

2002

RPS GROUP PLC ANNUAL REPORT AND FINANCIAL STATEMENTS 2002

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CORPORATE STATEMENT

**RPS GROUP PLC IS THE LEADING
ENVIRONMENTAL CONSULTANCY
IN EUROPE AND IS QUOTED ON
THE LONDON STOCK EXCHANGE.**

ALL
LEADER
DESIGN
SHIP

OUR CONSULTANTS PROVIDE THE HIGHEST QUALITY ADVICE IN RESPECT OF DEVELOPMENT PLANNING, TRANSPORT PLANNING, ENVIRONMENTAL ASSESSMENT AND RISK MANAGEMENT, WATER MANAGEMENT, HEALTH AND SAFETY AND ENVIRONMENTAL ENGINEERING.

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**WE ASSIST OUR CLIENTS IN ALL
SECTORS OF THE ECONOMY TO SOLVE
THE PROBLEMS THEY FACE. BY DOING
THIS SUCCESSFULLY WE CREATE
REWARDING CAREERS FOR OUR STAFF
AND VALUE FOR OUR SHAREHOLDERS.**

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**WE CONTINUE TO ENHANCE OUR POSITION IN HIGH VALUE MARKETS IN THE UK, IRELAND AND THE NETHERLANDS BY:
DEVELOPING ATTRACTIVE PRODUCT OFFERINGS;
EMPLOYING HIGHLY SKILLED STAFF;
MAKING ACQUISITIONS OF QUALITY BUSINESSES IN ORDER TO EXTEND OUR EXPERTISE AND GEOGRAPHICAL PRESENCE.**

QUALITY

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**IF SUITABLE OPPORTUNITIES ARISE
WE WILL CONSIDER EXTENDING OUR
ACTIVITIES INTO OTHER EUROPEAN
COUNTRIES.**

ITY

**WE CONDUCT BUSINESS IN
AN OPEN AND FAIR MANNER,
ENDEAVOURING TO CONTRIBUTE
TO SOCIETY IN A POSITIVE WAY.**

ETHICAL

THIS STRATEGY IS DESIGNED TO ENSURE YEAR ON YEAR IMPROVEMENT IN THE RANGE AND QUALITY OF OUR SERVICES AND THE GROUP'S FINANCIAL PERFORMANCE.

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OUR CONSULTANTS PROVIDE THE HIGHEST QUALITY ADVICE IN RESPECT OF DEVELOPMENT PLANNING, TRANSPORT PLANNING, ENVIRONMENTAL ASSESSMENT AND RISK MANAGEMENT, WATER MANAGEMENT, HEALTH AND SAFETY AND ENVIRONMENTAL ENGINEERING.

WE ASSIST OUR CLIENTS IN ALL SECTORS OF THE ECONOMY TO SOLVE THE PROBLEMS THEY FACE. BY DOING THIS SUCCESSFULLY WE CREATE REWARDING CAREERS FOR OUR STAFF AND VALUE FOR OUR SHAREHOLDERS.

WE CONTINUE TO ENHANCE OUR POSITION IN HIGH VALUE MARKETS IN THE UK, IRELAND AND THE NETHERLANDS BY: DEVELOPING ATTRACTIVE PRODUCT OFFERINGS; EMPLOYING HIGHLY SKILLED STAFF; MAKING ACQUISITIONS OF QUALITY BUSINESSES IN ORDER TO EXTEND OUR EXPERTISE AND GEOGRAPHICAL PRESENCE.

IF SUITABLE OPPORTUNITIES ARISE WE WILL CONSIDER EXTENDING OUR ACTIVITIES INTO OTHER EUROPEAN COUNTRIES.

WE CONDUCT BUSINESS IN AN OPEN AND FAIR MANNER, ENDEAVOURING TO CONTRIBUTE TO SOCIETY IN A POSITIVE WAY.

THIS STRATEGY IS DESIGNED TO ENSURE YEAR ON YEAR IMPROVEMENT IN THE RANGE AND QUALITY OF OUR SERVICES AND THE GROUP'S FINANCIAL PERFORMANCE.

England and Wales activities

Planning, Transport and Environment Division

The division brings together the UK's largest team of town planners with unrivalled and multidisciplinary capabilities in transport planning and environmental assessment.

Health, Safety and Environment Division

Providing contaminated land, air quality, asbestos and building health and safety consultancy to the property and financial sectors, industrial clients and local authorities.

Engineering and Safety Division

Operating in the nuclear and defence sectors, this division specialises in safety case preparation and the peer review of safety documentation. Its nuclear engineers focus on decommissioning and plant operation.

Water Services

RPS WS provides the water industry with strategic consultancy, asset network management and operational implementation services on potable and waste water systems.

Other countries

RPS Group Scotland

RPS Scotland provides planning and environmental consultancy to a growing number of public and private sector clients. It also specialises in utilities network management, oilfield stratigraphy and nuclear decommissioning.

RPS Group Ireland

MCOS adds infrastructure development to RPS's Irish portfolio of cleanroom engineering, town and country planning and environmental assessment capabilities.

RPS Groep Nederland

Offers environmental and safety consultancy services on industrial sites as well as advising Dutch local authorities on infrastructure. It also provides health and safety advice.

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CHAIRMAN'S STATEMENT

Group Results Group turnover was £104.8 million (2001: £74.8 million). Profit (before tax and goodwill amortisation) increased 28% to £17.82 million (2001: £13.95 million). Undiluted earnings per share (before goodwill amortisation) increased 26% to 7.15 pence (2001: 5.65 pence). The growth in earnings was assisted by a reduction in the rate of tax to 24.9% (2001: 28.1%). Operating margins before goodwill amortisation, remained high at 16.1% (2001: 16.7%). Operating cash flow was strong and the Group had year end cash balances of £23.0 million (2001: £36.4 million) with no significant debt.

Dividend The Directors are recommending a final dividend of 0.82 pence per share payable on 12 May 2003 to shareholders on the register on 21 March 2003. The total dividend for the full year will be 1.58 pence, an increase of 15% (2001: 1.37 pence). This is covered by earnings 4.5 times (2001: 4.1 times).

Operations and Markets RPS was established in 1970 and has been, for some time, the leading environmental consultancy in Europe. At the year end we employed 2,034 staff based in the UK, Ireland and the Netherlands. We successfully combine the development of new products and markets to facilitate organic growth with acquisitions designed to expand our technical skill base and increase our geographical coverage. As a result of successfully pursuing this strategy we have achieved good levels of both organic and acquired growth, whilst maintaining strong operating margins.

Against a background of continuing uncertainty in the world economy RPS performed well in 2002. The governments in each of the countries in which we operate were intent upon maintaining high levels of investment in infrastructure which benefited us in a variety of ways. Our private sector clients responsible for infrastructure projects also maintained high levels of activity. Most of our other clients, including property developers and managers, assisted by low inflation and low interest rates, continued to require our services at encouraging levels.

98	26.3
99	32.4
00	57.4
01	74.8
02	104.8

Turnover £m

98	5.10
99	6.65
00	9.92
01	13.95
02	17.82

Profit £m

98	2.73
99	3.47
00	4.61
01	5.65
02	7.15

Earnings per share pence

Five Year Record In the five years ended 31 December 2002 Group turnover has increased from £20.5 million to £104.8 million and profit (before tax and goodwill amortisation) from £3.76 million to £17.82 million. Earnings per share have grown from 2.03 pence to 7.15 pence, a compound annual growth rate in excess of 28%. During this period the breadth of our activities has increased significantly, thereby increasing the strength of the Group's market position. These results confirm that RPS operates in attractive markets and does so effectively. Our admission to the FTSE 250 in January 2003 is a reflection of the long term success of the Group.

Strategy The strategy of the Group has been successful for a number of years. We are building market leading positions in high value segments of our market in the UK, Ireland and the Netherlands through a combination of organic growth and the acquisition of high quality businesses. The effective implementation of this strategy explains the strong growth RPS has achieved.

The markets in which we are operating continue to grow as a consequence of society's increasing desire to secure greater levels of environmental protection. Our sector also remains highly fragmented. As a result of these factors the opportunity for RPS to keep growing remains good. The Board, therefore, remains committed to the strategy and has also decided that if the right opportunities arise it may consider expanding into other European countries.

Board Composition During the course of the year we have strengthened the Board and shifted the balance to contain a larger representation of non-executive directors. Dr Graham Parry, an executive Director since 1989, retired from the Board in February 2002. Roger Devlin, Corporate Development Director of Hilton Group plc, joined as a non-executive in April 2002. He has valuable experience of both our sector and the City. Ben van Steijn reached age 60 in early January and stepped down from the Board and full time employment. The Board would like to record its thanks to Ben for introducing RPS to the Dutch market. Rob Thielen was appointed a non-executive Director of the Group on 1 January 2003. He will provide the Board with wide ranging expertise in the Dutch and other European markets and has also taken on the role of non-executive Chairman of RPS Groep Nederland BV. Chris Wood will be stepping down from the Board on 30 April 2003 following the completion of his three year contract. The Nomination Committee has begun considering his replacement.

		98	0.92		
		99	1.04		
		00	1.20		
		01	1.37		
		02	1.58		
		Dividend per share pence			
		98	11.8		
		99	25.9		
		00	51.7		
		01	100.7		
		02	110.7		
		Net assets £m			
		98	538		
		99	770		
		00	1,060		
		01	1,362		
		02	1,832		
		Average number of employees			

Outlook The last decade has seen important changes in the way environmental issues are viewed and treated by both the public and private sectors across Europe. These favourable circumstances have allowed RPS to grow its business significantly and act as a consolidator in the sector. This has been achieved in conjunction with delivering substantial year on year earnings growth. In some years, including 2001 and 2002, this growth has been secured despite adverse economic circumstances. Economic difficulties and political uncertainty have carried over into 2003 and will possibly affect some of our businesses, in ways which are inevitably difficult to predict at present. However, as a result of our acquisition strategy we now have a substantial competitive advantage in a range of markets; this supports the long term prospects of RPS. Opportunities also remain to strengthen our position in a range of other markets and new markets we can enter. The Group's structure and profile, coupled with the strength of our management and balance sheet, means that we remain well placed to maintain our strategy and achieve further growth.



Brook Land, Chairman
25th February 2003

OPERATING AND FINANCIAL REVIEW

Creation of Planning, Transport and Environment Division

In terms of the organic development of the Group the highlight of 2002 was the successful launch and continued expansion of our Planning, Transport and Environment division in England and Wales. This combined our core planning and environment business with four businesses acquired since September 2000: Chapman Warren, Town Planning Consultancy, Ashdown and TPK Consulting. The integration, rebranding and relaunch of these businesses was successfully completed in January 2002 and has enabled RPS to consolidate its market leading position. We also have significant businesses in Scotland and Ireland focused upon this sector.

“Planning” Magazine has recently reported that, in the year ended September 2002, our level of fees was almost three times that of our nearest competitor in this sector in the UK. It also recorded RPS as the top fee earner in the sub-sectors of commercial, residential, retail and public sector planning and second in the other three categories, transport, energy and telecommunications planning. The continuing success of this division demonstrates the advantages of having the leading position in a market place. The acquisition, in December, of Ecoscope, the UK’s leading ecological consultancy, further consolidates this position. The growth potential of this division is well illustrated by the government’s recent announcement that an additional 250,000 homes need to be provided in the South East of England.

Market Leader in Ireland The acquisition of M C O’Sullivan (“MCOS”) at the end of June 2002 was our largest transaction to date and enabled us to fulfil our objective of creating the leading planning, infrastructure and environmental consultancy in Ireland, serving both the public and private sectors. The integration of MCOS with our existing Irish activities has made good progress and will continue during 2003. Notable successes in winning new work on this combined basis have been secured. Our other Irish businesses have performed well, particularly development planning and environmental assessment. The strengthening of our own business and continued uncertainty in the pharmaceuticals sector caused us to end our joint venture with Fluor Daniel. Although growth in the Irish economy has slowed, the government has ambitious plans for continued development across a range of sectors. We remain positive about this market and expect that our prominent position will enable us to continue to progress.

Opportunities in Water Management Following the OFWAT regulatory review in late 1999, water supply companies in England and Wales substantially reduced the volume of work commissioned in 2000. In response to that we cut back our Water Services business in England and Wales and focused marketing activity in Scotland and Northern Ireland, where we were able to develop significant additional business. In 2001 the market in England and Wales reverted to more normal levels of activity and we, therefore, experienced a much improved performance over 2000. This continued in 2002 and our Water Services business made further encouraging progress. In Scotland, we positioned ourselves well during the merger of the three regional companies that created Scottish Water in 2002 and have benefited

Creation of Planning, Transport and Environment Division
Acquisition of M C O’Sullivan
Key achievements

accordingly. Scottish Water's procurement procedures are still being established and we remain focussed upon ensuring the range and quality of our services are recognised by this important client. The acquisition of MCOS creates an opportunity for us to be at the forefront of integrated network management of the water supply system as it develops in Ireland, as we have been in the UK.

The effective management of waste water has become a more significant problem for our clients since, early in 2002, Thames Water lost a test case concerning its customers' rights not to be affected by sewer flooding. In order to extend our capability in this field we acquired a specialist business, Indepth Surveys ("IDS"), in April. This was fully integrated within RPS Water Services upon acquisition and has begun to benefit from being part of this larger business. The next OFWAT review which will begin this year is likely to focus particular attention on reducing the incidence of sewer flooding and should lead to increased demand for these services.

Health and Safety RPS offers a broad range of Health and Safety consultancy services in the UK and the Netherlands. The nuclear industry in the UK continues to be confronted with the major challenge of dealing safely with its waste and decommissioning its power stations. We provide advice which enables our clients to deal with nuclear waste more safely and with greater regard to the environmental effects of their actions. The availability of large, long-term, contracts makes this market attractive, although the number of clients is limited. In such a highly specialist field recruiting and retaining staff at all levels is challenging and has, in recent years, prevented us reaching our full potential in this market. Partly in order to deal with this problem we acquired J R Stansfield and Associates ("JRS") and Probabilistic Risk Assessments ("PRA") in the first half. JRS and our existing Warrington office have co-located to a new site in Risley adjacent to our major client in this sector, BNFL. PRA gives us an opportunity to expand our services to UKAEA in Dounreay and other clients in the north of Scotland. After a year of repositioning we anticipate that in 2003 and beyond, this larger and more firmly based business will repay the investment made.

The Health and Safety at work market in the UK continues to grow, driven both by regulation and corporate governance pressures. We benefited from this although the market was competitive throughout 2002. This was particularly the case in respect of asbestos investigations, although towards the end of the year the introduction of important new regulations served to counteract this trend to some degree. We have taken steps to minimise the undesirable effects of price competition by offering an improved service. We have created *Building Health Interactive* in order to enable our clients to have survey information delivered to them through the internet. We also formed a joint venture with *Sitescope* providing on line environmental liability reports for the residential and commercial property markets. Initial signs are that both these products are giving us a new competitive edge.

UK	59.6
Ireland	28.7
Netherlands	11.7

Group Turnover 2002
% Geographic breakdown

Netherlands With the acquisition, in December 2001, of Ascor we expanded our range of services in the Netherlands into the health and safety market. During the course of the year we integrated Ascor with our previous Dutch acquisitions BAK and BKH, trading under the “RPS Groep Nederland” brand. Following the events of September 2001 we decided to exit the international aid market in which BKH had a significant business. This process continued throughout 2002 and we have now focused this part of BKH upon providing specialist advice to the Dutch Government and European Union on environmental management projects in Eastern Europe. This change of strategy required a significant level of reorganisation of the BKH business, the costs of which were expensed in 2002. As this process concludes in 2003, further limited costs are anticipated. The Dutch economy remained stable for much of 2002 and investment in infrastructure and private sector development continued at high levels, but towards the end of the year economic and political uncertainty began to make our markets less predictable. Following the recent election we are, however, hopeful of a return to economic growth, whilst recognising that continued strength of the Euro may constrain this.

Balance Sheet and Cash Flow Net assets at the year end stood at £110.7 million. Of this £23.0 million was represented by cash. The net cash inflow from operating activities was £15.2 million, which represented 114% of operating profit (2001: 91%). During the course of 2002 £20.0 million was spent on acquisitions and 1,167,000 shares to the value of £1.4 million issued to the vendors of those companies. Our acquisition model has a significant proportion of the consideration from each transaction deferred, normally over a two or three-year period, to seek to ensure that the goodwill acquired is transferred effectively to RPS. During the course of 2002, £5.1 million of deferred consideration was paid in cash and 700,000 shares to the value of £1.0 million issued to the vendors of businesses acquired in the previous three years. At 31st December 2002 the total deferred consideration outstanding was £15.1 million, of which £14.2 million is payable in cash and loan notes and £0.9 million in new RPS shares. £8.7 million is payable in 2003, of which £8.2 million is payable in cash and £0.5 million in shares, with the balance payable in 2004/2005.

The Group’s strong cash flow enables it to fund all its working capital and normal investment requirements. On occasion acquisitions need to be funded, in part, with external capital. The £40 million raised in the February 2001 rights issue has been fully committed, but the deferred payments structure of our transactions and our cash flow means that we still have substantial cash balances. In order to ensure that we can maintain our strategy we have recently agreed with Lloyds TSB to extend our acquisition facility from £8 million (which was unused) to £20 million.

The year end balance sheet shows intangible fixed assets (“goodwill”) of £76.4 million. Since the introduction of FRS10 in 1998 our acquisition strategy has given rise to increasing levels of goodwill on the balance sheet. The Board has adopted the generally accepted policy

Indepth Surveys
J R Stansfield and Associates
Probabilistic Risk Assessments
M C O’Sullivan
Ecoscope
Acquisitions

of amortising goodwill over its useful economic life that is estimated to be 20 years. Such a policy does not, however, reflect the Board's view that the value of the investments made has increased in value rather than diminished.

Taxation The tax charge for the year was £4.43 million (2001: £3.92 million) being 24.9% of profit before tax and amortisation (2001: 28.1%). The charge for the year comprises a current tax charge at 27.0% of profit before tax and amortisation and a deferred tax credit of 2.1% that arose due to full implementation of FRS 19 ("Deferred tax") in the year.

Given the current geographical spread of our business and the reduction in the corporation tax rate in Ireland, effective from 1st January 2003, we anticipate a further reduction in the rate of current tax in 2003.

Operating Costs During the course of 2002 our sector, in common with others experienced significant increases in insurance costs, particularly in relation to professional indemnity cover. These additional costs will be in place for the whole of 2003 when we will also experience additional national insurance costs imposed by the UK Government.

In the UK the Group operates a number of money purchase (defined contribution) pension schemes. We are in the process of transferring these to a single group personal pension plan in order to take advantage of a lower cost structure. We also operate money purchase schemes in Ireland, although 82 of the MCOS staff are members of a defined benefit scheme. The Group balance sheet includes a provision to cover the possible shortfall in funding of this scheme at acquisition. RPS is only liable for any shortfall in funding since the date of acquisition; this liability was not material at the year end. This scheme has now been closed to new members. In the Netherlands we operate a traditional multi-employer Dutch scheme which has characteristics of both defined contribution and defined benefit schemes. There is no current deficit in this scheme, which is also now closed to new members. We are establishing a new defined contribution scheme for our Dutch staff.

We own the freehold of seven properties with a combined book value of £7.5 million. Total annual rent payable on the other properties amounts to £1.8 million.

As a dispersed business it is important that we invest to create high quality communication between our offices and with our clients. As a result we need to invest each year to improve our IT. In 2002 we made capital investments of £1.1 million in respect of system improvement. Our IT investment programme will continue in the current year and coupled with this we will be further upgrading our web-site and intranet facilities.

Acquisitions	28.8
IT equipment	1.1
Investment £m	

STATEMENT OF PROSPECTS

Strategy The strategy of the Group has been successful for a number of years. We are building market leading positions in high value segments of our market in the UK, Ireland and the Netherlands through a combination of organic growth and the acquisition of high quality businesses. The effective implementation of this strategy explains the strong growth RPS has achieved.

The markets in which we are operating continue to grow as a consequence of society's increasing desire to secure greater levels of environmental protection. Our sector also remains highly fragmented. As a result of these factors the opportunity for RPS to keep growing remains good. The Board, therefore, remains committed to the strategy and has also decided that if the right opportunities arise it may consider expanding into other European countries.

Operating Structure A significant part of the Group's success derives from the clarity and accountability of its management structure. The core of this structure is the individual office which normally comprises a separate business unit, each of which is treated separately for the purposes of budgeting and accounting. Offices are grouped into either functional or geographical divisions; there are currently seven divisions. During the course of 2002 we strengthened further this divisional structure by delegating more authority to the divisional management within a clear framework of responsibility. This refined organisation is capable of delivering and managing effectively, significantly more organic and acquired growth.

The acquisitions made during the course of the year have been integrated within the appropriate divisions. In addition, we have made various internal changes to the structure. The most notable example was the amalgamation of the management of the Water Services business in Scotland with that in England and Wales, although for client relationship and promotional purposes it remains Scottish focused.

These businesses are responsible for marketing their own services as well as seeking opportunities to cross-sell services from other parts of the Group. The Group provides support to this marketing function through its business information team which is also responsible for the Group website and intranet. The Board has decided to make a significant investment in the intranet during 2003 as it is the main mechanism we use to develop internal communications in the Group. In order to do this we will need to upgrade significantly our IT networks.

The businesses in England and Wales and Scotland are also supported by centrally run accountancy and personnel functions, with these being provided locally in Ireland and the Netherlands. Each division has its own managing director and finance director or financial controller.

Planning Transport and Environment (England and Wales)	30.5
Water Services (UK)	15.3
Health, Safety and Environment (England and Wales)	6.7
Engineering and Safety (UK)	4.9
Scotland (excluding Water Services and Engineering and Safety)	2.2
Ireland	28.7
Netherlands	11.7
Total	100.0

Group turnover 2002 %

Key Business Drivers As a business to business support service company we assist our clients in responding to the opportunities and threats which they face. These arise from:

- the commercial advantage to be gained by developing or redeveloping land, other natural resources or buildings; this requires proper planning, design and evaluation of the potential environmental effects of the proposed development;
- the necessity for public agencies, privatised utilities, regulated businesses and their agents to provide adequate infrastructure; again such provision requires proper planning, design, evaluation of environmental effects and risk management;
- the necessity to comply with regulations and legislation which relate to planning, environment and health & safety matters; this regulation and legislation derives from the activities of both the European Union and the UK Government and continues to expand at a rapid pace;
- the need to manage and, where possible, eliminate risk which may arise from environmental or health and safety issues; potential risks arise when, for example, assets are being purchased and/or developed or from the existence of substances which, if not properly disposed of or managed, could damage the natural environment or human health.

All these drivers are set within the context that the Governments in all the countries in which we operate are intent upon improving the environment and creating sustainable societies. This is a general trend of fundamental importance to our business and one which will develop further, providing long-term opportunities for us.

Growth RPS operates in markets which are attractive and expanding, but fast changing. We need, therefore, to keep our products and services and how we market and deliver them under continuous review. The Board believes that the long term health and growth of the Group will be best secured by ensuring that RPS is, and is perceived by clients and staff, to be a market leader in each of our business areas. Our corporate strategy is designed to achieve this.

Our financial growth objectives focus on profit rather than turnover. Whilst it is tempting to remain in products and markets where margins are falling, we do not adopt this approach. Instead we endeavour to find ways of delivering service in more attractive ways to clients or if this is not possible scale back or end our involvement in unattractive markets and develop and invest in new, more attractive, areas.

The Board is committed to achieving substantial year on year profit and earnings growth for the Group, but does not set specific targets for this. We are endeavouring to deliver long term shareholder value and have, therefore, to balance annual earnings growth with investment in both our existing clients, staff and products and the development of our product offering and capability.

Margins We maintained our operating margins well in excess of the sector norm. The Board operates systems which allow project managers to secure the best margin available from each of the projects they work upon. It is inevitable that, in day to day business, margins will fluctuate. The Board is, however, vigilant in the identification of trends that suggest specific markets are beginning to suffer structural lower margins. If this appears to be the case action will be taken to limit the effect of this upon overall Group margins.

During the course of 2002 our sector experienced significant increases in insurance costs, particularly in relation to professional indemnity cover. These additional costs will be in place for the whole of 2003 when we will also experience additional national insurance costs imposed by the UK Government. The increasing Corporate Governance burden will also add to costs as well as occupying additional senior management time.

Acquisitions The acquisition strategy RPS has pursued over the last decade has brought considerable benefit to shareholders, clients and staff. The companies acquired recently have enabled us to build strong positions in both Ireland and our Planning Transport and Environment Division. This, in turn, enables us to offer a broader, higher quality service to our clients and attractive employment to staff or potential recruits. The financial performance of the companies which have been acquired have increased the Group's earnings growth significantly. The Board sees the maintenance of this element of the strategy as being of importance to the continued growth of RPS.

Funding At the year end the Group had cash deposits of £23 million and no debt. RPS normally generates sufficient free cash to fund its working capital and capital expenditure requirements. Additional cash resources are, therefore, only needed in order to pursue the Group's acquisition strategy. From time to time, therefore the Board secures funds by means of arranging debt finance or equity placings.

The last equity placing was completed in April 2001 when c. £40 million was raised by means of a rights issue. All this has subsequently been committed to acquisitions although about £14 million remains to be paid in deferred consideration, almost all in cash.

We have recently agreed to extend our acquisition facility, as yet undrawn, with Lloyds TSB from £8 million to £20 million. The Board believes this facility will enable the Group to maintain its strategy throughout 2003.

Dividend Policy Our dividend has grown at an average compound rate of about 15% over the past five years. Provided earnings growth can be sustained and the debt structure of the business does not change materially, the Board anticipates that the future pattern will be similar. The final dividend will normally be greater than the interim payment.

Shareholder Value The Board manages the Group in order to achieve good levels of growth in shareholder value on a consistent long term basis. The Board, however, recognises that this can only be achieved by providing a competitive service which adds value to our clients' organisations and offering an attractive working environment and career prospects to our staff. Striking this balance whilst also respecting our responsibility to society at large, is the main challenge facing the Board.

That the Group has continued to grow quickly during recent economic turbulence suggests we are operating in an attractive sector and implementing a good strategy successfully. This provides a comforting platform to provide further improved returns to our shareholders in the future.

Corporate Governance RPS has had a strong system of governance in place throughout its corporate life. In recent years we have formalised this in response to the various codes and guidelines that have emerged. We operate a dedicated committee of the Board to review corporate governance matters.

The various policies relevant to this are set out fully on pages 40 to 42. It is difficult for those who review such information simply on the basis of checklists to understand the culture and business ethics that go to the heart of any business. The Board believes that its long term shareholders understand that RPS operates the highest governance standards and that this, in part, explains the Group's excellent performance.

The Higgs "Review of the role and effectiveness of non-executive directors" was published in January 2003 and is expected to lead to significant changes to the Combined Code later in 2003. In anticipation of this our Corporate Governance Committee has reviewed RPS's performance against the Higgs recommendations. This is reported upon on pages 40 and 41. This evaluation suggests RPS operates at a good level of compliance. It is anticipated, however, that achieving full compliance will add to the cost of operating the Group as well as occupying additional senior management time.

Future Trading The Group is well positioned to sustain growth. The quest for “sustainability” has moved from being a minority concern to being a significant yardstick for measuring both national and corporate performance. As a result, the issues upon which we advise have moved further up the agenda of most Government agencies and businesses, quoted companies and those other companies which supply them. Environmental risk management has become increasingly important. It is reasonable to believe that the pace of change in respect of these issues will increase rather than diminish as economies begin to strengthen again. RPS is well positioned to take advantage of this trend.

Similarly, the range of acquisition opportunities available remains substantial. Each of our Divisions is able to identify a range of companies that might fit well with their activities. Opportunities also exist to move into new areas with a strategic acquisition around which a new Division might be created. As a result, we do not expect any significant limit on the range of additional services we can bring within the Group even if we decide not to extend our geographical area of operations beyond those countries in which we currently have a presence. It is possible, however, that we will look for additional growth in other countries in Europe in due course.

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BOARD OF DIRECTORS, COMPANY SECRETARY AND COMMITTEES

Independent Non-Executive Directors

Brook Land (54) Chairman and Senior Non-Executive. Brook Land was formerly a partner of and is now a consultant to Nabarro Nathanson. He is Senior Non-Executive Director of Signet Group plc, Non-Executive Chairman of Medal Entertainment & Media plc and a director of a number of private companies. He was appointed to the Board in 1997 and is serving a second three year term which expires at the AGM in 2004.

Roger Devlin (45) Roger Devlin is Corporate Development Director of Hilton Group with responsibility for strategy, mergers and acquisitions, and the operation of various non-core subsidiaries. He is also an advisor to Phoenix Private Equity. He read law at Oxford and then joined Hill Samuel where he became Head of Mergers and Acquisitions. He joined the Board on 29th April 2002.

Rob Thielen (41) Rob Thielen is Managing Partner of Waterland Private Equity Investments BV (Waterland) in the Netherlands. He founded Waterland in 1999 and has built it into a major independent private equity group in the Benelux region. Previously, as Managing Partner/Co-owner, he established Reitsma Werlheim Partners ("RWP"), a leading Dutch independent corporate finance group. Prior to establishing RWP, he worked as a Manager with the Investment Management Consulting Group and with the international corporate finance group of ABN Bank NV (now ABN-AMRO Bank). He was appointed to the Board in January 2003.

Paul Martin (48) Paul Martin graduated from the University of Southampton in 1976 and qualified as a Chartered Accountant in 1980. After a period in management consultancy he moved into financial services and was in charge of group strategy and planning of Halifax plc. He is currently Chief Executive of Universatile Net Centres Limited. He was appointed to the Board in 1997 and is serving a second three year term which expires in December 2003.

Chris Wood (52) Chris Wood is Managing Director of Corporate Edge Ltd, a London based marketing and design consultancy. He has been with Corporate Edge for over 20 years and led the MBO from Princedale Group plc in April 1997. He was appointed to the Board in May 2000 for a three year term and will be stepping down from the Board at the end of that period.

Current Executive Directors

Dr Alan S Hearne (50) Chief Executive. Alan Hearne holds a degree in economics and a doctorate in environmental planning. Following a period of academic research into environmental planning he joined RPS in 1978, became a Director in 1979 and Chief Executive in 1981. Alan Hearne was the plc Entrepreneur of the Year in 2001 and was made a Companion of the Institute of Management in 2002.

Gary Young (43) Finance Director. Gary Young graduated from Southampton University in 1982 and qualified as a Chartered Accountant in 1986 with Price Waterhouse. Before joining RPS he held a number of financial director roles including positions within Rutland Trust plc and AT&T Capital. He joined RPS in September 2000 and was appointed to the Board in November 2000.

Peter B Downen (54) Peter Downen graduated from Leeds School of Architecture in 1972 and qualified as a Chartered Architect in 1973. After a period in private practice he became a director of Brian Clouston and Partners in 1980 before joining RPS in 1989 when he was appointed to the Board.

Andrew R G Troup (44) Andrew Troup graduated from Reading University in 1979 and qualified as a Chartered Surveyor in 1986. He joined RPS in the same year and became a member of the Board in 1991.

Executive Directors (Retired in 2002)

Dr Graham D R Parry (56) Graham Parry holds a degree in microbiology and botany. He also holds a doctorate in environmental chemistry obtained at the University of Wales. Following a career in local government and subsequently environmental consultancy, he joined RPS in 1987 and was appointed to the Board in 1989. He resigned as a Director on 25th February 2002 but continues to work for RPS on a consultancy basis.

Ben van Steijn (60) Ben van Steijn holds a masters degree in chemistry from the University of Delft, the Netherlands. He founded BAK Nederland Consultants in 1977 and joined RPS and the Board in April 1997, upon the acquisition of BAK. He resigned as a Director on 19th December 2002 but continues to work for RPS on a consultancy basis.

Company Secretary

April S J Rigby (41) April Rigby graduated from Leeds University in 1982 and qualified as a Chartered Accountant in 1986 with Arthur Andersen & Co. She joined RPS Group in 1989 and was Finance Director from 1993 to October 2000. She has been Company Secretary since 1993.

Audit Committee

Paul Martin (Chairman)
Brook Land
Chris Wood
Roger Devlin

Remuneration Committee

Brook Land (Chairman)
Paul Martin
Chris Wood
Roger Devlin

Nominations Committee

Brook Land (Chairman)
Roger Devlin
Chris Wood
Alan Hearne
Andrew Troup

Corporate Governance Committee

Brook Land (Chairman)
Alan Hearne
April Rigby

REPORT OF THE DIRECTORS

The Directors present their report together with the audited financial statements for the year ended 31st December 2002.

Results and dividend

The profit and loss account is set out on page 53 and shows the profit for the year. The Directors recommend a final dividend of 0.82p (2001: 0.71p) per share. This together with the interim dividend of 0.76p (2001: 0.66p) per share paid on 25th October gives a total dividend of 1.58p (2001: 1.37p) per share for the year ended 31st December 2002.

Principal activities, trading review and future developments

The principal activity of the Group is the provision of environmental consultancy and related services including environmental planning, environmental engineering, safety, health and safety, occupational hygiene and design. A review of operations is contained in the Operating Review on pages 21 to 29 and in the Chairman's Statement on pages 18 to 20. The principal operating subsidiary undertakings are listed in note 13 to the accounts.

Substantial interests in share capital at 21st February 2002

In addition to the Directors, the following held in excess of 3% of the ordinary share capital of the Company:

	Number of shares	Percentage
Morley Fund Management	16,165,354	8.50
Fidelity Investments Limited	15,343,024	8.07
Scottish Widows Investment Partnership	11,232,602	5.90
Deutsche Asset Management (MGAM UK)	9,454,228	4.97
Standard Life Investment Management	9,433,741	4.96
Jupiter Asset Management	9,396,346	4.94
Henderson Global Investors	7,439,449	3.91
Legal and General	6,673,249	3.51
Liberty Wanger Asset Management	5,975,000	3.14

Directors

The Directors of the Company during the year and their beneficial interests in the ordinary share capital of the Company were:

	Number of shares at 31st December 2002 and at 21st February 2003	Number of shares at 31st December 2001 and at 21st February 2002
B Land	30,000	30,000
P M Martin	—	—
R Devlin (appointed 29th April 2002)	—	—
R Thielen (appointed 1st January 2003)	—	—
C Wood	—	—
A S Hearne	2,693,622	2,693,622
P B Downen	1,195,530	1,195,530
G D R Parry (resigned 25th February 2002)	N/A	280,512
B J van Steijn (resigned 19th December 2002)	N/A	210,000
A R G Troup	459,266	499,266
G Young	—	—

The share options of the Directors under the Executive share option scheme are set out below:

Director	1st Jan 2002 Number	Granted Number	Exercised Number	Lapsed during year	31st Dec 2002 Number	Exercise price	Market price at date of exercise	Notional gain on exercise of options (£000)	Date from which exercisable	Expiry date
A S Hearne	313,722				313,722	52.8p			1st June 2003	1st June 2010
	57,024		(57,024)			72.7p	148.0p	43	22nd Feb 2002	22nd Feb 2009
	57,024				57,024	72.7p			22nd Feb 2004	22nd Feb 2011
	33,780				33,780	126.0p			8th Feb 2003	8th Feb 2010
	33,780				33,780	126.0p			8th Feb 2005	8th Feb 2012
	42,982				42,982	171.0p			6th March 2004	6th March 2011
	42,982				42,982	171.0p			6th March 2006	6th March 2013
		62,500			62,500	149.0p			14th March 2005	14th March 2012
		62,500			62,500	149.0p			14th March 2007	14th March 2014
P B Downen	221,628				221,628	52.8p			1st June 2003	1st June 2010
	40,284		(40,284)			72.7p	148.0p	30	22nd Feb 2002	22nd Feb 2009
	40,284				40,284	72.7p			22nd Feb 2004	22nd Feb 2011
	23,862				23,862	125.0p			8th Feb 2003	8th Feb 2010
	23,862				23,862	126.0p			8th Feb 2005	8th Feb 2012
	20,285				20,285	171.0p			6th March 2004	6th March 2011
	20,285				20,285	171.0p			6th March 2006	6th March 2013
		32,500			32,500	149.0p			14th March 2005	14th March 2012
		32,500			32,500	149.0p			14th March 2007	14th March 2014
B J van Steijn	188,088			(188,088)		52.8p			1st June 2003	1st June 2010
	34,188		(34,188)			72.7p	148.0p	26	22nd Feb 2002	22nd Feb 2009
	34,188			(34,188)		72.7p			22nd Feb 2004	22nd Feb 2011
	23,862			(23,862)		125.0p			8th Feb 2003	8th Feb 2010
	23,862			(23,862)		125.0p			8th Feb 2005	8th Feb 2012
	20,285			(20,285)		171.0p			6th March 2004	6th March 2011
	20,285			(20,285)		171.0p			6th March 2006	6th March 2013
		23,125		(23,125)		149.0p			14th March 2005	14th March 2012
		23,125		(23,125)		149.0p			14th March 2007	14th March 2014

Director	1st Jan 2002 Number	Granted Number	Exercised Number	Lapsed during year	31st Dec 2002 Number	Exercise price	Market price at date of exercise	Notional gain on exercise of options (£000)	Date from which exercisable	Expiry date
A R G Troup	221,628				221,628	52.8p			1st June 2003	1st June 2010
	40,284		(40,284)			72.7p	148.0p	30	22nd Feb 2002	22nd Feb 2009
	40,284				40,284	72.7p			22nd Feb 2004	22nd Feb 2011
	23,862				23,862	125.0p			8th Feb 2003	8th Feb 2010
	23,862				23,862	125.0p			8th Feb 2005	8th Feb 2012
	24,123				24,123	171.0p			6th March 2004	6th March 2011
	24,123				24,123	171.0p			6th March 2006	6th March 2013
		35,000			35,000	149.0p			14th March 2005	14th March 2012
		35,000			35,000	149.0p			14th March 2007	14th March 2014
G D R Parry	221,628			(221,628)		52.8p			1st June 2003	1st June 2010
	40,284		(40,284)			72.7p	148.0p	30	22nd Feb 2002	22nd Feb 2009
	40,284			(40,284)		72.7p			22nd Feb 2004	22nd Feb 2011
	23,862			(23,862)		125.0p			8th Feb 2003	8th Feb 2010
	23,862			(23,862)		126.0p			8th Feb 2005	8th Feb 2012
G Young	20,285				20,285	171.0p			6th March 2004	6th March 2011
	20,285				20,285	171.0p			6th March 2006	6th March 2013
		27,500			27,500	149.0p			14th March 2005	14th March 2012
		27,500			27,500	149.0p			14th March 2007	14th March 2014

The additional options in 2002 were granted on 14th March 2002. Options were exercised on 12th March 2002.

The market price of the shares at 31st December 2002 was 112.5p and the range during the financial year was 105.0p to 159.5p.

There were no changes in the Directors' interests between 31st December 2002 and 21st February 2003. None of the Directors were materially interested in any significant contract to which the Company or any of its subsidiaries were party during the year.

Board and Committee

The number of Board and Committee meetings attended by each of the Directors during the year was as follows:

	Full Board	Audit Committee	Remuneration Committee	Nomination Committee	Corporate Governance Committee
B Land	10	2	4	4	3
P Martin	10	2	4	—	—
C Wood	10	2	4	4	—
A Hearne	10	—	—	4	5
G Young	10	—	—	—	—
P Downen	9	—	—	—	—
R Devlin*	4	2	1	2	—
R Thielen*	—	—	—	—	—
G Parry**	3	—	—	—	—
A Troup	10	—	—	4	—
B van Steijn**	9	—	—	—	—

*Appointed during 2002. **Resigned during 2002.

Combined Code

The Board confirms that for the whole of the year and up to the date of approval of the financial statements the Company has complied with the provisions set out in Section 1 of the Combined Code, which was issued on 25th June 1998. In the opinion of the Board the Chairman and all the other Non-Executive Directors are independent from the Group. The Board is accountable to the Company's shareholders for good governance and the statement set out below describes how the principles identified in the Combined Code already referred to above are applied by the Company. The Board has established a Corporate Governance Committee to examine compliance and associated issues and advise the Board upon them. The members of all committees are noted on page 32.

Directors

There are five independent Non-Executives (including the Chairman) who receive a fixed fee for their services.

The Board generally meets on a monthly basis (other than during holiday periods) and more frequently where business needs require. The Board has a schedule of matters referred to it for decision and the requirement for Board approval on these matters is communicated widely throughout the senior management of the Group. This includes the operational and financial performance of all parts of the Group, financing the Group, material capital commitments, commencing or settling major litigation, corporate acquisitions and disposals and appointments to subsidiary company boards and anything else which may materially affect the Group's performance. Comprehensive papers which deal with all material issues are circulated in advance of each meeting.

There is an agreed procedure for Non-Executive Directors to take independent professional advice and training, if necessary, at the Company's expense. This is in addition to the access which every Director has to the Company Secretary. The Secretary is charged by the Board with ensuring that Board procedures are followed.

When new members are appointed to the Board access is available to an appropriate, external training course and to advice from the Company's solicitors in respect of their role and duties as a public company Director if required.

The differing roles of Chairman and Chief Executive are acknowledged. The key functions of the Chairman are to conduct Board meetings and meetings of shareholders and to ensure that all Directors are properly briefed in order to take a full and constructive part in Board discussions. The Chief Executive is required to develop and lead business strategies and processes to enable the Group's business to meet the requirements of its shareholders.

The senior Non-Executive Director is the Chairman and concerns relating to the executive management of the Company or the performance of the other Non-Executive Directors may be raised with him.

Full details of Directors' remuneration and a statement of the Company's remuneration policy are set out on pages 43 to 45. The members of the Remuneration Committee are identified on page 32. Each Executive Director abstains from any discussion or voting at full Board meetings on Remuneration Committee recommendations where the recommendations have a direct bearing on his own remuneration package.

Communication

The Company places a great deal of importance on communication with its shareholders. The full report and accounts are made available to all shareholders and to other parties who have an interest in the Group's performance. The Company responds to numerous letters from shareholders and customers on a wide range of issues. The Company's web site provides up to date information about its organisation, the services it offers and newsworthy subjects.

There is regular dialogue with individual institutional shareholders as well as general presentations after the interim and preliminary results. All shareholders have the opportunity to put questions at the Company's Annual General Meeting.

Audit and internal control

The respective responsibilities of the Directors and the independent auditors in connection with the accounts are explained on pages 39 and 52 and the statement of the Directors in respect of on going concern appears on page 38.

The Board has procedures in place as recommended in the guidance "Internal Control: Guidance for the Directors on the Combined Code" and these have been in place for the whole year and up to the date of approval of the financial statements. The risk management policies are described on page 41.

The Directors are responsible for the Group's system of internal control which is designed to provide reasonable but not absolute assurance against material misstatement or loss. The key procedures that the Directors have established to provide effective internal financial controls are as follows:

Financial reporting: A detailed formal budgeting process for all Group businesses culminates in an annual Group budget which is approved by the Board. The annual budget is reviewed and updated for the second half of the year. The results for the Group are reported monthly against this budget to the Board.

Financial and accounting principles and internal financial controls assurance: Compliance with these is reviewed on an ongoing basis. A comprehensive financial and accounting controls manual sets out the principles of and minimum standards required by the Board for effective financial control.

Capital investment: The Company has clearly defined guidelines for capital expenditure. These include annual budgets, detailed appraisal and review procedures, levels of authority and due diligence requirements where businesses are being acquired.

The Board keeps under continuous review the effectiveness of the system of internal financial control from information provided by management and the Group's external auditors. Any system of internal financial control can only provide reasonable and not absolute assurance of meeting the internal control objectives.

Audit Committee

The Audit Committee has written terms of reference and reviews the draft financial statements prior to submission to the Board. It also monitors and makes recommendations to the Board regarding the Group's accounting policies and considers significant matters relating to internal control procedures.

The Audit Committee keeps the scope and cost effectiveness of the external audit under review. In order to ensure the independence of its auditors is not prejudiced in any way, the Board decided on 22nd February 2002 that in future the auditors, BDO Stoy Hayward, will not, other than in extraordinary circumstances, be used to undertake any assignment for the Group or any part of the Group not related to the audit, tax issues and the review of Interim Results. If the Executives believe exceptional circumstances do exist, the appointment of the auditors for some other assignment needs to be specifically approved in advance by the Audit Committee. The Audit Committee keeps non-audit services under review. This policy applies to all the territories in which the Group operates. The split between audit and non-audit fees for the year under review appears on page 60.

Employees

The Group remains committed to creating an employment environment which will attract, retain and motivate employees of high calibre. Throughout the Group emphasis is placed upon personal development to meet both today's needs and those of the future. Employee communication and consultation is encouraged at all levels of the business. Employees can be awarded shares from the Executive Share Option Schemes, thus enabling them to participate in the success of the business. Shareholders are being asked to approve a Save As You Earn share based scheme at the Annual General Meeting in April 2003. All members of staff will have access to this. Divisions' manage the remuneration of staff at office level within the guidelines of the approved annual budgets and are able to set their own bonus schemes subject to Group Board approval. The Group's attitude concerning the employment of disabled persons and those belonging to minority groups is the same as that relating to all other staff.

Employment statistics

	UK		Netherlands		Ireland	
	2002	2001	2002	2001	2002	2001
Total average number of employees	1,255	969	155	163	422	230
Days absent (%)	7.0	6.5	3.0	3.6	1.9	3.0
Average length of service (years)	5	6	7	8	4	4
Working part time (%)	4.5	5.5	18.1	19.0	4.0	3.5
Women						
All employees (%)	32.4	32.6	23.2	21.5	19.0	18.0
Senior managers (%)	4.9	5.4	11.1	7.7	1.0	0.0
Senior executives (%)	0.5	0.6	0.0	0.0	0.0	0.0
Ethnic minorities						
All employees (%)	1.1	1.4	12.0	14.5	10.0	7.0
Age profile						
Employees aged under 25 (%)	16.9	14.7	10.3	10.4	21.0	20.0
Employees aged 25-29 (%)	21.7	22.4	27.1	23.9	22.6	23.6
Employees aged 30-49 (%)	45.1	46.5	39.4	43.6	44.5	44.5
Employees aged 50+ (%)	16.3	16.4	23.2	22.1	11.7	11.9
Health and safety						
Minor accidents and near misses	14	11	0	0	—	—
Reported accidents	9	1	0	0	—	—
Pensions						
Active members	509	481	129	162	167	80
Current pensioners	9	8	15	9	5	0
Staff turnover (%)	19.0	24.2	19.4	17.0	—	—

Charitable and community donations

During the year the Group made charitable donations of £26,979 to non political organisations.

Supplier payment policy

The Group has due regard to the payment terms of suppliers and settles all undisputed accounts in accordance with payment terms agreed with the supplier. At the year end the Group had 36 days' purchases outstanding in respect of payments to suppliers and sub-contractors (2001:38 days).

Going concern

The financial statements have been prepared on a going concern basis as the Directors have a reasonable expectation that the Group has adequate resources to continue in business for the foreseeable future.

Directors' responsibilities

The Directors are required by UK 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 the Group as at the end of the financial year and of the profit or loss of the Group for that year.

In preparing the financial statements, the Directors have:

- selected suitable accounting policies and have applied them consistently;
- made judgements and estimates that are reasonable and prudent;
- stated that applicable accounting standards have been followed;
- prepared the financial statements on the going concern basis.

The Board has procedures in place according to the guidance "Internal Controls: Guidance for Directors on the Combined Code" to review and assess all areas of risk and risk management, referred to on page 41.

During the year the Directors were required to ensure that proper accounting records were kept, which disclosed with reasonable accuracy at all times the financial position of the Company and hence enabled them to ensure that the financial statements comply with the Companies Act 1985. They are required to safeguard the assets of the Company and to take reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for ensuring that the Directors' report and other information included in the annual report is prepared in accordance with company law in the United Kingdom. They are also responsible for ensuring that the annual report includes information required by the Listing Rules of the Financial Services Authority.

The maintenance and integrity of the web site is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the information contained in the financial statements since they were initially presented on the web site. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

Auditors

BDO Stoy Hayward have expressed their willingness to continue in office.

Post balance sheet events

There have been no material post balance sheet events.

Annual General Meeting

The Annual General Meeting will be held on 25th April 2003. In addition to the ordinary business there are two items of special business.

An Ordinary Resolution will be proposed to renew the Directors' authority to allot relevant securities until the next Annual General Meeting. The authority sought will be in respect of securities having an aggregate nominal value of £1,493,227 representing approximately 26% of the present issued share capital. The Directors have no current intention of exercising this authority other than to allot shares to satisfy outstanding commitments to issue shares as consideration under previous acquisition agreements and under the Company's share option schemes. A Special Resolution will be proposed authorising the Directors to allot equity securities for cash as if Section 89(i) of the Companies Act 1985 did not apply to such allotment (i) in connection with a rights issue, open offer or any other pre-emptive offer and (ii) up to an aggregate nominal amount of £285,338.64 being approximately 5% of the present issued share capital. The Directors have no current intention of exercising this authority other than in respect of the allotment of shares to satisfy outstanding commitments to issue shares as consideration under previous acquisition agreements. The authority will expire at the next Annual General Meeting.

Resolution 11, which will be proposed as a Special Resolution, authorises the Company to make market purchases of up to 9,511,288 of its own shares representing 5% of its current issued share capital of the Company. The authority will be exercised only if the Directors believe that to do so would result in an increase in earnings per share and would be in the best interests of the shareholders generally.

The total number of outstanding options to subscribe for equity shares as at the date of this report was 5,997,253. These rights represent 3.1% of the issued share capital as at such date and would represent 3.3% of the issued share capital of the Company, if the full authority to purchase its own shares in accordance with resolution 11 were to be exercised by the Company.

The Company wishes to offer directors and employees the opportunity to participate in new SAYE Share Schemes. Proposals authorising the Directors to implement such Schemes are included in the resolutions proposed at the next Annual General Meeting. Further information relating to these schemes will be set out in a circular to the Shareholders to be dated 25th March 2003.

By order of the Board

April Rigby, Secretary
25th February 2003

CORPORATE GOVERNANCE REPORT

Committee

In order to manage effectively the Group's structure and organisation during a time when expectations about the nature and standards of Corporate Governance have been changing significantly and rapidly, RPS has established a Corporate Governance Committee. This comprises the Chairman, Chief Executive and Company Secretary; other Directors are consulted as necessary. The Committee reviews issues as they arise and is also responsible for keeping the Board apprised about the implications in respect of changes to the Combined Code. The work of the Corporate Governance Committee is, therefore, reflected into the Audit, Nomination and Remuneration Committees as well as the structure, composition and operation of the Group Board, including the production of the policies described in the Corporate Social Responsibility Report (pages 46 to 48).

The Higgs "Review of the Role and Effectiveness of Non-Executive Directors" was published in January 2003 and is expected to lead to significant changes to the Combined Code later in 2003. In anticipation of this the Corporate Governance Committee has reviewed RPS's performance against the main Higgs recommendations. In summary the position is as follows:

	Comment
The number of meetings of the Board and its main committees should be stated in the Annual Report, together with the attendance of individual Directors	Compliant
A description should be included in the Annual Report of how the Board operates	Compliant
At least half the members of the Board, excluding the Chairman, should be independent Non-Executive Directors	Compliant
There should be a strong Executive representation on the Board	Compliant
The roles of Chairman and Chief Executive should be split	Compliant
The division of responsibility between Chairman and Chief Executive should be set out in writing and agreed by the Board	Compliant
Non-Executive Directors should meet as a group at least once a year	Non-compliant, although the NED's communicate regularly outside Board meetings and meet alone at Remuneration Committee meetings
Prior to appointment potential new Non-Executive Directors should carry out due diligence	Compliant
A senior independent Non-Executive Director should be identified	Compliant, although this is the Chairman; consideration is being given to appointing another NED to this role
There should be a Nomination Committee	Compliant
The Nomination Committee should consist of a majority of independent Non-Executives	Compliant
On appointment Non-Executive Directors should receive a letter setting out what is expected of them	Compliant
Chairman and Chief Executive should consider implementing executive development programmes	Compliant; but no programme thought necessary
Non-Executives should normally be expected to serve two three-year terms	Compliant
Non-Executives should undertake that they will have sufficient time available	Compliant
Full time Executive Directors should not take on more than one Non-Executive Directorship	Compliant
Remuneration should be sufficient to attract and fairly compensate high quality individuals	Compliant and kept under review
Remuneration Committee should comprise at least three members, all of whom should be independent Non-Executives	Compliant
Remuneration Committee should have published terms of reference	Compliant
No one Non-Executive Director should sit on all three principal Board committees	Non-compliant, being reviewed
Companies should provide appropriate Directors' and officers' insurance	Compliant

	Comment
All Non-Executive Directors should attend Annual General Meeting	Non-compliant; Chairman and audit committee Chairman attend
Senior independent Director to attend meetings with shareholders with management	Non-compliant, not requested by shareholders, but under review
Non-Executives to meet major shareholders	Non-compliant; never requested by shareholders
A company should state what steps it has taken to ensure Directors appraised of the views of major investors	Compliant; Chief Executive reports monthly to the Board

Risk management

The Board is committed to ensuring that high quality risk management systems are in place across the Group. The objective is to safeguard the interests of shareholders, clients and staff through effective management of corporate and operational risk.

RPS is in a strong position with respect to risk management, the culture and systems of the Group have been developed in a manner designed to minimise risk. Within this culture and these systems there is a high degree of personal accountability at all levels. Effective risk management comes from the comprehensive identification of risks, followed by a process, which assesses the significance of the risk and communicates the issues to senior management. All identified potential risks are reviewed on an individual basis and the level of risk is assessed as to whether they are high, medium or low risk. Low risk are dealt with at office level, medium risks are dealt with at divisional board level and high risks being reported to the Group Board. If the Group does not have the appropriate expertise within the Company then external specialists are appointed.

Each of the Group's offices is treated as a separate business, and monthly management accounts are prepared including a full profit and loss account and balance sheet. This performance is measured against detailed budgets prepared just prior to the beginning of each year and updated at the interim stage (and whenever strategic changes are made within the offices). Results are reviewed monthly for every office and for each individual project.

Capital expenditure and cash collection are controlled on a country basis and monitored centrally. The former is budgeted on an annual basis and both the budget and any material deviation from it has to be approved by the divisional board as well as the Group Board.

The Board monitors all aspects of risk including economic risks, competition and changes in market conditions, financial risks, health and safety risks, environmental risks and client and supplier dependencies. Within this structure the two main risks to the Company are:

1. Inadequate work to keep staff effectively utilised; this risk is mitigated by the review of forward order books by the Board on a monthly basis for each division and the Group as a whole, and each division reviews the detail for each office; steps are taken to remedy the possible shortage of work in the office as soon as a trend becomes apparent.
2. Poor project management leading to cost overruns and/or action by clients against RPS; the mix of projects we undertake keeps this risk small, furthermore a large majority of our projects are relatively small compared with the Group and even office turnover; or comprise of stages which in themselves are relatively small; the Group, therefore, is rarely exposed to potential major cost overruns and, in any event, the financial systems have work in progress monitoring at their core; for each project a weekly update of the unbilled costs and budget remaining is produced; this coupled with the management structure means that the number of projects that run into problems is very small.

In addition to the detailed order book monitoring system the Group also utilises a more sophisticated risk management model. This takes account of a range of factors which we have learnt are the best indicators of whether an office is likely to meet its profit plan for the next three months. Our experience predicts that this is a useful predictive tool.

The internal audit function is undertaken by the Group financial accounting team as part of its other functions. The Board consider that a separate internal audit function is not required presently. The Board recognises that control risks increase during the integration of newly acquired businesses and during this period monitors closely the status of the system and commercial integration.

Quality management

RPS maintains and implements documented Quality Management Systems which satisfy, as a minimum, the requirements of ISO 9001, through the:

- documenting of procedures to control the quality of services;
- maintaining records on policy implementation, operational review, project management and to show compliance with quality standards and client requirements;
- recording the implementation of corrective measures necessary to ensure the quality of service provided; and
- monitoring of the quality system in operation at each office at regular intervals in order to ensure its continuing and improving effectiveness.

The Quality Management Systems ensure that systematic records are kept and that performance monitoring and operational review procedures are maintained.

Formal certification to ISO 9000 standards is a required procedure for most aspects of RPS's business; therefore the majority of RPS's offices in the UK, Ireland and the Netherlands are certified to ISO 9001.

Those RPS offices providing environmental monitoring and analytical services hold external accreditations from additional quality assurance schemes. Quality accreditations held by individual RPS offices include those externally audited by UKAS (formerly NAMAS), Aquacheck, RICE, UK NEQAS, and the UK Health and Safety Executive's WASP scheme.

Our Delft-based subsidiary, Certificatiebureau Nederland BV, is an internationally recognised certification body for quality management (ISO 9001), environmental management (ISO 14001) and safety management (OHSAS 18001) systems.

Financial management

RPS always conducts business in an open and fair manner. A significant part of RPS's success derives from the clarity and accountability of its management structure. The day-to-day business of the Group is carried out in business divisions, which report to the main Board. The divisions are made up of individual office units. Each office is treated as both a separate business for the purpose of budgeting and accounting and as part of the Group-wide network for marketing and business intelligence purposes. Each office unit is managed by an Operational Director, who is responsible for the development of their office and accountable for its performance to their Divisional Board.

Each Divisional Board is collectively accountable for the conduct and performance of the business devolved to the division. The membership of the Divisional Board includes an Executive Director appointed by the main Board, a Divisional Managing Director and Divisional Finance Director and any other members appointed by the Divisional Board itself.

Divisional Boards prepare Business Plans which define the activities and scope of business to be conducted by the Division and hence the office unit. The Divisional budgets quantify the expectations for the divisions and comprise a key element of the Business Plans. The Plans (including budgets) are agreed with the main Board.

The Divisions and offices in the UK are supported by centrally run accountancy and personnel functions. The Dutch and Irish businesses have their own central functions. The detail of reporting by RPS's financial management system, with its checks, balances and financial modelling, ensures good financial management, accountability and transparency at every level. Invoices from suppliers are approved by the Operational Directors and are sent to the central finance function for processing and payment.

Office based staff have no access to the underlying processing of transactions. Remittances from clients are received by the central finance function. This segregation of duties within the finance team itself and between the offices and the central accounting function ensures accountability and sound financial practice at every level.

Divisional Finance Directors review the divisional and office results with the Divisional Board and the Operational Directors on a monthly basis. This detailed review, together with the checking and reconciliation work done by the accounting team, ensures the high degree of scrutiny required to minimise the possibility of mistakes, irregularity or fraud remaining undetected.

The RPS Board monitors the Group's financial performance on a monthly basis using detailed budgets as the benchmark. Future performance is estimated by reference to a detailed financial risk model.

Financial instruments

The Group's financial instruments comprise cash and items such as trade debtors and creditors that arise directly from its operations. The main purpose of these instruments is to provide finance for the Group's operations.

The Group has operations in the UK, Ireland and the Netherlands. The majority of contracts arising in the UK are denominated in sterling. It is the Group's policy to hedge against possible currency movements where considered appropriate in respect of contracts denominated in currencies other than the functional currency of the operation.

It is and has been the Group's policy that no trading in financial instruments shall be undertaken (note 29).

REMUNERATION REPORT

The Directors who served on the Remuneration Committee during the year were: Brook Land (Chairman), Roger Devlin, Paul Martin, Chris Wood

Alan Hearne has assisted the Remuneration Committee in their deliberations on Directors' remuneration, but does not attend the meetings.

The terms of reference of the Remuneration Committee are to (inter alia):

- determine and agree with the Board the framework or broad policy for the remuneration of the Chief Executive and such other members of the executive management as it is designated to consider. The Committee has delegated responsibility for setting remuneration for all Executive Directors and the Company Secretary and, to maintain and assure their independence. The remuneration of Non-Executive Directors is a matter for the executive members of the Board. No Director or manager is involved in any decisions as to their own remuneration;
- determine the policy for and scope of pension arrangements for each Executive Director;
- within the terms of the agreed policy, determine the total individual remuneration package of each Executive Director including, where appropriate, bonuses, incentive payments and share options;
- determine targets for any performance-related pay schemes operated by the Company;
- in determining such packages and arrangements, give due regard to the comments and recommendations of the code as well as the UK Listing Authority's Listing Rules and associated guidance;
- ensure that contractual terms on termination, and any payments made, are fair to the individual and the Company, that failure is not rewarded and that the duty to mitigate loss is fully recognised;
- agree the policy for authorising claims for expenses from the Chief Executive;
- ensure that provisions regarding disclosure of remuneration, including pensions, as set out in the Directors' Remuneration Report Regulations 2002 and the Code, are fulfilled;
- be aware of and advise on any major changes in employee benefit structures throughout the company or group;
- be exclusively responsible for establishing the selection criteria, selecting, appointing and setting the terms of reference for any remuneration consultants who advise the Committee;
- meet as required during the year and at least twice a year;
- report the frequency of, and attendance by members at, Remuneration Committee meetings in the annual report (see page 36).

Remuneration policy

The Company's policy on Directors' remuneration is designed to attract, retain and motivate individuals to ensure the success of the Company relative to other businesses of similar size and complexity. Remuneration packages are designed to reward Directors fairly for their contributions whilst remaining within the range of benefits offered by similar companies in the sector. The Remuneration Committee seeks to structure total benefits packages, which align the interests of shareholders and Senior Executives. Directors remuneration will be the subject of regular review in accordance with this policy in the next and following financial years.

The Remuneration Committee on 21st January 2000 put in place performance-related elements of the Executive Directors' packages consisting of annual cash bonuses of up to 30% of basic salary for the Executive Directors and 50% for the Chief Executive based on earnings per share above the rate of inflation and annual option grants over shares with a market value at the date or dates of grant with a value of an amount up to 75% of basic annual salary. For 2002 earnings per share growth exceeded the rate of inflation by more than 20%, thereby triggering the maximum potential cash bonus. In reviewing the remuneration for the year 2003 the Remuneration Committee had the benefit of reviewing external consultants' published data on Executive Directors remuneration. The 2003 remuneration is yet to be decided upon. The Performance Conditions attached to the Share Options granted to the Directors under the Executive Share Option Schemes are that:

- Ordinary Options may only be exercised if, over any three year measurement period of the Company, beginning no earlier than the financial year during which the option is granted, the percentage growth in earnings per share exceeds the growth in the Retail Prices Index over the same period by at least 3% per annum, being 9% for the three year period.
- Super Options may only be exercised if, over any five year measurement period of the Company, beginning no earlier than the financial year during which the option is granted, the percentage growth in earnings per share exceeds the growth in the Retail Price Index over the same period by at least 6% per annum, being 30% for the five year period.

It is also necessary for the share price to rise over both the three and five year periods to make the exercise worthwhile.

Options are not able to be exercised if performance is below target, and there is no reward for below target performance. The Directors are required to refund to the Company all National Insurance contributions payable at exercise. This makes the effective tax rate for Executives 47%. The Directors' individual share options are detailed in the Directors' report on pages 34 and 35.

The Remuneration Committee determines whether the performance condition has been met using the earnings per share information contained in the Company's annual report and accounts, and may take advice from the independent auditors as to whether any adjustments are required to ensure consistency in accordance with the terms of the performance condition. This procedure is followed in order to ensure that no Director is in a position to rule on whether the performance conditions applying to his own incentives have been satisfied.

The performance condition comparing increases in earnings per share against inflation was chosen in order to ensure that options would only become exercisable against a background of a sustained real increase in the financial performance of the Company.

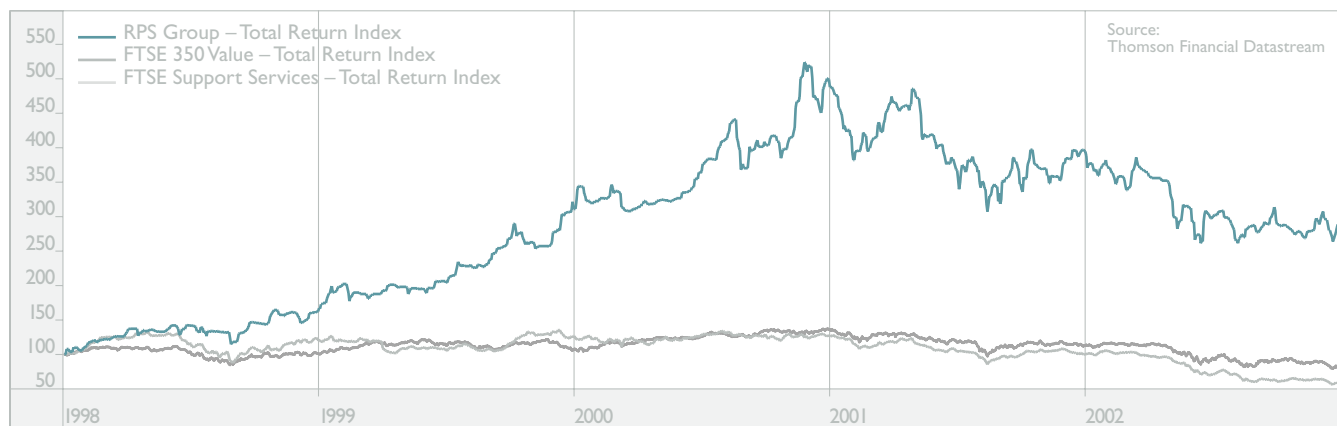
The Company's policy on the duration of service contracts is that:

- Executive Directors should have rolling service contracts terminable on no more than one year's notice served by the Company or the Director; and
- Non-Executive Directors are appointed for fixed terms of three years, renewable on agreement of both the Company and the Director.

The policy on termination payments is that the Company does not normally make payments beyond its contractual obligations, including any payment in respect of notice to which a Director is entitled after mitigation is considered. None of the Directors' contracts provide for automatic payments in excess of one year. None of the Directors' contracts provide for liquidated damages. In the year ended 31st December 2002 no compensation was paid to any Directors resigning from the Board.

Performance graph

The graph below shows a comparison of the total shareholder return from the Company's shares for each of the last five financial years against the total shareholder return for the companies comprising in the FTSE 350 and support services sector.



Details of the Directors' service contracts are as follows:

Name	Date of contract	Unexpired term at 31 December 2002	Notice period
Alan Hearne	February 1997	N/A	12 month
Peter Downen	February 1997	N/A	12 month
Andrew Troup	February 1997	N/A	12 month
Gary Young	September 2000	N/A	12 month
Brook Land	September 1997	Until AGM 2004	N/A
Chris Wood	May 2000	Until April 2003	N/A
Roger Devlin	April 2002	Until April 2005	N/A
Rob Thielen	December 2002	Until December 2005	N/A
Paul Martin	December 1997	Until December 2003	N/A

The Company's articles state that a Director shall retire at the first Annual General Meeting after the date of his seventieth birthday, and then must face annual election thereafter. All Directors face election at least every three years.

Directors' emoluments and compensation

The following disclosures on Directors' remuneration have been audited as required by part 3 of Schedule 7A of the Companies Act 1985.

The following table sets out details of the emoluments and compensation received during the year by each Director:

	Basic salary £000's	Bonus £000's	Fees £000's	Benefits £000's	Emoluments excluding pensions		Pension (paid and provided)	
					2002 £000's	2001 £000's	2002 £000's	2001 £000's
Executive:								
P B Downen	130	39	–	10	179	139	18	15
A S Hearne	250	125	–	14	389	300	36	28
G D R Parry (retired 25th February 2002)	18	–	–	–	18	132	3	16
A R G Troup	145	43	–	10	198	148	21	16
B J van Steijn (retired 19th December 2002)	92	–	–	21	113	113	–	–
G Young	110	33	–	10	153	127	16	14
Non-Executive:								
B Land	–	–	45	–	45	37	–	–
R Devlin (appointed 29th April 2002)	–	–	13	–	13	–	–	–
R Thielen (appointed 1st January 2003)	–	–	–	–	–	–	–	–
P M Martin	–	–	15	–	15	16	–	–
C Wood	–	–	16	–	16	16	–	–
Total 2002	745	240	89	65	1,139	–	94	–
Total 2001	701	209	69	49	–	1,028	–	89

The total Directors' emoluments were £1,139,000 (2001: £1,028,000) excluding pension contributions.

For 2002 the Remuneration Committee continued the bonus scheme for Executive Directors based upon the growth of earnings per share above the rate of inflation. For 2002 earnings per share growth exceeded the rate of inflation by more than 20%, thereby triggering the maximum potential bonus for the Executive Directors (30%) and Chief Executive (50%). Each was paid a proportion of this according to the Remuneration Committee's evaluation of performance of the business sectors involved.

*Directors' share incentives***Share options**

The table on pages 34 and 35 sets out details of the share options held by or granted to each Director during the year. All share options comply with AIB headroom guidelines.

Pensions

The Executive Directors of the Company earned pensions benefits in a company money purchase (defined contribution) scheme during the year.

At the Annual General Meeting of the Company to be held on 25th April 2003, a resolution approving this report is to be proposed as an Ordinary Resolution.

This report was approved by the Board on 25th February 2003.

Signed on behalf of the Board

Brook Land, Chairman

25 February 2003

CORPORATE SOCIAL RESPONSIBILITY REPORT

Responsibility

The Board arranges the affairs of the Group to ensure RPS operates in a social and responsible manner and implements policies and procedures accordingly. The responsibility for ensuring compliance with these policies and procedures is delegated to the Board's Executive Directors and in turn to the Divisional Boards and Divisional Directors. The responsibility for complying with Group policies is devolved down to all employees. The Board keeps the management of the Group under continuous review and is able to amend management policies or operations at any time.

Individual parts of the Group are encouraged to develop more detailed policies suited to their own specific activities. The Group Board requires to be informed of such policies.

Policy

The RPS Board is committed to ensuring the Group undertakes its business in a responsible way. Taking care of our clients, suppliers, employees, the wider community and environment, the health and safety of our employees and conducting operations with a high standard of business integrity are in our opinion essential to the success of our business.

The Group has specific policies on the following:

Standard of conduct

RPS expects all its staff to conduct business to the highest standards. It is essential that the reputation of the Group is upheld at all times with regulatory bodies, governments, customers, suppliers and all other parties with whom the Group has dealings. All employees, agents and other persons acting on its behalf represent the Group during their normal day-to-day activities and are, therefore, expected to conduct their duties at all times in a professional manner, maintaining rigorous standards of integrity, honesty and conduct, together with adherence to all applicable laws, rules made by any official or regulatory body and Group policies. The Group respects the rights and interests of all its employees. The Group requires its entire staff to adopt the highest standards of behaviour when travelling on business whether within their country of operation or elsewhere. The Group Companies and employees are required to comply with the laws and regulations of the countries in which they operate.

Clients and customers

The Group aims to understand its clients objectives in order to be as effective as possible in helping them achieve those objectives.

The Group aims to develop and maintain strong and lasting relationships with its clients. Quality reports and services are delivered on time which meet our client's requirements and the Group works with the client to anticipate and meet their future needs.

Shareholders

The Group conducts its operations in accordance with accepted principles of good corporate governance. Its aim is to provide shareholders with a return on investment that rewards their financial commitment. The Group understands the importance of strong cash flows and earnings and develops its business in such a way as to ensure these grow in a sustainable way.

The Group endeavours to maintain involvement of shareholders by keeping them informed on major actions or decisions affecting their investment, through a year-round Investor Relations programme.

RPS employees in possession of information which, if disclosed, could affect the market price of its shares are prohibited from trading in securities until after public disclosure of such information.

Suppliers and sub-contractors

The Group works with suppliers and sub-contractors in order to maintain and develop relationships, such that they assist in delivering our services and products at the highest professional level whilst delivering value for money. RPS deals with suppliers and sub-contractors and all aspects of the purchasing process in a manner, which reflects appropriate standards of ethics and business management. The Group pays suppliers and sub-contractors in accordance with agreed terms.

Community involvement

The Group aims to be sensitive to cultural, social and economic needs of the communities in which we operate. Modest donations to local charities are made on an irregular basis.

During the year our Water Services and Planning, Transport and Environment divisions jointly sponsored the Water Aid Ball held at the Royal Naval College at Greenwich, London. Water Aid is an international charity that works to help communities in some of the world's poorest countries to provide them with access to clean water and proper sanitation to support local hygiene education projects. The organisation is funded by a variety of organisations and individuals, including the British Government, the EU, water companies, consultants, contractors and general individuals.

Equal opportunities in employment

RPS is committed to providing equal opportunity for all its employees and potential employees regardless of their sex, sexual orientation, age, race, ethnic origin, disability, marital status, colour, and nationality.

The policy applies to the advertisement of jobs, recruitment and appointment, training, conditions of work, pay and to every aspect of employment.

We recognise our obligations to ensure that people with disabilities are afforded equal opportunities to employment and progress within the Group.

We deplore all forms of sexual and racial harassment and seek to ensure that our working environment is sympathetic to all employees.

Advice is available to all employees involved in employment decisions, particularly in respect of promotion, transfer, training and discipline, as well as all stages of recruitment and selection.

RPS's policy on equal opportunities covers all areas of discrimination. We seek to comply with the Sex Discrimination Act, the Race Relations Act, the Disability Discrimination Act and the Protection from Harassment Act.

Training and Continuous Professional Development

RPS is committed to the training, education and development of its employees to increase effectiveness, develop potential and ensure adequate succession planning. We have a Director of Recruitment who is responsible for the recruitment and the oversight of corporate induction courses within the Group.

Divisional Directors and their appointed project managers are responsible for the management of training and for the verification of technical competence for all project personnel, in accordance with our Quality Management System.

RPS is a recognised commercial training provider in a number of specific technical fields and is certified by such external bodies as CCNSG (ECITB) on site safety courses.

RPS operates a CIWEM approved structured training scheme for its chartered water and environmental engineers. Our aim is to help the development of individuals throughout their employment with the Company, by underpinning the strengthening skills and professional ethics, whilst broadening their business knowledge. One of the key objectives of the scheme is the long-term commitment to Continued Professional Development (CPD) of all existing staff within the organisation. Thereby individuals are always able to demonstrate technical experience in specific sectors, such as the water industry, or in relevant aspects of environmental consultancy.

The Group contributes to a number of bursaries and scholarships throughout the UK and Ireland. These include University of Southampton, Southbank University, Newcastle University, University of Leeds, Oxford Brookes and University College Dublin.

In the UK, these bursaries schemes include MSc courses at the University of Southampton's Transportation Planning and Engineering Department and at its renowned Institute of Sound and Vibration Research; the Postgraduate Masters Programme at the Institute of Transport Studies at the University of Leeds and a range of BA (Hons) courses in town and country planning at the School of Planning at Oxford Brookes University, South Bank University London and the University of Newcastle Upon Tyne. RPS is also mentoring the Environment Team at the University of Aberystwyth's annual Student Skills Competition which takes place in March 2003.

In Ireland, MC O'Sullivan operates annual bursary schemes for a range of environmental, civil and structural engineering courses at four leading universities including University College Cork, University College Dublin, Trinity College Dublin and the National University of Ireland Galway.

While RPS does not subscribe to positive discrimination in its recruitment or employment policy, it recognises that too few candidates from black or ethnic minorities are currently entering the environmental and planning professions. In order to address this situation, RPS has resolved to become the first private sector sponsor of Tomorrow's Planners, the work experience scheme for graduates from black and ethnic minorities operated by the UK Planning Directorate. In doing so, RPS aims to promote inclusion and representation in the planning profession in addition to inclusivity within development planning and urban regeneration.

We aim to identify and provide training, education and development for employees, in order that they can develop and apply this knowledge to greater and more demanding roles in the future. Wherever possible we try to identify successors to key posts within the organisation as part of our ongoing succession management policy.

Central to identifying our training and educational needs is staff appraisal. This activity is concerned with developing staff by identifying and meeting performance and training needs as well as developing individual potential.

Appraisals are intended to complement the standard staff induction programme on Company policy and procedures, which covers topics including safety or equipment handling and involves assessments of competency on a more administrative level.

Staff appraisal is a continuous process and is not limited to formal meetings. However formal appraisal meetings take place in most parts of the Group at least once a year.

Environmental management

RPS is Europe's largest environmental consultancy. Our expertise includes the full range of environmental disciplines, covering areas such as risk management, health and safety, town and country planning, environmental impact assessment, environmental monitoring and utilities management. We advise international bodies, governments, local authorities and private companies on improving their environmental performance. As a result of these activities RPS has a positive impact on the environment. One of the Group's larger shareholders after reviewing the Group confirmed in August 2002 that they "fully recognised that RPS does not have a substantial direct environmental impact." The Group has been included in the FTSE4Good Index.

RPS seeks to improve its performance in all fields, including the environment, through systematic management. Our management systems follow the principles of the ISO 9000 and ISO 14000 series.

Formal certification to these international standards is not a required procedure for all offices, though the majority of RPS office management systems are currently certified to ISO 9001 and our Oxford office is certified to ISO 14001.

RPS concentrates on implementing practical measures to improve its environmental performance. Those activities that are managed at Group level, such as our fleet car leasing, office leasing and IT and stationery purchasing are driven through our procurement strategy.

Using these management techniques, RPS ensures that it:

- complies with all relevant EC, national and regional legislation as a minimum standard;
- complies with codes of practice and other requirements such as those specified by regulators and our clients;
- utilises suppliers that offer products which are sustainable, recyclable or environmentally sensitive wherever practicable and economic;
- promotes practical energy efficiency and waste minimisation measures;
- provides a shared inter-office IT networks and communications technology which reduces the need for business travel.

The Group Board has responsibility for the implementation of all policies. Having evaluated the situation the Board believes that our major suppliers have an environmental policy in place.

Health and safety

RPS offers a range of commercial health and safety services covering building health and safety, fire safety, asbestos management, occupational health and safety, occupational hygiene, safety auditing, safety engineering consultancy and emergency planning. The Group's Dutch subsidiary, Certificatiebureau Nederland BV, is an internationally recognised and accredited certification body for safety management systems.

RPS's health and safety professionals hold a variety of academic and professional qualifications and include recognised specialists in safety critical systems in the defence, nuclear, offshore, petrochemical, transport, construction and engineering industries.

RPS is committed to achieving and maintaining high standards of health and safety. The Group Board is responsible for health, safety and welfare within the Group and for ensuring that safety remains a priority and an integral part of all its activities.

It is RPS Group policy to provide and maintain safe working conditions, equipment and systems of work for all employees, contractors, visitors and other people affected by the Group operations. We intend to comply with all health and safety legislation, Codes of Practice, best guidance and work methods available, in accordance with the Health and Safety at Work Act 1974.

Directors and Managers are responsible to the Group Board for ensuring that the policy is implemented. Information, instruction, training and supervision will be provided as required to comply with this objective.

Divisional and local policies are developed to satisfy specific activities. These policies will be approved by the Group Board.

A health and safety budget is maintained to facilitate training and other requirements.

Consultation with employees on health and safety policy are achieved through local and divisional meetings.

Employees who fail to meet their obligations under the health and safety policy are subject to disciplinary action.

Conflict of interest

All RPS employees are required to avoid personal activities and financial interests, which could conflict with their responsibilities to the Company. Where conflicts of interest arise, they should be openly acknowledged and reported to the head office. RPS employees must not seek personal gain from third parties nor should they abuse their power within the company for personal gain.

MEMBERSHIPS AND SUBSCRIPTIONS

Corporate memberships:

IEMA	Assessor Member of Institute of Environmental Management and Assessment
CIWEM	Chartered Institute of Water and Environmental Management
NHBC	(Professional Register) National House Builders Council
BVCA	British (& European) Venture Capital Associations
ARCA	Asbestos Removal Contractors Association
UKELA	UK Environmental Law Association
LI	(Registered Practice) Landscape Institute
FWR	Foundation for Water Research
STA	Source Testing Association
NIA	Netherlands Institute of Hygiene
IEI	Institution of Engineers of Ireland
ISI	The Work Foundation
BW	British Water
BWEA	British Wind Energy Association

Company subscriptions to external quality audit schemes:

BSI	(British Standards Institute)
UKAS	(United Kingdom Accreditation Services)
RVA (STERIN)	(Dutch Council for Accreditation)
WASP (HSE)	(Workplace Analysis Scheme for Efficiency – Occupational Hygiene)
UK NEQAS	(UK National External Quality Assurance Scheme – Biological Analysis)
Aquacheck	(Water Quality Analysis Scheme – Chemical Analysis)
RICE	(Regular Inter-laboratory Counting Exchange – Asbestos Analysis)
VOAM	(Dutch Asbestos Analysis Validation Scheme)

Staff professional memberships:

AIEMA	(Associate Member of the Institute of Environmental Management and Assessment)
MICE	(Members of the Institution of Civil Engineers)
MRTPI	(Member of the Royal Town Planning Institute)
MIPI	(Member of the Irish Planning Institute)
ARICS	(Associate Member of the Royal Institute of Chartered Surveyors)
RIBA	(Royal Institute of British Architects)
MLI	(Member of the Landscape Institute)
MIHort	(Member of the Institute of Horticulture)
MIFA	(Member of the Institute of Field Archaeologists)
MIHT	(Member of the Institution of Highways and Transportation)
MCIT	(Member of the Chartered Institute of Transport)
ILT	(Institute of Logistics and Transport)
IRTE	(Institute of Road Transport Engineers)
SOE	(Society of Operations Engineers)
IMechE	(Institute of Mechanical Engineers)
IChemE	(Institute of Chemical Engineers)
ISPE	(International Society of Pharmaceutical Engineers)
IHEEM	(Institute of Healthcare Engineering and Estate Management)
IIRSM	(International Institute of Risk and Safety Management)
SaRS	(Safety and Reliability Society)
IQA	(Institute of Quality Assurance)
IEnvSC	(Institute of Environmental Sciences)
MIBiol	(Member of the Institute of Biology)
MIOSH	(Member of the Institute of Occupational Safety and Health)
BOHS	(British Occupational Hygiene Society)
BIOH	(British Institute of Occupational Hygienists)
MIWEM	(Members of the Institute of Waste and Environmental Management)
IWA	(International Water Association)
IWO	(Institute of Water Officers)
FIMgt	(Fellow of the Institute of Management)
FRSA	(Royal Society of the Academy of Arts, Manufacturers and Commerce)
MIWEM	(Members of the Institute of Water and Environmental Management)
MIWM	(Member of the Institute of Waste Management)
MIP	(Member of the Institute of Petroleum)
PESGB	(Petroleum Exploration Society of Great Britain)
BMS	(British Micropalaeontological Society)
MIINE	(Member of the Institute of Nuclear Engineers)
MIEE	(Member of the Institute of Electrical Engineers)
IFE	(Institute of Fire Engineers)
IFPO	(Institute of Fire Prevention Officers)
ICAEW	(Institute of Chartered Accountants of England and Wales)

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REPORT OF THE INDEPENDENT AUDITORS

To the shareholders of RPS Group Plc

We have audited the financial statements of RPS Group Plc for the year ended 31st December 2002 which comprise the Consolidated profit and loss account, the Consolidated balance sheet, the Company balance sheet, the Cash Flow statement, the Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

Respective responsibilities of Directors and auditors

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with the relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited 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 with the Company and other members of the Group is not disclosed.

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 form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

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

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the Group's and the Company's affairs as at 31st December 2002 and of the Group's profit for the year then ended; and the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

BDO Stoy Hayward Chartered Accountants and Registered Auditors, Manchester
25th February 2003

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Note	2002 £000's	2001 £000's
Turnover			
Continuing operations		85,736	74,769
Acquisitions		19,086	
	2	104,822	
Operating profit before goodwill amortisation			
Continuing operations		15,361	12,478
Acquisitions		1,537	
		16,898	
Goodwill amortisation	12	3,564	2,123
Group operating profit	3	13,334	10,355
Net interest receivable	4	924	1,471
Profit on ordinary activities before taxation	6	14,258	11,826
Taxation	7	4,429	3,923
Profit for the year attributable to shareholders of RPS Group Plc	8	9,829	7,903
Dividends	9	3,018	2,565
Retained profit for the year	20	6,811	5,338
Profit before goodwill amortisation and tax		17,822	13,949

	Note	2002		2001	
		Basic	Diluted	Basic	Diluted
Earnings per share (pence)	10				
Before goodwill amortisation		7.15	7.06	5.65	5.52
After goodwill amortisation		5.25	5.18	4.45	4.35

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2002 £000's	2001 £000's
Retained profit for the financial year	6,811	5,338
Currency translation differences on foreign currency investments	792	(24)
Total recognised gains and losses relating to the year	7,603	5,314

All amounts related to continuing activities.

The results as per the profit and loss account are not materially different from those on an unmodified historical cost basis.

The notes on pages 57 to 80 form part of these statements.

CONSOLIDATED BALANCE SHEET

as at 31st December 2002		2002		2001	
	Note	£000's	£000's	£000's	£000's
Fixed assets					
Tangible assets	11		13,698		11,221
Intangible assets	12		76,368		54,277
Investments	13		3,018		3,286
			93,084		68,784
Current assets					
Stock and work in progress	14	7,057		4,451	
Debtors	15	31,876		22,424	
Cash in bank and in hand		23,046		36,361	
		61,979		63,236	
Creditors: Amounts falling due within one year	16	35,797		26,914	
Net current assets			26,182		36,322
Total assets less current liabilities			119,266		105,106
Creditors: Amounts falling due after more than one year	17		6,239		3,302
Provision for liabilities and charges	18		2,346		1,083
Net assets			110,681		100,721
Capital and reserves					
Called up share capital	19		5,708		5,631
Share premium account	20		78,797		75,975
Shares to be issued	20		941		1,483
Revaluation reserve	20		37		37
Profit and loss reserve	20		25,198		17,595
Equity shareholders' funds			110,681		100,721

These financial statements were approved by the Board on 25th February 2003.

The notes on pages 57 to 80 form part of these statements.

Dr A S Hearne, Director

COMPANY BALANCE SHEET

as at 31st December 2002		2002		2001	
	Note	£000's	£000's	£000's	£000's
Fixed assets					
Tangible assets	11		4,093		4,002
Intangible assets	12		1,306		–
Investments	13		87,118		62,990
			92,517		66,992
Current assets					
Debtors	15	3,510		34,655	
Cash in bank and in hand		14,100		–	
		17,610		34,655	
Creditors: Amounts falling due within one year	16	11,396		10,874	
Net current assets			6,214		23,781
Total assets less current liabilities			98,731		90,773
Creditors: Amounts falling due after more than one year	17		6,051		2,623
Net assets			92,680		88,150
Capital and reserves					
Called up share capital	19		5,708		5,631
Share premium account	20		78,797		75,975
Shares to be issued	20		941		1,483
Revaluation reserve	20		32		32
Profit and loss reserve	20		7,202		5,029
Equity shareholders' funds			92,680		88,150

These financial statements were approved by the Board on 25th February 2003.

The notes on pages 57 to 80 form part of these accounts.

Dr A S Hearne, Director

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31st December 2002	Note	2002 £000's	2001 £000's
Net cash inflow from operating activities	23	15,174	9,438
Returns on investments and servicing of finance	24	924	1,473
Corporation tax paid		(4,606)	(3,231)
Capital expenditure	24	(2,318)	(6,132)
Acquisitions and disposals	24	(20,023)	(13,392)
		(10,849)	(11,844)
Equity dividends paid		(2,767)	(2,189)
Cash outflow before financing		(13,616)	(14,033)
Financing	24	301	41,518
(Decrease)/increase in cash in year		(13,315)	27,485

The notes on pages 57 to 80 form part of these accounts.

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	Note	2002 £000's	2001 £000's
(Decrease)/increase in cash in year	24	(13,315)	27,485
Net cash at 1st January		36,361	8,876
Net cash at 31st December		23,046	36,361

NOTES TO THE FINANCIAL STATEMENTS

I. Accounting policies

The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain assets and are in accordance with applicable accounting standards. The format of the Group profit and loss account has been amended to provide a clearer presentation of the Group's results. This has been achieved by no longer separately disclosing on the face of the profit and loss account Cost of Sales, Gross Profit and Administrative Expenses. There has been no restatement of results. The following principal accounting policies have been applied:

Basis of consolidation

The Group profit and loss account and balance sheet include the accounts of the holding Company and its subsidiary undertakings and include the Group's share of associated undertakings on an equity basis. Internal Group transactions are eliminated on consolidation.

Subsidiary undertakings have been accounted for in accordance with the principles of acquisition accounting, which requires their results to be included in the Group accounts from the date of acquisition.

Goodwill

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired is capitalised and written off on a straightline basis over its useful economic life, which is 20 years.

Goodwill arising on the acquisitions made prior to 1st January 1998, was written off against reserves in the year of acquisition in accordance with the accounting standard then in force. Should a subsequent disposal occur any related goodwill written off to reserves will be charged to the profit and loss account as part of the profit or loss on disposal.

The Directors consider that amortisation of goodwill arising on consolidation should be separately disclosed on the face of the profit and loss account in order to give a fair presentation of the Group's results.

Valuation of investments

Investments held as fixed assets are stated at cost, less any provision for impairment in value.

Turnover

Turnover represents sales of services to outside customers at invoiced amounts less value added tax.

Tangible fixed assets

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment.

Depreciation is provided to write off the cost, less estimated residual values, of all tangible fixed assets, excluding freehold land, over their expected useful lives. It is calculated at the following rates:

Fixtures, fittings, IT and equipment	12.5%–33% per annum on cost
Motor vehicles	25% per annum on cost
Alterations to short leasehold premises	Straight line over life of the lease
Freehold buildings	2% per annum on cost

Revaluation of properties

The Group has taken advantage of the transitional arrangements in FRS15 "Tangible Fixed Assets" and retained the book values of certain freehold properties that were revalued prior to implementation of that standard. Where an asset that was previously revalued is disposed of, its book value is eliminated and an appropriate transfer made from the revaluation reserve to the profit and loss account.

Leased assets and assets held under hire purchase contracts

Where assets are financed by hire purchase or leasing agreements that give rights approximating to ownership (finance leases), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable during the lease term. The corresponding leasing commitments are shown as amounts payable to the lessor. Depreciation on the relevant assets is charged to the profit and loss account.

Lease payments are split between capital and interest using the actuarial method. The interest is charged to the profit and loss account. The capital part reduces the amount payable to the lessor.

All other leases are treated as operating leases. Their annual rentals are charged to the profit and loss account on a straightline basis over the lease term.

1. Accounting policies (continued)

Foreign currency translation

Profit and loss accounts of foreign subsidiary undertakings are translated into sterling at the average exchange rate during the year, with the balance sheet translated at the rate of exchange at the balance sheet date. Exchange differences which arise on translation of the opening net assets and the results of overseas operations are reported in the statement of total recognised gains and losses. All other differences are taken to the profit and loss account.

Foreign currency transactions of individual companies are translated at the rates ruling when they occurred. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date.

Financial instruments

Page 42 of the corporate governance section provides an explanation of the role that financial instruments have had during the period in creating or changing the risks the Group faces in its activities. The numerical disclosures in note 29 deal with the financial assets and financial liabilities as defined in FRS13. Short-term debtors and creditors have been excluded from the disclosure, other than in the currency risk disclosure.

Pension costs

Contributions to the Company's defined contribution pension schemes are charged to the profit and loss account in the year in which they become payable. The cost of pensions in respect of the Group's defined benefit schemes is charged to the profit and loss account so as to spread the cost of pensions over the service lives of the employees. Actuarial surpluses and deficits are spread forward over the average remaining service life of the employees. The pension cost is assessed in accordance with the advice of qualified actuaries. Differences between contributions payable in the year and the amount actually paid are shown as either accruals or prepayments in the balance sheet.

The scheme for the employees in the Netherlands is a multi-employer scheme that has characteristics of both defined contribution and defined benefit schemes. Because the scheme actuaries are unable to apportion the gains/losses appropriately it has been accounted for as a defined contribution scheme.

Stock and work in progress

Stock and work in progress is valued at the lower of cost and net realisable value. Cost of work in progress is calculated as cost of labour, together with attributable overheads based on the normal level of activity.

Net realisable value is based on estimated selling price less further costs expected to be incurred to completion. Regular reviews are undertaken and any impairment is provided for.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

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

Deferred tax is not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the financial statements. Neither is deferred tax recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

Deferred tax is recognised in respect of the retained earnings of overseas subsidiaries and associates only to the extent that, at the balance sheet date, dividends have been accrued as receivable or a binding agreement to distribute past earnings in future has been entered into by the subsidiary or associate.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Employee Share Ownership Plan (ESOP)

In accordance with UITF 13, the assets, income and expenditure of the ESOP Trust are incorporated into the Group and Company Financial Statements.

2. Turnover, profits and net assets

	Operating profit		Net assets		Turnover	
	2002 £000's	2001 £000's	2002 £000's	2001 £000's	2002 £000's	2001 £000's
Analysis by class of business:						
Consultancy and related services	13,334	10,355	110,681	100,721	104,822	74,769
Analysis by geographical market:						
UK					62,462	53,839
Ireland					30,115	13,229
Netherlands					12,245	7,701

In the opinion of the Directors the disclosure of segmental information relating to the geographical origin of net assets and operating profit would be seriously prejudicial to the interests of the Group and has not therefore been presented. Turnover by destination is not materially different to that by origin.

3. Operating profit

	Acquisitions 2002 £000's	Continuing operations 2002 £000's	Total 2002 £000's	2001 £000's
Turnover	19,086	85,736	104,822	74,769
Cost of sales	12,508	49,777	62,285	44,925
Gross profit	6,578	35,959	42,537	29,844
Administrative expenses	5,040	24,163	29,203	19,489
Operating profit before goodwill amortisation	1,537	15,361	16,898	12,478
Goodwill amortisation			3,564	2,123
Operating profit			13,334	10,355

4. Net interest receivable

	2002 £000's	2001 £000's
Deposit interest receivable	1,012	1,538
Interest on loans and other borrowings wholly repayable within 5 years	(62)	(68)
Deferred consideration	(4)	—
Finance leases	(22)	—
	924	1,471

5. Employees

	2002 £000's	2001 £000's
Staff costs (including Directors' emoluments) consist of:		
Wages and salaries	43,902	32,526
Social security costs	4,036	2,756
Pension costs	1,505	1,262
	49,443	36,544

The average monthly number of employees during the year was 1,832 (2001: 1,362). Please refer to page 38 for employment statistics. Details of the Directors' remuneration are shown on page 45.

6. Profit on ordinary activities before taxation

	2002 £000's	2001 £000's
Profit on ordinary activities before taxation is stated after charging or crediting:		
Depreciation of tangible fixed assets	2,191	1,610
Amortisation of goodwill	3,564	2,123
Profit on sale of fixed assets	35	20
Auditors' remuneration – audit services to principal auditors	68	48
– other auditors	39	46
– non-audit services to principal auditors	–	10
Operating leases – land and buildings	1,783	1,613
– equipment and motor vehicles	2,424	1,869

7. Taxation

	Note	2002 £000's	2001 £000's
Current tax			
UK Corporation tax at 30% (2001: 30%)		3,223	3,424
Adjustment in respect of prior years		(16)	–
Overseas taxation		1,584	499
Adjustment in respect of prior years		16	–
Total current tax		4,807	3,923
Deferred tax			
Timing differences	18	(262)	–
Adjustment in respect of prior years		(116)	–
Total deferred tax		(378)	–
Total tax on profit on ordinary activities		4,429	3,923

The current tax charge can be reconciled to the United Kingdom effective tax rate as follows:

	2002 £000's	2001 £000's
Profit on ordinary activities before tax	14,258	11,826
Tax at UK effective rate of 30% (2001: 30%)	4,277	3,548
Expenses not deductible for tax purposes	1,532	472
Depreciation in excess of capital allowances	150	18
Other deferred tax movements	–	(16)
Overseas tax rates	(937)	(99)
Utilisation of tax losses	(68)	–
Movements on short-term timing differences	(147)	–
Total current tax charge for year	4,807	3,923

8. Profit attributable to shareholders

	2002 £000's	2001 £000's
Profit for the year attributable to the shareholders of the parent company, dealt with in the accounts of the parent company	5,191	4,553

No profit and loss account is provided for the parent company as allowed by Section 230 of the Companies Act 1985.

9. Dividends

	2002 £000's	2001 £000's
Dividends paid and proposed are as follows:		
Interim paid: 0.76p per share (2001: 0.66p)	1,443	1,224
Final proposed: 0.82p per share (2001: 0.71p)	1,575	1,341
	3,018	2,565

10. Earnings per share

	2002 £000's	2001 £000's
Earnings after goodwill amortisation		
Profit attributable to shareholders	9,829	7,903
Earnings before goodwill amortisation		
Profit attributable to shareholders	9,829	7,903
Goodwill amortisation	3,564	2,123
	13,393	10,026

	2002		2001	
	Basic	Diluted	Basic	Diluted
Earnings per share (pence)				
After goodwill amortisation	5.25	5.18	4.45	4.35
Effect of goodwill amortisation	1.90	1.88	1.20	1.17
Before goodwill amortisation	7.15	7.06	5.65	5.52

	Number	Number
Reconciliation of weighted average number of shares		
Basic	187,368,000	177,392,000
Dilutive effect of options	1,400,000	3,386,000
Dilutive effect of shares to be issued for consideration	834,000	877,000
Diluted number of shares	189,602,000	181,655,000

11. Tangible assets

	Freehold land and buildings £000's	Alterations to short leasehold premises £000's	Motor vehicles £000's	Fixtures, fittings, IT and equipment £000's	Total £000's
Group					
Cost or valuation					
At 1st January 2002	7,728	531	921	10,612	19,792
Transfers	–	59	–	(59)	–
Additions through acquisition	375	527	88	2,226	3,216
Additions	87	17	47	2,625	2,776
Disposals	(375)	–	(373)	(142)	(890)
Foreign exchange differences	234	5	17	131	387
At 31st December 2002	8,049	1,139	700	15,393	25,281
Depreciation					
At 1st January 2002	413	276	652	7,230	8,571
Provided for on acquired assets	–	88	12	988	1,088
Provided for the year	136	72	106	1,877	2,191
Disposals	–	–	(325)	(142)	(467)
Foreign exchange differences	2	13	7	128	200
At 31st December 2002	551	449	452	10,131	11,583
Net book value at 31st December 2002	7,498	690	248	5,262	13,698
Net book value at 31st December 2001	7,315	255	269	3,382	11,221
Company					
Cost or valuation					
At 1st January 2002	3,964	66	853	4,883	4,883
Additions	64	–	281	345	345
At 31st December 2002	4,028	66	1,134	5,228	5,228
Depreciation					
At 1st January 2002	279	30	572	881	881
Provided for the year	80	4	170	254	254
At 31st December 2002	359	34	742	1,135	1,135
Net book value at 31st December 2002	3,669	32	392	4,093	4,093
Net book value at 31st December 2001	3,685	36	281	4,002	4,002

The Group had motor vehicles and office equipment held under hire purchase contracts with net book values of £84,000 and £30,000 respectively.

12. Intangible assets – Goodwill

	Note	Group £000's	Company £000's
Cost			
At 1st January 2002		58,308	822
Additions	26	25,741	1,312
Adjustment due to final determination of deferred consideration		(85)	–
At 31st December 2002		83,964	2,134
Amortisation			
As at 1st January 2002		4,031	822
Amortisation charge		3,564	6
At 31st December 2002		7,595	828
Net book value at 31st December 2002		76,368	1,306
Net book value at 31st December 2001		54,277	–

13. Fixed assets investments

	Note	ESOP Trust Shares £000's	Associated undertakings £000's	Other investments £000's	Total £000's
Group					
At 1st January 2002		1,805	1,481	–	3,286
Equity accounting adjustments		–	12	–	12
Reclassifications due to change in voting rights	28	–	(1,493)	1,493	–
Provision for impairment		–	–	(280)	(280)
At 31st December 2002		1,805	–	1,213	3,018

The ESOP trust holds 1,083,000 shares of RPS Group Plc. The market price of these shares at 31st December 2002 was 112.5p per share. Details of outstanding options are included in note 19.

13. Fixed assets investments (continued)

	Note	Subsidiary undertakings £000's	Associated undertakings £000's	Other investments £000's	ESOP Trust Shares £000's	Total £000's
Company						
Cost						
At 1st January 2002		60,250	1,493	–	1,805	63,548
Additions	26	25,357	–	–	–	25,357
Adjustments	27	(949)	–	–	–	(949)
Reclassification	28	–	(1,493)	1,493	–	–
At 31st December 2002		84,658	–	1,493	1,805	87,956
Provisions						
At 1st January 2002		558	–	–	–	558
Provision for impairment		–	–	280	–	280
At 31st December 2002		558	–	280	–	838
Net book value at 31st December 2002		84,100	–	1,213	1,805	87,118
Net book value at 31st December 2001		59,692	1,493	–	1,805	62,990

13. Fixed assets investments (continued)*Subsidiary and associated undertakings*

The following were the principal operating subsidiary, associated undertakings and other investments at the end of the year:

	Country of registration and operation	Proportion of ordinary capital held
The Environmental Consultancy Limited	England	100%
RPS Water Services Limited	England	100%
Ecoscope Applied Ecologists Limited	England	100%
RPS Consultants (Ireland) Limited	England	100%
RPS Groep Nederland BV	Netherlands	100%
RPS BAK Consultants BV	Netherlands	100%*
BAK International BV	Netherlands	100%*
RPS Euroteb BV	Netherlands	100%*
Certificatiebureau Nederland BV	Netherlands	100%*
RPS BKH Consultants BV	Netherlands	100%*
European Laboratory Services BV	Netherlands	100%*
Environmental Engineering Limited	Ireland	100%*
RPS McHugh Planning & Environment Limited	Ireland	100%
M C O'Sullivan and Company Limited	Ireland	100%
RPS Water Services Limited	Ireland	100%*

Shares are held directly by RPS Group plc except where marked by an asterisk where they are held by a subsidiary undertaking. All the subsidiaries, that are trading, provide environmental consultancy services.

The Company's Irish subsidiary, M C O'Sullivan and Company Limited, intends to avail of an opportunity to avoid publication of its accounts in the Companies Registration Office in Dublin. Accordingly, the Company has given a guarantee in respect of this subsidiary under Section 17 of the Republic of Ireland Companies (Amendment) Act, 1986.

14. Stock and work in progress

	2002 £000's	2001 £000's
Group		
Work in progress	7,000	4,388
Laboratory stock	57	63
	7,057	4,451

There is no material difference between the value of stock as stated above and replacement cost.

15. Debtors

	Group		Company	
	2002 £000's	2001 £000's	2002 £000's	2001 £000's
Trade debtors	26,738	20,021	48	–
Amounts due from subsidiary undertakings	–	–	–	32,520
Other debtors	2,041	388	2,440	1,539
Deferred tax asset	468	–	43	–
Prepayments and accrued income	2,629	2,015	979	596
	31,876	22,424	3,510	34,655

All amounts shown under debtors fall due for payment within one year.

16. Creditors: amounts falling due within one year

	Group		Company	
	2002 £000's	2001 £000's	2002 £000's	2001 £000's
Trade creditors	6,208	4,706	601	796
Amounts due to subsidiary undertakings	–	–	1,141	755
Corporation tax	4,279	3,120	–	475
Creditors for taxation and social security	3,551	3,442	–	–
Deferred consideration	8,149	8,650	7,410	6,846
Other creditors	977	486	–	–
Hire purchase creditor	226	249	–	–
Proposed dividend	1,593	1,341	1,593	1,341
Accruals	10,814	4,920	651	661
	35,797	26,914	11,396	10,874

17. Creditors: amounts falling due after more than one year

	Group		Company	
	2002 £000's	2001 £000's	2002 £000's	2001 £000's
Deferred consideration	6,051	3,302	6,051	2,623
Other creditors	188	–	–	–
	6,239	3,302	6,051	2,623
Due as follows				
Within one–two years	6,239	2,376	6,051	1,697
Within two–five years	–	926	–	926
	6,239	3,302	6,051	2,623

18. Provisions for liabilities and charges

	Group					Company
	Deferred tax £000's	Staff bonuses £000's	Reorgan-isation costs £000's	Unfunded pension liability £000's	Property dilapi-dations £000's	Total £000's
As at 1st January 2002	264	427	392	–	–	1,083
Utilised in year	(10)	(199)	(21)	–	–	(230)
Acquired with subsidiary	–	–	–	1,140	–	1,140
Reclassification of 2001 accruals	–	–	–	–	353	353
At 31st December 2002	254	228	371	1,140	353	2,346

Unfunded pension liability

The provision for unfunded pension liability arose on acquisition of M C O'Sullivan Ltd and represents the best estimate of the pension shortfall on that date. This amount was deducted from the consideration payable to the vendors of M C O'Sullivan Ltd and any difference arising between the actual pension shortfall and the retention will be paid to the vendors. It is expected that this provision will be utilised within one to two years.

	Note	Group		Company	
		2002 £000's	2001 £000's	2002 £000's	2001 £000's
Movement on deferred taxation:					
Balance at beginning of year		264	264	–	–
Transferred to profit and loss account (with respect to current year)		(262)	–	8	–
Transferred to profit and loss account (with respect of prior years)		(116)	–	(51)	–
Amounts arising on acquisition		(100)	–	–	–
Net (asset)/liability at end of year		(214)	264	(43)	–
Represented by:					
Debtors	15	(468)	–	(43)	–
Provision for liabilities and charges		254	264	–	–
Net (asset)/liability at year end		(214)	264	(43)	–

18. Provisions for liabilities and charges (continued)**Deferred taxation**

Deferred taxation balances comprise

	Group		Company	
	2002 £000's	2001 £000's	2002 £000's	2001 £000's
Short term timing differences	(265)	–	–	–
Accelerated capital allowances	51	264	(43)	–
Deferred tax (asset)/liability	(214)	264	(43)	–

19. Share capital

	Authorised		Allotted and fully paid	
	Number	Value £000's	Number	Value £000's
Ordinary shares of 3p each				
At 1st January 2002	240,000,000	7,200	187,675,944	5,631
At 31st December 2002	240,000,000	7,200	190,225,759	5,708

During the year 1,167,140 ordinary 3p shares were issued in consideration for acquisitions and 682,234 ordinary 3p shares were issued under the Executive Share Option Scheme. The aggregate nominal value of these shares was £55,481 and the total consideration received net of costs was £1,901,869.

A further 700,441 ordinary 3p shares were issued with a nominal value of £21,013 in respect of deferred consideration of £997,879 related to acquisitions in prior years.

At 31st December 2002 the following options were still outstanding :

Period exercisable	Number	Exercise price(p)
2001 – 2008	125,000	52 – 53
2002 – 2009	488,010	72 – 83
2003 – 2010	2,492,928	52 – 143
2004 – 2011	711,304	72 – 154
2005 – 2012	1,390,861	115 – 149
2006 – 2013	217,083	153 – 171
2007 – 2014	572,067	149

The Group has an investment in 1,083,000 of its own shares. There are options over 244,584 of these shares outstanding. These are exercisable between 2004 and 2011 at an exercisable price range of 153p – 171p.

20. Reconciliation of movements in shareholders' funds

	Note	Share capital £000's	Share premium £000's	Shares to be issued £000's	Revaluation reserve £000's	Profit and loss £000's	Total £000's
Group							
At 1st January 2002		5,631	75,975	1,483	37	17,595	100,721
Exchange gain		–	–	–	–	792	792
Issue of new shares	19	77	2,822	(998)	–	–	1,901
Deferred consideration	27	–	–	(485)	–	–	(485)
Shares to be issued		–	–	941	–	–	941
Retained profit for the year		–	–	–	–	6,811	6,811
At 31st December 2002		5,708	78,797	941	37	25,198	110,681
Company							
At 1st January 2002		5,631	75,975	1,483	32	5,029	88,150
Issue of new shares	19	77	2,822	(998)	–	–	1,901
Deferred consideration	27	–	–	(485)	–	–	(485)
Shares to be issued		–	–	941	–	–	941
Retained profit for the year		–	–	–	–	2,173	2,173
At 31st December 2002		5,708	78,797	941	32	7,202	92,680

Goodwill previously written off against reserves amounts cumulatively to £6,314,000 (2001: £6,314,000).

21. Commitments under operating leases

At 31st December 2002 the Group had annual commitments under non-cancellable operating leases as set out below:

	Land and buildings		Other	
	2002 £000's	2001 £000's	2002 £000's	2001 £000's
Operating leases which expire:				
Within one year	323	184	880	814
In two to five years	564	1,002	373	993
After five years	834	379	3	–
	1,721	1,565	1,256	1,807

22. Directors' interests in transactions

There were no transactions within the year in which the Directors had any interest.

23. Reconciliation of operating profit to net cash inflow from operating activities

	2002 £000's	2001 £000's
Operating profit	13,334	10,355
Depreciation and goodwill amortisation	5,755	3,733
Increase in work in progress	(16)	(651)
Increase in debtors	(1,467)	(1,225)
Decrease in creditors	(2,397)	(2,754)
Profit on sale of fixed assets	(35)	(20)
Net cash inflow from operating activities	15,174	9,438

24. Notes to the cash flow statement

	2002 £000's	2001 £000's
Analysis of cash flows		
Returns on investments and servicing of finance		
Interest received	924	1,473
Capital expenditure		
Payments to acquire tangible assets	(2,776)	(6,196)
Receipts from sale of tangible fixed assets	458	64
Net cash outflow	(2,318)	(6,132)
Acquisitions and disposals		
Net cash/(overdraft) acquired with subsidiary	1,321	(602)
Deferred consideration paid	(6,377)	(2,853)
Proceeds from disposal of investment	–	26
Purchase of subsidiary undertakings and associates	(14,968)	(9,963)
Net cash outflow	(20,023)	(13,392)
Financing		
Issue of ordinary share capital	486	41,662
Hire purchase repayments	(185)	(144)
Net cash inflow	301	41,518

24. Notes to the cash flow statement (continued)

	At 1st January 2002 £000's	Cash flows £000's	At 31st Dec 2002 £000's
Analysis of changes in net funds			
Cash at bank and in hand	36,361	(13,315)	23,046

25. Major non-cash transactions

Part of the consideration for the purchase of the subsidiary undertakings that occurred during the year comprised the issue of shares. Further details of the acquisitions are set out in note 26.

26. Purchase of undertakings

The acquisitions during the year were as follows:

In April Indepth Surveys Limited was purchased for £3,104,000 including expenses.

In April J R Stansfield & Associates Limited and Probabilistic Risk Assessments Limited were purchased for a combined consideration of £536,000, including expenses.

In June M C O'Sullivan and Company Limited was purchased for a maximum consideration of £22,262,000 including expenses.

In December Ecoscope Applied Ecologists Limited and certain assets and liabilities of Ecoscope Conservation, a partnership, were purchased for £2,929,000, including expenses.

A summary of all the undertakings acquired showing book values and fair value adjustments is as follows:

	Book value £000's	Adjustments – accounting policy £000's	Adjustments – other £000's	Fair value Total £000's
Asset values				
Tangible fixed assets	2,143	(15)	–	2,128
Work in progress	1,328	1,167	–	2,495
Debtors	6,863	(816)	–	6,047
Cash	1,321	–	–	1,321
Creditors	(9,893)	–	(1,177)	(11,070)
Net assets acquired	1,762	336	(1,177)	921
Details of consideration				
Shares allotted				1,414
Cash				13,921
Deferred consideration – loan notes, cash and shares				12,676
Acquisition expenses				820
Less retentions				(2,169)
				26,662
Goodwill arising				25,741

Total consideration of £26,662,000 comprises £25,357,000 being in respect of the cost of share capital of acquired companies and £1,305,000 being the cost of the business, assets and liabilities of Ecoscope Conservation, a partnership. Acquisitions have not been structured on an "earn out" basis. The main criteria for deferred consideration to become payable is that vendors meet continuing employment obligations contained in service agreements they enter upon acquisition.

The individual acquisitions have been disclosed as follows:

26. Purchase of undertakings (continued)**Indepth Surveys Limited**

Details of the acquisition of Indepth Surveys were as follows:

	Book value and fair value Total £000's
Asset values	
Tangible fixed assets	771
Work in progress	122
Debtors	228
Cash	453
Creditors	(705)
Net assets acquired	869
Details of consideration	
Cash	1,720
Deferred consideration – cash	1,260
Acquisition costs	124
	3,104
Goodwill arising	2,235

During the 17 day period to the effective date of acquisition of 15th April 2002, the results of the subsidiary undertaking were as follows: turnover £nil, operating loss £426,000. In the previous financial year to 31st March 2002 the profit after taxation was £387,000.

J R Stansfield & Associates Limited and Probabilistic Risk Assessments Limited

Details of the JRS & PRA acquisition were as follows:

	Book value £000's	Adjustments – accounting policy £000's	Adjustments – other £000's	Fair value Total £000's
Asset values				
Tangible fixed assets	21	(15)	–	6
Debtors	400	(25)	–	375
Cash	(21)	–	–	(21)
Creditors	(509)	–	(37)	(546)
Net liabilities acquired	(109)	(40)	(37)	(186)
Details of consideration				
Cash				473
Acquisition costs				63
				536
Goodwill arising				722

The fair value adjustment to fixed assets relates to aligning the accounting policy of the company to the Group's policy.

The fair value adjustment to debtors relates to unrecoverable debtors not provided for.

The adjustment to creditors relates to a dilapidation provision required for leasehold property occupied.

During the nine month period to the effective date of acquisition of 11th April 2002, the results of the subsidiary undertaking were as follows: turnover £1,963,000, operating loss £376,000. In its previous financial year to 30th June 2001 the profit after taxation was £66,000.

26. Purchase of undertakings (continued)

M C O'Sullivan and Company Limited

Details of the M C O'Sullivan acquisition were as follows:

	Book value £000's	Adjustments – accounting policy £000's	Adjustments – other £000's	Fair value Total £000's
Asset values				
Tangible fixed assets	927	–	–	927
Work in progress	1,180	1,167	–	2,347
Debtors	5,999	(791)	–	5,208
Cash	556	–	–	556
Creditors	(8,360)	–	(1,140)	(9,500)
Net assets acquired	302	376	(1,140)	(462)
Details of consideration				
Shares allotted				1,264
Cash				10,006
Deferred consideration – shares and cash				10,491
Acquisition costs				501
Less retentions				(2,169)
				20,093
Goodwill arising				20,555

The adjustment to work in progress arose following detailed review of its carrying value at acquisition. The adjustment to debtors comprises specific bad debt provisions totalling £1,029,000 and the recognition of unprovided taxation of £238,000 related to the adjustments and the company's results in the period to acquisition.

The adjustment to creditors represents the estimated pension shortfall at acquisition provided in accordance with FRS7.

The retentions comprise £1,140,000 in respect of pension shortfall at acquisition and £1,029,000 in respect of non-paying debtors at acquisition.

Any differences arising between the actual pension shortfall and the actual amount of non-paying debtors and the amount of retentions will be paid to the vendors. It is expected that the retention in respect of debtors will be resolved during 2003 and in respect of pensions within one to two years.

In its last financial year to 31st March 2001 the company made a profit after tax of £1,042,000. For the period since that date to the effective date of acquisition the management accounts of M C O'Sullivan Ltd show the following results:

	£000's
Turnover	20,026
Loss before taxation	(1,044)
Taxation charge	(630)
Loss attributable to shareholders	(1,674)

26. Purchase of undertakings (continued)**Ecoscope Applied Ecologists Limited and Ecoscope Conservation, a partnership.**

Details of the Ecoscope acquisition were as follows:

	Book value and fair value Total £000's
Asset values	
Tangible fixed assets	424
Work in progress	26
Debtors	236
Cash	333
Creditors	(319)
Net assets acquired	700
Details of consideration	
Shares allotted	150
Cash	1,722
Deferred consideration – loan notes and cash	925
Acquisition costs	132
	2,929
Goodwill arising	2,229

Of the goodwill arising £1,312,000 is attributable to purchased goodwill on acquisition of Ecoscope Conservation, as partnership and is recorded in the accounts of the parent company (see note 12).

During the 10 month period to the effective date of acquisition of 9th December 2002, the results of Ecoscope were as follows: turnover £1,138,000, operating profit £82,000. In its previous financial year to 31st January 2002 the profit before taxation was £450,000.

27. Adjustments to cost of subsidiary undertakings

During the year £485,000 of deferred consideration on a previous acquisition has become no longer payable as a result of the sale conditions not being met. The consideration was in the form of shares to be issued. The cost of investment of certain dormant companies was written down by £464,000 to nil as they are no longer required by the Group. Nil profit or loss arose on these transactions.

28. Reclassification

During the year there has been a reduction in the voting control of Emulous Limited from 35.71% to 19.64%. This has been achieved by the redesignation of ordinary shares to non-voting "B" shares. No profit or loss has arisen on the transaction.

29. Derivatives and other financial instruments

Set out below are the narrative disclosures relating to financial instruments. The numerical disclosures are set out in notes 30 and 31. The Group has taken advantage of the exemption available under FRS13 "Derivatives and other financial instruments" not to provide numerical disclosures in relation to short-term debtors and creditors, other than currency risk disclosures.

Financial instruments

The Group does not use complex derivative financial instruments. Where it does use financial instruments these are mainly to manage the currency risks arising from normal operations. The Group's financial instruments comprises cash and various items such as trade debtors and trade creditors that arise directly from its operations. The Group also uses forward foreign currency contracts to manage transactional currency risks arising from the Group's operations.

It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

Foreign currency risk is the most significant aspect for the Group in the area of financial instruments. It is exposed to a lesser extent to other risks such as interest rate risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below. The policies have remained unchanged throughout the year.

Foreign currency risk

The Group, which is based in the UK and reports in sterling, has investments in overseas operations in the Netherlands and Ireland. As a result the Group's balance sheet can be affected by movement in the pound/euro exchange rate. This is the most important exchange rate as far as RPS is concerned. The Group's policy is to reduce, or eliminate where practicable, both structural and transactional foreign exchange risk. Currency exposures are reviewed regularly and all significant foreign exchange transactions are approved by the Group.

The Group has transactional currency exposures, that arise from sales and purchases by operating units in currencies other than the unit's functional currency. The Group's policy is to minimise trading in subsidiaries' non-operating currencies. However, where this is impractical the Group will seek to reduce its exposure through the use of forward contracts.

The Group does not hedge balance sheet and profit and loss translation exposures.

Interest rate risk

The Group has a small number of short-term financial liabilities principally in sterling at fixed and floating rates of interest.

Surplus funds are placed on short-term deposit or held within accounts bearing interest related to bank base rate.

Liquidity risk

The Group has strong cash flow and the funds generated by operating companies are managed on a country basis.

30. Foreign currency risk

The table below shows the extent to which Group companies have monetary assets and liabilities in currencies other than their local currency. Foreign exchange differences arising on the translation of these assets and liabilities are taken to the profit and loss account of the Group companies and the Group.

Net foreign currency monetary assets/(liabilities)

	Sterling £000's	Euro £000's	Total £000's
Functional currency of Group operation			
Sterling	–	488	488
Euro	242	–	242
At 31st December 2002	242	488	730

30. Foreign currency risk (continued)**Net foreign currency monetary assets/(liabilities)**

	Sterling £000's	US\$ £000's	Euro £000's	Other £000's	Total £000's
Functional currency of Group operation					
Sterling	–	–	2,817	–	2,817
Euro	85	66	–	(108)	43
At 31st December 2001	85	66	2,817	(108)	2,860

The amounts shown in the table above take into account the effect of any forward currency contracts entered into for the purpose of managing these currency exposures.

31. Interest rate risk**Interest rate risk and profile of financial liabilities**

The interest rate risk profile of the Group's financial liabilities which at 31st December 2002 comprises deferred consideration and hire purchase obligations was:

Currency	Floating rate financial liabilities		Fixed rate financial liabilities		Financial liabilities on which no interest is paid		Total	
	2002 £000's	2001 £000's	2002 £000's	2001 £000's	2002 £000's	2001 £000's	2002 £000's	2001 £000's
Sterling	1,475	2,006	–	3,221	12,726	–	14,200	5,227
Euro	–	–	226	–	–	–	226	–
At 31st December	1,475	2,006	226	3,221	12,726	–	14,426	5,227

Financial liabilities	Fixed rate financial liabilities				Fixed rate financial liabilities on which no interest is paid	
	Weighted average interest rate % 2002	Weighted average interest rate % 2001	Weighted average period for which rate is fixed – years 2002	Weighted average period for which rate is fixed – years 2001	Weighted average period until maturity – years 2002	Weighted average period until maturity – years 2001
Currency						
Sterling	–	6.1	–	1.0	1.0	–
Euro	8.0	–	1.5	–	–	–
	8.0	6.1	1.5	1.0	1.0	–

The floating rate liabilities comprise loan notes that bear interest at rates based on the appropriate LIBOR and base rates.

31. Interest rate risk (continued)**Interest rate risk and profile of financial assets**

	2002 £000's	2001 £000's
Currency		
Sterling	15,719	33,768
Euro	7,322	2,593
At 31st December	23,046	36,361
Floating rate	13,951	36,361
Fixed rate	9,095	—
	23,046	36,361

The financial assets comprise cash and short-term deposits at short-term money market rates applicable to the currency.

Borrowing facilities

The Group has the following undrawn committed borrowing facilities available in respect of which all conditions precedent had been met. these facilities are at floating rates.

	2002 £000's	2001 £000's
Expiring within one year	8,000	8,000

Fair values

The fair value of the financial assets and liabilities of the Group are considered to be materially equivalent to their book value.

32. Pensions

The Group operates a number of pension schemes of the defined contribution type in the UK and overseas under which contributions are paid by Group undertakings and employees. The pension cost charge of these schemes amounted to £1,505,000 for the year ended 31st December 2002 (2001: £1,262,000).

A defined benefit scheme is in operation within M C O'Sullivan Ltd, which was acquired on 26th June 2002. Entry to this scheme has since ceased and employees who become entitled to pension benefits are offered entry to an alternative defined contribution scheme instead.

The M C O'Sullivan & Co Pension and Life Assurance Plan is a defined benefit funded scheme. This is valued by an independent qualified actuary every three years. The most recent valuation of the scheme was at 1st April 2000 using the age attained method.

The principle assumptions adopted in the valuation were that the long term rate of return would be 7% and the average annual increase to pensionable salaries by 5%.

The market value of the assets at the valuation date was £1,695,000 and this represented 100% of past service liabilities using projected salaries. Therefore there was no surplus to amortise.

The current service cost for the period from acquisition to the year end was £146,000 and the employer contribution rate is 12% of pensionable salaries.

32 Pensions (continued)**FRS17 Disclosures**

The transitional disclosure requirements of FRS17 "Retirement Benefits" are given below. The Group operates one defined benefit scheme. A full actuarial valuation of the scheme was carried out at 26th June 2002 and updated to 31st December 2002 by a qualified actuary.

The major assumptions used by the actuary were as follows:

	31st Dec 2002 %
Rate of increase in pensionable salaries	4
Rate of increase in pensions in payment	2.5
Discount rate	5.5
Inflation assumption	2.5

The assets in the scheme and the expected rate of return (net of administrative expenses) were:

	31st Dec 2002 %	31st Dec 2002 £000's
Equities	8	1,632
Bonds	5	668
Properties	7	197
Cash	3	133
Total market value of assets		2,630
Actuarial value of liability		2,962
Deficit in the scheme		(332)
Related deferred tax asset		100
Net pension liability		(232)

If the above amounts had been recognised in the financial statements, the Group's net assets and profit and loss reserve at 31st December 2002 would be as follows:

	2002 £'000
Net assets	110,681
Unfunded pension provision net of tax	998
Net assets excluding pension provision	111,679
Pension liability	(232)
Net assets including pension liability	111,447
Profit and loss reserve	25,198
Unfunded pension provision net of tax	998
Profit and loss reserve excluding pension provision	26,196
Pension liability	(232)
Profit and loss reserve after pension liability	25,964

32 Pensions (continued)

The following amounts would have been recognised in the performance statements in the year to 31st December 2002 under the requirements of FRS17 had M C O'Sullivan Ltd been in the Group from 1st January 2002:

	£000's
Operating profit	
Current service cost	240
Past service cost	–
Total operating charge	240
Other finance income	
Expected return on pension scheme assets	183
Interest on pension scheme liabilities	(151)
Net return	32
Statement of total recognised gains and losses (STRGL)	
Actual return less expected return on pension scheme assets	(500)
Experience gains and losses arising on the scheme liabilities	204
Changes in the assumptions underlying the present value of the scheme liabilities	(346)
Actuarial gain recognised in the STRGL	(642)
Movement in deficit during the year	
Surplus in the scheme at the beginning of the year	71
Movement in the year:	
Current service costs	(240)
Contributions	437
Net interest cost	42
Actuarial loss	(642)
Deficit in the scheme at the end of the year	(332)
Details of experience gains and losses for the period 26th June 2002 to 31st December 2002	
Difference between the expected and actual return on scheme assets:	
Amount	(500)
Percentage of scheme assets	(19%)
Experience gains and losses on scheme liabilities:	
Amount	204
Percentage of the present value of the scheme liabilities	7%
Total amount recognised in the statement of total recognised gains and losses:	
Amount	(642)
Percentage of the present value of the scheme liabilities	(22%)

33. Contingent liabilities

As at 31st December 2002 the parent company had contingent liabilities in respect of bank and contractual performance guarantees and other matters arising in the ordinary course of business entered into for or on behalf of certain Group undertakings. It is not expected that any material liability will arise in respect thereof.

34. Financial commitments

At 31st December 2002 the Group has commitments to purchase £8,100,000 of euros under forward exchange contracts, £4,631,000 of which is due within one year with the remainder due in one to two years.

FIVE YEAR SUMMARY

	2002 £000's	2001 £000's	2000 £000's	1999 £000's	1998 £000's
Turnover	104,822	74,769	57,400	32,379	26,274
Profit before goodwill amortisation and tax	17,822	13,949	9,920	6,650	5,059
Cash	23,046	36,361	8,876	8,663	3,893
Net assets	110,681	100,721	51,700	25,871	11,838
Cash inflow from operating activities	15,174	9,438	9,748	6,017	4,929
Average number of employees	1,832	1,362	1,060	770	538
Dividends per share	1.58p	1.37p	1.20p	1.04p	0.92p
Basic EPS before goodwill amortisation	7.15p	5.65p	4.61p	3.47p	2.73p
Fully diluted EPS before goodwill amortisation	7.06p	5.52p	4.47p	3.39p	2.69p

