

2003

RPS Group Plc Annual Report and Financial Statements

Europe's
Leading
Environmental
Consultancy

RPS Group Annual Report and Financial Statements 2003

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Section 01 Operating and Financial Review

- 04 Performance
- 10 Organisation and prospects

Section 02 Management

- 24 The Board
- 35 Strategy
- 36 Corporate governance
- 53 Corporate social responsibility report

Section 03 Accounts

- 62 Report of the directors
- 66 Report of the independent auditors
- 67 Consolidated profit and loss account/Statement of total recognised gains and losses
- 68 Consolidated balance sheet
- 69 Company balance sheet
- 70 Consolidated cash flow statement/Reconciliation of net cash flow to movement in net funds
- 71 Notes to the financial statements
- 93 Five year summary

Corporate statement

RPS is the leading environmental consultancy in Europe and is quoted on the London Stock Exchange.

Our consultants provide the highest quality advice to clients in all sectors of the economy about the actual or likely implications of their actions on the natural and built environments and the health & safety of people.

By doing this successfully we create rewarding careers for our staff and value for our shareholders.

We conduct business in an open and fair manner, endeavouring to contribute to society in a positive way.



Leader SUCOS

Section 01

Operating and Financial Review

In this section:

04 Performance

10 Organisation and prospects



Performance

Group Results

Group turnover increased 18.9% to £124.6 million (2002: £104.8 million). Profit (before tax and goodwill amortisation) increased 18.5% to £21.1 million (2002: £17.8 million). Acquisitions accounted for £7.3 million of turnover and £0.3 million of profit before goodwill amortisation. Operating profit increased by 18.9% to £15.9 million (2002: £13.3 million). Undiluted earnings per share (before goodwill amortisation) increased 20.6% to 8.62p (2002: 7.15p). Operating margins before goodwill amortisation remained high at 16.4% (2002: 16.1%). Operating cash flow was strong and the Group had year end cash balances of £21.7 million (2002: £23.0 million) with no significant debt.

Dividend

In accordance with the Group's long-term policy of growing the dividend at 15% per annum, the Directors are recommending a final dividend of 0.94p per share payable on 21st May 2004 to shareholders on the register on 26th March 2004. The total dividend for the full year will be 1.82p (2002: 1.58p). This is covered 4.7 times by earnings before goodwill amortisation (2002: 4.5 times).

Strategy

The strategy of the Group has been clear, consistent and successful for a number of years. We are building market leading positions in high value segments of our expanding 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. A particularly pleasing aspect of our trading in 2003 was an increased level of collaboration on projects between different parts of the Group.

Society's desire to secure greater levels of environmental protection means that the long-term prospects for RPS remain encouraging. Our sector also remains highly fragmented giving rise to opportunities for RPS to make further acquisitions. As a result of these factors the opportunity for RPS to keep growing remains good. The Board, therefore, remains committed to the strategy and if the right opportunities arise it would consider both expanding into other countries and a more substantial acquisition.

Five Year Record

In the five years ended 31st December 2003 Group turnover has increased from £26.3 million to £124.6 million and profit (before tax and goodwill amortisation) from £5.1 million to £21.1 million. Earnings per share before goodwill amortisation have grown from 2.73p to 8.62p, a compound annual growth rate of 26%. During this period the breadth of our activities has increased significantly, thereby increasing the strength of the Group's market position. This long term growth confirms that RPS operates in attractive markets and does so effectively.

Hydrosearch – Our key acquisition in 2003

Company and consideration

RPS acquired Hydrosearch in September 2003. In the year ended 31st December 2002 it had revenues of £19.4m and profit before tax of £2.0m. Consideration, net of cash in the balance sheet, was £11.4m of which £3.0m is payable in new RPS shares.

Expanding the Group

By 2050 the world will double its use of energy. It will be a daunting challenge to satisfy this demand without damaging health, blighting local environments and threatening vital natural systems. The creation of an Energy Services division is, therefore, a timely and important step for RPS. To do this with a company as established in its markets as Hydrosearch suggests we will be able to expand our presence in this sector significantly over the next few years.

Performance continued

Balance Sheet and Cash Flow

Net assets at the year end stood at £122.3 million (2002: £108.9 million). Of this £21.7 million was represented by cash. The net cash inflow from operating activities was £20.6 million, which represented 101% of operating profit before goodwill amortisation (2002: 90%). During the course of 2003 £9.3 million of cash was spent on acquisitions and 1.3 million new shares to the value of £2.1 million issued to the vendors of those companies. Net cash acquired was £3.6 million.

Our acquisition model has a significant proportion of the consideration from each transaction deferred, normally over a two or three year period. This helps to ensure that goodwill acquired is transferred effectively to RPS. During the course of 2003, £7.9 million of deferred consideration was paid in cash and 0.4 million shares to the value of £0.5 million were issued to the vendors of businesses acquired in the previous three years. At 31st December 2003 the total deferred consideration outstanding was £15.3 million, of which £13.7 million is payable in cash and loan notes and £1.6 million in new RPS shares. Of the total due at the year end of 2003, £11.2 million is payable in 2004, of which £10.2 million is payable in cash and loan notes and £1.0 million in shares, with the balance payable in 2005.

The year end balance sheet shows intangible fixed assets ("goodwill") of £87.9 million (2002: £76.4 million). Since the introduction of FRS 10 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 of amortising goodwill over its useful economic life which is estimated to be up to 20 years. Such a policy does not, however, reflect the Board's view that the overall value of the investments made has actually increased rather than diminished.

Market Leading Planning Consultancy in the UK

Our Planning, Transport & Environment division advises clients in both the public and private sector who wish to achieve permission to develop land and buildings. "Planning" magazine has recently reported that, in the year ended September 2003, our level of revenue 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, leisure, water and drainage, energy, minerals and waste, telecommunications and public sector planning and second in transport planning. The continuing success of this business demonstrates the advantages of having the leading position in a market place. The acquisition, in December, of Woods Warren Limited, one of the UK's leading infrastructure engineering and planning consultancies, further develops this business. Other acquisitions are now being considered. The level of interest in development by the private sector and the desire to deliver infrastructure in the public sector shows no sign of slowing. This is well illustrated by the recent Airports White Paper which sets the scene for major development in this and related sectors, and the continuing pressure to develop brownfield land, an area of expertise in which RPS has considerable strength.

Performance continued

Market Leader in Ireland

The acquisition of M C O'Sullivan ("MCOS") at the end of June 2002 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 is virtually complete and so we have begun evaluating other acquisition opportunities. 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. Although growth in the Irish economy has slowed, the government has ambitious plans for continued development across a range of sectors and many parts of the private sector are buoyant. 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 the first part of 2003 and our Water Services business made further progress, helped by the acquisition of IDS, the waste water consultancy, in April 2002. During the latter part of 2003 activity in England and Wales has begun to focus upon the regulatory review in 2005. There are encouraging signs that the regulator will focus the water companies upon solving the problems of water supply and waste water disposal, both important areas of activity for RPS. As anticipated at the interim stage, we are now experiencing pricing pressure from our clients as they seek to demonstrate their efficiency to the regulator.

In Scotland, we positioned ourselves well during the merger of the three regional authorities that created Scottish Water in 2002 and benefited accordingly. Our involvement at that stage was largely founded upon continued successful delivery of work through existing framework agreements and providing additional support to Scottish Water in key areas of its strategic development. For the Quality and Standards II period, 2002-2006, Scottish Water has formed a joint venture company, Scottish Water Solutions, with Thames Water and United Utilities to deliver its £1.8 billion capital programme. We continue to provide strategic support to Scottish Water and indications are encouraging regarding the levels of work required from Scottish Water Solutions. There have, however, been delays in the release of work from Scottish Water Solutions as the arrangements between them and Scottish Water have taken longer than envisaged to complete.

Performance continued

Health and Safety: helping to manage long-term risks

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 for the environmental effects of their actions. The Government published in 2003 proposals for the establishment, in 2005, of the Nuclear Decommissioning Authority (NDA) which will be responsible for a work programme worth many billions of pounds and lasting for decades. For this programme to succeed, the NDA has to develop an extensive, qualified supply chain; RPS is well positioned to form part of this. We are, therefore, confident this market presents an important long-term opportunity for RPS, although whilst the NDA is being established, the market will be more unpredictable. We have concluded that in order to benefit fully in the future, we need to invest in further development of our client relationships and build the scale of this business substantially. This process has begun and will continue throughout 2004, establishing the basis for long term success.

The health and safety at work market in the UK continued to grow in 2003, driven both by regulation and corporate governance pressures. This was particularly the case in respect of asbestos investigations, following the introduction of important new regulations at the end of 2002. We have taken steps to minimise the undesirable effects of price competition in this market by developing *Building Health Interactive* in order to enable our clients to have survey information delivered to them through the internet. Initial signs are that this product is giving us a competitive edge and that the costs to competitors of developing such products could lead to some consolidation in this sector in the next year or so. We would anticipate benefiting from this.

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 2003 we completed the integration of all our businesses in the Netherlands, which have, from the beginning of 2004, traded under the RPS name. Following the events of September 2001 we decided to exit the international aid market in which BKH had a significant, but not particularly profitable, business. This process continued throughout most of 2003, with the result that we have now focussed this part of our business on providing specialist advice to the Dutch Government and European Union on environmental management projects in Eastern Europe. The remainder of the BKH business, along with BAK and Ascor, has been integrated into RPS Groep BV.

The Dutch economy was in a poor condition throughout 2003. This was made worse by six months of political instability following national elections in January. As a result investment in infrastructure and private sector development reduced significantly. It is likely to be the case that both these markets will remain weak in 2004. We have, therefore, adopted a plan which focuses on activity within the health and safety and certification markets, both of which are highly regulated, related to all sectors of the economy and in which we have a good profile and reputation. The investments we are currently making should lead to a return to reasonable levels of growth in the second half of 2004. Our Dutch acquisition strategy is also now focused primarily upon these market segments.

Performance continued

Creation of New Energy Services Division and Acquisition of Troy-Ikoda Ltd

By 2050 the world is expected to double its use of energy. It will be a daunting challenge to satisfy this demand without damaging health, blighting local environments and threatening vital natural systems. RPS has, for almost a decade, provided a limited range and quantity of services to the oil and gas sector. More recently we have become involved with the fast developing onshore wind energy market. These experiences suggested that we should develop our energy sector activities substantially. We set in place the structure to achieve this with the acquisition of Hydrosearch in September 2003.

Established in 1979 by former employees of BP, Hydrosearch has a core staff of 50 and draws extensively upon a team of specialist consultants in order to provide its clients with a broad range of services and geographical experience. Headquartered in Woking, Surrey, Hydrosearch has subsidiaries with small offices based in Perth, Australia and Houston, USA, in order to provide access and services to those global oil industry service centres.

Hydrosearch has a blue chip client list and is currently working for numerous multinational oil companies providing technical advice and project management services in geographical locations as widely spread as South America, Middle East, West Africa and Eastern Russia. In addition, Hydrosearch is also involved in the emerging offshore wind energy market.

We anticipate that, as part of RPS, Hydrosearch will be able to offer a broader range of services to its clients. Consequently, after completion we took action to ensure that the combined expertise of the enlarged group in this sector is well enough understood internally to enable clients to be properly briefed. The marketing phase of the integration has now begun and the early signs are encouraging.

As with other parts of our Group, Hydrosearch operates in a fragmented market and so there are significant opportunities for acquisition. A combination of organic growth and acquisitions should enable us to increase the size of this division significantly over the next few years. In this context we are pleased to announce the acquisition of Troy-Ikoda Ltd, a specialist geosciences and engineering business based in Windsor, with an office in Perth, Australia. The Troy-Ikoda permanent staff of 40 is well respected in the sector for assisting in the identification and verification of oil and gas reserves. They will supplement and be integrated with RPS's own staff in this field, who were instrumental in Cairn Energy's recent major find in Rajasthan, India. Their office in Perth will be merged with our own office during 2004, creating a significant presence in this market. In the year ended 31st December 2003 Troy-Ikoda had turnover of £2.9 million, adjusted profit before tax of £0.2 million (excluding non-recurring items) and net assets of £1.0 million. We are confident that following integration, this business will materially strengthen our activities in the energy services market.

Consideration paid at completion was £0.5 million, all in cash. Up to a further £0.7 million will be payable in cash before the end of 2004 in the event that certain balance sheet items are realised.

Corporate Governance

We have undertaken a full review of our performance measured against the Combined Code and the new Combined Code, the results of which are on pages 24 to 59. We believe this will demonstrate a high level of compliance. Such compliance has, however, only been achieved by strengthening our management resources by, for example, putting in place a new tier of divisional Managing Directors. This increases the cost of running the Group, but we anticipate will make us more efficient and better prepared for further growth. Extra costs are also being incurred in respect of remuneration consultants, who have been engaged for the first time in order to ensure that proper and transparent policies are adopted by the Remuneration Committee and the Board for staff employed at all levels in the Group.

Performance continued

Staff Remuneration and Other Operating Costs

The recruitment and retention of staff with appropriate skills and experience is required to achieve organic growth and the successful integration of acquired companies. As we get larger these important issues become more complex to manage. Following a review of Group-wide remuneration by consultants appointed by the Remuneration Committee, we intend (subject to shareholder approval in respect of certain share schemes) to put in place additional reward schemes to ensure we will be able to maintain the expansion of the Group. These schemes will add to employment costs in 2004 and beyond, but should improve the effectiveness of our operations and eventually become, at least in part, self funding.

During 2003 the Group consolidated a number of UK money purchase (defined contribution) pension schemes into a single group personal pension plan in order to take advantage of a lower cost structure for our staff. We also operate money purchase schemes in Ireland, although a limited number of staff in Ireland are members of a defined benefit scheme. The Group balance sheet includes a provision to cover the possible shortfall in funding of this scheme which has been closed to new members. In the Netherlands we operate a defined contribution scheme to which most of our staff there belong.

We will also have to bear a full year of increased National Insurance costs for employees in the UK as well as further increases in professional indemnity insurance. We are addressing the requirements to adopt International Accounting Standards in terms of our accounting and systems requirement and anticipate some added cost during the implementation phase later this year.

Foreign Currency

We have had operations in Ireland and Netherlands for a number of years and consequently have been exposed to exchange movements between Sterling and the Euro. Hydrosearch, acquired in September 2003, prices much of its work in US Dollars and a small proportion in Australian Dollars. The Euro strengthened relative to Sterling during much of the year with a beneficial effect on results whilst in the last quarter the US Dollar weakened which had the opposite effect.

The Group does not currently make use of forward currency contracts to manage profit and loss translation exposures, although this position is kept under close review. The strong cash position of the Group currently precludes the use of loan structures to hedge against long-term capital investment exposures. We do have in place various management and organisational systems to reduce the effect of currency movements.

Organisation and prospects

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 2003 we strengthened further this divisional structure by delegating more authority to the divisional management within a clear framework of responsibility. We have also appointed new Managing Directors to each of the Divisions. This refined organisation is capable of delivering and managing effectively, significantly more organic and acquired growth.

Turnover 2003

| Geographic breakdown | |
|----------------------|-------|
| UK | 60.3% |
| Ireland | 31.4% |
| Netherlands | 7.4% |
| Other | 0.9% |

Turnover £m

99: 32.4

00: 57.4

01: 74.8

02: 104.8

03: 124.6

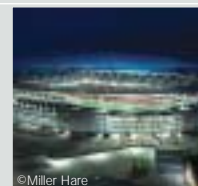
Planning, Transport and Environment (UK)

RPS was named in the Planning Survey published in November 2003 as the UK's leading planning consultancy for the sixth year in succession, widening the existing gap between itself and various rivals in almost every planning sector. In December 2003, the division acquired the infrastructural planning consultancy Woods Warren and secured a strategic new foothold in Milton Keynes. This new planning office is well placed to benefit from sustainable economic development plans for the region published by the Office of the Deputy Prime Minister in July

2003, which includes 133,000 new dwellings in the Milton Keynes/South Midlands region by 2016.

Key facts

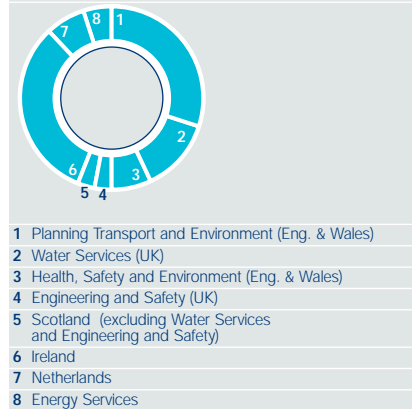
| | |
|---------------------------|-----|
| PTE Divisional Employees: | 508 |
| Office Locations: | 21 |



©Miller Hare



2003 Group turnover by division



The acquisitions made during the course of the year have been integrated within the appropriate divisions. We have also created a new Energy Services Division following the acquisition of Hydrosearch.

For 2004 we have integrated the various activities in Scotland into the functional divisions covering England and Wales. The separate Scottish division, therefore, no longer exists, although we continue to maintain offices and 39 staff in Edinburgh, Glasgow and Aberdeen to give local and specialist support to our Scottish clients.

Our divisional 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 web site and intranet. We made 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 also upgraded our IT networks.

The businesses in England, Wales and Scotland are supported by centrally run accountancy and personnel functions, with these services being provided locally in Ireland and the Netherlands.

The Energy Services division has small offices in Perth, Australia and Houston, USA; these are managed as part of this division but have local accounting staff.

Health, Safety and Environment

The division has successfully trialled its online Building Health Interactive® service with several major clients, including managing agents Drivers Jonas and the Housing Association, Shaftesbury Housing Group. The interactive web based management tool uses the internet to deliver consultancy services such as: Health and Safety, Fire Safety, Asbestos Management and Environmental Management. In response to increasing client demands for in-house client training courses, the division has been developing a comprehensive range of 20 safety and environmental

management training modules for launch of which began in January 2004.

| | |
|----------------------------|-----|
| Keys facts | |
| HSED Divisional Employees: | 170 |
| Office Locations: | 7 |



Key Business Drivers

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

- the commercial advantage to be gained by developing or redeveloping land, other natural resources such as energy reserves, or buildings; this requires proper planning, design and evaluation of the potential 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, environmental and health & safety matters; this regulation and legislation derives from the activities of both the European Union and the national Governments 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.

Employees

Whilst it may be currently the trend to view staff as “human capital” we favour treating all employees as individuals and relate to them as such in all aspects of our management.

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. The criteria for selection and promotion are the individual's suitability for the position of employment offered and his or her skills and abilities. 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.

Organisation and prospects continued

We have all the traditional personnel management structures within our business carrying out all the necessary administrative functions. There are two personnel management groups, one dealing with the UK and Ireland and a separate one dealing with the Netherlands – this is necessary in order to deal appropriately with the structurally different legislation, custom and practice.

The Group offered all employees the opportunity to participate in a new SAYE share scheme which was approved by the shareholders at the AGM on the 25th April 2003.

We have recently undertaken a comprehensive review of our remuneration strategy paying particular attention to the effect of this upon success in recruiting and retaining the highest quality staff. This review was assisted by specialist consultants appointed by the Remuneration Committee and was conducted primarily at divisional level. The consequences of this review have been the proposals to shareholders for the introduction of new share incentive schemes which are available to all employees, particularly targeted towards senior professional staff. Other sections of this report provide additional information about our staff below Board level, who are vital to the future of RPS.

Water Services

Our Water Services division has been extending the reach of its core services from established areas such as potable and waste water network monitoring and maintenance into strategic management consultancy covering asset planning, regulatory reporting, economic assessment and integrated network management. Major new framework agreements have been secured with a number of water companies across the UK.

Keys facts

| | |
|--------------------------|-----|
| WS Divisional Employees: | 391 |
| Office Locations: | 9 |



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Organisation and prospects continued

| | UK | | Netherlands | | Ireland | |
|--|--------------|-------|-------------|------|-------------|------|
| | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 |
| Total average number of employees | 1,380 | 1,255 | 129 | 155 | 574 | 422 |
| Days absent (%) | 5.1 | 7.0 | 2.4 | 3.0 | 2.0 | 1.9 |
| Average length of service (years) | 5 | 5 | 6 | 7 | 6 | 4 |
| Working part time (%) | 5.6 | 4.5 | 16.3 | 18.1 | 4.0 | 4.0 |
| Women | | | | | | |
| All employees (%) | 33.7 | 32.4 | 19.4 | 23.2 | 30.0 | 19.0 |
| Senior managers (%) | 10.9 | 4.9 | 9.1 | 11.1 | 1.0 | 1.0 |
| Senior executives (%) | 0.3 | 0.5 | – | – | – | – |
| Ethnic minorities | | | | | | |
| All employees (%) | 1.7 | 1.1 | 7.0 | 12.0 | 9.5 | 10.0 |
| Age profile | | | | | | |
| Employees aged under 25 (%) | 14.9 | 16.9 | 8.5 | 10.3 | 15.3 | 21.0 |
| Employees aged 25-29 (%) | 22.8 | 21.7 | 35.7 | 27.1 | 19.6 | 22.6 |
| Employees aged 30-49 (%) | 45.8 | 45.1 | 39.5 | 39.4 | 50.2 | 44.5 |
| Employees aged 50+ (%) | 16.5 | 16.3 | 16.3 | 23.2 | 14.9 | 11.8 |
| Health and safety | | | | | | |
| Minor accidents and near misses | 8 | 14 | – | – | 3 | – |
| Reported accidents | 7 | 9 | – | – | 2 | – |
| Pensions | | | | | | |
| Active members | 580 | 509 | 133 | 139 | 220 | 167 |
| Current pensioners | 10 | 9 | 15 | 15 | 5 | 5 |
| Staff turnover (%) | 17.5 | 19.0 | 12.4 | 19.4 | 13.0 | – |

Equal Opportunities in Employment

RPS provides equal opportunities for all its employees and potential employees regardless of their sex, sexual orientation, age, race, religion, 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.

Organisation and prospects continued

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, Equal Pay Acts 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. Our HR Director and her team are 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 Continuous 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.

RPS Planning, Transport and Environment division awarded its first group of Bursaries during 2003, to nine students. We believe this to be the first occasion in the planning sector that support has been provided for the continued educational and professional development of students without committing them to work for the sponsoring company after graduating. This is intended to develop relationships between RPS and universities, academics and high calibre graduates.

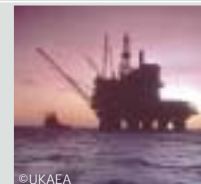
Energy Services

RPS's acquisition of Hydrosearch Associates in September 2003 raises the Group's turnover within the energy sector. RPS Hydrosearch, the core of the Group's new Energy Services division, is a geoscience based business which focuses on oil and gas exploration; pipeline and subsea cable positioning and the renewable energy sector, particularly within offshore wind energy. Mirroring energy industry practice, about 20% of its personnel are directly employed by the company with 80% of its manpower resourced on a flexible contract basis.

This management oriented formula is conducive to rapid growth given favourable market conditions.

Keys facts

| | |
|---|----|
| HYD Divisional Employees: (September to December average was 64) | 27 |
| Office Locations: | 6 |



Organisation and prospects continued

The six universities and the eight associated courses involved were:

- Imperial College, London (MSc Environmental Technology);
- Oxford Brookes University (BA Town & Country Planning);
- South Bank University London (BA (Hons) Urban and Environmental Planning);
- South Bank University London (PgDip Town Planning);
- University of Newcastle upon Tyne (BA (Hons) Town Planning);
- University of Southampton (MSc; Transportation Planning and Engineering);
- University of Southampton (BEng & the MEng Acoustical Engineering); and
- University of Leeds (Institute for Transport Studies Masters programmes).

This scheme will continue in the year ahead, broadening the schemes in terms of the courses offered and participating universities.

The Group's Energy Services Division has acted as a sponsor for a PhD student at the University College, London, contributing a total of £3,000 towards a doctorate on how microfossils can indicate the environmental deposition and age of rocks in a major oil drilling province.

In Ireland, we again awarded a total of five postgraduate scholarships at four universities, each valued at €16,000, to students studying environmental, civil and structural engineering courses at:

- Trinity College, Dublin;
- University College, Dublin;
- University College, Cork; and
- The National University of Ireland, Galway.

Over the coming year RPS will be taking on three students under the Leonardo da Vinci II scheme, a European Commission supported initiative aimed at providing work placements for qualified engineering students from designated development regions of the European Community seeking to work within leading companies in other European countries.

The LDVII scheme assists qualified engineering graduates gain valuable experience within their chosen profession, apply their technical skills and study best commercial practice in different European countries and working environments. Three Spanish engineering graduates, all from Gran Canaria, will initially undertake a six month work placement during 2004, working in one of three selected RPS divisions, namely RPS Planning, Transport and Environment, RPS Water Services and the RPS Group Ireland.

Organisation and prospects continued

RPS is currently the only 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.

Succession Management

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.

Growth

RPS operates in markets which are generally attractive and expanding with good long-term prospects, 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 in order to maintain turnover, 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.

Engineering and Safety

Challenging market conditions in the nuclear decommissioning sector prompted by the government's Energy Bill have impacted less on RPS than its competitors. The Bill sets out new arrangements for managing the UK's civil nuclear decommissioning programme. Anticipating the hiatus in activity, the division has been focusing away from lower margin engineering design work and has sought to maximise its market share in safety case consultancy and higher margin "front end" engineering consultancy. The division has also been supporting

other RPS divisions already operating in high risk industries other than nuclear.

Keys facts

| | |
|---------------------------|----|
| EAS Divisional Employees: | 82 |
| Office Locations: | 1 |



Funding

At the year end the Group had cash deposits of £21.7 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 £15.3 million remains to be paid in deferred consideration, of which £13.7 million will be in cash.

In addition to our cash balances we have available an acquisition facility of £20 million. The Board believes this will enable the Group to maintain its strategy throughout 2004, although it is possible that a larger acquisition may necessitate additional debt or equity finance.

Dividend Policy

Our dividend has grown at an average annual compound rate of about 15% over the five years. Provided earnings growth can be sustained and the debt and equity structures 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 improvement to the return to our shareholders in the future.

RPS Group Ireland

The acquisition of M C O'Sullivan ("MCOS") at the end of June 2002 enabled us to fulfil our objective of creating the leading planning, infrastructure and environmental consultancy in Ireland, serving both the public and private sectors. During 2003, the integration of MCOS with our existing Irish activities progressed successfully. Notable successes in winning new work on this combined basis have been secured in areas ranging from residential, retail, office, municipal, hotel and leisure developments to a national public awareness campaign for the Department of the Environment.

Keys facts

| | |
|---------------------------|-----|
| IRE Divisional Employees: | 680 |
| Office Locations: | 10 |



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 36 to 52. It is difficult for those who review such information simply on the basis of checklists to understand the culture and ethics that go to the heart of any business. The Board believes that its long-term shareholders will understand that RPS operates the highest governance standards.

The new Combined Code was published in 2003. Our Corporate Governance Committee has reviewed RPS's performance against these new standards. This is reported upon on pages 36 to 38. This evaluation suggests RPS operates at a good level of compliance, although the costs of this are significant.

Future Prospects

The Group remains well positioned to achieve long-term 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 for most Government Agencies, quoted companies and businesses which supply them. Environmental risk management has also 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 again begin to strengthen. RPS is well positioned to take advantage of this trend, although our consolidated results continue to reflect movement in the value of the US Dollar and the Euro relative to Sterling.

The range of acquisition opportunities available remains substantial. Each of our divisions is able to identify a range of companies that fit well with their activities. Opportunities also exist to move into new areas with a strategic acquisition around which further new divisions might be created. As a result, we believe the range of services we can offer clients has considerable scope for expansion. Should suitable opportunities arise we may consider acquisitions in other countries in Europe and elsewhere.

Organisation and prospects continued

Our entry into the FTSE 250 in January 2003 coincided with significantly increased corporate governance, risk management and disclosure requirements. We have, therefore, needed to develop a strategy for dealing with these issues as well as addressing a new "mid-cap" investor audience. We have succeeded in all these tasks but, because we have always operated with a flat, efficient management structure, this repositioning has required an inevitable increase in our cost base.

In the first part of 2004 we are also investing in a number of our businesses in order to secure better market positioning in the future. In addition, after extensive review we intend (subject to shareholder approval in respect of share schemes) to put in place new remuneration arrangements. These are designed to ensure we will be able to recruit and retain high quality staff to maintain the expansion of the Group.

As a result of these investments we anticipate further growth in revenues in 2004, although the additional costs involved are likely to impact operating margins in the first half. However, the strength of the Group and its long-term markets gives the Board confidence that strong organic growth will be achieved going forward and that this will continue to be supplemented with significant contributions from acquisitions, the pipeline for which is encouraging.

| Net assets £m |
|---------------|
| 99: 25.9 |
| 00: 51.7 |
| 01: 98.9 |
| 02: 108.9 |
| 03: 122.3 |

RPS Groep Nederland

RPS Groep BV has been streamlining its organisational and management structure in tandem with a name change into three generically branded business units: RPS Advies (Consultancy); RPS Certificatie (Certification) and RPS Analyse (Analytical Services). The water management and infrastructural planning team has kept a separate market facing brand identity as RPS RIW specifically for public sector clients. The programme of internal reorganisation was successfully completed by the end of the year in time for simultaneous rebranding announcements at the start of January 2004.

Keys facts

| | |
|----------------------------|-----|
| NETH Divisional Employees: | 155 |
| Office Locations: | 3 |



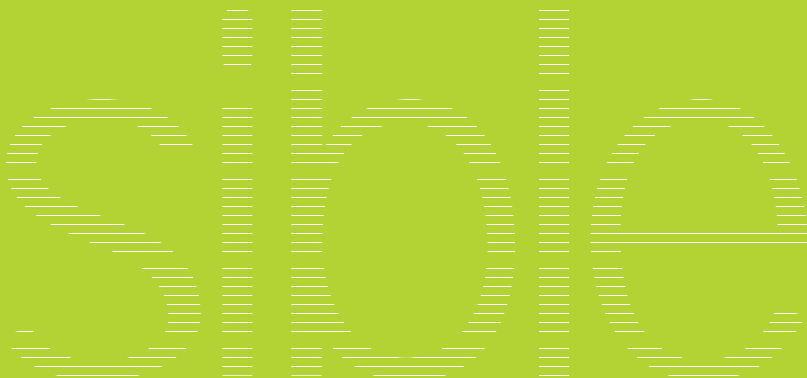
Ethical Response

Section 02

Management

In this section:

-
- 24 The Board
 - 24 Composition and Operations
 - 26 Brook Land
 - 27 Alan Hearne
 - 28 Gary Young
 - 29 Andrew Troup
 - 30 Peter Downen
 - 31 Roger Devlin
 - 32 Paul Martin
 - 33 Rob Thielen
 - 34 Company Secretary/Retirement/Committees
-
- 35 Strategy
-
- 36 Corporate governance
 - 36 Committee/Combined Code
 - 39 Communication/Audit and internal controls
 - 40 Remuneration report
 - 46 Audit Committee
 - 48 Nomination Committee
 - 50 Risk management
 - 51 Quality management/Financial management
 - 52 Financial instruments/Shareholders
-
- 53 Corporate social responsibility report
 - 53 Responsibility/Policy/Standard of conduct/Clients and customers/Conflicts of interest
 - 54 The Community
 - 57 Staff professional memberships
-



The Board

Composition and Operations

The Board currently comprises four Executive and four Non-Executive Directors including the Chairman. The Executive Directors are responsible for the management of all the Group's business activities. The Non-Executive Directors are all independent of management and contribute independent judgement and extensive knowledge and experience to the proceedings of the Board. The Chairman is also an Independent Non-Executive.

The Board generally meets on a monthly basis (other than during holiday periods) and more frequently when 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. Its principal tasks are to formulate strategy and to monitor and control operating and financial performance in pursuit of the Group's strategic objectives.

Where Directors have concerns which cannot be resolved about the running of the Company or a proposed action these concerns are recorded in the Board minutes. It is the policy of the Company that if a Director resigns these concerns are provided in a written statement to the Chairman for circulation to the Board.

It is the responsibility of the Company Secretary to ensure appropriate insurance cover is maintained in respect of legal actions against Directors. The level of cover has recently been increased to £10 million.

The Board is also responsible for the financing of 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 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 appropriate, external training courses 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 and are separate. 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 Board continued

The Non-Executive Directors hold meetings with the Chairman without the Executives present at least twice a year. The Non-Executives met during the year, led by the Senior Non-Executive Director, in order to appraise the Chairman's performance.

The Nomination Committee has appointed leading independent recruitment consultants in order to recruit a fifth Non-Executive Director. This appointment will ensure full compliance with this aspect of the new Combined Code.

Concerns relating to the executive management of the Company or the performance of the other Non-Executive Directors may be raised with the Senior Independent Non-Executive Director.

The Board is assisted by four committees – Audit Committee, Remuneration Committee, Nomination Committee and the Corporate Governance Committee. The Board regularly considers its own performance and the matters reserved to it. It also monitors its performance against Group strategy and external parameters.

Full details of Directors' remuneration and a statement of the Company's remuneration policy are set out on pages 40 to 45. The members of the Remuneration Committee are identified on page 34. 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.

The Board continued

Brook Land Independent Non-Executive Chairman

Age 55. 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. Mr Land has accepted an invitation from the Board (following a rigorous review) to serve a further three year term in this role.

Contract

| Date of contract | Unexpired term | Notice period |
|------------------|----------------|---------------|
| September 1997 | Until AGM 2007 | N/A |

Emoluments and compensation

| | Basic salary £000s | Bonus £000s | Fees £000s | Benefits £000s | Emoluments excluding pensions | | Pension (paid and provided) | |
|--|-----------------------|----------------|---------------|-------------------|----------------------------------|---------------|--------------------------------|---------------|
| | | | | | 2003 £000s | 2002 £000s | 2003 £000s | 2002 £000s |
| | | | | | | – | – | 55 |

Beneficial interests

| Number of shares at 31st December 2003 and at 21st February 2004 | Number of shares at 31st December 2002 |
|--|--|
| 30,000 | 30,000 |

Committee membership – Board and Committee

| | Full Board | Audit Committee | Remuneration Committee | Nomination Committee* | Corporate Governance Committee* |
|---|---------------|--------------------|---------------------------|--------------------------|---------------------------------------|
| Number of Board and Committee meetings attended | 11 | 3 | 2 | 3 | 2 |

*Chairman.

The Board continued

Dr Alan S Hearne Chief Executive

Aged 51. 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.

Service contract

| | | |
|-----------------------------------|---|----------------------------|
| Date of contract February 1997 | Unexpired term at 31st December 2003 12 months | Notice period 12 months |
|-----------------------------------|---|----------------------------|

Emoluments and compensation

| | Basic salary £000s | Bonus £000s | Fees £000s | Benefits £000s | Emoluments excluding pensions | | Pension (paid and provided) | |
|--|-----------------------|----------------|---------------|-------------------|----------------------------------|---------------|--------------------------------|---------------|
| | | | | | 2003 £000s | 2002 £000s | 2003 £000s | 2002 £000s |
| | 295 | 165 | – | 10 | 470 | 389 | 44 | 36 |

Share options

| 1st Jan 2003 Number | Granted number | Exercised number | Lapsed during year | 31st Dec 2003 Number | Exercise price | Market price at date of exercise | 2003 Notional gain on exercise of options £000s | 2002 Notional gain on exercise of options £000s | Date from which exercisable | Expiry date |
|------------------------|-------------------|---------------------|-----------------------|-------------------------|----------------|--|---|---|-----------------------------------|-------------|
| 313,722 | | (313,722) | | | 52.8p | 120.0p | 211 | 43 | 1/6/2003 | 1/6/2010 |
| 57,024 | | | | 57,024 | 72.7p | | | | 22/2/2004 | 22/2/2011 |
| 33,780 | | | | 33,780 | 125.0p | | | | 8/2/2003 | 8/2/2010 |
| 33,780 | | | | 33,780 | 125.0p | | | | 8/2/2005 | 8/2/2012 |
| 42,982 | | | | 42,982 | 171.0p | | | | 6/3/2004 | 6/3/2011 |
| 42,982 | | | | 42,982 | 171.0p | | | | 6/3/2006 | 6/3/2013 |
| 62,500 | | | | 62,500 | 149.0p | | | | 14/3/2005 | 14/3/2012 |
| 62,500 | | | | 62,500 | 149.0p | | | | 14/3/2007 | 14/3/2014 |
| | 62,500 | | | 62,500 | 111.0p | | | | 20/3/2006 | 20/3/2013 |
| | 62,500 | | | 62,500 | 111.0p | | | | 20/3/2008 | 20/3/2015 |
| | 28,157 | | | 28,157 | 146.5p | | | | 12/8/2006 | 12/8/2013 |
| | 28,157 | | | 28,157 | 146.5p | | | | 12/8/2008 | 12/8/2015 |

Beneficial interests

Number of shares at 31st December 2003 and at 21st February 2004
1,726,866

Number of shares at 31st December 2002 and at 21st February 2003
2,693,622

Pensions

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

Committee membership – Board and Committee

| | Full Board | Audit Committee | Remuneration Committee | Nomination Committee | Corporate Governance Committee |
|---|---------------|--------------------|---------------------------|-------------------------|--------------------------------------|
| Number of Board and Committee meetings attended | 11 | – | – | 3 | 2 |

The Board continued

Gary Young Finance Director

Aged 44. 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.

Service contract

| | | |
|------------------|------------------------------------|---------------|
| Date of contract | Unexpired term at 31 December 2003 | Notice period |
| September 2000 | 12 months | 12 months |

Emoluments and compensation

| | Basic salary £000s | Bonus £000s | Fees £000s | Benefits £000s | Emoluments excluding pensions | | Pension (paid and provided) | |
|--|-----------------------|----------------|---------------|-------------------|----------------------------------|---------------|--------------------------------|---------------|
| | | | | | 2003 £000s | 2002 £000s | 2003 £000s | 2002 £000s |
| | 135 | 49 | – | 10 | 194 | 153 | 20 | 16 |

Share options

| 1st Jan 2003 Number | Granted number | Exercised number | Lapsed during year | 31st Dec 2003 Number | Exercise price | Market price at date of exercise | 2003 Notional gain on exercise of options £000s | 2002 Notional gain on exercise of options £000s | Date from which exercisable | Expiry date |
|------------------------|-------------------|---------------------|-----------------------|-------------------------|----------------|--|---|---|-----------------------------------|-------------|
| 20,285 | | | | 20,285 | 171.0p | | – | – | 6/3/2004 | 6/3/2011 |
| 20,285 | | | | 20,285 | 171.0p | | | | 6/3/2006 | 6/3/2013 |
| 27,500 | | | | 27,500 | 149.0p | | | | 14/3/2005 | 14/3/2012 |
| 27,500 | | | | 27,500 | 149.0p | | | | 14/3/2007 | 14/3/2014 |
| | 27,500 | | | 27,500 | 111.0p | | | | 20/3/2006 | 20/3/2013 |
| | 27,500 | | | 27,500 | 111.0p | | | | 20/3/2008 | 20/3/2015 |
| | 13,720 | | | 13,720 | 146.5p | | | | 12/8/2006 | 12/8/2013 |
| | 13,720 | | | 13,720 | 146.5p | | | | 12/8/2008 | 12/8/2015 |

Beneficial interests

| | |
|--|--|
| Number of shares at 31st December 2003 and at 21st February 2004 | Number of shares at 31st December 2002 and at 21st February 2003 |
| – | – |

Pensions

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

Committee membership – Board and Committee

| | Full Board | Audit Committee | Remuneration Committee | Nomination Committee | Corporate Governance Committee |
|---|---------------|--------------------|---------------------------|-------------------------|--------------------------------------|
| Number of Board and Committee meetings attended | 11 | – | – | – | – |

The Board continued

Andrew R G Troup Executive Director

Aged 45. 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.

Service contract

| | | |
|------------------|--------------------------------------|---------------|
| Date of contract | Unexpired term at 31st December 2003 | Notice period |
| February 1997 | 12 months | 12 months |

Emoluments and compensation

| | Basic salary £000s | Bonus £000s | Fees £000s | Benefits £000s | Emoluments excluding pensions | | Pension (paid and provided) | |
|--|-----------------------|----------------|---------------|-------------------|----------------------------------|---------------|--------------------------------|---------------|
| | | | | | 2003 £000s | 2002 £000s | 2003 £000s | 2002 £000s |
| | 160 | 58 | – | 10 | 228 | 198 | 23 | 21 |

Share options

| 1st Jan 2003 Number | Granted number | Exercised number | Lapsed during year | 31st Dec 2003 Number | Exercise price | Market price at date of exercise | 2003 Notional gain on exercise of options £000s | 2002 Notional gain on exercise of options £000s | Date from which exercisable | Expiry date |
|------------------------|-------------------|---------------------|-----------------------|-------------------------|----------------|--|---|---|-----------------------------------|-------------|
| 221,628 | | (221,628) | | – | 52.8p | 120.0p | 149 | 30 | 1/6/2003 | 1/6/2010 |
| 40,284 | | | | 40,284 | 72.7p | | | | 22/2/2004 | 22/2/2011 |
| 23,862 | | | | 23,862 | 125.0p | | | | 8/2/2003 | 8/2/2010 |
| 23,862 | | | | 23,862 | 125.0p | | | | 8/2/2005 | 8/2/2012 |
| 24,123 | | | | 24,123 | 171.0p | | | | 6/3/2004 | 6/3/2011 |
| 24,123 | | | | 24,123 | 171.0p | | | | 6/3/2006 | 6/3/2013 |
| 35,000 | | | | 35,000 | 149.0p | | | | 14/3/2005 | 14/3/2012 |
| 35,000 | | | | 35,000 | 149.0p | | | | 14/3/2007 | 14/3/2014 |
| | 35,000 | | | 35,000 | 111.0p | | | | 20/3/2006 | 20/3/2013 |
| | 35,000 | | | 35,000 | 111.0p | | | | 20/3/2008 | 20/3/2015 |
| | 14,437 | | | 14,437 | 146.5p | | | | 12/8/2006 | 20/8/2013 |
| | 14,437 | | | 14,437 | 146.5p | | | | 12/8/2008 | 20/8/2015 |

Beneficial interests

Number of shares at 31st December 2003 and at 21st February 2004
369,266

Number of shares at 31st December 2002 and at 21st February 2003
459,266

Pensions

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

Committee membership – Board and Committee

| | Full Board | Audit Committee | Remuneration Committee | Nomination Committee | Corporate Governance Committee |
|---|---------------|--------------------|---------------------------|-------------------------|--------------------------------------|
| Number of Board and Committee meetings attended | 11 | – | – | – | – |

The Board continued

Peter B Downen Executive Director

Aged 55. 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.

Service contract

| | | |
|------------------|--------------------------------------|---------------|
| Date of contract | Unexpired term at 31st December 2003 | Notice period |
| February 1997 | 12 months | 12 months |

Emoluments and compensation

| | Basic salary £000s | Bonus £000s | Fees £000s | Benefits £000s | Emoluments excluding pensions | | Pension (paid and provided) | |
|--|-----------------------|----------------|---------------|-------------------|----------------------------------|---------------|--------------------------------|---------------|
| | | | | | 2003 £000s | 2002 £000s | 2003 £000s | 2002 £000s |
| | 155 | 56 | – | 10 | 221 | 179 | 23 | 18 |

Share options

| 1st Jan 2003 Number | Granted number | Exercised number | Lapsed during year | 31st Dec 2003 Number | Exercise price | Market price at date of exercise | 2003 Notional gain on exercise of options £000s | 2002 Notional gain on exercise of options £000s | Date from which exercisable | Expiry date |
|------------------------|-------------------|---------------------|-----------------------|-------------------------|----------------|--|---|---|-----------------------------------|-------------|
| 221,628 | | (221,628) | | | 52.8p | 120.0p | 149 | 30 | 1/6/2003 | 1/6/2010 |
| 40,284 | | | | 40,284 | 72.7p | | | | 22/2/2004 | 22/2/2011 |
| 23,862 | | | | 23,862 | 125.0p | | | | 8/2/2003 | 8/2/2010 |
| 23,862 | | | | 23,862 | 125.0p | | | | 8/2/2005 | 8/2/2012 |
| 20,285 | | | | 20,285 | 171.0p | | | | 6/3/2004 | 6/3/2011 |
| 20,285 | | | | 20,285 | 171.0p | | | | 6/3/2006 | 6/3/2013 |
| 32,500 | | | | 32,500 | 149.0p | | | | 14/3/2005 | 14/3/2012 |
| 32,500 | | | | 32,500 | 149.0p | | | | 14/3/2007 | 14/3/2014 |
| | 32,500 | | | 32,500 | 111.0p | | | | 20/3/2006 | 20/3/2013 |
| | 32,500 | | | 32,500 | 111.0p | | | | 20/3/2008 | 20/3/2015 |
| | 15,051 | | | 15,051 | 146.5p | | | | 12/8/2006 | 12/8/2013 |
| | 15,051 | | | 15,051 | 146.5p | | | | 12/8/2008 | 12/8/2015 |

Beneficial interests

| | |
|--|--|
| Number of shares at 31st December 2003 and at 21st February 2004 | Number of shares at 31st December 2002 and at 21st February 2003 |
| 1,000,910 | 1,195,530 |

Pensions

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

Committee membership – Board and Committee

| | Full Board | Audit Committee | Remuneration Committee | Nomination Committee | Corporate Governance Committee |
|---|---------------|--------------------|---------------------------|-------------------------|--------------------------------------|
| Number of Board and Committee meetings attended | 10 | – | – | – | – |

The Board continued

Roger Devlin Senior Independent Non-Executive Director

Aged 46. 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 Chairman of Baydrive, a Henderson Private Capital business, and he is also an adviser 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 and is serving an initial three year term.

Contract

| | | |
|------------------|--------------------------------------|---------------|
| Date of contract | Unexpired term at 31st December 2003 | Notice period |
| April 2002 | Until April 2005 | N/A |

Emoluments and compensation

| | Basic salary £000s | Bonus £000s | Fees £000s | Benefits £000s | Emoluments excluding pensions | | Pension (paid and provided) | |
|--|-----------------------|----------------|---------------|-------------------|----------------------------------|---------------|--------------------------------|---------------|
| | | | | | 2003 £000s | 2002 £000s | 2003 £000s | 2002 £000s |
| | – | – | 22 | – | 22 | 13 | – | – |

Beneficial interests

| | |
|--|--|
| Number of shares at 31st December 2003 and at 21st February 2004 | Number of shares at 31st December 2002 and at 21st February 2003 |
| – | – |

Committee Membership – Board and Committee

| | Full Board | Audit Committee | Remuneration Committee* | Nomination Committee | Corporate Governance Committee |
|---|---------------|--------------------|----------------------------|-------------------------|--------------------------------------|
| Number of Board and Committee meetings attended | 11 | 3 | 6 | 3 | – |

*Chairman.

The Board continued

Paul Martin Independent Non-Executive Director

Aged 49. 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 term which originally expired in December 2003, but which has been extended to December 2004, in order to enable him to continue to chair the Audit Committee whilst a new NED, suitable for this position, is being recruited.

Contract

| Date of contract | Unexpired term at 31st December 2003 | Notice period |
|------------------|--------------------------------------|---------------|
| December 1997 | 12 months | N/A |

Emoluments and compensation

| | Basic salary £000s | Bonus £000s | Fees £000s | Benefits £000s | Emoluments excluding pensions | | Pension (paid and provided) | |
|--|-----------------------|----------------|---------------|-------------------|----------------------------------|---------------|--------------------------------|---------------|
| | | | | | 2003 £000s | 2002 £000s | 2003 £000s | 2002 £000s |
| | | | | | | – | – | 25 |

Beneficial interests

| Number of shares at 31st December 2003 and at 21st February 2004 | Number of shares at 31st December 2002 and at 21st February 2003 |
|--|--|
| – | – |

Committee Membership – Board and Committee

| | Full Board | Audit Committee* | Remuneration Committee | Nomination Committee | Corporate Governance Committee |
|---|---------------|---------------------|---------------------------|-------------------------|--------------------------------------|
| Number of Board and Committee meetings attended | 9 | 3 | 4 | – | – |

*Chairman.

The Board continued

Rob Thielen Independent Non-Executive Director

Aged 42. 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 Wertheim 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 for an initial period of three years.

Contract

| | | |
|------------------|--------------------------------------|---------------|
| Date of contract | Unexpired term at 31st December 2003 | Notice period |
| January 2003 | Two years | N/A |

Emoluments and compensation

| | Basic salary £000s | Bonus £000s | Fees £000s | Benefits £000s | Emoluments excluding pensions | | Pension (paid and provided) | |
|--|-----------------------|----------------|---------------|-------------------|----------------------------------|---------------|--------------------------------|---------------|
| | | | | | 2003 £000s | 2002 £000s | 2003 £000s | 2002 £000s |
| | – | – | 21 | – | 21 | – | – | – |

Beneficial interests

| | |
|--|--|
| Number of shares at 31st December 2003 and at 21st February 2004 | Number of shares at 31st December 2002 and at 21st February 2003 |
| – | – |

Committee membership – Board and Committee

| | Full Board | Audit Committee | Remuneration Committee | Nomination Committee | Corporate Governance Committee |
|---|---------------|--------------------|---------------------------|-------------------------|--------------------------------------|
| Number of Board and Committee meetings attended | 10 | – | 4 | – | – |

The Board continued

April S J Rigby Company Secretary

Aged 42. 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.

Retirement

Chris Wood (53). Chris Wood was appointed to the Board in May 2000 for a three year term and retired from the Board at the end of that period in April 2003.

Committees

Committee membership

Audit Committee

Paul Martin (Chairman)
Brook Land
Roger Devlin

Remuneration Committee

Roger Devlin (Chairman)
Paul Martin
Rob Thielen

Nominations Committee

Brook Land (Chairman)
Roger Devlin
Alan Hearne

Corporate Governance Committee

Brook Land (Chairman)
Alan Hearne
April Rigby

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 |
|---------------------------------|------------|-----------------|------------------------|----------------------|--------------------------------|
| Brook Land | 11 | 3 | 2 | 3 | 2 |
| Alan Hearne | 11 | – | – | 3 | 2 |
| Gary Young | 11 | – | – | – | – |
| Andrew Troup | 11 | – | – | – | – |
| Peter Downen | 10 | – | – | – | – |
| Roger Devlin | 11 | 3 | 6 | 3 | – |
| Paul Martin | 9 | 3 | 4 | – | – |
| Rob Thielen | 10 | – | 4 | – | – |
| Chris Wood | 4 | – | 1 | – | – |
| Total number of meetings | 11 | 3 | 7 | 3 | 2 |

Strategy

The Group's strategy is designed to ensure significant year on year improvement in the range and quality of our services and the Group's financial performance.

This is achieved by:

- operating in markets where we can add value to our clients' activities;
- endeavouring to achieve market leadership in everything we do;
- employing highly skilled staff and helping them to build rewarding careers;
- developing attractive and innovative services;
- continuing to develop the culture and profile of RPS;
- making acquisitions of quality businesses in order to extend our expertise and geographical presence.

As a result of this strategy the Board has the responsibility to:

- 1 Ensure that the Group has in place at all times a strategy that is capable of delivering strong growth and good returns to shareholders.
- 2 Continue to organise and monitor the Group's operations through the Divisional structure.
- 3 Keep that structure under review and be prepared to change the number and nature of the Divisions in order both to take account of market opportunities and also to deal with management issues.
- 4 Clarify any ambiguities in the authority, responsibilities and obligations of the Divisions both in terms of managing their businesses and reporting upon those businesses.
- 5 Keep under review the composition of Divisional Management teams and monitor their performance, being prepared to make changes in order to maintain or improve performance in terms of both delivery to clients and financial results.
- 6 Ensure the Group has in place Human Resources management systems capable of supporting the divisional boards establishment and implementation of policies designed to attract and retain high quality staff.
- 7 Manage and promote the RPS brand vigorously and vigilantly, by ensuring it has an adequate profile amongst the client base and that it is respected and not corrupted internally.
- 8 Keep under review opportunities to extend the range of products RPS offers and the sectors in which it operates.
- 9 Keep under review opportunities to extend the geographic areas in which RPS operates in Europe, Australia and the USA.
- 10 Ensure that the Board has available an appropriate and effective advisory team including brokers, financial advisers, auditors, lawyers and financial public relations.
- 11 Maintain, in conjunction with brokers, an active Investor Relations programme designed to ensure full exposure of the RPS investment case to appropriate fund managers in the UK, Europe and USA.
- 12 Maintain contact with a wide range of analysts and brokers to ensure independent research is available to market.
- 13 Put in place and maintain systems of Corporate Governance compliant with the Combined Code and appropriate for a company of RPS's type and size. Discuss these matters with major shareholders on a regular basis.
- 14 Ensure the Group operates appropriate risk management systems in respect of all aspects of its business.
- 15 Ensure the Group has in place IT systems appropriate for the proper operation of the business and its likely expansion.
- 16 Ensure the Group has in place both a web site and an intranet capable of communicating effectively with all those with an interest in RPS.
- 17 Ensure that the Group has sufficient and adequate funding in place in order to maintain its strategy.

Corporate governance

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 53 to 59).

Combined Code

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 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 pages 24 to 59 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 34.

The New Combined Code on Corporate Governance was published in July 2003. The new Code applies to reporting years beginning on or after 1st November 2003. The Corporate Governance Committee has reviewed RPS's performance against the recommendations in the Code. In summary the position is as follows:

| | Combined Code paragraph | Comment | Page |
|--|-------------------------|-----------|--------------------|
| The Board should meet regularly to discharge its duties. The annual report should include a statement of how the Board operates. | A.1.1 | Compliant | 24 |
| The Annual Report should identify the Chairman, Chief Executive, Senior Independent Non-Executive Director and Chairman and members of Nomination, Audit and Remuneration Committees. It should also set out the number of meetings held and individual attendance. | A.1.2 | Compliant | 26/27/ 31/32/34 |
| The Chairman should hold meetings with Non-Executive Directors without the Executives present. Led by the Senior Independent Non-Executive Director, the Non-Executive Directors should meet without the Chairman present at least annually to appraise the Chairman's performance. | A.1.3 | Compliant | 25 |
| Where Directors have concerns which cannot be resolved about the running of the Company or a proposed action these concerns should be recorded in the Board minutes. On resignation these concerns should be provided in a written statement to the Chairman for circulation to the Board. | A.1.4 | Compliant | 24 |
| The Company should arrange appropriate insurance cover in respect of legal action against Directors. | A.1.5 | Compliant | 24 |
| The roles of the Chairman and Chief Executive should be split, and the individual roles clearly set out in writing. | A.2.1 | Compliant | 24 |
| The Chairman on appointment should be independent. | A.2.2 | Compliant | 24 |

Corporate governance continued

| | Combined Code paragraph | Comment | Page |
|---|-------------------------|---|-------------------|
| The Board should identify in the annual report each Non-Executive Director it considers to be independent. | A.3.1 | Compliant | 26/31/32/33 |
| At least half the Board, excluding the Chairman, should comprise Independent Non-Executive Directors. | A.3.2 | Non-compliant. Group is currently looking to appoint an additional Independent Non-Executive Director | 25 |
| The Board should appoint one of the Independent Non-Executive Directors to be the Senior Independent Non-Executive Director. The Senior Independent Director should be available to shareholders. | A.3.3 | Compliant | 31/52 |
| There should be a Nomination Committee. The Nomination Committee should make available its terms of reference. | A.4.1 | Compliant | 48 |
| The Nomination Committee should evaluate the balance of skills, knowledge and experience on the Board and evaluate the role and capabilities required for a particular appointment. | A.4.2 | Compliant | 49 |
| On appointment of a Chairman, the Nomination Committee should prepare a job specification. | A.4.3 | Compliant | 49 |
| The terms and conditions of appointment of Non-Executive Directors should be made available for inspection by any person at the Company's registered office and at the AGM. | A.4.4 | Compliant | 44 |
| The annual report should describe the work of the Nomination Committee, including processes it has used in relation to Board appointments. | A.4.6 | Compliant | 49 |
| New Directors should receive a full, formal and tailored induction on joining the Board. Shareholders should be offered the opportunity to meet the new Non-Executive. | A.5.1 | Compliant | 24 |
| All Directors should have access to independent professional advice. Committees should be provided with sufficient resources to undertake their duties. | A.5.2 | Compliant | 24 |
| All Directors should have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that Board procedures are complied with. | A.5.3 | Compliant | 24 |
| The Board should state in the annual report how it evaluates performance of the Board, its committees and its individual Directors has been conducted. | A.6.1 | Compliant | 24 |
| All Directors should be subject to election by shareholders at the first Annual General Meeting after their appointment, and to re-election thereafter at intervals of no more than three years. | A.7.1 | Compliant | Notice of Meeting |
| The Non-Executive Directors should be appointed for specified terms subject to re-election. Any term beyond six years for a Non-Executive should be subject to particularly rigorous review. Non-Executive Directors can serve longer than nine years. Serving more than nine years could be relevant in determining a Non-Executive Director's independence. | A.7.2 | Compliant | 43 |
| Performance-related elements of remuneration should form a significant proportion of the total remuneration package of the Executive Directors. | B.1.1 | Compliant | 43 |
| Share options should not be offered at a discount. | B.1.2 | Compliant | 43 |
| Remuneration for Non-Executive Directors should reflect the time commitment and responsibilities of the role. | B.1.3 | Compliant | 44 |
| The Remuneration Committee should consider what compensation commitments their Directors' terms of appointment would entail in the event of early termination. | B.1.5 | Compliant | 43 |
| Notice or contract periods of Executive Directors should be one year or less. | B.1.6 | Compliant | 44 |

Corporate governance continued

| | Combined Code paragraph | Comment | Page |
|---|-------------------------|-----------|-------|
| A Remuneration Committee should be established with at least three Independent Non-Executives. The Remuneration Committee should have published terms of reference. | B.2.1 | Compliant | 40 |
| The Remuneration Committee should set remuneration for all executives and the Chairman. The Remuneration Committee should recommend and monitor the level and structure of remuneration for senior management. | B.2.2 | Compliant | 40 |
| The Board should determine the remuneration of the Non-Executive Directors. | B.2.3 | Compliant | 44 |
| Shareholders should be invited specifically to approve all new long-term incentive schemes and significant changes to existing schemes. | B.2.4 | Compliant | 42 |
| The Directors should explain in the annual report their responsibility for preparing accounts and a statement, by the auditor about their reporting responsibilities. | C.1.1 | Compliant | 65/66 |
| The Directors should report that the business is a going concern. | C.1.2 | Compliant | 64 |
| The Board should conduct at least annually, a review of the effectiveness of the Group's system of internal controls and should report to shareholders that they have done so. | C.2.1 | Compliant | 39 |
| The Board should establish an Audit Committee with at least three members who should all be Independent Non-Executive Directors. | C.3.1 | Compliant | 46 |
| The role and responsibility of the Audit Committee should be set out in written terms of reference. This should be disclosed in the annual report. | C.3.2/3.3 | Compliant | 46 |
| The Audit Committee should review arrangements by which staff of the Company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. | C.3.4 | Compliant | 46 |
| The Audit Committee should consider annually whether there is a need for an internal audit function and make a recommendation to the Board. | C.3.5 | Compliant | 47 |
| The Audit Committee should have primary responsibility for making a recommendation on the appointment, reappointment or removal of the external auditors. | C.3.6 | Compliant | 47 |
| If the Board does not accept the Audit Committee's recommendation it should include in its annual report a statement explaining why the Board take a different position. | C3.6 | Compliant | n/a |
| The annual report should explain to shareholders how independence is safeguarded if the auditor provides non audit services. | C.3.7 | Compliant | 46 |
| The Chairman should ensure that the views of the shareholders are disclosed to the Board as a whole. The Chairman should discuss governance and strategy to the shareholders. The Senior Independent Director should attend sufficient meetings with a range of major shareholders in order to develop a balanced understanding of the issues and concerns of the shareholders. | D.1.1 | Compliant | 52 |
| The Board should state in their annual report the steps they have taken to ensure Board members develop an understanding of the views of major shareholders about their Company. | D.1.2 | Compliant | 52 |
| The Company should count all proxy votes and indicate the level of proxies lodged on each resolution, and the balance for and against the resolution and the number of abstentions. The Company should ensure that votes cast are properly received and recorded. | D.2.1 | Compliant | |
| The Company should propose a separate resolution at the AGM on each substantially separate issue and should in particular propose a resolution at the AGM relating to the report and accounts. | D.2.2 | Compliant | |
| Chairmen of the Audit, Remuneration and Nomination Committees should attend the AGM in order to be available to answer questions. | D.2.3 | Compliant | 52 |
| The Company should arrange for the Notice of AGM and related papers to be sent to shareholders at least 20 working days before the meeting. | D.2.4 | Compliant | |

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 controls

The respective responsibilities of the Directors and the independent auditors in connection with the accounts are explained on pages 65 and 66 and the statement of the Directors in respect of on going concern appears on page 64.

The Board has procedures in place as recommended in the guidance in "The Combined Code on Corporate Governance" and Turnbull: Guidance on Internal Controls 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 50.

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 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. 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 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.

Corporate governance continued

Remuneration report

The Directors who served on the Remuneration Committee during the year were: Brook Land (Chairman up to September 2003), Roger Devlin (Chairman from September 2003), Paul Martin, Chris Wood (who resigned on 30th April 2003) and Rob Thielen who was appointed in January 2003.

The Chief Executive has assisted the Remuneration Committee in their deliberations on other Directors' remuneration, but does not attend the meetings of the Committee.

The Remuneration Committee appointed Halliwell Consulting in August 2003 to provide advice on compensation and share incentives at all levels in the Group. No other services were provided to the Company by Halliwell Consulting.

The terms of reference of the Remuneration Committee:

- the Committee has been delegated responsibility by the Board to determine and agree with the Board the framework or broad policy for the remuneration of the Executive Directors and Senior Employees of the Company; the remuneration of Non-Executive Directors is a matter for the executive members of the Board who take advice from the independent consultants. No Director or manager is involved in any decisions as to their own remuneration;
- within the terms of the agreed policy, determine the total individual remuneration package of each Executive Director including, where appropriate, bonuses, benefits, long-term incentive payments and share options;
- determine the policy for and scope of pension arrangements for each Executive Director;
- determine targets for any performance-related pay and share schemes operated by the Company;
- in determining such packages and arrangements, give due regard to the comments and recommendations of the Combined 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, in line with the statement of best practice in the ABI Guidelines;
- 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;
- report the frequency of, and attendance by members at, Remuneration Committee meetings in the annual report (see page 34).

Remuneration policy

The Remuneration Committee's policy is to set the main elements of the remuneration package at the following quartiles in comparison to the Company's comparator group and with a clear and defined emphasis on pay for performance:

| Base salary | Annual bonus potential | Share incentives |
|----------------------------------|------------------------|--------------------------|
| Between Median to Lower Quartile | Median | Median to Lower Quartile |

The policy is designed to:

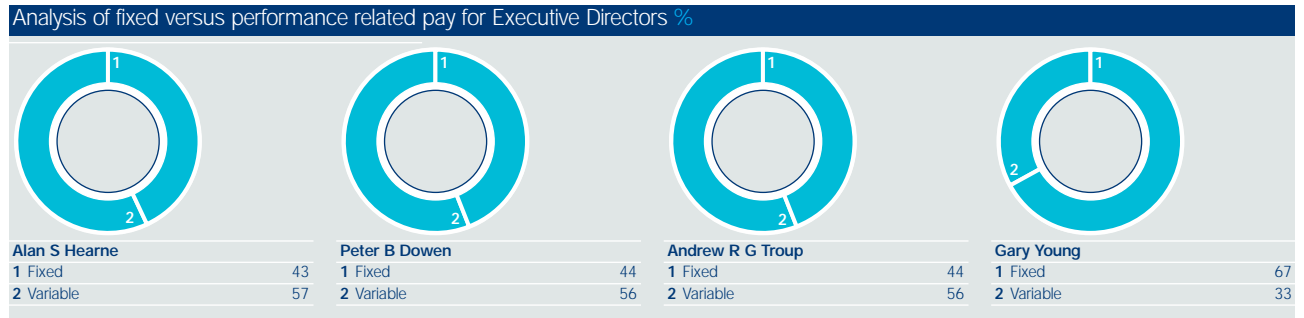
- attract, retain and motivate individuals by providing the opportunity to earn competitive levels of compensation provided performance is delivered whilst remaining within the range of compensation offered by similar companies in the sector;
- focus individuals on the continued long-term growth and success of the Company; and
- offer a total compensation package which takes into consideration the interests of the Company, its shareholders and employees.

Directors' remuneration will be the subject of regular review in accordance with this policy in the next and following financial years to ensure that remuneration remains competitive and challenging.

Corporate governance continued

Remuneration report continued

The charts below demonstrate the increasing amount of compensation which is performance related for each Executive Director:



Base salary

Policy Median to Lower Quartile

When determining the salary of the Executive Directors the Remuneration Committee has taken into consideration:

- the levels of base salary for similar positions within a comparator group of 34 companies which are members of the FTSE All Share Support Services Sector;
- the performance of the individual Executive Director;
- the individual Executive Director's experience and responsibilities; and
- the pay and conditions throughout the company.

Salaries are reviewed on an annual basis.

The companies comprising the comparator group are as follows:

| | | |
|-------------------------------|------------------------|----------------------------------|
| ACAL | Interserve | RAC |
| AEA Technology | Intertek | Regus Group |
| Aggreeko | Jarvis | Reliance Security |
| Atkins (WS) | John Laing | Ricardo |
| Babcock International Group | Johnson Service Group | RPC Group |
| BPP | Mentmore | Securicor |
| BTG | Menzies (John) | SercoGroup |
| Business Post Group | Michael Page | South Staffordshire Group |
| Communis | Mitie | Speedy Hire |
| Danka Business Systems | Peterhouse | Tribal Group |
| Davis Service Group | PHS | |
| De La Rue | Premier Farnell | |

This group was identified by Halliwell Consulting, without reference to any of the Executives. The Comparator Group has out performed the FTSE Support Services index in terms of total shareholder return over the past five years.

This group will be amended for the 2004 remuneration review and first grants under the proposed new LTIP to take into account shareholder comments on its constituents during the consultation process on the new remuneration policy and share plans.

Corporate governance continued

Remuneration report continued

The basis of selection of the group was:

- companies within the same sector as the company; and
- companies with a range of market capitalisations such that the Company sits within the middle of the comparator groups.

Performance bonus

Policy: Median

To ensure that there is a greater emphasis towards the performance element of the compensation package the Remuneration Committee increased the maximum annual cash bonus potential for 2003 from 50% of salary to 60% for the Chief Executive and from 30% to 40% for the other Executive Directors and increased the earnings per share performance target which must be satisfied for maximum bonus payout. For 2003 the Company's earnings per share growth exceeded the rate of inflation by 18.1%, thereby triggering a cash bonus for the Chief Executive of 56.2% and for the Executive Directors of 36.2%.

The following table shows in detail the level of bonus earned for a given level of earnings per share performance under the 2003 bonus plan:

| | Earnings per Share Performance above RPI | Bonus earned by Chief Executive percentage of Salary | Bonus earned by Executive Directors percentage of Salary |
|--|---|---|---|
| | Below 15% | 0% | 0% |
| | 15% | 50% | 30% |
| | Actual Performance 18.1% | 56.2% | 36.2% |
| | Maximum 20% | 60% | 40% |

The Company's rolling dilution for the purposes of the ABI guidelines is less than 1% pa.

The details of the Executive Directors' Bonus Plan for 2004 are contained in the Shareholders' Circular accompanying these report and accounts.

Long-term incentives

Policy: Median

For 2003 and earlier years this comprised annual grants of options. The Remuneration Committee set out the level of the option grant to the Executive Directors of the Company at the median level.

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.

The options granted to Executive Directors during 2003 were Ordinary and Super Options.

Options are not able to be exercised if performance is below target, and there is no reward for below target performance. The performance conditions are measured at the end of the three year holding periods applying to the relevant grants of Options. There is no re-testing of the performance conditions. The Directors are required to refund to the Company all National Insurance contributions payable at

Corporate governance continued

Remuneration report continued

exercise. This makes the effective tax rate for Executives 47%. The Directors' individual share options are detailed in the Directors' report on pages 63 and 64.

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.

Following a comprehensive review of the compensation packages of the Executive Directors and their alignment with the remuneration policy, the Remuneration Committee are of the opinion that a new whole share plan ("LTIP") will be a more appropriate method of providing a long-term share incentive for the Company in the future. Full details of the proposed LTIP are contained in the accompanying Shareholders' circular, along with details of a Performance Share Plan for other selected employees and a Share Incentive Plan for all staff. It is not intended to issue any options in 2004 to any participant of the LTIP, under the existing plans.

Benefits

Policy: Median

The Executive Directors participate in a Company money purchase (defined contribution scheme) during the year (see page 45 for further details).

Executive Directors can also participate in the all-employee Sharesave Plan. Under the rules of this Plan, all employees can contribute up to £250 per month with the option to buy shares at the end of the savings contract at the price at the start of the contract. Currently the Company does not provide a discount to the price at which shares can be acquired.

The Company is proposing to implement a new all-employee Inland Revenue Share Incentive Plan which Executive Directors may participate in. Full details of the Plan are contained in the accompanying Shareholders' Circular.

The Executive Directors also receive the following additional benefits:

- healthcare;
- life assurance and dependants' pensions;
- disability schemes;
- company car or car allowance.

Service contracts

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 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 2003 no compensation was paid to any Director resigning from the Board.

Corporate governance continued

Remuneration report continued

Details of the Directors' service contracts are as follows:

| Name | Potential termination payment | Potential payment upon Company takeover | Potential payment in event of liquidation |
|--------------|-------------------------------|---|---|
| Alan Hearne | 12 months' notice | Nil | Nil |
| Peter Downen | 12 months' notice | Nil | Nil |
| Andrew Troup | 12 months' notice | Nil | Nil |
| Gary Young | 12 months' notice | Nil | Nil |

The table shows that the only event on the occurrence of which the Company is liable to make a payment to Executive Directors is on cessation of employment.

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.

Non-Executive Directors

Policy: Median Level Fees

The fees paid to the Non-Executive Directors are determined by the Board and aim to be competitive with other companies of equivalent size and complexity.

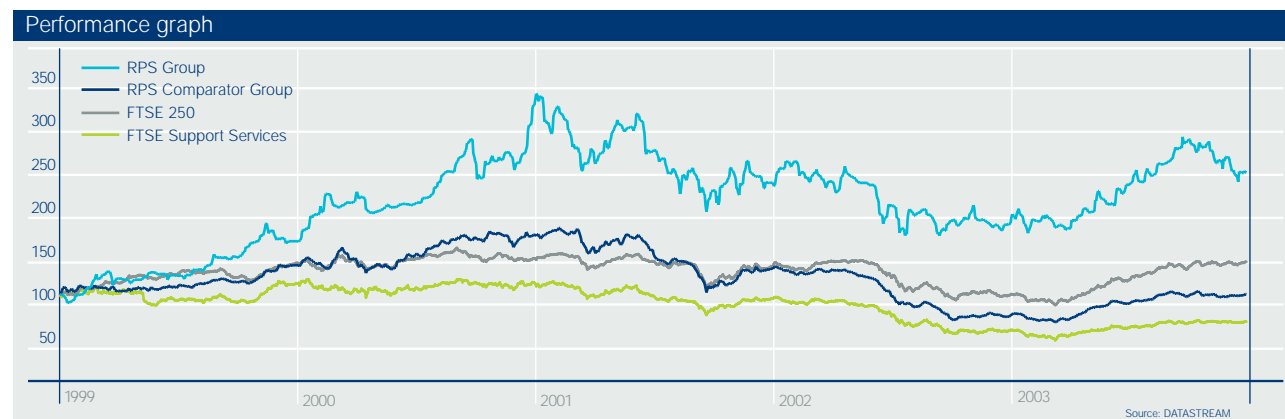
The Chairman of the Company receives a higher fee than the other Non-Executive Directors and committee chairmen received an additional payment.

Details of the terms of appointment of the Non-Executive Directors are set out in the table below:

| Name | Contract date | Unexpired term of contract as at 31st December 2003 (months) |
|--------------|----------------|--|
| Brook Land | September 1997 | 40 |
| Roger Devlin | April 2002 | 16 |
| Paul Martin | December 1997 | 12 |
| Rob Thielen | January 2003 | 24 |

Non-Executive Directors are not entitled to participate in the performance based pay schemes including annual bonus and share schemes. Terms and conditions of appointment of Non-Executive Directors are available for inspection by any person at the Company's registered office and at the AGM.

Performance graph



Corporate governance continued

Remuneration report continued

Performance graph

The graph opposite 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 the FTSE 250, the support services sector and the comparator group. The Company has selected these benchmarks as they provide a good indication of the Company's general performance.

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 £000s | Bonus £000s | Fees £000s | Benefits £000s | Emoluments excluding pensions | | Pension (paid and provided) | |
|-----------------------------------|-----------------------|----------------|---------------|-------------------|----------------------------------|---------------|--------------------------------|---------------|
| | | | | | 2003 £000s | 2002 £000s | 2003 £000s | 2002 £000s |
| Executive: | | | | | | | | |
| Peter B Downen | 155 | 56 | – | 10 | 221 | 179 | 23 | 18 |
| Alan S Hearne | 295 | 165 | – | 10 | 470 | 389 | 44 | 36 |
| Andrew R G Troup | 160 | 58 | – | 10 | 228 | 198 | 23 | 21 |
| Gary Young | 135 | 49 | – | 10 | 194 | 153 | 20 | 16 |
| G D R Parry (retired 25/02/02) | – | – | – | – | – | 18 | – | 3 |
| B J van Steijn (retired 19/12/02) | – | – | – | – | – | 113 | – | – |
| Non-Executive: | | | | | | | | |
| Brook Land | – | – | 55 | – | 55 | 45 | – | – |
| Roger Devlin | – | – | 22 | – | 22 | 13 | – | – |
| Rob Thielen | – | – | 21 | – | 21 | – | – | – |
| Paul M Martin | – | – | 25 | – | 25 | 15 | – | – |
| Chris Wood (retired 30/04/03) | – | – | 6 | – | 6 | 16 | – | – |
| Total 2003 | 745 | 328 | 129 | 40 | 1,242 | – | 110 | – |
| Total 2002 | 745 | 240 | 89 | 65 | – | 1,139 | – | 94 |

The total Directors' emoluments were £1,242,000 (2002: £1,139,000) excluding pension contributions.

Directors' share incentives*Share options*

The table on pages 63 and 64 sets out details of the share options held by or granted to each Director during the year. All share options comply with ABI 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 20th May 2004, a resolution approving this report is to be proposed as an Ordinary Resolution.

This report was approved by the Board on 17th March 2004.

Signed on behalf of the Board

Roger Devlin Chairman of the Remuneration Committee
17th March 2004

Corporate governance continued

Audit Committee – Terms of reference

The Audit Committee has written terms of reference set out below. It reviews the draft financial statements prior to submission to the Board and 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 LLP, will not, other than in exceptional 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 74.

The Company has in place a formal procedure which allows staff of the Company to, in confidence, raise concerns about possible improprieties in matters of financial reporting and other issues. These procedures are reviewed by the Audit Committee.

The Audit Committee's written terms of reference are:

1. Committee composition, capabilities and meetings

The Committee shall comprise three Independent Non-Executive Directors (with a quorum of three), appointed by the Board, all of whom possess an adequate understanding of the financial management and reporting requirements of publicly quoted companies.

The Board will appoint a suitably qualified Director other than the Chairman to chair the Committee. The Company Secretary is secretary to the Committee.

The Committee shall meet at least twice per annum and may invite to attend: the Chief Executive and the Finance Director, representatives of the external auditors and anyone else who may assist the Committee from time to time.

Current membership: Paul Martin (Chairman), Brook Land and Roger Devlin. The Company Secretary attends all meetings.

2. Relationship between the Committee and the Board

The RPS Group PLC Board:

- reviews and agrees terms of reference put forward by the Audit Committee;
- considers changes to the terms of reference when recommended by the Committee;
- receives prompt summary reports after each meeting of the Committee;
- is advised of matters for its attention at other times as deemed necessary by the Committee;
- will refer matters to the Committee for its attention as necessary;
- reviews annually the Committee's policies, practices and performance;
- ensures that funds are available to the Committee for external advice when needed, which shall be obtained via an Executive Director.

3. Committee authority

The Committee shall have the authority to consider any matters relating to the financial affairs of the Group.

The Committee shall have the authority to request relevant information from any employee and employees shall be expected to respond accordingly.

The Committee may take external professional advice with respect to its responsibilities and duties.

The Committee shall have no executive responsibilities with respect to implementation of its recommendations.

Corporate governance continued

Audit Committee – Terms of reference continued

4. Committee responsibilities and duties

4.1. Financial matters

The Committee shall review accounting policies and practices used by the Group, as well as information to be published to the London Stock Exchange prior to its submission to the Board.

The Committee shall ensure that the information presented by the Group supports a balanced, clear and understandable view of its financial position and prospects.

4.2. External audit

The Committee shall make recommendations to the Board with respect to the appointment of external auditors and will take steps necessary to satisfy itself about the continuing independence of relevant firms.

The Committee shall review the level of external audit fees.

The Committee shall review the scope of, approach to and findings from external audit work.

The Committee shall discuss with the external auditors any proposed changes in accounting policies.

The Committee Chairman will liaise directly with the external auditors in order to ensure a full understanding of any issues that arise from their work and will report to the Committee accordingly.

4.3. Risk management

4.3.1. Internal controls

The Committee shall review the means by which sound systems of internal control are maintained across the Group and shall review reports on the effectiveness of those systems.

4.3.2. Internal audit

The Committee shall review at least annually the internal audit function and will make appropriate recommendations to the Board.

4.3.3. Other risk management systems

The Committee shall consider the adequacy of other systems which help to manage the Group's exposures to damage or loss.

Corporate governance continued

Nomination Committee – Terms of reference

The Committee meets as required, but not less than once a year, and comprises two Independent Non-Executive Directors and the Chief Executive. The Company Secretary attends all meetings. Its responsibilities include reviewing the Board structure, size and composition, nominating candidates to the Board when vacancies arise and recommending Directors who are returning by rotation to be put forward for re-election. The Committee is currently recruiting an additional Independent Non-Executive Director; an external search consultancy is being used in respect of this appointment.

The Nomination Committee's written terms of reference are to:

1. Membership

- 1.1. The Committee shall be appointed by the Board and shall comprise of a Chairman and at least two other members.
- 1.2. A majority of members of the Committee shall be Independent Non-Executive Directors.
- 1.3. The Board shall appoint the Committee Chairman. In the absence of the Committee Chairman and/or an appointed deputy, the remaining members present shall elect one of their number to chair the meeting.
- 1.4. If a regular member is unable to act due to absence, illness or any other cause, the Chairman of the Committee may appoint another Director of the Company to serve as an alternate member having due regard to maintaining the required balance of Executive and Independent Non-Executive members.
- 1.5. Care should be taken to minimise the risk of any conflict of interest that might be seen to give rise to an unacceptable influence.

Current membership: Brook Land (Chairman), Roger Devlin and Alan Hearne.

2. Secretary

- 2.1. The Company Secretary shall act as the Secretary of the Committee and attend all meetings.

3. Quorum

- 3.1. The quorum necessary for the transaction of business shall be two of whom at least one must be a Non-Executive Director. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

4. Frequency of meetings

- 4.1. The Committee shall meet not less than once a year and at such other times as the Board or any member of the Committee shall require.

5. Notice of meetings

- 5.1. Meetings of the Committee shall be summoned by the Secretary of the Committee at the request of the Chairman of the Committee.
- 5.2. Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of the Committee no fewer than five working days prior to the date of the meeting. As far as practical meetings shall be held before or after meetings of the Main Board.

6. Minutes of meetings

- 6.1. The Secretary shall minute the proceedings and resolutions of all Committee meetings, including the names of those present and in attendance.
- 6.2. Minutes of Committee meetings shall be circulated to all members of the Committee and to the Chairman of the Board and made available on request to other members of the Board.

7. Annual General Meeting

- 7.1. The Chairman of the Committee shall attend the Annual General Meeting prepared to respond to any shareholder questions on the Committee's activities.

Corporate governance continued

Nomination Committee – Terms of reference continued

8. Duties

- 8.1. The Committee shall:
 - 8.1.1. regularly review the structure, size and composition of the Board and make recommendations to the Board with regard to any adjustments that are deemed necessary;
 - 8.1.2. prepare a description of the role and capabilities required for a particular appointment;
 - 8.1.3. be responsible for identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise;
 - 8.1.4. satisfy itself with regard to succession planning, that the processes and plans are in place with regard to the Board and senior appointments;
 - 8.1.5. assess and articulate the time needed to fulfil the role of Chairman, Senior Independent Director and Non-Executive Director, and undertake an annual performance evaluation to ensure that all members of the Board have devoted sufficient time to their duties;
 - 8.1.6. ensure on appointment that a candidate has sufficient time to undertake the role and review his commitments; and
 - 8.1.7. ensure that the Secretary on behalf of the Board has formally written to any appointees, detailing the role and time commitments and proposing an induction plan produced in conjunction with the Chairman.
- 8.2. It shall also make recommendations to the Board:
 - 8.2.1. with regard to the Chairman having assessed every three years whether the present incumbent shall continue in post, taking into account the needs of continuity versus freshness of approach;
 - 8.2.2. as regards the reappointment of any Non-Executive Director at the conclusion of his or her specified term of office; especially when they have concluded their second term;
 - 8.2.3. for the continuation (or not) in service of any Director who has reached the age of 70;
 - 8.2.4. concerning the re-election by shareholders of any Director under the "retirement by rotation" provisions in the Company's articles of association;
 - 8.2.5. concerning any matters relating to the continuation in office as a Director of any Director at any time;
 - 8.2.6. concerning the appointment of any Director to executive or other office other than to the positions of Chairman and Chief Executive, the recommendation for which would be considered at a meeting of:
 - 8.2.6.1. all the Non-Executive Directors regarding the position of Chief Executive;
 - 8.2.6.2. all the Directors regarding the position of Chairman.
 - 8.2.7. detailing items that should be published in the Company's Annual Report relating to the activities of the Committee.

9. Authority

- 9.1. The Committee is authorised to seek any information it requires from any employee of the Company in order to perform its duties.
- 9.2. The Committee is authorised to obtain, at the Company's expense, outside legal or other professional advice on any matters within its terms of reference.

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 issues 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 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 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 small.
3. Currency risk exposures arising from investments in overseas operations or through trading activities. All currency risks are reviewed and they are managed on an individual basis.
4. Financial risk exposures; as the Group currently has no debt this does not create a risk.

The internal audit function is undertaken by the Group financial accounting team as part of its other functions. Given the current structure of the Group the Board and the Audit Committee 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 systems and commercial integration.

Quality management

RPS maintains and implements documented Quality Management Systems which satisfy, as a minimum, the requirements of ISO 9001:2000, through the:

- documenting of procedures to control the quality of services;
- maintaining records to control and show compliance with quality and client requirements;
- recording the implementation of corrective measures necessary to ensure the quality of service provided; and
- taking appropriate preventative measures to improve quality and minimise the possibility of unsatisfactory service; and
- monitoring of the quality management system in operation at each office at regular intervals in order to ensure its continuing and improving effectiveness.

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

Formal certification to ISO 9000:2000 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, Aquacheck, RICE, UK NEQAS, and the UK Health and Safety Executive's WASP scheme.

Our Dutch subsidiary, RPS Certificatie 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 Group 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 Group Board.

The Divisions and offices in the UK are supported by centrally run accountancy and personnel functions. The Dutch, Irish and Australian 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.

Corporate governance continued

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 forecasting 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, Australia 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 (note 30).

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

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 grow these in a sustainable way as far as possible. 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.

The Chief Executive and Finance Director meet frequently with major institutional shareholders and fund managers. The Chairmen of the Audit Committee, Remuneration Committee and Nomination Committee attend the Annual General Meeting, and are available to answer shareholders' questions. The Chairman and the Senior Independent Non-Executive Director are available to discuss governance, strategy and any issues of concern or interest with any major shareholders. They both attend the Annual General Meeting. There is a standing board agenda item on investor relations, and the views of shareholders are disclosed to the Board as a whole. This gives the whole Board an opportunity to develop an understanding of the views of major shareholders of the Group.

Corporate social responsibility report

Social 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.

Social 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 clients requirements and the Group works with the client to anticipate and meet their future needs.

Conflicts 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. RPS employees must not seek personal gain from third parties nor should they abuse their power within the Company for personal gain.

Corporate social responsibility report continued

The Community

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.

RPS has made charitable contributions at local office level throughout the year. In Dublin we raised over €4,500 for WaterAid in undertaking the Six Peaks Challenge and the Newbury office raised over £1,000 for Cancer Research UK in completing the Three Peaks Challenge. Members of the Edinburgh office raised £1,818 for WaterAid, participating in the Munro challenge – another mountaineering event. The Huddersfield office entered into a charitable football tournament and raised over £1,700 for MenCap. The Bristol office contributed £1,000 towards a sponsored walk for the Juvenile Diabetes Research Fund. A member of the Glasgow office raised £720 for Community Integrated Care through a sponsored-parachute jump.

A number of our staff in Ireland were involved in the 2003 Special Olympics World Games, held in Ireland, in which they prepared waste management and traffic plans and three RPS staff worked in various roles at the event. We also sponsored several foreign athletes at the games, and contributed €5,000 to fund displays at sports venues and €5,000 towards the cost of waste management plans. These donations in cash and kind totalled in excess of £50,000 for 2003 as a whole.

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 since its inception, passing in all three categories, Environmental, Human Rights and stakeholder criteria.

RPS seeks to improve its performance in all fields, including environmental protection, 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. Several offices in the UK and Ireland are now actively working towards accreditation to the ISO 14001 standard.

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.

During the year the Group instigated a review of the energy efficiency of office premises that we own or lease. We have also begun an evaluation of a better mix of renewable energy services.

The Group continues to monitor business mileage and has a policy that encourages staff to use public transport wherever possible.

Corporate social responsibility report continued

The Community continued

Office Waste and Recycling

All UK offices of RPS Group Plc use stationery printed with low toxin inks, on Evolve Business Wove, a 100% post consumer waste recycled paper. Card material, like business cards, is printed on 100% recycled ivory board. The majority of offices recycle all waste paper. Waste paper is also routinely used at the office as scrap paper prior to deposit in the recycling bags. This is a practical housekeeping method of minimising the waste stream. The offices also recycle other office consumables, such as toner cartridges and ink cartridges, at regular intervals, proceeds from which are regularly donated to charitable causes, such as the NSPCC and Tearfund. Older computer equipment is returned to head office for data and software clearance prior to despatch to CKS Group. CKS specialise in the refurbishing and reselling of good used IT equipment (PCs, monitors, keyboards, printers etc.) whilst older working equipment has been given as donations to third world charities.

Cleaner and Renewable Energy Sources and Energy Efficiency

All RPS offices seek to minimise their use of energy by controlling the hours of heat and power usage, with certain offices conducting energy awareness campaigns, minimising both CO₂ emissions and unnecessary energy costs. Some offices in Ireland have their electricity supplied by wind power, through Airtricity.

Transport and Vehicle Management

When RPS has reviewed its company car fleet from an environmental perspective it looks at not only reducing emissions, but to also reduce risks amongst its driving community when they are on the road.

Several UK offices have employed in-house resources to conduct travel surveys, which promote alternative, more sustainable, means of getting to work, whilst some of our Irish offices carried out transport surveys and use tax incentives for staff who use public transport.

RPS Water Services, which leases over 350 vans, operate a fleet policy on using vans on 1.7L low CO₂ emitting diesel engines.

All leased vehicles across the Group are regularly serviced and have mileage levels under 60,000 miles to ensure greater fuel efficiency and cleaner emissions.

Environmental Effects of Vehicle Fleet

| Year | 2003† | | | 2002* | | |
|-----------------------------------|--------|--------|-------|--------|--------|-------|
| | Diesel | Petrol | Total | Diesel | Petrol | Total |
| Fleet size | 352 | 64 | 416 | 296 | 83 | 379 |
| Average CO ₂ emissions | 145 | 175 | 169 | 49 | 178 | 164 |
| Average engine size (litres) | 17 | 17 | 17 | 17 | 17 | 17 |

*CO₂ data is not available for 231 vans.

†CO₂ data is not available for 257 vans.

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.

Corporate social responsibility report continued

The Community continued

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 consultancy 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, RPS Certificatie 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 management of Health and Safety at Work Act 1999.

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 may be subject to disciplinary action.

Health and Safety training is available to all staff. The Group employees Health and Safety Managers who ensure that staff are properly trained in all the Health and Safety systems.

The Group has never suffered a work related fatality.

Corporate social responsibility report continued

Staff professional memberships

Members of Institutions in the UK

| | | | |
|------------|---|---------|---|
| MRTPI | Members of the Royal Town Planning Institute | IRTE | Institute of Road Transport Engineers, staff memberships |
| MRICS | Members of the Royal Institute of Chartered Surveyors | ISPE | International Society of Pharmaceutical Engineers, staff memberships |
| AMIEMA | Associate Members of the Institute of Environmental Management and Assessment | IHEEM | Institute of Healthcare Engineering and Estate Management, staff memberships |
| MLI | Members of the Landscape Institute | IIRSM | International Institute of Risk and Safety Management, staff memberships |
| MIHort | Members of the Institute of Horticulture | SaRS | Safety and Reliability Society, staff memberships |
| MIEEM | Members of the Institute of Ecology and Environmental Management | FSRP | Fellows of the Society for Radiological Protection |
| MIFA | Members of the Institute of Field Archaeologists | MIGEM | Members of the Institution of Gas Engineers and Managers |
| MCIWEM | Members of the Chartered Institute of Water and Environmental Management | IEnvSC | Institute of Environmental Sciences, staff memberships |
| MIWEM | Members of the Institute of Waste and Environmental Management | MIBiol | Members of the Institute of Biology |
| MCIWM | Members of the Chartered Institute of Waste Management | MIOSH | Members of the Institute of Occupational Safety and Health |
| MICE | Members of the Institution of Civil Engineers | BOHS | British Occupational Hygiene Society, staff memberships |
| MIStruct.E | Members of the Institute of Structural Engineers | MFOH | Members of the Faculty of Occupational Hygiene |
| IMechE | Institute of Mechanical Engineers, staff memberships | MIOA | Members of the Institute of Acoustics |
| IChemE | Institute of Chemical Engineers, staff memberships | IWA | International Water Association, staff memberships |
| MRSC | Members of the Royal Society of Chemists | IWO | Institute of Water Officers, staff memberships |
| FInstP | Fellows of the Institute of Physics | MInstMC | Members of the Institute of Measurement and Control |
| SOE | Society of Operations Engineers, staff memberships | FIM | Fellows of the Institute of Management |
| ARIBA | Associates of Royal Institute of British Architects | FInstLM | Fellows of the Institute of Leadership and Management |
| ABIAT | Associate Members of the British Institute of Architectural Technologist | IOA | Institute of Quality Assurance, staff memberships |
| ACIOB | Associate Members of the Chartered Institute of Building | FRSA | Fellows of the Royal Society of the Academy of Arts, Manufacturers and Commerce |
| MCIBSE | Members of the Chartered Institute of Building Services Engineers | MIP | Members of the Institute of Petroleum |
| MIHT | Members of the Institution of Highways and Transportation | PESGB | Petroleum Exploration Society of Great Britain, staff memberships |
| MILT | Members of the Institute of Logistics and Transport | | |

Corporate social responsibility report continued

Staff professional memberships continued

| | |
|----------|---|
| FRGS | Fellow of the Royal Geographic Society |
| SUT | Society of Underwater Engineers, staff memberships |
| MHS | Members of the Hydrographic Society |
| MIME | Members of the Institute of Marine Engineers |
| MTS | Marine Technology Society, staff memberships |
| RIN | Royal Institute of Navigation, staff memberships |
| Geol Soc | Geological Society of Great Britain, staff memberships |
| FGS | Fellows of the Geological Society |
| SEG | Society of Exploration Geophysicists, staff memberships |
| SEPM | Society of Economic Palaeontologists and Mineralogists, staff memberships |
| MPA | Members of the Palaeontological Association |
| BMS | British Micropalaeontological Society, staff memberships |
| TMS | The Micropalaeontological Society, staff memberships |
| FCIS | Fellow of the Institute of Chartered Secretaries and Administrators |

Members of Institutions in Ireland

| | |
|-------|--|
| MIEI | Members of the Institution of Engineers of Ireland |
| MIPI | Members of the Irish Planning Institute |
| PGeo | Professional Members of the Institute of Geologists of Ireland |
| PMI | Project Management Institute, staff memberships |
| IWEA | Irish Wind Energy Association, staff memberships |
| IBEA | Irish BioEnergy Association, staff memberships |
| ICHPA | Irish Combined Heat and Power Association, staff memberships |
| CRE | Composting Association of Ireland, staff memberships |

Members of Institutions in the Netherlands

| | |
|--------|--|
| ONRI | Dutch Society of Engineers, staff memberships |
| KIVI | Royal Dutch Institute of Engineers, staff memberships |
| NEDECO | The Netherlands Engineering Consultants Foundation, staff memberships |
| LEAF | Lettinga Associates Foundation for Consulting Engineers, staff memberships |
| NVVK | Dutch Society of Safety Professionals, staff memberships |
| NVVA | Dutch Association of Industrial Hygienists |

Staff Memberships of International Institutes

| | |
|---------|---|
| EUROTOX | the European Institute for Eco-Toxicology |
| FIDIC | the International Federation of Consulting Engineers |
| IAH | International Association of Hydrogeologists |
| ISSMGE | the International Society for Soil Mechanics and Geotechnical Engineering |
| EFG | the European Federation of Geologists |
| EAEG | the European Association of Geoscientists and Engineers |
| EPSG | the European Petroleum Survey Group |
| IAS | the International Association of Sedimentologists |
| INA | the International Nannofossil Association |
| AAPG | the American Association of Petroleum Geologists |
| AASP | the American Association of Stratigraphic Palynologists |
| GSH | the Geophysical Society of Houston |
| HGS | the Houston Geological Society |
| PESA | the Petroleum Exploration Society of Australia |
| APPEA | the Australian Petroleum Production & Exploration Association |

Corporate social responsibility report continued

Staff professional memberships continued

| | |
|--------|---|
| ASEG | the Australian Society of Exploration Geophysicists |
| MSAICE | the South African Institute of Civil Engineering |
| ECSA | the Engineering Council of South Africa |
| MHKIE | the Hong Kong Institution of Engineers |

UK Corporate Memberships:

| | |
|----------------------------|---|
| IEMA | Assessor Member of Institute of Environmental Management and Assessment |
| (CIWEM) | Chartered Institute of Water and Environmental Management |
| LI Registered Practice | Landscape Institute |
| NHBC Professional Register | National House Builders Council |
| UKELA | UK Environmental Law Association |
| BVCA | British Venture Capital Association |
| EVCA | European Venture Capital Association |

ARCA**Asbestos Removal Contractors Association**

| | |
|---------------|--|
| STA | Source Testing Association |
| ANC | Association of Noise Consultants |
| IEI | Institution of Engineers of Ireland |
| WINDFAL Group | Water Industry Flow Advisory Liaison Group |
| FWR | Foundation for Water Research |
| BW | British Water |
| DMA | Defence Manufacturers Association |
| BNIA | British Nuclear Industry Association |
| BWEA | British Wind Energy Association |
| TWF | The Workplace Foundation |

Dutch Corporate Memberships

| | |
|---------|---|
| VOC | The Netherlands Association of Certification Bodies |
| FENELAB | The Netherlands Federation of Laboratories |
| NIA | The Netherlands Institute of Hygiene |
| NVP | The Netherlands Society of Venture Capital |

| | |
|------|---|
| VOAM | Association for Research on Asbestos and Environmentally Hazardous Substances |
| VKB | Association of Quality Assurance in Soil Research |

Irish Corporate Memberships:

| | |
|-----|-------------------------------------|
| IEI | Institution of Engineers of Ireland |
|-----|-------------------------------------|

Company subscriptions to external quality audit schemes:

| | |
|------------|---|
| BSI | British Standards Institute |
| UKAS | United Kingdom Accreditation Services |
| RVA/STERIN | The 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 |

Growth Equality

Section 03

Accounts

In this section:

- 62 Report of the directors
- 66 Report of the independent auditors
- 67 Consolidated profit and loss account/Statement of total recognised gains and losses
- 68 Consolidated balance sheet
- 69 Company balance sheet
- 70 Consolidated cash flow statement/Reconciliation of net cash flow to movement in net funds
- 71 Notes to the financial statements
- 93 Five year summary

Report of the directors

The Directors present their report together with the audited financial statements for the year ended 31st December 2003.

Results and dividend

The profit and loss account is set out on page 67 and shows the profit for the year. The Directors recommend a final dividend of 0.94p (2002: 0.82p) per share. This together with the interim dividend of 0.88p (2002: 0.76p) per share paid on 25th October gives a total dividend of 1.82p (2002: 1.58p) per share for the year ended 31st December 2003.

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 and financial review on pages 4 to 21. The principal operating subsidiary undertakings are listed in note 13 to the accounts.

Substantial interests in share capital at 5th March 2004

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 | 14,452,066 | 7.47 |
| Threadneedle Investments | 11,981,930 | 6.20 |
| Henderson Global Investors | 11,244,424 | 5.81 |
| Standard Life Investments | 10,241,203 | 5.30 |
| ISIS Asset Management | 9,251,134 | 4.78 |
| Scottish Widows | 8,763,254 | 4.53 |
| Liberty Wangner Asset Management | 8,450,000 | 4.37 |
| Deutsche Asset Management | 6,617,299 | 3.42 |
| MLIM | 6,361,138 | 3.29 |
| Legal & General Investment Management | 6,185,392 | 3.20 |
| Jupiter Asset Management | 6,135,596 | 3.17 |

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 2003 and at 21st February 2004 | Number of shares at 31st December 2002 and at 21st February 2003 |
|--|---|---|
| Brook Land | 30,000 | 30,000 |
| Paul M Martin | – | – |
| Roger Devlin | – | – |
| Rob Thielen (appointed 1st January 2003) | – | – |
| Chris Wood (resigned 29th April 2003) | – | – |
| Alan S Hearne | 1,726,866 | 2,693,622 |
| Peter B Downen | 1,000,910 | 1,195,530 |
| Andrew R G Troup | 369,266 | 459,266 |
| Gary Young | – | – |

Report of the directors continued

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

| Director | 1st Jan 2003 Number | Granted number | Exercised number | Lapsed during year | 31st Dec 2003 Number | Exercise price | Market price at date of exercise | 2003 Notional gain on exercise of options £000s | 2002 Notional gain on exercise of options £000s | Date from which exercisable | Expiry date |
|----------------|---------------------|----------------|------------------|--------------------|----------------------|----------------|----------------------------------|---|---|-----------------------------|-------------|
| Alan S Hearne | 313,722 | | (313,722) | | – | 52.8p | 120.0p | 211 | 43 | 1/6/2003 | 1/6/2010 |
| | 57,024 | | | | 57,024 | 72.7p | | | | 22/2/2004 | 22/2/2011 |
| | 33,780 | | | | 33,780 | 125.0p | | | | 8/2/2003 | 8/2/2010 |
| | 33,780 | | | | 33,780 | 125.0p | | | | 8/2/2005 | 8/2/2012 |
| | 42,982 | | | | 42,982 | 171.0p | | | | 6/3/2004 | 6/3/2011 |
| | 42,982 | | | | 42,982 | 171.0p | | | | 6/3/2006 | 6/3/2013 |
| | 62,500 | | | | 62,500 | 149.0p | | | | 14/3/2005 | 14/3/2012 |
| | 62,500 | | | | 62,500 | 149.0p | | | | 14/3/2007 | 14/3/2014 |
| | | 62,500 | | | 62,500 | 111.0p | | | | 20/3/2006 | 20/3/2013 |
| | | 62,500 | | | 62,500 | 111.0p | | | | 20/3/2008 | 20/3/2015 |
| | | 28,157 | | | 28,157 | 146.5p | | | | 12/8/2006 | 12/8/2013 |
| | | 28,157 | | | 28,157 | 146.5p | | | | 12/8/2008 | 12/8/2015 |
| Peter B Downen | 221,628 | | (221,628) | | – | 52.8p | 120.0p | 149 | 30 | 1/6/2003 | 1/6/2010 |
| | 40,284 | | | | 40,284 | 72.7p | | | | 22/2/2004 | 22/2/2011 |
| | 23,862 | | | | 23,862 | 125.0p | | | | 8/2/2003 | 8/2/2010 |
| | 23,862 | | | | 23,862 | 125.0p | | | | 8/2/2005 | 8/2/2012 |
| | 20,285 | | | | 20,285 | 171.0p | | | | 6/3/2004 | 6/3/2011 |
| | 20,285 | | | | 20,285 | 171.0p | | | | 6/3/2006 | 6/3/2013 |
| | 32,500 | | | | 32,500 | 149.0p | | | | 14/3/2005 | 14/3/2012 |
| | 32,500 | | | | 32,500 | 149.0p | | | | 14/3/2007 | 14/3/2014 |
| | | 32,500 | | | 32,500 | 111.0p | | | | 20/3/2006 | 20/3/2013 |
| | | 32,500 | | | 32,500 | 111.0p | | | | 20/3/2008 | 20/3/2015 |
| | | 15,051 | | | 15,051 | 146.5p | | | | 12/8/2006 | 12/8/2013 |
| | | 15,051 | | | 15,051 | 146.5p | | | | 12/8/2008 | 12/8/2015 |

Report of the directors continued

| Director | 1st Jan 2003 Number | Granted number | Exercised number | Lapsed during year | 31st Dec 2003 Number | Exercise price | Market price at date of exercise | 2003 Notional gain on exercise of options £000s | 2002 Notional gain on exercise of options £000s | Date from which exercisable | Expiry date |
|------------------|---------------------|----------------|------------------|--------------------|----------------------|----------------|----------------------------------|---|---|-----------------------------|-------------|
| Andrew R G Troup | 221,628 | | (221,628) | | | 52.8p | 120.0p | 149 | 30 | 1/6/2003 | 1/6/2010 |
| | 40,284 | | | | 40,284 | 72.7p | | | | 22/2/2004 | 22/2/2011 |
| | 23,862 | | | | 23,862 | 125.0p | | | | 8/2/2003 | 8/2/2010 |
| | 23,862 | | | | 23,862 | 125.0p | | | | 8/2/2005 | 8/2/2012 |
| | 24,123 | | | | 24,123 | 171.0p | | | | 6/3/2004 | 6/3/2011 |
| | 24,123 | | | | 24,123 | 171.0p | | | | 6/3/2006 | 6/3/2013 |
| | 35,000 | | | | 35,000 | 149.0p | | | | 14/3/2005 | 14/3/2012 |
| | 35,000 | | | | 35,000 | 149.0p | | | | 14/3/2007 | 14/3/2014 |
| | | 35,000 | | | 35,000 | 111.0p | | | | 20/3/2006 | 20/3/2013 |
| | | 35,000 | | | 35,000 | 111.0p | | | | 20/3/2008 | 20/3/2015 |
| | | 14,437 | | | 14,437 | 146.5p | | | | 12/8/2006 | 12/8/2013 |
| | | 14,437 | | | 14,437 | 146.5p | | | | 12/8/2008 | 12/8/2015 |
| Gary Young | 20,285 | | | | 20,285 | 171.0p | | - | - | 6/3/2004 | 6/3/2011 |
| | 20,285 | | | | 20,285 | 171.0p | | | | 6/3/2006 | 6/3/2013 |
| | 27,500 | | | | 27,500 | 149.0p | | | | 14/3/2005 | 14/3/2012 |
| | 27,500 | | | | 27,500 | 149.0p | | | | 14/3/2007 | 14/3/2014 |
| | | 27,500 | | | 27,500 | 111.0p | | | | 20/3/2006 | 20/3/2013 |
| | | 27,500 | | | 27,500 | 111.0p | | | | 20/3/2008 | 20/3/2015 |
| | | 13,720 | | | 13,720 | 146.5p | | | | 12/8/2006 | 12/8/2013 |
| | | 13,720 | | | 13,720 | 146.5p | | | | 12/8/2008 | 12/8/2015 |

The additional options in 2003 were granted on 20th March and 12th August. Options were exercised on 4th June 2003.

The market price of the shares at 31st December 2003 was 147.5p and the range during the financial year was 106p to 173.5p.

There were no changes in the Directors' interests between 31st December 2003 and 17th March 2004. 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.

Employees

The Group's policies in relation to employees are disclosed on pages 12 to 16.

Charitable and community donations

During the year the Group made charitable donations of £33,000 to non political organisations. Total contributions including contributions in kind exceeded £50,000.

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 44 days' purchases outstanding in respect of payments to suppliers and sub-contractors (2002: 36 days). At the year end the Company had 32 days' purchases outstanding in respect of payments to suppliers and sub-contractors (2002: 28 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 46. The Board undertakes a regular review on the effectiveness of all internal controls. This review covers all material controls, including financial, operational and compliance controls and risk management systems.

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

On 31st December 2003, BDO Stoy Hayward, the Company's auditors, transferred its business to BDO Stoy Hayward LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. Accordingly BDO Stoy Hayward resigned as auditors on that date and the Directors appointed BDO Stoy Hayward LLP as its successor with effect from 1st January 2004. A resolution to reappoint BDO Stoy Hayward LLP as auditors will be proposed at the next Annual General Meeting.

Post balance sheet events

On 8th March 2004 the Company completed the acquisition of Troy-Ikoda Limited for a maximum consideration of £1.2 million. Further details are given in the Operating and Financial Review on page 8 and note 32. There have been no other material post balance sheet events.

Annual General Meeting

The Annual General Meeting will be held on 20th May 2004. In addition to the ordinary business there are six items of special business, three of which relate to the adoption of new share plans. Details of these new share plans can be found in the shareholders' circular which accompanies the Notice of Annual General Meeting.

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 £1,397,903 representing approximately 24% of the issued share capital as at 17th March 2004. 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 renewing the authority of the Directors to allot equity securities for cash as if Section 89(1) 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 £290,104.85 being approximately 5% of the issued share capital as at 17th March 2004. 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.

A further Special Resolution will be proposed authorising the Company to make market purchases of up to 9,670,162 of its own shares representing 5% of its issued share capital of the Company as at 17th March 2004. The minimum price which may be paid for such shares is £0.03 per share. The maximum price which may be paid for any ordinary share shall be no more than 5% above the average of the middle market quotations for an ordinary share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the date on which the ordinary share is purchased. 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 5,742,480. These rights represent 3% of the issued share capital as at such date and would represent 3.1% of the issued share capital of the Company, if the full authority to purchase its own shares in accordance with the resolution were to be exercised by the Company.

By order of the Board

April Rigby Secretary
17th March 2004

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 2003 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 and the Listing Rules of the Financial Services Authority.

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 or the Listing Rules 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 Operating and Financial Review, the Corporate Social Responsibility Report 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 2003 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 LLP Chartered Accountants and Registered Auditors, Manchester
17th March 2004

Consolidated profit and loss account

| for the year ending 31st December 2003 | | 2003 £000s | 2002 £000s |
|--|------|---------------|---------------|
| | Note | | |
| Turnover | | | |
| Continuing operations | | 117,254 | 104,822 |
| Acquisitions | | 7,295 | |
| | 2 | 124,549 | 104,822 |
| Operating profit before goodwill amortisation | | | |
| Continuing operations | | 20,153 | 16,898 |
| Acquisitions | | 292 | |
| | | 20,445 | 16,898 |
| Goodwill amortisation | 12 | 4,585 | 3,564 |
| Operating profit | 3 | 15,860 | 13,334 |
| Net interest receivable | 4 | 607 | 924 |
| Profit on ordinary activities before taxation | 6 | 16,467 | 14,258 |
| Taxation | 7 | 4,636 | 4,429 |
| Profit for the year attributable to shareholders of RPS Group Plc | 8 | 11,831 | 9,829 |
| Dividends | 9 | 3,480 | 3,018 |
| Retained profit for the year | 21 | 8,351 | 6,811 |
| Profit before goodwill amortisation and tax | | 21,052 | 17,822 |

| | Note | 2003 | | 2002 | |
|-----------------------------------|------|-------|---------|-------|---------|
| | | Basic | Diluted | Basic | Diluted |
| Earnings per share (pence) | 10 | | | | |
| Before goodwill amortisation | | 8.62 | 8.54 | 7.15 | 7.06 |
| After goodwill amortisation | | 6.21 | 6.16 | 5.25 | 5.18 |

Statement of total recognised gains and losses

| | 2003 £000s | 2002 £000s |
|--|---------------|---------------|
| Retained profit for the financial year | 8,351 | 6,811 |
| Currency translation differences on foreign currency investments | 919 | 792 |
| Total recognised gains and losses relating to the year | 9,270 | 7,603 |

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 71 to 92 form part of these statements.

Consolidated balance sheet

| as at 31st December 2003 | | 2003 | | Restated 2002 | |
|--|------|---------------|----------------|------------------|----------------|
| | Note | £000s | £000s | £000s | £000s |
| Fixed assets | | | | | |
| Intangible assets | 11 | | 87,911 | | 76,368 |
| Tangible assets | 12 | | 13,727 | | 13,698 |
| Investments | 13 | | – | | 1,213 |
| | | | 101,638 | | 91,279 |
| Current assets | | | | | |
| Work in progress | 14 | 9,456 | | 7,057 | |
| Debtors | 15 | 37,057 | | 31,876 | |
| Cash at bank and in hand | | 21,678 | | 23,046 | |
| | | 68,191 | | 61,979 | |
| Creditors: amounts falling due within one year | 16 | 42,724 | | 35,797 | |
| Net current assets | | | 25,467 | | 26,182 |
| Total assets less current liabilities | | | 127,105 | | 117,461 |
| Creditors: amounts falling due after more than one year | 17 | | 3,461 | | 6,239 |
| Provision for liabilities and charges | 18 | | 1,315 | | 2,346 |
| Net assets | | | 122,329 | | 108,876 |
| Capital and reserves | | | | | |
| Called up share capital | 20 | | 5,803 | | 5,708 |
| ESOP trust shares | 21 | | (1,805) | | (1,805) |
| Share premium account | 21 | | 82,201 | | 78,797 |
| Shares to be issued | 21 | | 1,625 | | 941 |
| Revaluation reserve | 21 | | 37 | | 37 |
| Profit and loss reserve | 21 | | 34,468 | | 25,198 |
| Equity shareholders' funds | | | 122,329 | | 108,876 |

These financial statements were approved by the Board on 17th March 2004.

The notes on pages 71 to 92 form part of these statements.

Dr A S Hearne, Director

G R Young, Director

On behalf of the Board of RPS Group Plc.

Company balance sheet

| as at 31st December 2003 | | 2003 | | Restated 2002 | |
|--|------|---------------|----------------|------------------|---------------|
| | Note | £000s | £000s | £000s | £000s |
| Fixed assets | | | | | |
| Intangible assets | 11 | | 1,240 | | 1,306 |
| Tangible assets | 12 | | 4,158 | | 4,093 |
| Investments | 13 | | 105,168 | | 85,313 |
| | | | 110,566 | | 90,712 |
| Current assets | | | | | |
| Debtors | 15 | 10,077 | | 3,510 | |
| Cash at bank and in hand | | 8,419 | | 14,100 | |
| | | 18,496 | | 17,610 | |
| Creditors: Amounts falling due within one year | 16 | 29,101 | | 11,396 | |
| Net current (liabilities)/assets | | | 10,605 | | 6,214 |
| Total assets less current liabilities | | | 99,961 | | 96,926 |
| Creditors: Amounts falling due after more than one year | 17 | | 3,461 | | 6,051 |
| Net assets | | | 96,500 | | 90,875 |
| Capital and reserves | | | | | |
| Called up share capital | 20 | | 5,803 | | 5,708 |
| ESOP trust shares | 21 | | (1,805) | | (1,805) |
| Share premium account | 21 | | 82,201 | | 78,797 |
| Shares to be issued | 21 | | 1,625 | | 941 |
| Revaluation reserve | 21 | | 32 | | 32 |
| Profit and loss reserve | 21 | | 8,644 | | 7,202 |
| Equity shareholders' funds | | | 96,500 | | 90,875 |

These financial statements were approved by the Board on 17th March 2004.

The notes on pages 71 to 92 form part of these accounts.

Dr A S Hearne, Director

G R Young, Director

On behalf of the Board of RPS Group Plc.

Consolidated cash flow statement

| for the year ended 31st December 2003 | Note | 2003 £000s | 2002 £000s |
|---|------|-----------------|---------------|
| Net cash inflow from operating activities | 24 | 20,630 | 15,174 |
| Returns on investments and servicing of finance | 25 | 607 | 924 |
| Corporation tax paid | | (5,110) | (4,606) |
| Capital expenditure | 25 | (2,138) | (2,318) |
| Acquisitions and disposals | 25 | (13,630) | (20,023) |
| | | 359 | (10,849) |
| Equity dividends paid | | (3,231) | (2,767) |
| Cash outflow before financing | | (2,872) | (13,616) |
| Financing | 25 | 877 | 301 |
| Decrease in cash in year | | (1,995) | (13,315) |

The notes on pages 71 to 92 form part of these accounts.

Reconciliation of net cash flow to movement in net funds

| | Note | 2003 £000s | 2002 £000s |
|--|------|----------------|---------------|
| Net cash at 1st January | | 23,046 | 36,361 |
| Decrease in cash in year | 25 | (1,995) | (13,315) |
| Foreign exchange translation differences | | 627 | – |
| Net cash at 31st December | | 21,678 | 23,046 |

Notes to the financial statements

1. 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 UK accounting standards. The following principal accounting policies have been applied:

Prior year adjustment

Following the introduction of UITF 38 "Accounting for ESOP Trusts", the presentation of the Employee Share Ownership Plan (ESOP) has been included within shareholders' funds. It was previously included within investments. There is no effect on the profit and loss account.

Basis of consolidation

The Group's financial statements incorporate the financial statements of the holding Company and all its subsidiary undertakings.

The results of subsidiaries acquired or disposed during the year are included from or up to the date of acquisition or disposal. On the acquisition of a subsidiary, fair values are attributed to the net assets acquired.

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, of up to 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 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 provided to customers during the year at invoiced amounts less applicable taxes, with the exception of income billed in advance which is deferred until the Group has the right to that consideration.

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 FRS 15 "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 and the interest element is charged to the profit and loss account.

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.

Notes to the financial statements continued

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 for the year 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 52 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 30 deal with the financial assets and financial liabilities as defined in FRS 13. 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.

Work in progress

Work in progress is valued at the lower of cost and net realisable value. Cost 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 38, the assets, income and expenditure of the ESOP Trust are incorporated into the Group and Company Financial Statements.

Notes to the financial statements continued

2. Turnover, profits and net assets

| | Operating profit | | As restated Net assets | | Turnover | |
|----------------------------------|------------------|---------------|---------------------------|---------------|----------------|---------------|
| | 2003 £000s | 2002 £000s | 2003 £000s | 2002 £000s | 2003 £000s | 2002 £000s |
| Analysis by class of business: | | | | | | |
| Consultancy and related services | 15,860 | 13,334 | 122,329 | 108,876 | 124,549 | 104,822 |
| Analysis by geographical market: | | | | | | |
| UK | | | | | 75,110 | 62,462 |
| Ireland | | | | | 39,104 | 30,115 |
| Netherlands | | | | | 9,158 | 12,245 |
| Rest of World | | | | | 1,177 | – |

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 2003 £000s | Continuing operations 2003 £000s | Total 2003 £000s | 2002 £000s |
|---|-------------------------------|---|------------------------|---------------|
| Turnover | 7,295 | 117,254 | 124,549 | 104,822 |
| Cost of sales | 5,461 | 70,959 | 76,420 | 62,285 |
| Gross profit | 1,834 | 46,295 | 48,129 | 42,537 |
| Administrative expenses | 1,768 | 30,501 | 32,269 | 29,203 |
| Operating profit before goodwill amortisation | 292 | 20,153 | 20,445 | 16,898 |
| Goodwill amortisation | 226 | 4,359 | 4,585 | 3,564 |
| Operating profit | 66 | 15,794 | 15,860 | 13,334 |

4. Net interest receivable

| | 2003 £000s | 2002 £000s |
|---|---------------|---------------|
| Deposit interest receivable | 672 | 1,012 |
| Interest on loans and other borrowings wholly repayable within five years | (5) | (62) |
| Deferred consideration | (36) | (4) |
| Finance leases | (24) | (22) |
| | 607 | 924 |

Notes to the financial statements continued

5. Employees

| | 2003 £000s | 2002 £000s |
|---|---------------|---------------|
| Staff costs (including Directors' emoluments) consist of: | | |
| Wages and salaries | 55,233 | 43,902 |
| Social security costs | 5,446 | 4,036 |
| Pension costs | 1,953 | 1,505 |
| | 62,632 | 49,443 |

The average monthly number of employees during the year was 2,083 (2002: 1,832). Please refer to page 14 for employment statistics. Details of the Directors' remuneration are shown on page 45.

6. Profit on ordinary activities before taxation

| | 2003 £000s | 2002 £000s |
|--|---------------|---------------|
| Profit on ordinary activities before taxation is stated after charging or crediting: | | |
| Depreciation of tangible fixed assets | 2,976 | 2,191 |
| Amortisation of intangible assets | 27 | – |
| Amortisation of goodwill | 4,585 | 3,564 |
| Loss (profit) on sale of fixed assets | 1 | (35) |
| Auditors' remuneration – to principal auditors for statutory audit | 92 | 59 |
| – to principal auditors for audit-related regulatory reporting | 12 | 9 |
| – to principal auditors for non-audit services | – | – |
| – to other auditors for audit services | 73 | 39 |
| – to other auditors for non-audit services | 8 | – |
| Operating leases – land and buildings | 1,888 | 1,783 |
| – equipment and motor vehicles | 1,979 | 2,424 |

The remuneration of the auditors for the statutory audit of the Company was £38,000 (2002: £31,000).

Notes to the financial statements continued

7. Taxation

| | Note | 2003 £000s | 2002 £000s |
|---|------|---------------|---------------|
| Current tax | | | |
| UK Corporation tax at 30% (2002: 30%) | | 3,379 | 3,223 |
| Adjustment in respect of prior years | | (74) | (16) |
| Overseas taxation | | 1,390 | 1,584 |
| Adjustment in respect of prior years | | 29 | 16 |
| Total current tax | | 4,724 | 4,807 |
| Deferred tax | | | |
| Timing differences | 19 | (88) | (262) |
| Adjustment in respect of prior years | | - | (116) |
| Total deferred tax | | (88) | (378) |
| Total tax on profit on ordinary activities | | 4,636 | 4,429 |

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

| | 2003 £000s | 2002 £000s |
|---|---------------|---------------|
| Profit on ordinary activities before tax | 16,467 | 14,258 |
| Tax at UK effective rate of 30% (2002: 30%) | 4,940 | 4,277 |
| Expenses not deductible for tax purposes | 1,113 | 1,532 |
| Depreciation in excess of capital allowances | 175 | 150 |
| Income tax suffered | (32) | - |
| Overseas tax rates | (1,386) | (937) |
| Utilisation of tax losses | (14) | (68) |
| Movements on short-term timing differences | (27) | (147) |
| Prior year adjustment | (45) | - |
| Total current tax charge for year | 4,724 | 4,807 |

Notes to the financial statements continued

8. Profit attributable to shareholders

| | 2003 £000s | 2002 £000s |
|--|---------------|---------------|
| Profit for the year attributable to the shareholders of the parent company, dealt with in the accounts of the parent company | 4,922 | 5,191 |

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

9. Dividends

| | 2003 £000s | 2002 £000s |
|---|---------------|---------------|
| Dividends paid and proposed are as follows: | | |
| Interim paid: 0.88p per share (2002: 0.76p) | 1,679 | 1,443 |
| Final proposed: 0.94p per share (2002: 0.82p) | 1,801 | 1,575 |
| | 3,480 | 3,018 |

10. Earnings per share

The calculation of earnings per share is based on profit after tax and the weighted average number of ordinary shares in issue during the year. An adjusted earnings per share figure has been calculated in addition to the earnings per share required by FRS 14, Earnings Per Share and is based on profit excluding the effect of goodwill amortisation. It has been calculated to allow shareholders to gain a clearer understanding of the trading performance of the Group.

| | 2003 £000s | 2002 £000s |
|--|---------------|---------------|
| Earnings after goodwill amortisation | | |
| Profit attributable to shareholders | 11,831 | 9,829 |
| Earnings before goodwill amortisation | | |
| Profit attributable to shareholders | 11,831 | 9,829 |
| Goodwill amortisation | 4,585 | 3,564 |
| | 16,416 | 13,393 |

| | 2003 | | 2002 | |
|-----------------------------------|-------|---------|-------|---------|
| | Basic | Diluted | Basic | Diluted |
| Earnings per share (pence) | | | | |
| After goodwill amortisation | 6.21 | 6.16 | 5.25 | 5.18 |
| Effect of goodwill amortisation | 2.41 | 2.38 | 1.90 | 1.88 |
| Before goodwill amortisation | 8.62 | 8.54 | 7.15 | 7.06 |

| | Number | Number |
|--|--------------------|--------------------|
| Reconciliation of weighted average number of shares | | |
| Basic | 190,367,000 | 187,368,000 |
| Dilutive effect of options | 717,000 | 1,400,000 |
| Dilutive effect of shares to be issued for consideration | 1,102,000 | 834,000 |
| Diluted number of shares | 192,186,000 | 189,602,000 |

Notes to the financial statements continued

11. Intangible assets

| | Note | Group | | | Company |
|---|------|---------------------------------------|-------------------|----------------|--------------|
| | | Intellectual Property Rights £000s | Goodwill £000s | Total £000s | £000s |
| Cost | | | | | |
| At 1st January 2003 | | – | 83,964 | 83,964 | 2,134 |
| Additions | 27 | – | 14,781 | 14,781 | – |
| Additions through acquisition | | 201 | – | 201 | – |
| Adjustment due to final determination of deferred consideration | | – | 1,172 | 1,172 | – |
| At 31st December 2003 | | 201 | 99,917 | 100,118 | 2,134 |
| Amortisation | | | | | |
| As at 1st January 2003 | | – | 7,595 | 7,595 | 828 |
| Amortisation charge | | 27 | 4,585 | 4,612 | 66 |
| At 31st December 2003 | | 27 | 12,180 | 12,207 | 894 |
| Net book value at 31st December 2003 | | 174 | 87,737 | 87,911 | 1,240 |
| Net book value at 31st December 2002 | | – | 76,368 | 76,368 | 1,306 |

12. Tangible assets

| | Freehold land and buildings £000s | Alterations to short leasehold premises £000s | Motor vehicles £000s | Fixtures, fittings, IT and equipment £000s | Total £000s |
|---|--------------------------------------|--|-------------------------|---|----------------|
| Group | | | | | |
| Cost or valuation | | | | | |
| At 1st January 2003 | 8,049 | 1,139 | 700 | 15,393 | 25,281 |
| Transfers | 81 | (82) | (203) | 204 | – |
| Additions through acquisition | 240 | – | 97 | 2,493 | 2,830 |
| Additions | – | 80 | 11 | 2,263 | 2,354 |
| Disposals | – | (190) | (263) | (1,187) | (1,640) |
| Foreign exchange differences | 178 | 53 | 16 | 400 | 647 |
| At 31st December 2003 | 8,548 | 1,000 | 358 | 19,566 | 29,472 |
| Depreciation | | | | | |
| At 1st January 2003 | 551 | 449 | 452 | 10,131 | 11,583 |
| Transfers | (47) | 47 | (135) | 135 | – |
| Provided for on acquired assets | 8 | – | 56 | 2,286 | 2,350 |
| Provided for the year | 161 | 74 | 76 | 2,665 | 2,976 |
| Disposals | – | (70) | (229) | (1,124) | (1,423) |
| Foreign exchange differences | 12 | 7 | 11 | 229 | 259 |
| At 31st December 2003 | 685 | 507 | 231 | 14,322 | 15,745 |
| Net book value at 31st December 2003 | 7,863 | 493 | 127 | 5,244 | 13,727 |
| Net book value at 31st December 2002 | 7,498 | 690 | 248 | 5,262 | 13,698 |

Notes to the financial statements continued

12. Tangible assets (continued)

| | Freehold land and buildings £000s | Alterations to short leasehold premises £000s | Fixtures, fittings, IT and equipment £000s | Total £000s |
|---|--|---|--|----------------|
| Company | | | | |
| Cost or valuation | | | | |
| At 1st January 2003 | 4,028 | 66 | 1,134 | 5,228 |
| Transfers | (2) | – | 2 | – |
| Additions | – | – | 387 | 387 |
| At 31st December 2003 | 4,026 | 66 | 1,523 | 5,615 |
| Depreciation | | | | |
| At 1st January 2003 | 359 | 34 | 742 | 1,135 |
| Provided for the year | 78 | 1 | 243 | 322 |
| At 31st December 2003 | 437 | 35 | 985 | 1,457 |
| Net book value at 31st December 2003 | 3,589 | 31 | 538 | 4,158 |
| Net book value at 31st December 2002 | 3,669 | 32 | 392 | 4,093 |

The Group had motor vehicles and office equipment held under hire purchase contracts with net book values of £23,000 and £34,000 respectively.

13. Fixed assets investments

| | Note | ESOP Trust Shares £000s | Other investments £000s | Total £000s |
|---|------|-------------------------------|-------------------------------|----------------|
| Group | | | | |
| At 1st January 2003, as previously reported | | 1,805 | 1,213 | 3,018 |
| Transferred to shareholders' funds | 1 | (1,805) | – | (1,805) |
| At 1st January, as restated | | – | 1,213 | 1,213 |
| Purchase of undertaking | 27 | – | (1,213) | (1,213) |
| At 31st December 2003 | | – | – | – |

Notes to the financial statements continued

13. Fixed assets investments (continued)

| | Note | Subsidiary undertakings £000s | Other investments £000s | ESOP Trust Shares £000s | Total £000s |
|---|------|-------------------------------------|-------------------------------|-------------------------------|----------------|
| Company | | | | | |
| Cost | | | | | |
| At 1st January 2003, as previously reported | | 84,658 | 1,493 | 1,805 | 87,956 |
| Transferred to shareholders' funds | | – | – | (1,805) | (1,805) |
| At 1st January, as restated | | 84,658 | 1,493 | – | 86,151 |
| Additions | | 19,855 | – | – | 19,855 |
| Reclassification | 27 | 1,493 | (1,493) | – | – |
| At 31st December 2003 | | 106,006 | – | – | 106,006 |
| Provisions | | | | | |
| At 1st January 2003 | | 558 | 280 | – | 838 |
| Reclassification | | 280 | (280) | – | – |
| At 31st December 2003 | | 838 | – | – | 838 |
| Net book value at 31st December 2003 | | 105,168 | – | – | 105,168 |
| Net book value at 31st December 2002 | | 84,100 | 1,213 | – | 85,313 |

Subsidiary and associated undertakings

The following were the principal operating subsidiaries 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% |
| RPS Planning and Environment Limited | Northern Ireland | 100% |
| Hydrosearch Associates Limited | England | 100% |
| RPS Groep Nederland BV | Netherlands | 100% |
| RPS BAK Consultants BV | Netherlands | 100%* |
| European Laboratory Services BV | Netherlands | 100%* |
| RPS Environmental Engineering Limited | Ireland | 100%* |
| RPS McHugh Planning & Environment Limited | Ireland | 100%* |
| RPS MCOS Limited | Ireland | 100%* |
| EDR Hydrosearch Limited | Australia | 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.

Notes to the financial statements continued

14. Work in progress

| | 2003 £000s | 2002 £000s |
|------------------|---------------|---------------|
| Group | | |
| Work in progress | 9,456 | 7,000 |
| Laboratory stock | – | 57 |
| | 9,456 | 7,057 |

15. Debtors

| | Note | Group | | Company | |
|--|------|---------------|---------------|---------------|---------------|
| | | 2003 £000s | 2002 £000s | 2003 £000s | 2002 £000s |
| Trade debtors | | 31,532 | 26,738 | 39 | 48 |
| Amounts due from subsidiary undertakings | | – | – | 8,595 | – |
| Other debtors | | 2,455 | 2,041 | 106 | 2,440 |
| Deferred tax asset | 19 | 707 | 468 | 48 | 43 |
| Prepayments and accrued income | | 2,363 | 2,629 | 1,289 | 979 |
| | | 37,057 | 31,876 | 10,077 | 3,510 |

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

16. Creditors: amounts falling due within one year

| | Note | Group | | Company | |
|--|------|---------------|---------------|---------------|---------------|
| | | 2003 £000s | 2002 £000s | 2003 £000s | 2002 £000s |
| Trade creditors | | 9,245 | 6,208 | 1,557 | 601 |
| Amounts due to subsidiary undertakings | | – | – | 14,013 | 1,141 |
| Corporation tax | | 2,144 | 2,293 | 757 | – |
| Foreign taxation | | 1,585 | 1,986 | – | – |
| Creditors for taxation and social security | | 5,353 | 3,551 | – | – |
| Deferred consideration | 17 | 10,199 | 8,149 | 10,199 | 7,410 |
| Other creditors | | 508 | 977 | – | – |
| Hire purchase creditor | | 217 | 226 | 14 | – |
| Proposed dividend | | 1,841 | 1,593 | 1,841 | 1,593 |
| Accruals | | 11,632 | 10,814 | 720 | 651 |
| | | 42,724 | 35,797 | 29,101 | 11,396 |

Notes to the financial statements continued

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

| | Group | | Company | |
|-----------------------------------|---------------|---------------|---------------|---------------|
| | 2003 £000s | 2002 £000s | 2003 £000s | 2002 £000s |
| Deferred consideration | 3,461 | 6,051 | 3,461 | 6,051 |
| Other creditors | – | 188 | – | – |
| | 3,461 | 6,239 | 3,461 | 6,051 |
| Due as follows | | | | |
| After one year within two years | 3,391 | 6,239 | 3,391 | 6,051 |
| After two years within five years | 70 | – | 70 | – |
| | 3,461 | 6,239 | 3,461 | 6,051 |

The liability in respect of deferred consideration is due to the vendors of acquired businesses and is contingent upon them meeting continuing employment obligations contained in service agreements they enter upon acquisition and other contractual obligations.

The amount due within one year is stated net of £1,796,000 (2002: £2,169,000) being in respect of claims against retentions for pension shortfall and non-paying debtors.

18. Provisions for liabilities and charges

| | Group | | | | | Company | |
|------------------------------|-----------------------|------------------------|-------------------------------|-------------------------------------|---------------------------------|----------------|----------------|
| | Deferred tax £000s | Staff bonuses £000s | Reorganisation costs £000s | Unfunded pension liability £000s | Property dilapidations £000s | Total £000s | Total £000s |
| As at 1st January 2003 | 254 | 228 | 371 | 1,140 | 353 | 2,346 | – |
| Utilised in year | (254) | (103) | (371) | – | (353) | (1,081) | – |
| Acquired with subsidiary | – | – | – | – | 50 | 50 | – |
| At 31st December 2003 | – | 125 | – | 1,140 | 50 | 1,315 | – |

Unfunded pension liability

The provision for unfunded pension liability arose on acquisition of RPS MCOS Ltd in June 2002 and represents the best estimate of the pension shortfall on that date. This amount was deducted from the consideration payable to the vendors of the company 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 year.

19. Deferred taxation

| | Note | Group | | Company | |
|---|------|---------------|---------------|---------------|---------------|
| | | 2003 £000s | 2002 £000s | 2003 £000s | 2002 £000s |
| Movement on deferred taxation: | | | | | |
| Net asset/(liability) at beginning of year | | 214 | (264) | 43 | – |
| Transferred to profit and loss account (with respect to current year) | | 88 | 262 | 5 | (8) |
| Transferred to profit and loss account (with respect to prior years) | | | 116 | | 51 |
| Other movements | | 65 | – | | |
| Amounts arising on acquisition | | 340 | 100 | | – |
| Net asset at year end | | 707 | 214 | 48 | 43 |
| Represented by: | | | | | |
| Debtors | 15 | 707 | 468 | 48 | 43 |
| Provision for liabilities and charges | | – | (254) | – | – |
| Net asset at year end | | 707 | 214 | 48 | 43 |

Notes to the financial statements continued

19. Deferred taxation (continued)

Deferred taxation balances comprise

| | Group | | Company | |
|--|---------------|---------------|---------------|---------------|
| | 2003 £000s | 2002 £000s | 2003 £000s | 2002 £000s |
| Short-term timing differences | 445 | 265 | – | – |
| Depreciation in excess of capital allowances | 262 | (51) | 48 | 43 |
| Deferred tax asset | 707 | 214 | 48 | 43 |

20. Share capital

| | Authorised | | Allotted and fully paid | |
|------------------------------|--------------------|----------------|-------------------------|----------------|
| | Number | Value £000s | Number | Value £000s |
| Ordinary shares of 3p each | | | | |
| At 1st January 2003 | 240,000,000 | 7,200 | 190,225,759 | 5,708 |
| At 31st December 2003 | 240,000,000 | 7,200 | 193,385,234 | 5,803 |

During the year 1,285,898 ordinary 3p shares were issued in consideration for acquisitions and 1,467,248 ordinary 3p shares were issued under the Executive Share Option Scheme. The aggregate nominal value of these shares was £82,594 and the total consideration received net of costs was £2,986,677.

A further 406,329 ordinary 3p shares were issued with a nominal value of £12,190 in respect of deferred consideration of £511,619 related to acquisitions in prior years.

At 31st December 2003 the following options were still outstanding:

| Period exercisable | Number | Exercise price (p) |
|--------------------|-----------|--------------------|
| 2001 – 2008 | 42,000 | 52 – 53 |
| 2002 – 2009 | 291,330 | 72 – 83 |
| 2003 – 2010 | 781,704 | 52 – 143 |
| 2004 – 2011 | 837,416 | 72 – 171 |
| 2005 – 2012 | 1,211,896 | 115 – 149 |
| 2006 – 2013 | 1,345,972 | 111 – 171 |
| 2007 – 2014 | 524,326 | 149 |
| 2008 – 2015 | 707,836 | 111 – 147 |

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

Notes to the financial statements continued

21. Reconciliation of movements in shareholders' funds

| Note | Share capital £000s | ESOP Trust Shares £000s | Share premium £000s | Shares to be issued £000s | Revaluation reserve £000s | Profit and loss £000s | Total £000s |
|--|------------------------|-------------------------------|---------------------------|---------------------------------|---------------------------------|-----------------------------|----------------|
| Group | | | | | | | |
| At 1st January 2003, as previously reported | 5,708 | | 78,797 | 941 | 37 | 25,198 | 110,681 |
| Transfer of ESOP trust shares from investments | – | (1,805) | – | – | – | – | (1,805) |
| At 1st January 2003, as restated | 5,708 | (1,805) | 78,797 | 941 | 37 | 25,198 | 108,876 |
| Exchange gain | – | – | – | – | – | 919 | 919 |
| Issue of new shares | 20 95 | – | 3,404 | (512) | – | – | 2,987 |
| Shares to be issued | – | – | – | 1,196 | – | – | 1,196 |
| Retained profit for the year | – | – | – | – | – | 8,351 | 8,351 |
| At 31st December 2003 | 5,803 | (1,805) | 82,201 | 1,625 | 37 | 34,468 | 122,329 |
| Company | | | | | | | |
| At 1st January 2003 | 5,708 | | 78,797 | 941 | 32 | 7,202 | 92,680 |
| Transfer of ESOP trust shares from investments | – | (1,805) | – | – | – | – | (1,805) |
| At 1st January 2003, as restated | 5,708 | (1,805) | 78,797 | 941 | 32 | 7,202 | 90,875 |
| Issue of new shares | 20 95 | – | 3,404 | (512) | – | – | 2,987 |
| Shares to be issued | – | – | – | 1,196 | – | – | 1,196 |
| Retained profit for the year | – | – | – | – | – | 1,442 | 1,442 |
| At 31st December 2003 | 5,803 | (1,805) | 82,201 | 1,625 | 32 | 8,644 | 96,500 |

Goodwill previously written off against reserves amounts cumulatively to £6,314,000 (2002: £6,314,000).

The ESOP trust holds 1,083,000 shares of RPS Group plc. The market price of these shares at 31st December 2003 was 147.25p per share. Details of outstanding options are included in note 20.

22. Commitments under operating leases

At 31st December 2003 the Group had annual commitments under non-cancellable operating leases as set out below:

| | Land and buildings | | Other | |
|--------------------------------|--------------------|---------------|---------------|---------------|
| | 2003 £000s | 2002 £000s | 2003 £000s | 2002 £000s |
| Operating leases which expire: | | | | |
| Within one year | 184 | 323 | 210 | 880 |
| In two to five years | 889 | 564 | 1,053 | 373 |
| After five years | 1,538 | 834 | – | 3 |
| | 2,611 | 1,721 | 1,263 | 1,256 |

23. Directors' interests in transactions

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

Notes to the financial statements continued

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

| | 2003 £000s | 2002 £000s |
|---|---------------|---------------|
| Operating profit | 15,860 | 13,334 |
| Depreciation and goodwill amortisation | 7,588 | 5,755 |
| Increase in work in progress | (275) | (16) |
| Increase in debtors | (2,086) | (1,467) |
| Decrease in creditors | (458) | (2,397) |
| Loss/(profit) on sale of fixed assets | 1 | (35) |
| Net cash inflow from operating activities | 20,630 | 15,174 |

25. Notes to the cash flow statement

| | 2003 £000s | 2002 £000s |
|--|---------------|---------------|
| Analysis of cash flows | | |
| Returns on investments and servicing of finance | | |
| Interest received | 607 | 924 |
| Capital expenditure | | |
| Payments to acquire tangible assets | (2,354) | (2,776) |
| Receipts from sale of tangible fixed assets | 216 | 458 |
| Net cash outflow | (2,138) | (2,318) |
| Acquisitions and disposals | | |
| Net cash acquired with subsidiary | 3,593 | 1,321 |
| Deferred consideration paid | (7,862) | (6,377) |
| Purchase of subsidiary undertakings and associates | (9,361) | (14,968) |
| Net cash outflow | (13,630) | (20,023) |
| Financing | | |
| Issue of ordinary share capital | 896 | 486 |
| Hire purchase repayments | (19) | (185) |
| Net cash inflow | 877 | 301 |

| | At 1st Jan 2003 £000s | Cash flows £000s | Translation differences £000s | At 31st Dec 2003 £000s |
|---|--------------------------------|------------------------|-------------------------------------|---------------------------------|
| Analysis of changes in net funds | | | | |
| Cash at bank and in hand | 23,046 | (1,995) | 627 | 21,678 |

Notes to the financial statements continued

26. 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 27.

27. Purchase of undertakings

The acquisitions during the year were as follows:

In April, an additional 55.36% was acquired in the Emulous Group Limited. This increase in share capital has been treated as an acquisition.

In September, certain assets of KCA Associates, an unincorporated business, was acquired.

In September, the Hydrossearch Group of companies was acquired.

In December, Woods Warren Limited was acquired.

The only material acquisition was that of the Hydrossearch Group.

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

| | Book value £000s | Adjustments – accounting policy £000s | Adjustments – other £000s | Fair value Total £000s |
|--|---------------------|--|---------------------------------|------------------------------|
| Asset values | | | | |
| Tangible fixed assets | 1,186 | (157) | (549) | 480 |
| Intangible fixed assets | 235 | (34) | | 201 |
| Work in progress | 1,879 | (29) | | 1,850 |
| Debtors | 3,088 | (114) | 204 | 3,178 |
| Cash (including overdrafts) | 3,593 | – | | 3,593 |
| Creditors | (4,194) | (12) | 100 | (4,106) |
| Net assets acquired | 5,787 | (346) | (245) | 5,196 |
| Cost of acquisition | | | | |
| Shares allotted | | | | 2,094 |
| Transfer from fixed assets investment (note 13) | | | | 1,213 |
| Cash | | | | 8,825 |
| Deferred consideration – loan notes, cash and shares | | | | 7,309 |
| Acquisition expenses | | | | 536 |
| | | | | 19,977 |
| Goodwill arising (note 11) | | | | 14,781 |

The main criteria for deferred consideration to become payable is that vendors meet continuing employment obligations contained in service agreements they enter upon acquisition and comply with other contractual obligations.

Notes to the financial statements continued

27. Purchase of undertakings (continued)**a. Hydrosearch Group**

Details of the acquisition of the Hydrosearch Group were as follows:

| | Book value £000s | Adjustments – accounting policy £000s | Adjustments – other £000s | Fair value Total £000s |
|--|---------------------|--|---------------------------------|------------------------------|
| Asset values | | | | |
| Tangible fixed assets | 432 | (101) | – | 331 |
| Work in progress | 1,516 | – | – | 1,516 |
| Debtors | 2,454 | – | (11) | 2,443 |
| Cash | 3,828 | – | – | 3,828 |
| Creditors | (2,130) | – | (25) | (2,155) |
| Net assets acquired | 6,100 | (101) | (36) | 5,963 |
| Cost of acquisition | | | | |
| Shares allotted | | | | 1,804 |
| Cash | | | | 7,219 |
| Deferred consideration – cash and shares | | | | 6,217 |
| Acquisition costs | | | | 374 |
| | | | | 15,614 |
| Goodwill arising | | | | 9,651 |

During the nine month period to the effective date of acquisition of 23rd September 2003, the profit after tax of the Hydrosearch Group of companies acquired was £234,000. In the previous financial year to 31st December 2002 the profit after taxation was £1,386,000.

The impact on the RPS Group consolidated cash flow statement of the acquisition of the Hydrosearch Group is as follows:

| | 2003 £000s |
|---|---------------|
| Net cash outflow from operating activities | (1,215) |
| Returns on investments and servicing of finance | 15 |
| Corporation tax paid | (158) |
| Capital expenditure | (24) |
| Net cash at acquisition | 3,828 |
| Increase in cash for the period | 2,446 |

Notes to the financial statements continued

27. Purchase of undertakings (continued)**b. Woods Warren Limited**

Details of the acquisition of Woods Warren Ltd were as follows:

| | Book value £000s | Adjustments – accounting policy £000s | Adjustments – other £000s | Fair value Total £000s |
|--|---------------------|--|---------------------------------|------------------------------|
| Asset values | | | | |
| Tangible fixed assets | 119 | (56) | | 63 |
| Intangible fixed assets | 34 | (34) | | – |
| Work in progress | 363 | (29) | | 334 |
| Debtors | 588 | (114) | | 474 |
| Bank overdraft | (236) | | | (236) |
| Creditors | (646) | (12) | 125 | (533) |
| Net assets acquired | 222 | (245) | 125 | 102 |
| Cost of acquisition | | | | |
| Shares allotted | | | | 290 |
| Cash | | | | 1,556 |
| Deferred consideration – loan notes, cash and shares | | | | 1,054 |
| Acquisition costs | | | | 124 |
| | | | | 3,024 |
| Goodwill arising | | | | 2,922 |

During the two month period to the effective date of acquisition of 8th December 2003, the loss after tax of Woods Warren Ltd was £599,000. In the previous financial year to 30th September 2003 the profit after taxation was £377,000.

c. Emulous Group Ltd

Details of the acquisition of the Emulous Group were as follows:

| | Book value £000s | Adjustments – other £000s | Fair value Total £000s |
|---|---------------------|---------------------------------|------------------------------|
| Asset values | | | |
| Tangible fixed assets | 86 | – | 86 |
| Intangible fixed assets | 201 | – | 201 |
| Debtors | 46 | 215 | 261 |
| Cash | 1 | – | 1 |
| Creditors | (1,419) | – | (1,419) |
| Net liabilities acquired | (1,085) | 215 | (870) |
| Cost of acquisition | | | |
| Transferred from fixed asset investment (note 13) | | | 1,213 |
| Acquisition costs | | | 37 |
| | | | 1,250 |
| Goodwill arising | | | 2,120 |

During the three month period to the effective date of acquisition of 4th April 2003, the loss after tax of Emulous was £378,000. In the previous financial year to 31st December 2002 the loss after taxation was £341,000.

Notes to the financial statements continued

27. Purchase of undertakings (continued)**d. KCA Associates**

The business of KCA Associates was acquired for £50,000 cash and deferred consideration of £38,000. There were no net assets at acquisition, hence goodwill arising was £88,000.

28. Prior period acquisition

During 2003 the Group implemented procedures which generated profits of £1,629,000 determined using fair values attributed to assets and liabilities on a previous acquisition. A significant proportion of this related to the recovery of doubtful debts, the majority of which were more than 12 months old at the date of recovery and which had been fully provided in the acquired company at the date of acquisition.

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 FRS 13 "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. The Group's financial instruments comprise cash and various items such as trade debtors and trade creditors that arise directly from its operations. The Group occasionally 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.

Foreign currency risk

The Group, which is based in the UK and reports in sterling, has investments in overseas operations in the Netherlands, Ireland, America and Australia that have functional currencies other than sterling. As a result the Group's balance sheet can be affected by movement in the exchange rate between sterling and the functional currencies of overseas operations. The most important exchange rate as far as RPS is concerned is the pound/euro rate. Currency exposures are reviewed regularly and all significant foreign exchange transactions are approved by the Group.

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 own functional currency. Foreign exchange differences arising on the translation of these assets and liabilities were taken to the profit and loss account of the Group companies and the Group during the year.

Net foreign currency monetary assets/(liabilities) at 31st December 2003

| | Sterling £000s | Euro €000s | US Dollar \$000s | Total £000s |
|---|-------------------|---------------|------------------------|----------------|
| Functional currency of Group operation | | | | |
| Sterling | – | 178 | 1,892 | 2,070 |
| Euro | 54 | – | (32) | 22 |
| Australian Dollar | – | – | 874 | 874 |
| At 31st December 2003 | 54 | 178 | 2,734 | 2,966 |

Notes to the financial statements continued

30 Foreign currency risk (continued)

Net foreign currency monetary assets/(liabilities) at 31st December 2002

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

At the year end the Company and Group had an outstanding forward exchange contract to buy €716,000 in exchange for sterling, to settle liabilities in respect of deferred consideration.

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 2003 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 | |
|-------------------------|--|---------------|-------------------------------------|---------------|---|---------------|---------------|---------------|
| | 2003 £000s | 2002 £000s | 2003 £000s | 2002 £000s | 2003 £000s | 2002 £000s | 2003 £000s | 2002 £000s |
| Sterling | 1,954 | 1,475 | 78 | – | 11,706 | 12,726 | 13,738 | 14,200 |
| Euro | – | – | 177 | 226 | – | – | 177 | 226 |
| At 31st December | 1,954 | 1,475 | 255 | 226 | 11,706 | 12,726 | 13,915 | 14,426 |

Financial liabilities

| Currency | Fixed rate financial liabilities | | | | Fixed rate financial liabilities on which no interest is paid | |
|----------|---------------------------------------|---------------------------------------|--|--|---|---|
| | Weighted average interest rate % 2003 | Weighted average interest rate % 2002 | Weighted average period for which rate is fixed – years 2003 | Weighted average period for which rate is fixed – years 2002 | Weighted average period until maturity – years 2003 | Weighted average period until maturity – years 2002 |
| Sterling | 8.0 | – | 1.0 | – | 1.0 | 1.0 |
| Euro | 5.8 | 8.0 | 4.0 | 1.5 | – | – |
| | 6.5 | 8.0 | 3.0 | 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.

Notes to the financial statements continued

31. Interest rate risk (continued)

Interest rate risk and profile of financial assets

| Currency | 2003 £000s | 2002 £000s |
|-------------------|---------------|---------------|
| Sterling | 11,171 | 15,719 |
| Euro | 8,839 | 7,322 |
| US Dollar | 1,405 | – |
| Australian Dollar | 218 | – |
| Hong Kong Dollar | 45 | – |
| At 31st December | 21,678 | 23,041 |
| Floating rate | 21,678 | 13,946 |
| Fixed rate | – | 9,095 |
| | 21,678 | 23,041 |

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.

| | 2003 £000s | 2002 £000s |
|--------------------------|---------------|---------------|
| Expiring within one year | 1,000 | 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. Post balance sheet events

On the 8th March 2004 the Company completed the acquisition of Troy-Ikoda Limited for a maximum consideration of £1.2 million, all cash, of which £512,000 was paid at completion. In the year ended 31st December 2003 Troy-Ikoda Limited had turnover of £2,862,000, reported loss before tax of £32,000, adjusted profit before tax of £171,000 after adjustments to a going forward basis and adding back exceptionals, and net assets of £1,045,000.

33. 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 £1,953,000 for the year ended 31st December 2003 (2002: £1,505,000).

A defined benefit scheme is in operation within RPS MCOS 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 2003 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 would be 4.5%.

The market value of the assets at the valuation date was £2,571,000 and this represented 80% of past service liabilities using projected salaries. The deficit is being amortised over the future working lifetime of the current active membership.

The current service cost for the year was £336,000 and the employer contribution rate is 14.8% of pensionable salaries.

Notes to the financial statements continued

33. Pensions (continued)**FRS 17 disclosures**

The transitional disclosure requirements of FRS 17 "Retirement Benefits" are given below. The Group operates one defined benefit scheme. A full actuarial valuation of the scheme was carried out at April 2003 and updated to 31st December 2003 by a qualified actuary.

The major assumptions used by the actuary were as follows:

| | 31st Dec 2003 % | 31st Dec 2002 % |
|--|-----------------------|-----------------------|
| Rate of increase in pensionable salaries | 4.0 | 4.0 |
| Rate of increase in pensions in payment | 2.5 | 2.5 |
| Discount rate | 5.5 | 5.5 |
| Inflation assumption | 2.5 | 2.5 |

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

| | 31st Dec 2003 % | 31st Dec 2003 £000s | 31st Dec 2002 % | 31st Dec 2002 £000s |
|------------------------------|-----------------------|---------------------------|-----------------------|---------------------------|
| Equities | 7.75 | 2,335 | 8 | 1,632 |
| Bonds | 4.75 | 579 | 5 | 668 |
| Properties | 6.75 | 221 | 7 | 197 |
| Cash | 2.10 | 178 | 3 | 133 |
| Total market value of assets | | 3,313 | | 2,630 |
| Actuarial value of liability | | 4,022 | | 2,962 |
| Deficit in the scheme | | (709) | | (332) |
| Related deferred tax asset | | 89 | | 100 |
| Net pension liability | | (620) | | (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 2003 would be as follows:

| | 2003 £000s | As restated 2002 £000s |
|---|----------------|------------------------------|
| Net assets | 122,099 | 108,876 |
| Unfunded pension provision net of tax | 998 | 998 |
| Net assets excluding pension provision | 123,097 | 109,874 |
| Pension liability | (620) | (232) |
| Net assets including pension liability | 122,477 | 109,642 |
| Profit and loss reserve | 34,238 | 25,198 |
| Unfunded pension provision net of tax | 998 | 998 |
| Profit and loss reserve excluding pension provision | 35,236 | 26,196 |
| Pension liability | (620) | (232) |
| Profit and loss reserve after pension liability | 34,616 | 25,964 |

Notes to the financial statements continued

33. Pensions (continued)

The following amounts would have been recognised in the performance statements in the year to 31st December 2003 under the requirements of FRS 17.

| | 2003 £000s | 2002 £000s |
|---|---------------|---------------|
| Operating profit | | |
| Current service cost | 275 | 240 |
| Past service cost | - | - |
| Total operating charge | 275 | 240 |
| Other finance income | | |
| Expected return on pension scheme assets | 203 | 183 |
| Interest on pension scheme liabilities | (182) | (151) |
| Net return | 21 | 32 |
| Statement of total recognised gains and losses (STRGL) | | |
| Actual return less expected return on pension scheme assets | 75 | (500) |
| Experience gains and losses arising on the scheme liabilities | (42) | 204 |
| Changes in the assumptions underlying the present value of the scheme liabilities | (347) | (346) |
| Actuarial (loss) recognised in the STRGL | (314) | (642) |
| Movement in deficit during the year | | |
| (Deficit)/Surplus in the scheme at the beginning of the year | (332) | 71 |
| Movement in the year: | | |
| Foreign exchange movements | (28) | - |
| Current service costs | (275) | (240) |
| Contributions | 219 | 437 |
| Net interest income | 21 | 42 |
| Actuarial loss | (314) | (642) |
| Deficit in the scheme at the end of the year | (709) | (332) |
| Details of experience gains and losses for the year | | |
| Difference between the expected and actual return on scheme assets: | | |
| Amount | 75 | (500) |
| Percentage of scheme assets | 2% | (19%) |
| Experience gains and losses on scheme liabilities: | | |
| Amount | (42) | 204 |
| Percentage of the present value of the scheme liabilities | (1%) | 7% |
| Changes in assumptions | - | - |
| Amount | (347) | - |
| Percentage of the present value of the scheme liabilities | 9% | - |
| Total amount recognised in the statement of total recognised gains and losses: | | |
| Amount | (314) | (642) |
| Percentage of the present value of the scheme liabilities | (8%) | (22%) |

34. Contingent liabilities

As at 31st December 2003 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.

Five year summary

| | 2003 £000s | 2002 £000s | 2001 £000s | 2000 £000s | 1999 £000s |
|--|----------------|---------------|---------------|---------------|---------------|
| Turnover | 124,549 | 104,822 | 74,769 | 57,400 | 32,379 |
| Profit before goodwill amortisation and tax | 21,052 | 17,822 | 13,949 | 9,920 | 6,650 |
| Cash | 21,678 | 23,046 | 36,361 | 8,876 | 8,663 |
| Net assets | 122,329 | 108,876 | 98,916 | 51,700 | 25,871 |
| Cash inflow from operating activities | 20,630 | 15,174 | 9,438 | 9,748 | 6,017 |
| Average number of employees | 2,083 | 1,832 | 1,362 | 1,060 | 770 |
| Dividends per share | 1.82p | 1.58p | 1.37p | 1.20p | 1.04p |
| Basic EPS before goodwill amortisation | 8.62p | 7.15p | 5.65p | 4.61p | 3.47p |
| Fully diluted EPS before goodwill amortisation | 8.54p | 7.06p | 5.52p | 4.47p | 3.39p |

The 2002 and 2001 net assets have been adjusted for the adoption of UITF 38, "Accounting for ESOP Trusts" requiring Employee Share Option Plan (ESOP) shares to be recorded within shareholders' funds.