is unaudited.

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

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 provided include company car or car allowance, private health insurance and rail season ticket.

REMUNERATION POLICY (CONTINUED)

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.

The scheme requires a return on net tangible assets to be earned for the benefit of shareholders, currently at the rate of 6% per annum, before a bonus can be paid. Thereafter, 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 on page 9 is the bonus paid in the financial year. The bonus earned by directors in the year ended 30 June 2003 will be paid in December 2003 following approval by the Remuneration Committee.

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

C) SHARE OPTIONS

During the year, new share options were awarded to Mr B J Gore, Mr J A Austin, Mr G R Hiscocks, Mr N J Taylor and Mr C W Beresford.

Historically, the exercise of share options issued has not required any performance criteria to be achieved. However in light of recent corporate governance developments, the Remuneration Committee will consider the use of options to reward performance only against the achievement of performance targets.

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

DIRECTORS' SERVICE CONTRACTS

This part of the remuneration report is unaudited.

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 provisions in relation to the payment of any termination payments over and above the stated notice period.

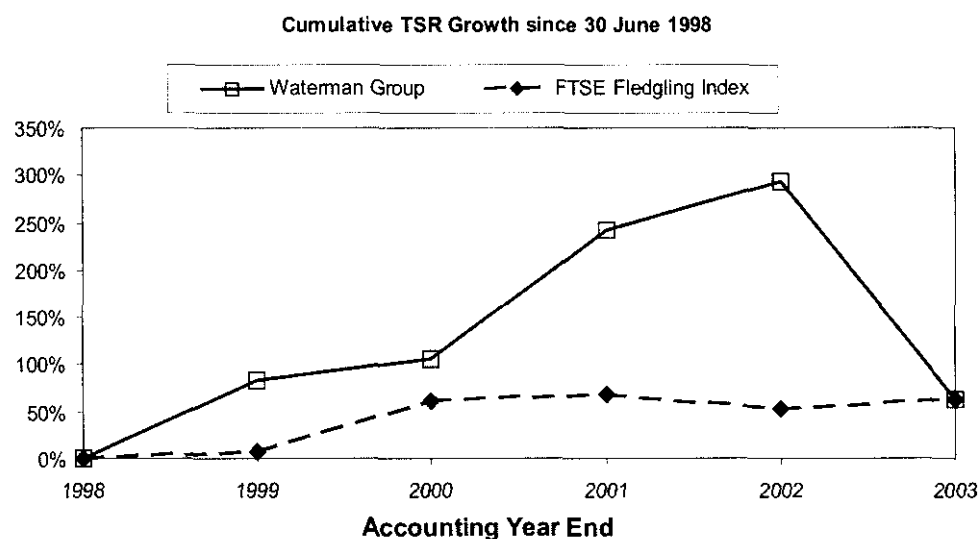
The details of the service contracts of those who served as directors during the year are as follows:

Name	Contract date	Notice period	Contractual termination payments
W Mathieson	11 August 1993	3 months	None
R H Campbell	27 April 1988	6 months	None
A C Burton	27 April 1988	6 months	None
J H Mathys	27 April 1988	6 months	None
J A Austin	27 April 1988	6 months	None
B J Gore	20 December 1991	6 months	None
G R Hiscocks	7 June 1993	6 months	None
N J Taylor	6 January 2003	6 months	None
C W Beresford	6 January 2003	6 months	None
D O Horne	17 May 1989	3 months	None
J G Archibald	6 January 2003	3 months	None

PERFORMANCE GRAPH

This part of the remuneration report is unaudited.

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.



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

REMUNERATION OF DIRECTORS

This part of the remuneration report is auditable information.

	Name	Base salary & fees	Benefits	Bonus	Total 2003 £'000	Total 2002 £'000	Pension 2003 £'000	Pension 2002 £'000
Chairman	W Mathieson	20	-	-	20	18	-	-
Executive	R H Campbell	114	9	14	137	134	11	11
Executive	A C Burton	111	13	14	138	134	11	11
Executive	J H Mathys	101	12	14	127	134	10	11
Executive	J A Austin	107	17	13	137	129	11	10
Executive	B J Gore	109	22	16	147	133	11	10
Executive	G R Hiscocks	96	16	12	124	119	10	9
Executive	N J Taylor	42	8	-	50	-	4	-
Executive	C W Beresford	42	5	-	47	-	4	-
Non-exec	D O Horne	20	-	-	20	18	-	-
Non-exec	J G Archibald	8	-	-	8	-	-	-
		770	102	83	955	819	72	62

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 J G Archibald, N J Taylor and C W Beresford relates to the period from the date of their appointment on 6 January 2003 to the year end.

INTERESTS IN SHARE OPTIONS

This part of the remuneration report is auditable information.

At 30 June 2003, the following directors held unexercised share options:

	30 June 2002	Options issued	30 June 2003	Exercise price	Market price at date of exercise	Exercise from	Expiry date
R H Campbell	7,500	-	7,500	58p	-	28/12/1996	27/12/2003
A C Burton	7,500	-	7,500	58p	-	28/12/1996	27/12/2003
J H Mathys	7,500	-	7,500	58p	-	28/12/1996	27/12/2003
J A Austin	7,500	-	7,500	58p	-	28/12/1996	27/12/2003
	-	50,000	50,000	44.5p	-	15/11/2005	14/11/2012
B J Gore	7,500	-	7,500	58p	-	28/12/1996	27/12/2003
	25,000	-	25,000	50p	-	19/11/2001	18/11/2008
	-	100,000	100,000	44.5p	-	15/11/2005	14/11/2012
G R Hiscocks	20,000	-	20,000	41p	-	24/09/1996	23/09/2003
	7,500	-	7,500	58p	-	28/12/1996	27/12/2003
	-	50,000	50,000	44.5p	-	15/11/2005	14/11/2012
N J Taylor	-	50,000	50,000	44.5p	-	15/11/2005	14/11/2012
C W Beresford	-	50,000	50,000	44.5p	-	15/11/2005	14/11/2012

On 15 November 2002, the Company granted 1,205,000 share options at 44.5p each to its directors and senior management. This award provides a substantial incentive to executives to deliver enhanced financial performance and shareholder return.

No share options were exercised during the year. The closing mid market price of the Company's shares was 53.0p on 30 June 2003 (2002: 144.5p) and ranged between 43.0p and 144.5p during the year.

By order of the Board of Directors



William Mathieson
Chairman of the Remuneration Committee
27 October 2003

CORPORATE GOVERNANCE

The Board of Directors aim to apply best practice corporate governance procedures throughout the Group. The extent to which it has complied with the Listing Rules of the Financial Services Authority relating to the provisions of the *Principles of Good Governance and Code of Best Practice (the Combined Code) 1998* are set out below. The Board has assessed the impact of the new Combined Code on Corporate Governance (2003) and will implement such changes to its existing governance procedures as it considers to be appropriate.

The Board considers that, with the exception of the items listed below, it has complied with the provisions set out in Section 1 of the Combined Code throughout the financial year:

- the non-executive directors comprised less than one third of the Board throughout the year (provision A3.1);
- the Company did not have a separate Nomination Committee (provision A5.1) as the directors did not believe that a separate Nomination Committee was required. Since the year end, a nomination committee has been formed;
- two of the non-executive directors have served for more than three terms of three years and are no longer considered to be independent as explained below (provision A3.2). For this reason, the board also fails to comply with provision B2.1 and B2.2 regarding remuneration committees and provision D3.1 regarding audit committees;
- the Audit Committee did not contain three non-executive directors throughout the year (provision D3.1).

In view of its size, the directors consider that two influential non-executive directors enable the Company to meet its governance obligations.

BOARD OF DIRECTORS

The Board currently comprises eight executive directors and three non-executives including the Chairman. On 6 January 2003, Mr N J Taylor and Mr C W Beresford were appointed as executive directors and Mr J G Archibald was appointed as a non-executive director. No directors left the board during the year. All directors bring considerable knowledge and experience together with strong independent judgment to matters of strategy, resources and business conduct.

The Board has formally considered its composition and balance. Whilst recognising that two of the non-executive directors, Mr W Mathieson and Mr D O Horne have served for more than nine years and are no longer considered to be independent according to the Combined Code (2003), they continue to provide a robust and valuable contribution to company business and for this reason have been retained as directors throughout the financial year. Following the Annual General Meeting, Mr Horne will retire from the Board and steps are being taken to recruit a suitable replacement.

There is a clear division of responsibility between the Chairman, Mr W Mathieson and Managing Director, Mr R H Campbell. Mr D O Horne is regarded as the senior non-executive director until his retirement when Mr J G Archibald will assume this position. All directors have access to independent professional advice and the Company will meet any reasonable costs incurred. The non-executive directors are not eligible to participate in the Group's share option scheme, and their service is non-pensionable.

The Board meets monthly and has a formal schedule of matters reserved for its decision. The Board is responsible for overall Group strategy, acquisition and investment policy, risk management, monitoring of internal controls, approval of capital expenditure and annual budgets. At each meeting, executive directors present reports on the progress of all matters and business areas under their responsibility. Under the guidance of the Chairman, all matters are discussed openly and fully. The non-executive directors critically examine the operational and financial performance of the Group and fulfil a key role in ensuring corporate accountability.

All directors submit themselves for election at the first Annual General Meeting following appointment and every three years thereafter. Non-executive directors are appointed for a term of three years or less.

The Board has delegated responsibility for more detailed consideration of certain matters to committees of the Board and the executive directors who report regularly to the Board on such matters. The standing committees of the Board are as follows:

AUDIT COMMITTEE

The Audit Committee met on three occasions during the year. All members are non-executive directors and during the year included Mr J G Archibald (Chairman) from his date of appointment, Mr W Mathieson and Mr D O Horne. Its terms of reference are primarily as required by the Combined Code (1998). The Committee meets with the Group's external auditors to receive their reports and recommendations, and reviews the interim results and annual report and financial statements prior to their submission to the Board for approval. It also monitors the Group's accounting policies, internal control procedures and regulatory compliance.

Since the year end, the terms of reference of the Audit Committee have been extended to include a detailed examination of the risks affecting the Company and the Group and its title has been changed to the Audit and Risk Committee.

REMUNERATION COMMITTEE

The Remuneration Committee meets at least twice each year. All members are non-executive and its composition currently comprises Mr W Mathieson (Chairman), Mr D O Horne and Mr J G Archibald. The primary role of the Committee is to set the levels of the total remuneration packages for the executive directors and to consider incentive remuneration for the senior management of the Group as a whole. Members of the Committee do not participate in decisions concerning their own remuneration. The Directors' Remuneration Report is on pages 7 to 10.

NOMINATION COMMITTEE

Since the year end, the Board has approved the formation of a Nomination Committee comprising two non-executive directors, the managing director and other executive directors as required, to recommend suitable candidates for appointment to the Board.

GROUP MANAGEMENT BOARD

A Group Management Board attended by senior executives of the Group's primary operating subsidiaries meets bi-monthly to review operational performance and co-ordinate policy on operational matters affecting the Group as a whole.

INTERNAL CONTROL

In accordance with the Combined Code, the Board is responsible for the Group's system of internal control and for reviewing its effectiveness. The Board continues to review and update its assessment of the risks affecting the business, and the procedures by which these risks are promptly identified and effectively managed.

The key features of the Group's internal control system are:

1. Regular Board meetings are held to discuss strategic, operational and financial matters. Each operating company is represented by an executive director who sits on its Board and conveys significant matters to the Group Board.
2. A clearly defined organisational structure exists with levels of authority and division of responsibilities.
3. The executive directors and senior management of trading companies are responsible for identifying and regularly reviewing the significant risks and bringing these to the Group Board's attention.
4. Detailed budgets are prepared annually for approval by the Board.
5. The Group employs suitably qualified financial management who are responsible and accountable for the operation and monitoring of effective financial controls for all operating companies.
6. Financial performance of all companies within the Group is reviewed monthly by the Board against budget and prior year performance.
7. The Board approves the annual capital expenditure budget and authorises the purchase of major items of capital expenditure.

There are inherent limitations in any system of internal control. Any system, however effective, can provide only 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 eliminating the risk of failure to achieve business objectives.

RELATIONSHIPS WITH SHAREHOLDERS

The Company meets with its principal shareholders following the announcement of its interim and year end results and on other occasions as required. The Board encourages all shareholders to attend the Annual General Meeting at which the Board presents a review of the Group's operations and financial results and comments on current business activity. All investor relations activity complies with the provisions of the Combined Code.

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 total Group recognised gains and losses and the related notes which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies. 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 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 seven provisions of the 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 to 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:

- financial statements give a true and fair view of the state of affairs of the Company and the Group at 30 June 2003 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
27 October 2003

GROUP PROFIT AND LOSS ACCOUNT

for the year ended 30 June 2003

	Notes	Continuing operations Acquisitions £'000	Year ended 30 June 2003 £'000	Year ended 30 June 2002 £'000
Turnover		57,041	2,896	59,937
Movement in work in progress and accrued contract costs		1,453	(75)	1,378
Work done	2	58,494	2,821	61,315
Staff costs	3	(36,352)	(1,852)	(38,204)
Depreciation and goodwill amortisation		(1,938)	(90)	(2,028)
Other operating charges	4	(18,184)	(615)	(18,799)
Total operating expenses		(56,474)	(2,557)	(59,031)
Operating profit		2,020	264	2,284
Net interest payable	5		(398)	(284)
Profit on ordinary activities before taxation			1,886	3,779
Taxation on profit on ordinary activities	6		(366)	(1,261)
Profit on ordinary activities after taxation			1,520	2,518
Equity minority interests			(69)	-
Profit on ordinary activities after taxation and minority interests			1,451	2,518
Dividends	7		(1,334)	(1,342)
Retained profit for the year	18		117	1,176
Basic earnings per share	8		5.2p	10.1p
Diluted earnings per share	8		5.1p	9.9p
Basic earnings per share before goodwill amortisation	8		7.1p	11.4p
Diluted earnings per share before goodwill amortisation	8		7.0p	11.2p

STATEMENT OF TOTAL GROUP RECOGNISED GAINS AND LOSSES

for the year ended 30 June 2003

	£'000	£'000
Profit for the financial year	1,451	2,518
Exchange adjustment offset in reserves	166	18
Total gains and losses recognised since last annual report	1,617	2,536

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

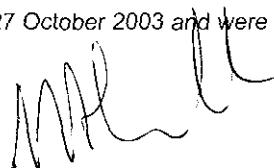
As at 30 June 2003

	Notes	2003 £'000	2002 £'000
Fixed assets			
Intangible assets	10	10,281	8,144
Tangible assets	11	12,575	12,758
Investments	12	75	224
		22,931	21,126
Current assets			
Work in progress	13	4,099	3,029
Debtors (including amounts recoverable on contracts)	14	20,183	19,745
Cash at bank and in hand		3,420	3,618
		27,702	26,392
Creditors (amounts falling due within one year)	15	(16,592)	(15,604)
Net current assets		11,110	10,788
Total assets less current liabilities		34,041	31,914
Creditors (amounts falling due after more than one year)	16	(7,408)	(7,157)
Provisions for liabilities and charges	23	(894)	-
Net assets		25,739	24,757
Capital and reserves			
Called up share capital	17	2,776	2,775
Share premium account	18	11,407	11,404
Merger reserve	18	2,110	2,110
Profit and loss account	18	8,751	8,468
Equity shareholders' funds	19	25,044	24,757
Equity minority interest		695	-
Capital employed		25,739	24,757

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 total Group recognised gains and losses and related notes were approved by the board of directors on 27 October 2003 and were signed on its behalf by:



W Mathieson
Director



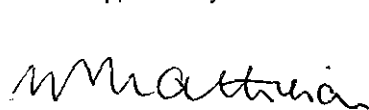
R H Campbell
Director

COMPANY BALANCE SHEET

As at 30 June 2003

	Notes	2003 £'000	2002 £'000
Fixed assets			
Tangible assets	11	10,527	10,316
Investments	12	11,496	10,110
		<u>22,023</u>	<u>20,426</u>
Current assets			
Debtors (amounts falling due within one year)	14	8,263	3,224
Debtors (amounts falling due after more than one year)	14	25	3,992
Cash at bank and in hand		-	992
		<u>8,288</u>	<u>8,208</u>
Creditors (amounts falling due within one year)	15	(5,145)	(3,115)
Net current assets		<u>3,143</u>	<u>5,093</u>
Total assets less current liabilities		<u>25,166</u>	<u>25,519</u>
Creditors (amounts falling due after more than one year)	16	(7,250)	(6,979)
Provision for liabilities and charges	23	(294)	(51)
Net assets		<u>17,622</u>	<u>18,489</u>
Capital and reserves			
Called up share capital	17	2,776	2,775
Share premium account	18	11,407	11,404
Merger reserve	18	2,110	2,110
Other reserve	18	790	-
Profit and loss account	18	539	2,200
Equity shareholders' funds	19	<u>17,622</u>	<u>18,489</u>

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 total Group recognised gains and losses and related notes were approved by the board of directors on 27 October 2003 and were signed on its behalf by:



W Mathieson
Director



R H Campbell
Director

GROUP CASH FLOW STATEMENT

for the year ended 30 June 2003

	Notes	Year ended 30 June 2003 £'000	Year ended 30 June 2002 £'000
Net cash inflow from operating activities		6,818	4,848
Returns on investments and servicing of finance			
Interest received		80	124
Interest paid		(464)	(458)
Interest paid on hire purchase contracts		(14)	(16)
		(398)	(350)
Taxation			
Taxation paid		(1,175)	(1,527)
Capital expenditure and financial investment			
Purchase of shares by Waterman Trustees Limited		(159)	(116)
Purchase of tangible fixed assets		(1,284)	(1,858)
Proceeds from sale of tangible fixed assets		14	12
		(1,429)	(1,962)
Acquisitions			
Purchase of subsidiary undertakings		(1,591)	(4,238)
Cash acquired with subsidiary		255	63
Overdraft acquired with subsidiary		-	(1,715)
		(1,336)	(5,890)
Equity dividends paid		(1,333)	(1,170)
Cash inflow/(outflow) before financing		1,147	(6,051)
Financing			
Issue of ordinary share capital		4	5,596
Expenses of share issue		-	(474)
Receipt of bank loans		569	800
Repayment of loans		(342)	(134)
Capital element of hire purchase payments		(113)	(103)
		118	5,685
Increase/(decrease) in cash in the period	21	1,265	(366)
Reconciliation of operating profit to net cash inflow from operating activities			
Operating profit		2,284	4,063
Loss on disposal of fixed assets		19	10
Depreciation		1,504	1,328
Goodwill amortisation		524	328
Shares granted under the profit sharing scheme		176	63
Movement in work in progress		(958)	1,171
Movement in debtors		195	(333)
Movement in creditors		2,180	(1,782)
Movement in provisions for liabilities and charges		894	-
Net cash inflow from operating activities		6,818	4,848

NOTES TO THE ACCOUNTS

1 ACCOUNTING POLICIES

ACCOUNTING CONVENTION

The financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards. 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 2003. 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 - 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 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.

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 crystallise 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.

2 SEGMENTAL INFORMATION

All work done in the years ended 30 June 2003 and 2002 arose from the Group's principal activity as engineering and environmental consultants.

	Year ended 30 June 2003			Year ended 30 June 2002		
	UK £'000	Overseas £'000	Total £'000	UK £'000	Overseas £'000	Total £'000
Work done	53,379	7,936	61,315	47,253	4,817	52,070
Operating profit	1,743	541	2,284	3,677	386	4,063
Net assets	21,551	4,188	25,739	23,173	1,584	24,757

3 STAFF COSTS

	Year ended 30 June 2003 £'000	Year ended 30 June 2002 £'000
Staff costs including executive directors remuneration amounted to:		
Wages and salaries	34,040	27,733
Social security costs	3,204	2,733
Other pension costs	960	692
	38,204	31,158
The average monthly number of employees including executive directors during the year was as follows:		
Technical	971	784
Non-technical	139	176
	1,110	960

Pension contributions outstanding at 30 June 2003 were £105,000 (2002: £167,000).

4 OTHER OPERATING CHARGES

	Year ended 30 June 2003 £'000	Year ended 30 June 2002 £'000
Group profit on ordinary activities is stated after charging/(crediting):		
Auditors' remuneration for audit	130	120
Operating lease rentals - premises	1,777	1,667
- plant and equipment	335	511
Loss on foreign exchange	23	78
Loss on disposal of fixed assets	19	10
Rents receivable	(22)	(317)

Remuneration in respect of taxation and advisory work performed by the auditors amounted to £50,000 (2002: £274,000).

Auditors' remuneration for the audit of the Company was £7,000 (2002: £7,000).

5 INTEREST

	£'000	£'000
Interest receivable	(80)	(124)
Interest payable on hire purchase contracts	14	16
Interest payable on bank loans and overdrafts	464	392
Net interest payable	398	284

6 TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	£'000	£'000
United Kingdom		
Corporation tax at 30% (2002: 30%)	557	1,313
Adjustments in respect of prior years	(461)	-
	96	1,313
Foreign tax		
Corporation taxes	173	95
Total current tax	269	1,408
United Kingdom		
Origination and reversal of timing differences	(111)	(147)
Adjustments in respect of prior years	155	-
	44	(147)
Foreign tax		
Origination and reversal of timing differences	53	-
Total deferred tax	97	(147)
Tax on profit on ordinary activities	366	1,261

The taxation charge for the year is different from the standard rate of corporation tax in the UK (30%). The differences are explained below:

Profit on ordinary activities before tax	1,886	3,779
Taxation on profit at standard UK rate of 30%	566	1,134
Effects of:		
Rate adjustments relating to overseas profits	(160)	(70)
Adjustments in respect of prior years	(461)	-
Deferred tax not provided for	-	3
Expenses not allowed for tax purposes	266	341
Origination and reversal of timing differences	58	-
	269	1,408

7 DIVIDENDS

	Year ended 30 June 2003	Year ended 30 June 2002
	£'000	£'000
Proposed final dividend of 3.0p (2002: 3.0p)	829	825
Paid interim dividend of 1.9p (2002: 1.9p)	517	517
Adjustment to dividend paid in prior year	(12)	-
	1,334	1,342

The Employee Benefit Trust has waived its entitlement to dividends which has reduced the interim dividend by £10,677 (2002: £5,891) and the final dividend by £4,844 (2002: £7,519). Accordingly dividends paid and proposed are calculated on the basis of 27,203,695 (2002: 27,435,588) ordinary shares for the interim dividend paid and 27,614,183 (2002: 27,594,103) ordinary shares for the final proposed dividend.

8 EARNINGS PER SHARE

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 27,762,302 (2002: 25,014,986) 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 28,166,886 (2002: 25,368,898) shares in issue during the year.

	2003 Earnings £'000	2003 Weighted average number of shares Thousand	2003 Per share amount Pence	2002 Earnings £'000	2002 Weighted average number of shares Thousand	2002 Per share amount Pence
Basic earnings per share						
Earnings attributed to ordinary shareholders	1,451	27,762	5.2	2,518	25,015	10.1
Effect of dilutive share options		405	(0.1)		354	(0.2)
Diluted earnings per share	1,451	28,167	5.1	2,518	25,369	9.9

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 £524,000 (2002: £328,000) and is based on a weighted average of 27,762,302 (2002: 25,014,986) 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 28,166,886 (2002: 25,368,898) shares in issue during the year. This additional disclosure is provided for the benefit of institutional shareholders.

	2003 Earnings before goodwill amortisation £'000	2003 Weighted average number of shares Thousand	2003 Per share amount Pence	2002 Earnings before goodwill amortisation £'000	2002 Weighted average number of shares Thousand	2002 Per share amount Pence
Basic earnings per share before goodwill amortisation						
Earnings attributed to ordinary shareholders	1,975	27,762	7.1	2,846	25,015	11.4
Effect of dilutive share options		405	(0.1)		354	(0.2)
Diluted earnings per share	1,975	28,167	7.0	2,846	25,369	11.2

9 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 loss attributable to shareholders of £327,000 which has been dealt with in the accounts of the Company (2002: profit of £555,000).

10 INTANGIBLE ASSETS

	Group £'000
Goodwill	
Cost	
1 July 2002	8,659
Acquired in year	2,460
Exchange adjustments	206
30 June 2003	11,325
Amortisation	
1 July 2002	515
Charge for the year	524
Exchange adjustments	5
30 June 2003	1,044
Net book amount	
30 June 2003	10,281
30 June 2002	8,144

The goodwill arising on the acquisition of AHW Consulting Engineers Pty Ltd (AHW) 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.

There are no intangible assets or goodwill in the Company.

11 TANGIBLE ASSETS

	Land & freehold property £'000	Long leasehold property £'000	Plant equipment & motor vehicles £'000	Total £'000
Group				
Cost				
1 July 2002	8,942	150	10,232	19,324
Additions	38	-	1,269	1,307
Subsidiary undertaking acquired	-	-	29	29
Disposals	-	-	(3,058)	(3,058)
Exchange adjustments	-	-	21	21
30 June 2003	8,980	150	8,493	17,623
Depreciation				
1 July 2002	162	43	6,361	6,566
Charge for the year	70	3	1,431	1,504
Disposals	-	-	(3,025)	(3,025)
Exchange adjustments	-	-	3	3
30 June 2003	232	46	4,770	5,048
Net book amount				
30 June 2003	8,748	104	3,723	12,575
30 June 2002	8,780	107	3,871	12,758

Included in the above are fixed assets that have been acquired under finance leases. The net book value of these assets is £249,360 (2002: £282,330) and accumulated depreciation on these assets is £316,534 (2002: £253,442).

11 TANGIBLE ASSETS (CONT)

Company	Land & freehold property £'000	Long leasehold property £'000	Plant equipment & motor vehicles £'000	Total £'000
Cost				
1 July 2002	8,942	150	1,784	10,876
Additions	38	-	716	754
30 June 2003	8,980	150	2,500	11,630
Depreciation				
1 July 2002	162	43	355	560
Charge for the year	70	3	470	543
30 June 2003	232	46	825	1,103
Net book amount				
As at 30 June 2003	8,748	104	1,675	10,527
As at 30 June 2002	8,780	107	1,429	10,316

Included in the above fixed assets that have been acquired under finance leases. The net book value of these assets is £8,557 (2002: £41,259) and accumulated depreciation on these assets is £170,458 (2002: £137,750)

12 INVESTMENTS

Group	Holding of own shares £'000	Other investments £'000	Total £'000
1 July 2002	214	10	224
Additions	159	-	159
Disposals	(308)	-	(308)
30 June 2003	65	10	75

Company	Shares in Group undertaking £'000	Long term loan to Group undertaking £'000	Total £'000
1 July 2002	10,110	-	10,110
Additions	1,386	-	1,386
Transfer on group re-organisation	(1,863)	1,863	-
30 June 2003	9,633	1,863	11,496

Additions during the year comprise additional consideration of £596,000 in respect of Aspen Consulting Group and £790,000 in respect of investments transferred from an intermediate holding company.

The Company's principal subsidiaries, all of which are wholly owned, incorporated in Great Britain, and registered in England, except as otherwise stated, engage in engineering or environmental activities, and are as follows:

Waterman Partnership Limited	Waterman HDC Limited
Waterman Health & Safety Limited	Waterman International Limited
Waterman Burrow Crocker Limited	Waterman Aspen Limited***
Waterman BBT Limited	Waterman International Holdings Limited
Waterman Environmental Limited	Moylan Engineering Ltd (registered in the Republic of Ireland)
Waterman Partnership Midlands Limited	John Moylan and Associates Ltd (registered in the Republic of Ireland)*
Waterman Rennick Limited (registered in Scotland)	Waterman Polska Sp z o.o. (registered in Poland)
Waterman Gore Limited	CPM Environmental Planning and Design Limited
Waterman AHW Pty Limited** (registered in Australia)	Waterman International (Asia) Pty Limited** (registered in Australia)

* interest held indirectly through Moylan Engineering Limited.

** 60% interest held indirectly through Waterman International Holdings Limited

*** interest held indirectly through Waterman Burrow Crocker Limited

13 WORK IN PROGRESS

	Group 30 June 2003 £'000	Group 30 June 2002 £'000
Cost less foreseeable losses	3,994	2,854
Long term contract balances	423	915
	4,417	3,769
Payments on account	(318)	(740)
	4,099	3,029

14 DEBTORS

	Company 30 June 2003 £'000	Company 30 June 2002 £'000	Group 30 June 2003 £'000	Group 30 June 2002 £'000
Amounts falling due within one year:				
Trade debtors	-	-	15,137	13,859
Amounts recoverable on contracts	-	-	3,025	4,221
Amounts owed by subsidiary undertakings	7,637	2,617	-	-
Other debtors	67	171	403	269
Prepayments and accrued income	559	436	1,618	1,396
	8,263	3,224	20,183	19,745
Amounts falling due after more than one year:				
Amounts owed by subsidiary undertakings	25	3,992	-	-

Included within Group other debtors is £157,000 relating to deferred taxation (2002: £147,000).

Included within the Company's other debtors is £2,000 relating to deferred taxation (2002: nil).

Further disclosure on deferred taxation can be found in note 23.

15 CREDITORS AMOUNTS FALLING DUE WITHIN ONE YEAR

	Company 30 June 2003 £'000	Company 30 June 2002 £'000	Group 30 June 2003 £'000	Group 30 June 2002 £'000
Bank overdrafts, loans and finance leases	1,698	427	1,076	2,495
Payments received on account	-	-	5,664	3,183
Trade creditors	446	774	1,827	2,321
Accrued contract costs	-	-	275	583
Amounts owed to subsidiary undertakings	353	44	-	-
Corporation tax	-	-	327	1,226
Other taxes and social security	4	-	2,448	1,919
Other creditors	3	-	605	229
Deferred consideration	726	334	726	334
Accruals	1,081	703	2,810	2,481
Dividends	834	833	834	833
	5,145	3,115	16,592	15,604

16 CREDITORS AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Company 30 June 2003 £'000	Company 30 June 2002 £'000	Group 30 June 2003 £'000	Group 30 June 2002 £'000
Bank loan	6,000	5,844	6,000	5,844
Finance leases	-	13	158	191
Deferred consideration	1,250	1,122	1,250	1,122
	7,250	6,979	7,408	7,157
Bank loan repayable by instalments				
Between one and two years	582	395	582	395
Between two and five years	1,527	1,208	1,527	1,208
Between five and ten years	3,891	4,241	3,891	4,241
	6,000	5,844	6,000	5,844
Due within one year	512	389	512	389
	6,512	6,233	6,512	6,233
Finance leases repayable				
Between one and two years	-	13	102	110
Between two and five years	-	-	56	81
	-	13	158	191
Due within one year	10	38	85	134
	10	51	243	325
Deferred consideration				
Between one and two years	1,250	1,122	1,250	1,122
Due within one year	726	334	726	334
	1,976	1,456	1,976	1,456

During the year the Group secured one additional loan of €825,000 which was used in connection with the purchase of Technical Computer Associates NV on 1 July 2003. The 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 Group has four 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 John Moylan and Associates 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.

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.

17 CALLED UP SHARE CAPITAL

	30 June 2003	30 June 2002
Authorised - 41,000,000 ordinary shares of 10p each	£4,100,000	£4,100,000
Allotted and fully paid - 27,765,635 (2002: 27,750,635) ordinary shares of 10p each	£2,776,564	£2,775,064

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.

During the year options for 15,000 ordinary shares (2002: 161,500) were exercised and satisfied by the creation of new ordinary shares for a total consideration of £4,400 (2002: £67,110) and no options over ordinary shares lapsed (2002: nil). On 15 November 2002 1,205,000 new share options were granted. At 30 June 2003, options exercisable between 2002 and 2012 by the issue of new ordinary shares at prices ranging from 19p to 90p remained unexercised in respect of 1,682,500 ordinary shares (2002: 492,500).

A further 210,000 (2002: 217,500) options in issue are to be satisfied when exercised by issued ordinary shares held by Waterman Trustees Limited (see note 27).

	Date option granted	Exercise price per share	Exercisable from	Exercisable to	2003 unexercised	2002 unexercised
Executive directors and management	30/11/1992	19p	30/11/1995	29/11/2002	-	10,000
	24/09/1993	41p	24/09/1996	23/09/2003	20,000	20,000
	19/11/1998	50p	19/11/2001	18/11/2008	427,500	432,500
	13/02/2001	90p	13/02/2004	12/02/2011	30,000	30,000
	15/11/2002	44.5p	15/11/2005	14/11/2012	1,205,000	-
					1,682,500	492,500

18 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
1 July 2002	11,404	2,110	-	2,200	8,468
Premium on the issue of new shares	3	-	-	-	-
Arising on group re-organisation	-	-	790	-	-
(Loss)/retained profit for the year	-	-	-	(1661)	117
Exchange adjustment	-	-	-	-	166
30 June 2003	11,407	2,110	790	539	8,751

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 (2002: £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.

19 MOVEMENTS IN SHAREHOLDERS' FUNDS

	Company 30 June 2003 £'000	Company 30 June 2002 £'000	Group 30 June 2003 £'000	Group 30 June 2002 £'000
(Loss)/profit attributable to shareholders	(327)	555	1,451	2,518
Exchange adjustment	-	-	166	18
Dividends	(1,334)	(1,342)	(1,334)	(1,342)
	(1,661)	(787)	283	1,194
Dividend in specie	790	-	-	-
Issue of new shares	4	6,622	4	6,622
Net change in shareholders' funds	(867)	5,835	287	7,816
Opening shareholders' funds	18,489	12,654	24,757	16,941
Closing shareholders' funds	17,622	18,489	25,044	24,757

20 ACQUISITIONS

On 1 July 2002, the Group purchased the trade of AHW Consulting Engineers Pty Ltd through its intermediate holding company, Waterman International (Asia) Pty Limited. Both of these companies are based in Sydney, New South Wales, Australia. The combination has been accounted for using acquisition accounting from this date.

	Book value £'000	Consistency of accounting policy £'000	Provisional fair value £'000
<i>Provisional values of assets acquired</i>			
Fixed assets	29		29
Work in progress	84	(43)	41
Debtors	571		571
Cash	255		255
Creditors	(724)		(724)
Net assets acquired	215	(43)	172
Goodwill			1,864
			2,036
Satisfied by:			
Cash			1,416
Shares issued by subsidiary undertakings			521
Related costs of acquisition			99
			2,036

The book values were taken from the accounting records at the date of acquisition. The provisional fair value adjustment for the alignment of accounting policies reflects the restatement of assets and liabilities in accordance with the Group's policy on income and profit recognition for certain consultancy work in accordance with SSAP9. The provisional amounts recorded above will be finalised in the 2004 financial statements.

The above amounts have been translated at an exchange rate of £1 = Aus\$2.72, the exchange rate prevailing at the date of acquisition.

Since the date of acquisition the Company changed its name to Waterman AHW Pty Limited and has contributed £2,821,000 to work done and £264,000 to operating profit and £270,000 to profit on ordinary activities before tax. Waterman AHW Pty Limited also contributed net operating cash outflows of £41,000 received £6,000 of interest income, paid no amounts in respect of taxation and utilised £37,000 for capital expenditure.

Following agreement to the completion accounts for Aspen Consulting Group (Aspen) at the date of acquisition, a further £76,000 of additional consideration became payable which was settled during the year. An additional £520,000 of deferred consideration is forecast to become payable to the vendors of Aspen in view of the enhanced performance of the Aspen outsourcing business.

21 RECONCILIATION OF NET CASH FLOW TO NET DEBT

	30 June 2003	30 June 2002
	£'000	£'000
Increase/(decrease) in cash in the period	1,265	(366)
Increase in borrowings	(634)	(2,019)
Inception of hire purchase leases	(23)	(126)
	608	(2,511)
Exchange adjustments	(30)	(6)
Net debt at 1 July 2002	(6,368)	(3,851)
Net debt at 30 June 2003	(5,790)	(6,368)

22 ANALYSIS OF NET DEBT

	1 July 2002	Cashflow	Other non-cash changes	Exchange movements	30 June 2003
	£'000	£'000	£'000	£'000	£'000
Cash at bank and in hand	3,618	(230)	-	32	3,420
Bank overdrafts	(1,972)	1,495	-	(2)	(479)
	1,646	1,265	-	30	2,941
Debts due within one year	(724)	342	(804)	(52)	(1,238)
Debts due after one year	(6,965)	(569)	284	-	(7,250)
Hire purchase due within one year	(134)	113	(56)	(8)	(85)
Hire purchase due after one year	(191)	-	33	-	(158)
	(8,014)	(114)	(543)	(60)	(8,731)
Total	(6,368)	1,151	(543)	(30)	(5,790)

Other non-cash changes include £520,000 in respect of additional deferred consideration and £23,000 in respect of new finance lease agreements.

23 PROVISION FOR LIABILITIES AND CHARGES

	Liability insurance provision	Onerous contract provision	Total
	£'000	£'000	£'000
Group			
1 July 2002	-	-	-
Charged to the profit and loss account	600	294	894
30 June 2003	600	294	894
Company			
1 July 2002	51	-	51
Charged/(credited) to the profit and loss account	(53)	294	241
Transferred to other debtors	2	-	2
30 June 2003	-	294	294

23 PROVISION FOR LIABILITIES AND CHARGES (CONTINUED)

LIABILITY INSURANCE PROVISION

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.

ONEROUS CONTRACT PROVISION

The company leases two floors of a building that are currently vacant. This amount represents the amounts payable in respect of rent, rates and other charges up to the end of the contractual notice periods, which expire within 21 months.

	Company 30 June 2003 £'000	Company 30 June 2002 £'000	Group 30 June 2003 £'000	Group 30 June 2002 £'000
The deferred tax liability/(asset) comprises:				
Accelerated capital allowances	15	51	(133)	(40)
Short-term timing differences	(17)	-	(24)	(57)
	(2)	51	(157)	(97)
Deferred tax asset on pension accrual	-	-	-	(50)
	(2)	51	(157)	(147)
Liability/(asset) at the beginning of the year including deferred tax asset on pension accrual	51	-	(147)	-
Acquired on acquisition of Waterman International (Asia) Pty	-	-	(107)	-
Amount charged/(credited) to profit and loss account	(53)	51	97	(147)
(Asset)/liability at the end of the year including deferred tax asset on pension accrual	(2)	51	(157)	(147)

24 DIRECTORS' EMOLUMENTS

	Year ended 30 June 2003 £'000	Year ended 30 June 2002 £'000
Aggregate emoluments for qualifying services	955	819
Company contributions to money purchase pension schemes	72	62
Eight directors have retirement benefits accruing under money purchase pension schemes (2002: 6)		
Highest paid director	147	134
Company contributions to money purchase pension scheme	11	11

Further details regarding directors are included in the Directors' Remuneration Report on pages 7 to 10 and form part of these financial statements.

25 RELATED PARTY TRANSACTIONS

FRS8 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 Group companies.

26 FINANCIAL COMMITMENTS

CAPITAL EXPENDITURE

There was £77,000 of capital expenditure contracted but not provided at year end (2002: £43,000).

LEASE COMMITMENTS

At 30 June 2003 the Group had annual commitments under non-cancellable operating leases expiring as follows:

	Premises		Plant and equipment	
	30 June 2003	30 June 2002	30 June 2003	30 June 2002
	£'000	£'000	£'000	£'000
Commitment expiring:				
- within one year	272	209	87	44
- within two to five years	526	1,084	147	193
- after five years	118	205	-	-
	916	1,498	234	237

27 EMPLOYEE BENEFIT TRUST

The Group operates two share option schemes and a profit sharing scheme to reward and encourage its executives and staff. The profit sharing scheme and one of the share option schemes are satisfied by issued shares and controlled through the Employee Benefit Trust.

The profit sharing scheme appropriates Company shares to staff up to a value of 5% of the Group's profit before taxation each year. During the year, 141,015 shares were appropriated to staff in respect of profits earned during the year ended 30 June 2001 and 400,620 shares were appropriated to staff in respect of the year ended 30 June 2002. A charge equal to the value of the shares at the time of appropriation has been borne by the participating Group companies. The Trust purchased 400,000 issued shares during the year.

The executive share option scheme awards options in the company to executives periodically which can be exercised between the third and tenth year after issue at the original option price. No new share options have been awarded during the year. Options over 7,500 shares were exercised during the year, no options lapsed during the year, and at 30 June 2003, there were 210,000 eligible unexercised options in issue (2002: 217,500). The distribution of shares through these schemes is arranged through Waterman Trustees Limited, a related company formed to administer the trust and which held 160,720 (2002: 309,855) ordinary shares of 10p in the company at 30 June 2003. At 30 June 2003 the market value of these shares was £85,182 (2002: £447,740). Until options are exercised, dividends on these shares are payable to Waterman Trustees and set against the costs of operating the schemes unless waived.

The assets of the Trust at 30 June 2003 have been incorporated into the Group Balance Sheet in accordance with UITF 13, Accounting for ESOP Trusts and are as follows:

	30 June 2003	30 June 2002
	£'000	£'000
Own shares at cost	64	214
Cash	1	9
Amount owed by related companies	130	-
	195	223
Represented by:		
Loan from Waterman Partnership Limited	80	156
Accruals	10	2
Retained reserves	105	65
	195	223

28 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.

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 continues to be monitored and managed by cash flow forecasting.

FINANCIAL ASSETS

The profile of the Groups financial assets was:

	30 June 2003 Total £'000	30 June 2003 Floating rate financial assets £'000	30 June 2003 Fixed rate financial assets £'000	30 June 2002 Total £'000	30 June 2002 Floating rate financial assets £'000	30 June 2002 Fixed rate financial assets £'000
Cash						
- Sterling	2,102	433	1,669	1,124	664	460
- US Dollars	352	352	-	467	467	-
- EU Currencies	752	752	-	436	436	-
- Australian Dollars	214	214	-	1,591	1,591	-
	3,420	1,751	1,669	3,618	3,158	460

Floating rate financial assets earn interest based on UK, US, EU and Australian base interest rates. The fair value of the financial assets approximates to their book values. All the Group's debtors falling due within one year (other than bank and cash) are excluded from the above table. The fixed rate financial assets represent fixed rate short term deposits which are placed with financial institutions on a rolling basis and earn interest at an average of 3% per annum.

28 DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS (CONTINUED)

FINANCIAL LIABILITIES

	30 June 2003 Total £'000	30 June 2003 Floating rate financial liabilities £'000	30 June 2003 Non-floating rate financial liabilities £'000	30 June 2002 Total £'000	30 June 2002 Floating rate financial liabilities £'000	30 June 2002 Non-floating rate financial liabilities £'000
Bank loans and overdrafts						
- Sterling	5,692	2,826	2,866	7,378	4,428	2,950
- EU Currencies	1,299	1,299	-	827	827	-
Deferred consideration - Sterling	1,976	-	1,976	1,456	-	1,456
Finance lease obligations - Sterling	224	-	224	325	-	325
- Australian Dollars	19	-	19	-	-	-
Provisions - Sterling	894	-	894	-	-	-
	10,104	4,125	5,979	9,986	5,255	4,731

Details of the above financial instruments can be found in note 15 and 16. All of the Group's creditors falling due within one year (other than bank and other 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 (2002: 1.55% above LIBOR).

At 30 June 2003, the weighted average rate of interest on the non-floating rate liabilities comprise 6.99% (2002: 6.99%) on sterling bank loans with a weighted average of 1.3 years (2002: 1.8 years) and 9.8% (2002: 9.7%) on the finance lease obligations with a weighted average of 1.4 years (2002: 2.5 years). The deferred consideration does not attract interest over its average period to maturity in 1.0 years (2002: 1.5 years). The provisions do not attract interest and are expected to mature within 2 years.

At 30 June 2003 and 2002, with the exception of the financial assets and liabilities above, there were no significant assets or liabilities not denominated in the functional currency of the Company or its subsidiaries. Short term flexibility in liquid resources is achieved by overdraft facilities. At 30 June 2003, these facilities, where all conditions precedent have been met, were £6.2m (2002: £3.9m) of which £4.7m (2002: £3.9m) expire within one year and £1.5m (2002: nil) expire within 9 years.

29 POST BALANCE SHEET EVENTS

On 1 July 2003, the Group acquired 100% of the issued share capital of Technical Computer Applications NV, a company based in Brussels, Belgium providing consultancy services. The initial consideration of €1,000,000 was settled by payment of €825,000 in cash on completion with a further payment of €175,000 due upon acceptance of the completion accounts and subject to a net asset value adjustment. Deferred consideration of up to €425,000 will be payable in cash based upon the financial performance of the business during the five years ending 30 June 2008.

30 ULTIMATE CONTROLLING PARTY

In the opinion of the Directors the company has no controlling party.

FIVE YEAR RESULTS SUMMARY

	1999	2000	2001	2002	2003
Work done	30,340	34,169	40,615	52,070	61,315
Profit before taxation (excl exceptional items)	2,432	2,913	3,518	3,779	1,886
Profit attributable to shareholders (excl exceptional items and related tax)	1,597	1,864	2,406	2,518	1,451
Basic earnings per share (excl exceptional items)	8.1p	8.9p	10.8p	10.1p	5.2p

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REGISTRARS AND TRANSFER OFFICE

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COMPANY REGISTRATION NUMBER

2188844

FINANCIAL CALENDAR

12 November 2003	Ordinary shares quoted ex-dividend
14 November 2003	Record date for proposed final dividend
27 November 2003	Annual General Meeting 2003
10 December 2003	Final dividend payable
March 2004	Interim results announced for the six months to 31 December 2003
April 2004	Interim dividend payable
October 2004	Preliminary announcement of results for the year to 30 June 2004
November 2004	Annual General Meeting 2004

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