



Annual Report

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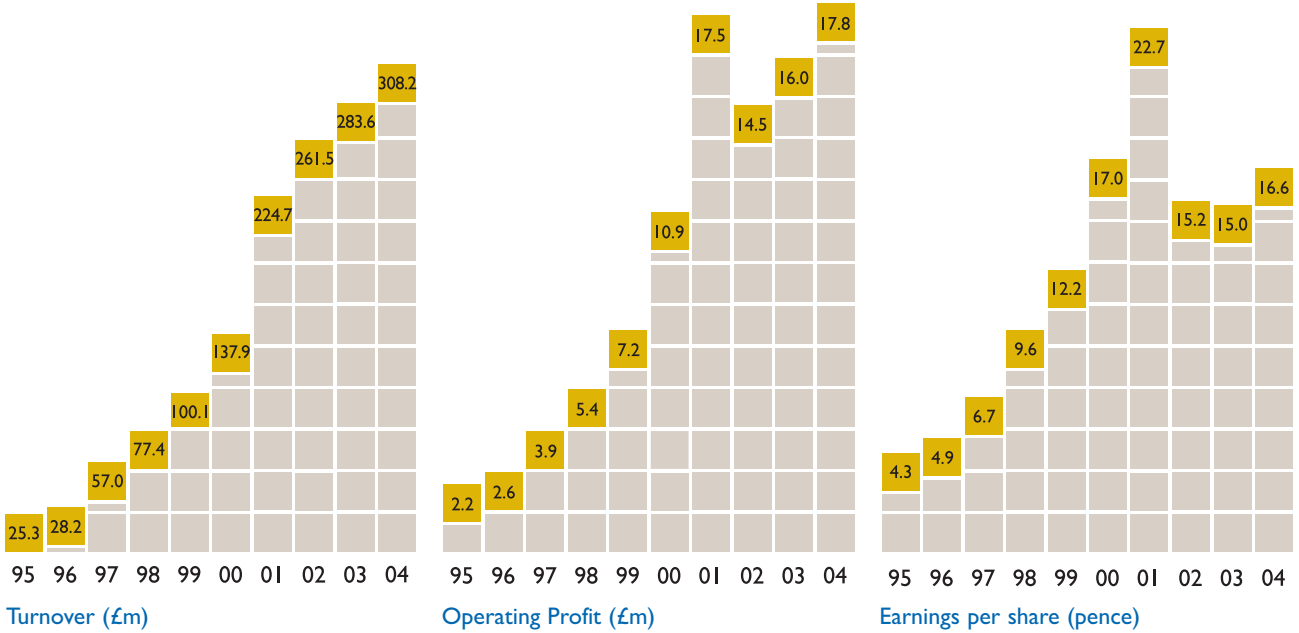
WSP is a global business with the vision to be the outstanding supplier of specialist and integrated services in the built and natural environment.

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Financial Highlights



	<p>Property</p> <p>WSP is one of the largest consultants providing management and design expertise in the property sector throughout the world. Our expertise ranges from the world's tallest buildings and corporate headquarters to hospitals, urban regeneration and leisure.</p>	<table border="1"> <thead> <tr> <th>Turnover</th> <th>Operating Profit</th> <th>Employees</th> </tr> </thead> <tbody> <tr> <td>58%</td> <td>53%</td> <td>59%</td> </tr> </tbody> </table>	Turnover	Operating Profit	Employees	58%	53%	59%
Turnover	Operating Profit	Employees						
58%	53%	59%						
	<p>Transport & Infrastructure</p> <p>WSP provides expert advice on a wide range of transport related engineering projects, including roads, rail, bridges, tunnels and utility services. Our extensive experience includes planning, analysing, designing and managing projects for a wide range of service providers.</p>	<table border="1"> <thead> <tr> <th>Turnover</th> <th>Operating Profit</th> <th>Employees</th> </tr> </thead> <tbody> <tr> <td>30%</td> <td>32%</td> <td>30%</td> </tr> </tbody> </table>	Turnover	Operating Profit	Employees	30%	32%	30%
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30%	32%	30%						
	<p>Environmental</p> <p>WSP combines long experience from environmental projects with commercial awareness and an understanding of the property and financial sectors. WSP delivers business solutions on a global basis that range from sustainability consulting to due diligence auditing to contaminated land and financial engineering of environmental liabilities.</p>	<table border="1"> <thead> <tr> <th>Turnover</th> <th>Operating Profit</th> <th>Employees</th> </tr> </thead> <tbody> <tr> <td>12%</td> <td>15%</td> <td>11%</td> </tr> </tbody> </table>	Turnover	Operating Profit	Employees	12%	15%	11%
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12%	15%	11%						

To demonstrate the underlying trading performance of the Group operating profit and earnings per share appearing above exclude exceptional items and amortisation of goodwill, details of which are set out in the five year review on page 76.

Chairman's Statement

I am confident we will build on these good financial results to deliver continued growth, improved profit margins, strong cash flows and an increasing long-term order book which includes major international projects.

I am pleased to report a successful year for the Group with good financial results that have exceeded expectations. We have seen increased turnover with maintained profit margins together with improved operating profits and strong cash-flows from our trading activities.

Our order book is at another record level, with more than £500m of secured orders representing a 23% increase on last year. The quality of this order book in terms of prestigious projects and long term framework agreements confirms our leading position in the market and underpins the sustainability of our future operations.

These good results also reflect the improvement in our overall operational performance coupled with our ability to win market share from our competitors.

Financial Results and Dividends

Turnover for the year, including our share of joint ventures and associated undertakings, increased to £328.2m (2003: £298.9m), and this generated an operating profit, before amortisation of goodwill, of £17.8 m (2003: £13.8m), an increase of 30%. Operating profit increased by 46% to £12.4m (2003: £8.5m).

Basic earnings per share has more than doubled to 7.6p (2003: 3.6p), and fully diluted earnings per share before amortisation of goodwill has increased by 29% to 16.0p (2003: 12.4p).

We have also seen strong operating cash flows from our trading activities of £24.0m (2003: £17.3m) and despite the outflows of £9m arising from one-off transactions including the closure of the Swedish cross currency swap and the payment of a contractual claim, net debt has remained stable at £45.0m (2003: £44.6m).

In view of these results and our stated dividend policy, the directors believe that it is appropriate to increase the proposed final dividend to 3.2p (2003: 3.0p) giving a full year dividend of 5.3p (2003: 5.0p) representing an increase for the year of 6%, the first increase since 2001.

Review of Activities

Our largest business segment, Property, has progressed well and the hard work over the last few years to improve our business is now beginning to show tangible rewards. As a world leader in the commercial and financial private building sector, we will particularly benefit as this area continues to improve and this is already noticeable in the USA where we have seen stronger markets.

Our appointment to many prestigious projects, particularly in the high-rise sector, has been significant and I am pleased to say that we are working on more tall building projects under construction in this country and in New York than any of our competitors.

Our involvement with so many major schemes throughout the world in different stages of design and construction has created a unique market position enabling us to promote our services for consideration on many future projects. Our skill and experience to cross-sell and deliver all our services on a major project makes WSP one of a select group of international businesses with this unique capability and presents the opportunity for us to continue to grow our market share.

Our global Environmental business has performed well and we continue to invest to grow, diversify and strengthen the business. Our focus has been on opening new and strengthening existing offices around the world to service our increasing number of global clients with whom we have won long-term framework agreements



David Turner
Chairman

and we have been successful in recruiting many talented individuals to provide high value consultancy support to deliver this growth and geographical coverage.

The Transportation sector in Sweden, where we are the market leader, has flourished, and we have won a number of high profile projects reflecting the Government's long-term financial commitment to maintain and improve the country's infrastructure. This has not been as evident in the UK where new appointments were slow to materialise and given our relative size in this market we have seen a decline in margins. However, we have once again received an excellent CAT score from the UK Highways Agency and we expect to benefit from this in the year ahead.

The majority of our international activities outside Europe have progressed well, particularly in South Africa where excellent growth and financial performance has been achieved. We continue to win projects in many new countries including Libya, Serbia, Estonia, Latvia, Romania, the Middle East and India which maintains our diversification strategy of generating 20% of our revenues from work outside the UK and Scandinavia.



The Winter Garden, New York City

This atrium at the World Financial Centre connects restaurants with three levels of retail space and serves as a unique venue for public events, concerts and gala receptions.

Staff

Our performance this year and the foundations now laid down for the future have been delivered by our loyal and talented international workforce of more than 5,300 people. My thanks to them all for their hard work and dedication and I share their optimism for the future.

We have seen progress this year in the retention of key staff as well as success in recruiting a number of high profile senior managers. We are very mindful of the need to achieve our goal as the preferred employer in our sector and we have increased our investment in all aspects of professional development and training.

The Future

We have a clear strategy where organic growth remains a priority complemented by strategic start-up businesses and niche acquisitions to reinforce our existing operations. We have also identified new sectors and countries we wish to enter progressively in order to develop our core activities further.

Our focus on high added value appointments will continue and to

support this we have recently established a new management consultancy division. In addition, we have a specific target to improve the efficiency of our workforce through improved resource management, increased use of our off-shore, low-cost design production centre and efficient, central infrastructure support.

Our long-term order book, which is evenly split between public and private sector work, will continue to grow with more success in winning major international projects, where our unique multi-skilled technical services will be employed. Our portfolio includes some of the world's greatest projects, providing a real testament to the Group's progress and position on the world stage.

We are confident that our global Environmental business, which competes with the world's largest providers, will continue to develop in this increasing and important market. Our entrepreneurial drive to enter new sectors and countries will ensure we are well placed to service our increasing number of multinational clients.

I expect our world markets to remain stable and I consider we are well positioned to address these prevailing conditions. I am optimistic that the UK and Scandinavia will see progress in the commercial markets and that growth in the USA will be maintained.

We have a strong management team who have now built the appropriate platform and structure to continue the strategic growth of the Group.

I am confident we will build on these good financial results to deliver continued growth, improved profit margins, strong cash flows and an increasing long-term order book which includes major international projects. As a result of this performance and our position as a leader in the market I believe we will deliver enhanced shareholder value in the year ahead.

David Turner

Chairman
4 March 2005

Chief Executive's Review

We remain focused on the long-term benefits of providing our clients with a single point consultancy through the cross-selling of our unique range of services and the opportunity to lead major projects.

I am particularly pleased with our 2004 performance which has demonstrated how well we have built upon the hard work of the previous year. We have continued to be focused on improving the business and providing the very best service to our Clients. We have seen an overall increase in net turnover and operating profits of nearly 9% and 46% respectively with our overall margins maintained, good cash flow and significant growth in our order book.

The markets in which we work have remained similar to last year with continued strong demand in the public sector and mixed demand in the private sector. Transportation has generally remained sound, whilst we did note some temporary delays in the UK roads market in the second half of last year. We have not yet witnessed any material improvement in demand from the rail sector in the UK whereas in Sweden, where we are a market leader, activity is strong.

Health, education, prisons and defence sectors have remained good, as have residential and urban regeneration schemes in all our regions. The retail and leisure markets, as part of long-term urban regeneration and mixed development schemes, have remained satisfactory. Our European industrial sector has continued strongly. However, the commercial and financial sectors remained quiet, but we have witnessed some improved activity.

Our global Environmental operations have seen growth, gaining market share in a growing market and presenting themselves to a widening diversity of clients across the world where they have entered into a number of new framework agreements.

We are increasingly moving towards higher value front-end management consultancy appointments and we have

realigned this part of our business to ensure we focus on improving our penetration into client organisations.

Our improved business has performed well in these stable market conditions. The Group's infrastructure has provided excellent support and I am pleased with the manner in which we have matured in this respect.

The strengthening of our long-term order book to £505m is a sound indicator of our strong position in the market. It is also rewarding to note that growth in orders has occurred in all of our principal territories and that framework and long term agreements with major clients account for 40% of the total. We have continued to receive appointments where we have cross sold all our skills and sometimes linked up our different territories, thus enhancing the quality of our order book and demonstrating our global reach. In addition, our prominent market position is presenting opportunities for major projects where we are the overall project leader. 2004 was a good year for our long-term order book and we retained a desirable even split between the private and public sector as well as seeing good progress internationally.

Property

This largest division, which operates in all regions, accounts for nearly 60% of the Group's turnover and over 50% of the profit, and therefore I am pleased to see Property profit margins improving. Our markets were varied but generally similar to the previous year, with the exception of the USA where we saw good growth, which has been achieved without any material recovery in the commercial and financial markets.

Our position in the UK and Europe has strengthened throughout the year. Sweden's performance has been



Christopher Cole
Chief Executive

underpinned by major industrial projects and also winning two city centre relocation schemes and two prominent hospital projects, and the UK has benefited from our leading position in urban regeneration, health and education. The range of work in the UK includes projects such as the redevelopment of Great Ormond Street Hospital, Addenbrookes Hospital in Cambridge, and major schools and prison programmes in Scotland. Interestingly, after some years, we have recommenced the design of high technology data and call centres.

In Scandinavia we have been particularly active in the industrial and energy markets where we provide design and project management services.

In the development arena our UK transportation planning and modelling resource, which looks after both the private and public sectors, is now regarded as the UK's pre-eminent resource in this high value sector and we have taken initial steps to export this expertise abroad.

Our international reputation has been significantly underpinned through our involvement on the world's largest projects. We are busy on the world's



tallest building, The Freedom Tower in New York City, and Europe's tallest, The Shard of Glass in London. We are currently involved in more high-rises under construction in New York and the UK than any other consultant. In addition, new global opportunities are arising regularly in this market to ensure we maintain our position.

Our diversification strategy is well illustrated by our involvement in all these areas of Property and thus our increasing resilience to the inevitable sector cycles.

The USA markets in which we work continue to recover and this is evidenced by our growing order book. The impact of currency movements meant that our turnover remained static last year but, as we draw down on our increased order book, we expect to see turnover increases this year. Our new projects include the New York Plaza Hotel regeneration scheme, the Brooklyn Arena and Indianapolis Stadium. Our newer offices in Seattle and Miami have each progressed well during the year where we have received significant new appointments.

Our operations in South Africa have performed well with excellent growth in this region during the year, supported particularly by their asset management activities. We are now increasingly working internationally for South African clients in various countries, including Qatar and Morocco, and our activities grow in Africa overall. The market has been buoyant and we believe this will be supported by the award of the forthcoming 2010 Football World Cup to South Africa.

The year has not seen the progress expected from our Asia operations, where we have centres in Hong Kong, Shanghai and Manila. These markets are difficult but our performance has been disappointing. We have therefore made certain changes and whilst we intend to commit to the



region to support our global activities, we aim to limit our exposure through restructuring the business and additionally employing new management.

In Norway, the performance of our associate company, Multiconsult, has improved in line with expectation and in the Gulf States, where we currently have minimal presence, we are evaluating various opportunities to expand in the area.

Our other international activities continue to develop with new work in many countries including Libya, Serbia, Latvia, Nigeria, the West Indies and also Central Asia, where we have maintained a consistent presence. Our new office in India has recently announced its first meaningful project for road audit work in two states on behalf of the Asian Development Bank.

Transport and Infrastructure

In the UK we had a mixed performance in our highways and aviation sectors, where we encountered a temporary reduction in roads activity in the second half of last year, which resulted in reduced turnover and profit. Our size in relation to our competitors somewhat restricts our flexibility in addressing any short-term change. Our leading position in aviation

Freedom Tower, New York City

(Architect: Skidmore, Owings and Merrill LLP)

Our expertise in the design of high rise buildings is reflected in our appointment as the structural engineer for the world's tallest building.

has delivered a strong performance particularly with the work associated with the building of Terminal 5 at London Heathrow.

Notable recent wins have included the new second generation terminal building for Stansted Airport, where our worldwide experience was recognised by the client, and the N6 motorway for the National Roads Authority in the Republic of Ireland. In addition, the Highways Agency recently reassessed our Capability Assessment (CAT) score and again our teams performed excellently, ensuring we remained near the top of the preferred supplier list. This rating will ensure we engage with the principal opportunities in the roads market and form the most effective partnerships with other suppliers. We also participate with the Highways Agency on two major frameworks for road planning and our joint venture with Carillion on the Area 12 in Yorkshire is progressing well.



Chief Executive's Review – continued

During the year we have refocused our attention on the Local Authority market with senior recruitments and some important framework wins for the City of Westminster, Newcastle City Council and the London Borough of Barnet. Growth in this sector is seen as a business priority.

We have seen little improvement in railway work during the year. However, we have recently been engaged in opportunities arising out of Network Rail's review of their considerable assets related to their main stations.

In Sweden, we have continued to do well in the strong road and rail market, where we are now the country's largest consultant. The National Road and Rail Administration have re-confirmed their significant budgets for infrastructure, where £11bn is allocated to roads and rail over the next ten years. We are consultants to the country's largest schemes including new road and rail tunnels, stations and highways in Gothenburg, Stockholm and the West Link.

Our other principal businesses which deliver these services are in Africa and

Finland. Africa has made excellent progress, illustrated by major project wins including the supervision of the Johannesburg to Durban N3 motorways upgrade, and the Caja bridge in Mozambique. The businesses in Finland are experiencing stable markets and our operations have been complemented by the acquisition last year of WSP Kortex, which is an internationally renowned bridge designer and has recently been appointed for the Chenab Bridge in India, the world's longest single arch railway bridge. In late 2004 the Finnish businesses were re-branded to WSP and now comprise nearly 300 staff.

Environmental

We are an increasingly global operation with significant presence around the world. The businesses are represented in all the Group's territories and, additionally, we have a presence ranging from Australia to the Middle East to various countries in Europe. This coverage enabled us to work on projects in 50 countries for global Clients including Goldman Sachs, Smiths Industries, Westpac Bank, Seagate Systems and ANZ Bank.

We have seen solid year-on-year growth and a good profit margin increase this year. We continue to recruit talented people to support our growth and diversification. Our regions have all been busy, whilst Sweden, which had a slow start, initiated some changes in the first half of the year, to the overall benefit of their performance.

The markets and opportunities are significant and diverse, which enable us to exercise some project selectivity and develop new professional services.

We challenge the world's largest environmental consultants and have established a bespoke brand in the market. We continue to focus on higher value work in the areas of due diligence,

M25 Motorway Heathrow, London
WSP are part of the consortium with Balfour Beatty to widen the M25 including the spur to the new Terminal 5 at Heathrow, where we are also providing environmental and multi-disciplinary engineering services.

management systems, sustainability and corporate and social responsibility.

Our global expertise is engaging us in opportunities on a national scale, where energy master-plans and carbon emission models are formulated for cities and global Clients, and to support this specialist area we acquired a small niche company in Finland, EMP, which has this acknowledged expertise.

Staff

My sincere thanks to our directors and staff for their energy and enthusiasm to deliver an excellent set of results. Whilst ensuring such achievements, they have also strengthened the Group through recruitment and improved retention. Our 2004 staff surveys and improved retention statistics have confirmed this progress to our goal of becoming the industry's preferred employer.

Our directors and staff have all played their part in strengthening the Group and ensuring ongoing sustainability and I sense their optimism for the future.

Future Strategy and Outlook

During 2004 we have reviewed our future strategy and outlined the principal goals of the Group.

We are clear in our ambition and expectations for growth, improved performance and continued diversification within our overall sectors. We have identified areas of our business to develop as well as sectors and territories to reinforce and enter, particularly in the UK and Europe. Organic growth, which remains an imperative, supported by strategic local acquisitions and start-ups, will continue to ensure further progress.

The Group remains focused on the needs of the Operational Plan which has provided such a sound platform for this year's performance and future growth. We will continue to ensure that the Group's infrastructure and costs effectively complement our growing operations. We have implemented action to ensure we can improve on the utilisation of our staff and we will increase the usage of our low-cost production centre in Manila, and





progressively look to introduce our operations in Europe and USA to this resource. I expect these actions to support our required improvements in future profit margins.

I foresee minimal change in most of our markets this year, with an expected slow recovery in the commercial and financial sectors. These sectors in our main territories have always been an indigenous part of our project portfolio and, accordingly, market improvements will particularly benefit our ongoing operations.

I expect all our operations, with the possible exception of Asia, to continue to grow in the coming year with increasing emphasis on their margins.

We remain focused on the long-term benefits of providing our clients with a single point consultancy through the cross-selling of our unique range of services and the opportunity to lead major projects. We will continue to build collaborative partnerships with clients, professionals and contractors to ensure we are well placed to respond to all procurement routes on major projects. Our market recognition and presence continues to grow nationally and internationally and I expect to be able to consistently report substantial project wins which will further enhance our long-term order book and reputation. Furthermore, we intend to build upon recent success in delivering our services to global clients, including Ericsson, across various countries, often in the form of frameworks. Our diversity of clients ensures our maximum current exposure is less than 4% of turnover to our largest client and we will continue this discipline.

Our global Environmental activities, in a world market that will only increase, will maintain their growth model, reinforced by further high value opportunities with global clients.

In view of the above, our order book should continue to grow and, importantly, so will its quality where we capture significant project opportunities and new frameworks initiated from our unique



Arabella Sheraton, Cape Town

WSP is a world leader in the hotel and leisure sector with many projects across the world.

multi-disciplinary global resource.

Our expected growth will necessitate a continued review of our management and be assured we will address this key issue. Important recruitments for the Group are being identified.

As mentioned, I am pleased with the progress and stability of the Group and our performance in varied, albeit generally consistent, market conditions. Our concentration will be on organic growth, complemented by selective small, local strategic acquisitions, which will enhance sound, resilient and sustainable growth.

In view of the above position, and the opportunities that I am confident will present themselves, I expect the Group to progress well in 2005 and beyond.

Christopher Cole

Chief Executive
4 March 2005

Group Finance Director's Review

Our balanced approach to deliver excellent client service together with a strong commercial focus will remain our central financial strategy for the year ahead.

We have been very satisfied by our financial performance during 2004. Turnover has increased, overall profit margins have been maintained and we have generated strong cash flows from our trading activities.

Turnover and Profit for the year

Turnover, including the share of our joint venture and associated undertakings, has increased to £328.2m (2003: £298.9m), of which £137.6m (42%) arose in the UK and £190.6m (58%) from overseas markets.

Operating profit increased by 46% from £8.5m to £12.4m. Before amortisation of goodwill, operating profit increased by 11.3% to £17.8m (2003: £16.0m).

These results include the contribution from three niche acquisitions made during the year at an initial cost of £2.5 million payable wholly in cash. Turnover from these acquisitions was £7.1m generating a profit in the year of £0.3m.

A summary of the results for the year is set out in Table 1.

Joint Ventures and Associated Undertakings

WSP has a 24.7% equity interest in Multiconsult one of the top design consultants in Norway. This year the Group's share of turnover from this company fell slightly to £10.4m (2003: £11.3m) however our share

of operating profit recovered well to £0.8m (2003: £0.3m).

In the UK, our joint venture with Carillion plc for the Yorkshire motorway and trunk road network management contract, has produced a small operating profit of £0.1m (2003: loss £0.1m).

Profit margins

Work in the predominantly private Property sector has increased and is reflected in a small increase in profit margins to 5.1%. Growth in the public sector of Transport and Infrastructure has been more static and whilst our margins in Sweden have been maintained, the effect of a slow down in the UK has reduced our overall margin to 5.7%.

We can report steady progress in improving margins in the Environmental sector, which have now reached 6.9%, with an underlying margin of 8.0% if pass through subcontractor costs are deducted from turnover.

The division of turnover between our principal sectors and on a location of operations basis, together with profit margins, is set out in Table 2.

Goodwill

The Group continues to adopt FRS 10, which requires goodwill to be amortised over its effective life. At the balance sheet date, intangible assets, representing the



Malcolm Paul
Group Finance Director

net book value of goodwill on acquisitions made in the past, amounted to £89.1m (2003: £92.6m), which included £2.3m from acquisitions in the year. An amortisation charge of £5.4m (2003: £5.3m) has been made in the current year and the directors are satisfied that there has been no impairment in the value of this asset.

Bank interest

The refinancing of the Group's long term debt early in 2004 spread our principal borrowings between Sweden and the UK. As a result the Group has benefited from the lower interest rates prevailing in Scandinavia which, coupled with good cash management, has reduced our interest charge for the year to £2.8m (2003: £3.3m).

Taxation

The tax charge for the year amounted to £4.8m (2003: £3.4m), which is an effective tax rate on profit on ordinary activities before amortisation of goodwill of 31.8% (2003: 31.6%). Full details of how the tax charge is calculated may be found in note 8 to the financial statements.

Earnings per share

Basic earnings per share has more than doubled to 7.6p (2003: 3.6p), and fully diluted earnings per share before

Table 1: 2004 Results

	2004 £'000	2003 £'000
Group and share of joint ventures and associated undertakings turnover	328,218	298,868
Less: share of turnover of joint ventures and associated undertakings'	(19,972)	(15,315)
Turnover	308,246	283,553
Operating profit, before amortisation of goodwill	17,813	13,754
Amortisation of goodwill	(5,446)	(5,269)
Total operating profit	12,367	8,485
Profit on sale of subsidiary undertaking	-	409
Net interest payable	(2,801)	(3,313)
Profit on ordinary activities before taxation	9,566	5,581

amortisation of goodwill has increased by 29% to 16.0p (2003: 12.4p).

Dividends

We intend to continue with our established dividend policy that reflects the growth in earnings whilst recognising the cash flow demands of the business. In October, the Company paid an increased interim dividend of 2.1p (2003: 2.0p) and with the good performance of the Group during 2004 the directors believe that it is appropriate to increase the proposed final dividend to 3.2p (2003: 3.0p) giving a full year dividend of 5.3p (2003: 5.0p) representing an increase for the year of 6%. The final dividend will be payable in May 2005.

The proposed total dividend for the year of 5.3p is covered 3.2 times by profit after taxation, before amortisation of goodwill.

Cash flow

We continue to generate significant positive cash flows from our trading activities of £24.0m (2003: £17.3m), and whilst turnover has increased our working capital requirement has remained steady. During the year we closed a cross currency swap taken out in 2001 which was designed to hedge our foreign exchange exposure on our investment in Sweden. This has resulted in a one off cash outflow of £6.8m during the year which was met out of our existing banking facilities.

Other expenditure has been carefully controlled and at the end of the year net debt amounted to £45.0m (2003: £44.6m).

The principal cash flow movements during the year are set out in Table 3.

Bank facilities

During 2004 the Group restructured its borrowing facilities to reduce the reliance on Banks in the UK. New medium term bank facilities are now in place in the UK, Sweden and the USA, which at the year end total £53m, with a further £19m available of short term working capital lines in the countries in which we operate.

Accounting policies

In the current year the Group has adopted UITF Abstract 38 regarding the accounting for Employee Benefit Trusts, which requires investments in own shares to be deducted from Shareholder's Funds

Table 2: Turnover and Operating Profit before amortisation of goodwill

	Property £m	Transport £m	Environmental £m	Associates £m	Total £m	Regional %
2004 Turnover						
United Kingdom	74	31	23	10	138	42.1%
Mainland Europe	64	51	11	10	136	41.5%
USA	27	-	-	-	27	8.2%
Africa	9	4	2	-	15	4.6%
Asia	3	7	-	-	10	3.0%
Other	1	1	-	-	2	0.6%
	178	94	36	20	328	100.0%
2004 Operating profit						
United Kingdom	4.0	1.7	2.1	0.1	7.9	44.4%
Mainland Europe	3.0	3.0	0.3	0.8	7.1	39.9%
USA	1.3	-	-	-	1.3	7.3%
Africa	1.0	0.3	0.1	-	1.4	7.9%
Asia	(0.3)	0.3	-	-	0.0	0.0%
Other	-	0.1	-	-	0.1	0.5%
	9.0	5.4	2.5	0.9	17.8	100.0%
2004 Operating margins						
	5.1%	5.7%	6.9%	4.5%	5.4%	

rather than being shown as a Fixed Asset Investment. Where appropriate, earlier comparative figures have been restated, however this change in accounting policy has not had a material effect on the results of the Group.

There have been no other changes to the accounting policies applied to the financial statements.

Pensions

The vast majority of the Group's worldwide employees are in defined contribution schemes however in the UK there are a number of defined benefit schemes taken over by the Group following acquisitions, all of which are closed to new members.

During the year, further increases in contributions to defined benefit schemes have been made and action has been taken in consultation with the members of the schemes to freeze, for an initial three year period, the level of salary to which the schemes apply.

As required, the Group accounts for the cost of pensions under SSAP 24, however the accounts also disclose the impact that FRS 17 would have on the Group's results. As a result of the action taken above the net deficit, calculated under FRS 17, has reduced to £10.5m (2003: £14.2m) and we shall continue to closely monitor the impact these schemes have on the Group's results.

Financial instruments and Foreign Exchange

Our policy is to manage centrally the Group's liquidity, funding and exposure to foreign currency risk in a manner which ensures straightforward administration, the minimisation of risk and operational flexibility.

Other than derivatives, the financial instruments used by the Group comprise internal cash resources, borrowings, and debtors and creditors arising from normal trading activities. Committed banking facilities are negotiated to provide working capital and acquisition finance to meet the current and future requirements of the Group.

Most of our trading activity is denominated in the currencies relevant to the local subsidiary, thus matching the currency with its cost base. Where contracts are awarded in non-local currency the Group looks to mitigate the foreign exchange risk having regard to all the relevant circumstances. We do not hedge our exposure to exchange differences on day-to-day trading.

The acquisitions in the USA and Sweden in 2000 and 2001 respectively created significant investments in these territories and thus an exposure to currency fluctuations in the value of these assets. At the time of the Swedish acquisition the Group entered into a cross currency swap to specifically hedge our exposure and this was closed during 2004. We now

Bridges



Top: Saame Bridge, Finland

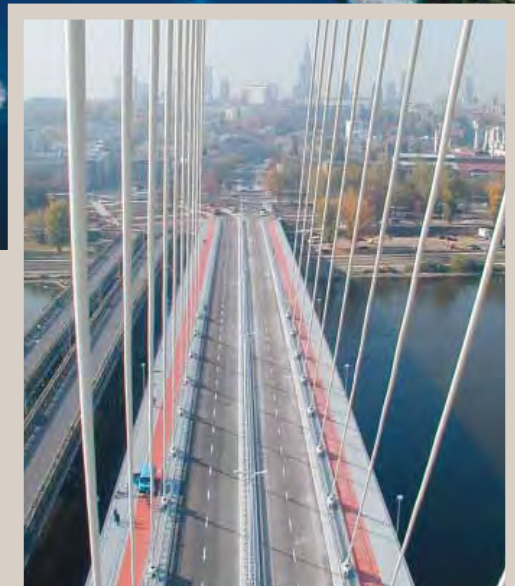
During the year, we acquired the Finnish company, WSP Kortes, which introduced a world class bridge design capability to the Group.

Middle: Swietokrzyski Bridge, Poland

This cable-stayed bridge with single pylon over the river Vistula in Warsaw is a symbol of the new era in the country.

Bottom: Crusell Bridge, Finland

To be constructed in Helsinki, WSP Kortes are providing architectural and engineering services including conceptual and detailed design.



Group Finance Director's Review – continued

partially mitigate the effect of currency fluctuations on these investments using the natural hedge created by US Dollar and Swedish Kronor loans.

We have not considered it necessary to hedge our investments in other overseas subsidiaries but the matter is kept under review.

In addition to these foreign exchange exposures the Group, by virtue of its borrowings in US Dollars and Swedish Kronor, is subject to non-sterling interest rate risk. We continually review our exposure to floating interest rates and assess the cost versus the benefit of alternative instruments available to minimise interest rate risks, however at the present time our exposure to US Dollar and Swedish Kronor interest rates remains unhedged.

A summary of the Group's borrowings, financial risks and use of derivatives is set out in note 26 to the financial statements on pages 71 to 73.

International Financial Reporting Standards ('IFRS')

The Group is well advanced in addressing the accounting changes brought about by the introduction of IFRS in 2005.

A specific project team led by the Group Finance Director has reviewed and researched the implications of the new Standards and completed a detailed review. We do not expect there to be any significant impact on our accounting systems and the following areas have been identified as those which may have a material impact on the future results of the Group.

- Goodwill arising on acquisitions will no longer be amortised over its effective life but will be subject to an annual impairment review. At the year end such a review revealed no impairment of the carrying value of goodwill on the WSP balance sheet.
- Future acquisitions will require a more detailed analysis of the intangible assets acquired including the allocation of consideration to such items as trade

Table 3: Cash Flow

	2004 £'000	2003 £'000
Operating Cash Flow	24,022	17,301
Closure of currency swap	(6,827)	–
Bank and finance lease interest	(2,801)	(3,313)
Tax	(4,679)	(2,414)
Dividends	(3,083)	(2,794)
Capital expenditure	(5,265)	(4,339)
Acquisitions and disposals	(2,139)	(4,247)
Currency and other movements	346	867
	(426)	1,061
Net Debt at 1 January	(44,570)	(45,631)
Net Debt at 31 December	(44,996)	(44,570)

names, client relationships and long term contracts. These intangible assets will be amortised over their effective useful lives, which will have an impact on the reported results and future earnings per share.

- The inclusion of the movement in the WSP defined benefit schemes' valuations will introduce a volatility to the results and may have a material impact on both the reported profit and the liabilities disclosed on the balance sheet. However, these schemes are retained in subsidiary undertakings and will not impact on the Group's distributable reserves out of which future dividends will be paid.
- The fair value attaching to long term share incentive plans will change by applying an option pricing model. Awards made by WSP through its present long term incentive plans are already expensed through the profit and loss account at the value pertaining at the date of grant. In addition, in the past no charge has been made for discretionary share option awards or the SAYE scheme and this will be necessary in the future if such awards are made.
- During 2005 we will use the average exchange rates to reflect the trading performance of our overseas subsidiaries rather than the present closing exchange rate. In addition, the financial statements will in future reflect the impact of closing market valuations on foreign currency derivatives, such as

the cross currency swap that was closed during 2004. At present no such derivatives exist in the Group.

- WSP already provides significant segmental reporting information by dividing our results between Property, Infrastructure & Transport and Environmental sectors. Additional data will be provided for users of the financial statements to gain a more detailed understanding of the business dynamics of the Group.

The Future

We have seen a general improvement in the financial performance of WSP during 2004 in many of the sectors and geographical regions in which we operate.

We continue to place cash management at the forefront of our financial strategy and we are focused on minimising the Group's working capital requirement. We intend to continue with niche acquisitions where they supplement our existing businesses either by improving our skills or widening our geographic base and we are likely to finance such acquisitions using the cash we generate from our trading activities.

Our balanced approach to deliver excellent client service together with a strong commercial focus will remain our central financial strategy for the year ahead.

Malcolm Paul

Malcolm Paul
Group Finance Director
4 March 2005

Operational Review

Organisational structure

The WSP Group operates through autonomous regional businesses reporting to Executive Committees with central support in the key areas of communication, information technology, human resources and risk management.

The matrix of the Group structure facilitates close relationships between our clients and staff backed by the knowledge and expertise of 5,300 staff operating from more than 100 offices worldwide. Increasingly, projects are being won in one territory with the help and support from another and this is giving true added value to our diverse client base.

Where services sit comfortably across borders, such as with environmental and major international projects, our structure aims to break down geographic boundaries and encourages cross-company working, in order to maximise our use of the skill and resource available from throughout the Group.

The skill transfer between our offices enables the Group to offer solutions to clients at the leading edge of technology and innovation, and where possible we encourage multinational teams to support some of the most prestigious projects in the world. Our broad spread of regional offices means we also understand and can react to the requirements of the local market. The breadth of services we offer enables our clients to use a single source supplier for their design needs with the obvious economic benefits that brings.

We are able to provide our clients with unparalleled expertise in the three principal fields of property, transport and infrastructure and the environment. WSP is one of a very small number of companies in the world able to offer fully integrated multi-disciplined services.

Regional coverage

Our largest resource is focused in the UK and Scandinavia where we employ more than 4,000 people who deliver approximately 80% of the Group's

turnover from multi-disciplinary services in all sectors.

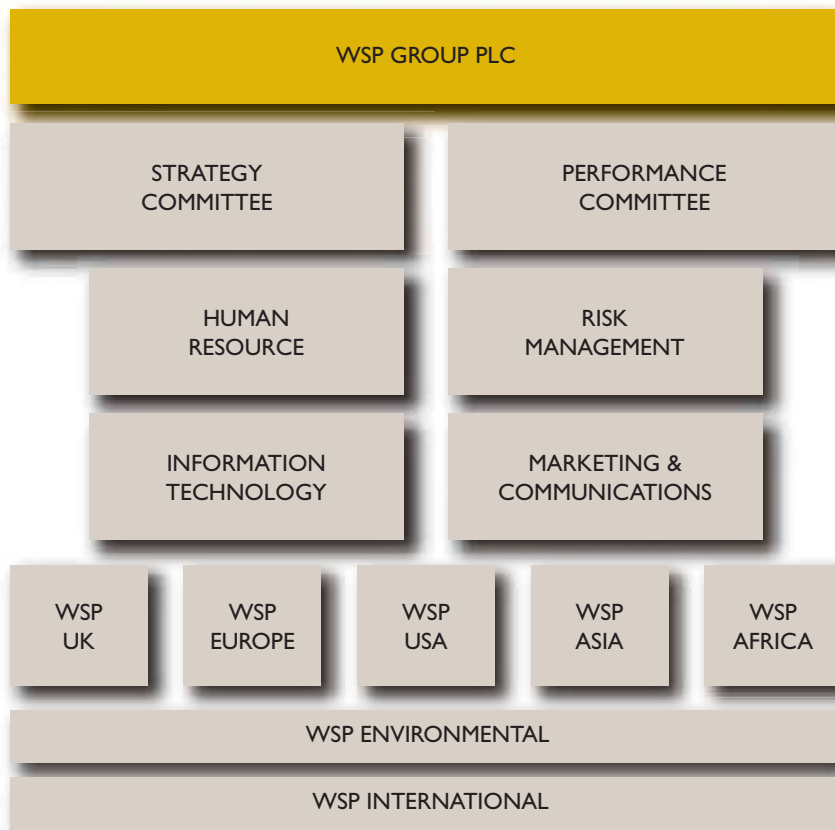
In the United States of America our principal market is in property, and we have a significant presence on both the East and West coasts.

In Africa we provide a full multi-disciplined service in the property, transportation and environmental sectors. We also provide facilities management services, a relatively new concept in the region.

India is a new market for the Group and we are looking forward to developing an increased presence in a rapidly expanding market.

Our principal office in Hong Kong provides a hub for delivering a broad-based service to the rest of Asia, including China, Thailand and the Philippines.

Our International development business which has two principal offices, in the UK and Sweden, largely works on aid-funded projects in developing countries around the world.





■ Principal Offices
 ■ Regional Offices

United Kingdom

WSP UK	2004	2003
Turnover	£106m	£104m
Staff	1,731	1,798

The impetus generated during 2004 shows no sign of waning and we look forward to the coming year with some confidence. Our order book and prospects have never been stronger and we are seeing increased activity across all our sectors. After some years of consolidation we are in good shape to face the challenges that the future will bring.

Property

Our world class expertise in the design of tall buildings is reflected in projects such as West India Quay and Barclays Bank Headquarters in London Docklands, and our designs for Holloway Circus, Birmingham and the Hilton in Manchester are in the course of construction. Our preliminary concept work for London's

Shard of Glass, Europe's tallest building, are complete and we look forward to the commencement of construction following the announcement by Shangri-La Hotels of their intention to occupy 19 of its floors.

We have maintained our dominant position in the retail sector where we are appointed to approximately 75% of all the major retail developments in the UK. Following the completion and opening of the Birmingham Bullring we are now heavily involved with the Paradise Street Development in Liverpool for Grosvenor, which is currently the UK's largest urban regeneration scheme.

Our strength in the healthcare sector continues to grow and we are working on major PFI hospitals such as North Staffordshire and Newcastle as well as Procure 21 appointments. We are particularly pleased to have recently been appointed to provide multi-disciplinary services for the

refurbishment of Great Ormond Street Hospital.

We have seen, to great acclaim, the completion of the major PFI project to refurbish the Ministry of Defence building in Whitehall, and this coming year will see the completion of the new Royal Bank of Scotland's World Headquarters in Edinburgh. Our involvement with Terminal 5 at Heathrow continues apace and our recent appointment to a new second generation terminal at Stansted Airport reflects our growing status as a key player in the UK aviation sector.

Our strategy to balance our private and public sector client base continues with work being won in the Building Schools for the Future programme, the Scottish Prison Service framework, HMP Prison frameworks, Ministry of Defence prime contracts, as well as frameworks for the Department of Constitutional Affairs and the Department of Heritage,

High Rise Buildings



Top: Barclays Bank, London

WSP have considerable experience in London's Docklands where the new headquarters for Barclays Bank is shortly to be completed.

Middle: Shard of Glass, London

(Client: The Sellar Property Group)
The structural design for Europe's tallest building is presently under way.

Bottom: The New York Times Building

(Architect: Renzo Piano)
WSP are working on more high rise projects under construction in New York than any of our competitors.



Operational Review – continued

Culture and Sport. We envisage continued growth in the public sector with further high level central Government appointments.

We are the leading provider of advice on the planning and delivery of transport systems within the private property development sector where our services are highly sought after as the planning system imposes on our clients' greater demands and a requirement for increased stakeholder engagement. We offer a comprehensive service to the property development sector from inception to completion and beyond and our current order book includes a substantial number of large residential, mixed use, urban regeneration, major retail, commercial and leisure projects in a wide spread of locations across the UK.

Further resilience has been achieved in the property sector by the development of new front end earning streams including Knowledge Based Asset Integrity ('KBAI') with our partners, Capstone, based in Houston, as well as PFI advisory roles such as independent certifiers and advisors to the special purpose vehicles that carry out the projects as well as to lead financiers to whom we act as due diligence advisers on, for example, the development of Wembley Stadium.

Our innovative KBAI risk based approach to maintenance takes a long-recognised methodology and combines it with tried and tested processes from the oil and gas industry. The result is a pragmatic approach to maintenance that will deliver substantial savings in budgets year on year whatever the asset type. Full scale projects are now up and running with the Royal Mail Group and pilot schemes are underway within other holders of major property portfolios.

Our specialist divisions dealing with fire engineering, lighting and vertical transportation have prospered and we expect our fire specialism to develop into a global offering drawing on our skills in the UK, USA, Sweden and the Far East.

Transport and Infrastructure

Our long-standing relationship with the UK's Highways Agency continues unabated. The level of client care delivered to this client and our drive for continuous improvement was reflected in our recent Capability Assessment (CAT) score of 68 out of a possible 72. We play a major role on two framework agreements for road planning, design and procurement in the South-East and the South-West of England. With over 20 years experience in privatised road management and maintenance, we are working with our joint venture partner, Carillion plc, on the Yorkshire network of motorways and trunk roads to improve safety, journey times and the residual quality of the network for all road users and those who live adjacent to the network.

A major challenge in 2004 has been the detailed design and start of construction of the M25 widening project taking in the M4 and M3 junctions as well as the new spur into Terminal 5 at Heathrow. This high profile design and build project with Balfour Beatty still has some time to run until completion. The dedication, effort and enthusiasm of our people on this project reflect the true values of the WSP Group.

A slow down in the financial commitment on a number of other UK projects has adversely effected our margins during the year, however we have retained our talented work force to respond when these projects get the go ahead.

We experience steady and continuous expansion in the Republic of Ireland. Our office in Dublin has prospered and we look forward to further growth. Recent appointments include the Employer's Agent role on the N6 for the National Roads Authority where we work in joint venture with our partners, Ryan Hanley of Galway.

We have also undertaken a significant amount of planning related research so that our thinking remains ahead of Government and Local Authority policy for the benefit of our client base. This research included an investigation into

the effect of land use planning on travel demand and congestion, the road construction consent process for the Scottish Executive and the publication of an update of 'The Good Transport Guide' for the British Council of Shopping Centres. The document was launched at the House of Commons in November 2004.

Within the public sector, our policy and research division in Cambridge continues its world class work in transportation studies, modelling and software design for both UK central Government and the European Union. Complementary to these skills is our intelligent transport systems division in Bristol and our local transport businesses throughout the region.

Road and Rail



Top: Swedish Rail

We continue our commitment to the Swedish Road and Rail Authority, where we are now the country's largest consultant.

Middle: Southern Link Tunnel

We have been appointed to some of Sweden's largest infrastructure schemes including this major new link in Stockholm.



Bottom: M4 and A34 Junction

WSP in joint venture with Gifford and Partners were commissioned to undertake the planning, design and site supervision of the highway improvement scheme which included a 1.5km bypass and 12km of associated slip roads.



Operational Review – continued

Europe

WSP EUROPE	2004	2003
Turnover	£114m	£99m
Staff	1,893	1,712

During the year WSP has strengthened its position in Northern Europe. WSP Sweden is one of the top three consultants in its sector and we have a growing resource in Finland. In Norway our associate company, Multiconsult, is the second largest in the country and we now have small offices in Estonia, Poland, France and Germany.

Sweden

Property

The building sectors have shown different degrees of recovery during 2004. The performance of our business within the heavy process industry sector has been outstanding, thanks in particular to an upturn in industrial investment, which has increased the department's turnover by 50%. Two major projects are the civil and structural design as well as construction management for two large pulp and paper mill extension projects for Stora Enso in Sweden, which is aiming to improve its competitiveness in uncoated magazine paper and carton production. In addition, WSP has been awarded several large projects for LKAB in Kiruna and MalMBERGET, including the extension of two ore dressing and pellet plants to increase their production. WSP is also becoming progressively involved in moving the city centres of the towns of Kiruna and MalMBERGET due to the need to relocate roads and railways, which are at risk from ground subsidence from continuing mining in the area.

Thanks to our domestic and overseas experience in the pulp and paper industry combined with our high reputation in steel design WSP has been awarded overseas work for the steel design, including shop design, of two new fibre lines for Kvaerner Pulping – one in China, which is the biggest in the world, and the other in Chile.

After a number of difficult years our building services division is now in better shape, with the downsizing of the business completed at the end of 2004 and we foresee an improved market in automation.

Since its introduction in 2002 WSP Fire has consolidated its position and with offices in Stockholm, Gothenburg and Malmö is now clearly established as third in the market place. A risk management service is now under development in the same business unit.

The residential market has shown clear signs of recovery especially in the Stockholm area, where activities have been on a very low level for some years. WSP Architecture has been awarded the design of an office building for the construction company JM in Stockholm.

Public expenditure in property remains slow but an increase is foreseen in the health sector where WSP has been engaged in preliminary studies for the merger of the two large hospitals in Stockholm, Karolinska and Huddinge.

Transport & Infrastructure

An excellent performance by our business combined with very good market conditions for transport and infrastructure ensured 2004 was a most successful year. WSP is the clear market leader in the sector with major clients being the Swedish National Rail and Road Administrations.

The market for infrastructure projects in Sweden is very promising. In early 2004 the government launched a programme of investment in infrastructure worth £29 billion for the next ten years. Of this, £11 billion will be allocated to the development of new railway projects and the maintenance of existing railroads and your Company is well placed to benefit from this commitment.

Major projects in the portfolio include the Western Link, a new train tunnel in Gothenburg, and the City Line in Stockholm, a very complex project consisting of an interconnecting tunnel and three underground stations, which will provide a new line for commuter trains

under the city centre. WSP has been awarded the work for Northern Link, a new highway in Stockholm, which aims to relieve the pressure of local traffic in the city centre. WSP will do the detail design and construction documents for the total installation works as well as co-ordinate and produce the basic data for decision-making for building consultants and contractors. Other large project wins are Umeå Marshalling Yard and Highway E4 Enånger-Hudiksvall.

In January 2004 we acquired Inregia, with 40 employees, which is involved in regional planning as well as performance analysis for the public sector in Sweden and abroad. Knowledge sharing with the rest of WSP Sweden has resulted in a number of joint projects in Sweden, including a recent major project for regional planning in Libya.

Finland

WSP Kortees was acquired on 1 March 2004. The company, which employs 130 staff, is highly rated and has a long and favourable business record, with exports accounting for 40% of its turnover. The capability to provide steel construction design for buildings in the domestic market with a worldwide presence for bridge and industrial steel construction work gives us a strong market position. In 2004, the company received the structural design award 'Steel Structure of the Year' for its work on the Parliament House in Helsinki. We are pleased to report that during the year we have won the design for the Chenab Bridge in India.

WSP LT Konsultit, employing 135 staff, is a significant force in the Transport and Infrastructure sector where new purchasing rules have been established resulting in some uncertainty in the marketplace. A major project win for this Company is the design of the motorway between Lohja and Lohjanharju for Skanska Tekra.

By branding these businesses as WSP we are able to provide a strong, multidisciplinary platform for further growth in Finland and as an entry into the Eastern European market.

Education



Top: Martin Luther King Junior Library, San Jose, California

This library is one of the largest to have been built west of the Mississippi, and the first library in the USA to be operated jointly by both a city and a university.

Middle: Centre for Auditory Research, London

The Centre, which provides state of the art facilities, is designed to meet the stringent acoustics requirements demanded by sensitive research equipment, and is part of University College London

Bottom: London Metropolitan University, London

(Architect: Daniel Libeskind)

The building's complex geometry with walls, ceilings and windows set at unusual angles called for an innovative approach to our design of lighting and ductwork.



Operational Review – continued

Norway

WSP's associate company, Multiconsult, has a strong, long term order book thanks to projects in the oil and gas sector such as Snow White at Hammerfest and the Ormen Lange project in the North Sea, as well as hospitals in Oslo and Akker. The company's participation in liquid natural gas projects overseas is providing resilience. Since 2001 the staff has almost doubled and there are now approximately 725 employees. Growth has been achieved through a combination of acquisitions and organic growth and the relatively poor performance in 2003 is behind us with profits returning to normal levels in 2004.

Rest of Europe

In Poland we have established a good platform for future growth and we are now focused on increasing business volumes in Germany. Most of our efforts in Eastern Europe have been in the area of aid-financed projects where we have been rewarded by a major project win to reconstruct the M-22 motorway from Novi Sad to Belgrade in Serbia.

In the longer term, Eastern Europe is considered to be a potentially strong market for WSP, not least on account of the planned economic growth and inward investment that will be stimulated by their membership of the European Union.

United States of America

WSP USA	2004	2003
Turnover	£27m	£25m
Staff	389	354

Flack + Kurtz

Market conditions in the USA in 2004 showed an improvement over the previous year. Buoyed by low interest rates, the residential market, particularly high-rise projects, added significantly to our order book. In addition to gains made in the research laboratory sector, our New York office benefited from starting work on major sports stadia. Public sector work remains strong, with various appointments in health and education.

New project wins have bolstered our order book to an all time high, with this expected to continue throughout 2005. We have started work on a major renovation of the Plaza Hotel in New York City, and are in the initial design phase of a new California Superior Courthouse in San Diego, California. Additional staff and office space are needed to execute the upcoming workload.

Flack + Kurtz has been awarded the prestigious VISTA award for the best Health Care Engineering Project of the Year for our work at the Long Island Jewish Medical Centre in New York. The award is from the American Society of Healthcare Engineering and the Academy of Architecture for Health.

WSP Cantor Seinuk

The upturn in market conditions came to fruition during the second quarter of 2004. A buoyant housing market, in both New York and Florida, has been supported by our diversification into the areas of health and education, together with the first signs of recovery in some of our traditional sectors such as office buildings and hotels.

Our expertise in dealing with highly complex renovations has brought a number of appointments during the year as developers look to utilise existing structures where possible or necessary for preservation reasons. We anticipate this trend will continue.

We are particularly proud to have been selected as the lead structural engineer on the Freedom Tower, the centrepiece of the rebuilding of Ground Zero. Together with our support for the UK office in the design of the Shard of Glass, we have underlined our reputation as one of the world's leading high rise engineers. The year also saw the completion of the superstructure of No 7 World Trade Centre, the first building to rise after September 11.

On 1 January 2005, the company changed its name to WSP Cantor Seinuk. This improves the visibility of WSP in the US whilst retaining the local brand synonymous with structural engineering design excellence.

International Development



Top: Aid Funded Projects

With funding support from the UK Government's Department for International Development, WSP team members introduce more equitable procedures for land acquisition, redistribution and resettlement in Bangladesh.

Middle: Construction Management

New procedures on procurement and site quality aim to give greater value for money in construction and maintenance works in the developing world.

Bottom: Disaster Relief

Following Hurricane Floyd, WSP was appointed to project manage the rehabilitation of seawalls and other coastal defences in the Bahamas.



Operational Review – continued

International

International	2004	2003
Turnover	£25m	£22m
Staff	622	606

Africa

Our businesses in South Africa have continued to flourish and we have seen consistent turnover growth resulting from the buoyant local economy, lower interest rates, and a stronger and more stable currency. We have also seen an increase in the number of projects awarded in the rest of Africa, as well as in the number of multi-disciplinary appointments.

Growth was achieved in all the key sectors including building services, civils and structures, transportation, industrial engineering, and facilities management. We have developed specialist disciplines in the fields of refrigeration, wet services, fire engineering and process control, which set us apart from our competitors.

A number of our facilities management contracts have been extended, and we have been appointed on a number of large and prestigious engineering contracts including the refurbishment of the 600 km N3 National Highway between Johannesburg and Durban, the Michelangelo Towers mixed use property development in Sandton and the feasibility study for the Mazagan leisure development in Morocco.

Particularly pleasing have been the co-operative ventures between WSP Africa and other parts of the Group. We worked with Norway on a project in South Africa, with Sweden on a project in Mozambique and with Asia and the UK on a project in Qatar.

Whilst the economy remains buoyant, and it has received a further boost with the award of the 2010 Football World Cup to South Africa, further opportunities will be created for our businesses in Africa. Our order book for 2005 is stronger than ever, and is well balanced across the public and private sectors.

Asia

The markets in Asia remain quiet however we have undertaken a major review of our businesses in the region and have committed to continue with our presence in Hong Kong and China. A new management team has been appointed to revitalise the business.

We believe a strategic presence in the region is vital to support the diverse services provided by other Group companies to international and local clients.

The design capability in Manila has once again proved effective in supporting other WSP companies around the world and the use of relatively low cost production facilities will continue to be an important part of the services we offer.

International Development

We have had another successful year for development assistance or Aid funded projects and we have been able to enhance our core staff, expand our geographic spread of operations and laid the foundations for sustainable success in 2005 and beyond.

Notable large contracts won in the year include a regional and urban planning project and a water supply project in western Libya, a project to restructure the Public Works Department and undertake an asset inventory survey in the Turks and Caicos Islands and a technical assistance project to the Road Agency Formation Unit in Uganda.

At the beginning of 2004 we opened an office in India to penetrate the large development assistance and domestic markets and are now pursuing a stream of significant highway, airport, development, stadia and buildings opportunities.

Our two businesses based in Sweden and the UK have been developing a close working relationship and we have now fully integrated these businesses into a single management structure which we believe will be a more robust, focused and efficient organisation, better able to provide the services that our clients require.

Urban Regeneration



Top: Wandsworth Riverside, London

(Client: Persimmon)

WSP took an entirely different approach to this difficult site which had lain undeveloped for ten years, by demonstrating and enhancing transport accessibility.

Middle: Paradise Street, Liverpool

WSP are working on the Paradise Street Development for Grosvenor, which is currently the UK's largest urban regeneration scheme.



Bottom: Transport Planning

We are the UK's leading provider of advice on transport planning for the private property development sector.





Operational Review – continued

Environmental

WSP Environmental 2004		2003
Turnover	£36m	£34m
Staff	572	500

The Environmental business has continued to perform well with the recruitment of many talented senior managers and a further enhancement in profit margins. Strong progress has been made in developing international projects and global framework agreements for blue chip organisations. In response to client needs we now have staff working in Cape Town and Sydney, and will be opening offices in Italy and Dubai. We have also acquired a small business in Finland and Estonia with strong global expertise in energy supply, carbon management and trading.

The strategy to structure and focus the business on unlocking value both in domestic markets and also in the emerging global market, is delivering the expected returns. With market leading business in the UK, Scandinavia and South Africa and with projects undertaken in over 50 countries in 2004, the business is committed to developing new markets where environmental legislation is starting to bite. Our work with ANZ Bank and Westpac Bank in Australia in respect of their corporate response to environmental and social issues has been acknowledged as being market leading.

The market for consultants able to support global companies in legal compliance, best practice reviews and risk management is showing strong growth and our appointment as global framework consultants for Smiths Industries, Archon (part of Goldman Sachs) and Seagate is testament to the success of our global client facing structure.

The introduction of senior staff through successful recruitment has also been a highlight in the year with the US, South Africa, the Middle East, and Finland all being strengthened at the highest levels of management. Our work with Ithaca College in North America has been endorsed by Senator Hillary

Rodham Clinton and the profile of the business continues to strengthen with such key flagship projects being successfully executed.

Our specialist remediation company continues to impress with strong profit margins in a growth market. To date we have focussed this strategy on establishing a market leading position in the UK. Our Swedish business has continued its strong relationship with the Swedish Petroleum Institute Remediation Fund that procures services in contaminated land assessment and clean up. In South Africa we have developed the leading contaminated land consultancy and the country's first major brownfield regeneration project and contamination clean-up project was awarded to our Cape Town office.

Our Environmental business will focus on developing international opportunities and establishing a capability in other jurisdictions. The most significant international opportunities for this business are the Middle East, Europe and Africa where the oil and gas sector is becoming an increasingly dominant contributor to our revenues.

We are also experiencing progress with initiatives such as the 'Active Transfer' solution launched in 2003. Remediation work is often procured with an element of risk transfer and the combination of consulting with specialist turnkey remedial solutions is increasingly viewed as a pre-requisite by clients seeking solutions based management consulting.

Expansion into Mainland Europe continues with operations now established in Milan, Poland, Estonia and Romania. We are pleased with the diversity that we see in this business with the Milan office undertaking energy and carbon management work for the oil and gas sector; whilst in Romania we are developing environmental policy and regulation with the Government as they prepare for accession to the European Union.

Our developing track record in energy related services is being led by the world

class experts that are present in our Scandinavian operations. The Swedish business in conjunction with professionals in the UK is developing energy masterplans for several new cities in China. The requirement to issue energy labelling and certification for commercial property in Europe has tremendous potential for this part of our business and in Scandinavia we are developing related policy on behalf of Government. In Finland we have delivered a joint implementation project under the Kyoto protocol where approximately 0.5 million tonnes of emission reduction credits have been released. This will result in one of the largest carbon trading deals in Europe.

In Saudi Arabia we are advising on energy policy as part of a larger project on behalf of the Government to develop policy and regulation for environmental protection. Increasingly we see our governmental clients in South Africa, Romania, Bulgaria, Sweden and Finland seeking our advice on issues of energy supply and demand and associated air quality.

It is our stated intent to move our business up the value chain and our work with Sainsburys, BAA, Vishay Siliconix, and Applied Materials developing environmental, health and safety policy, social responsibility and management systems only serves to demonstrate the progress we are making in positioning ourselves in this value added market place.

Our environmental business is now well positioned to capitalise on the growing global marketplace for environmental, social, health and safety consultancy alongside specialist remediation solutions.

Creating Sustainable Value for Stakeholders

The WSP Vision is to be the outstanding supplier of specialist and integrated services to the built and natural environment.

To fulfil this vision all WSP activities are centred around the core values of trust, sharing and supporting, pride and passion, sustainability and innovation. Together these create the platform from which WSP is building future growth through the provision of quality, well-managed multidisciplinary services to clients and making use of global reach and knowledge as well as local relationships.

The cornerstones on which our vision and values are based will ensure that the quality of services, products, relationships, management and people are developed and maintained at the highest level.

We will aspire to continually grow both organically and through acquisitions, maintaining resilience through diversification and increased efficiency. Our core disciplines will continue to be built and extended to achieve effective globalisation. We will recruit and develop staff who are outstanding, commercially aware professionals and we will continually drive a client focused culture in order to grow and sustain quality long-term relationships.

Shareholder value is enhanced by the emphasis we are placing on our vision and core values, which help to define the culture of the Group. This in turn motivates our staff to give their best and instil in our clients confidence that we will deliver solutions of the very highest quality. These may comprise specialist services from the many fields of activity that we offer, or multi-disciplinary packages as part of an integrated approach.

Our Goals

WSP's global objective is to promote the interest of all stakeholders to ensure that we deliver enhanced shareholder value, whilst being the first choice for both clients and employees.

We will aim to be best rated performer in our sector and to be in the top three



providers geographically in each of our core disciplines. We wish our clients to perceive WSP as a high quality, innovative, sustainable and outstanding supplier with a strong brand and good market penetration. In meeting these aims we will retain and promote our entrepreneurial culture whilst always ensuring that our core activities provide a solid platform for our operations.

Sustainability

In WSP we consider the principles of sustainability to be entirely consistent with delivering long term shareholder value. Operating in the service sector, WSP is dependent upon the support and goodwill of its clients, partners, investors, staff and wider communities within which we operate. The Group aims to enhance its relationships with those stakeholders to ensure that the business continues to respond to and fulfil their expectations. We aim to develop opportunities in conjunction

with our stakeholders, and have established systems and procedures to monitor delivery.

As a global business, we are challenged by the diversity of cultures and legislative requirements that we must satisfy. Nevertheless, we have proven that our business model, underpinned by our vision and values, can be delivered internationally. This has been achieved through high level policies and appropriate delegation through management autonomy that allow our businesses to respond effectively to local requirements and conditions.

We are highly aware of the interactions that occur between the stakeholder groups. We aim to deliver our vision, and to develop capital with all stakeholders by leveraging our relationships and building our brand reputation, ensuring that we understand, anticipate and respond to potential risks, whilst seeking to achieve reasonable balance in the



sometimes conflicting requirements of our stakeholders.

In assessing the interests of our stakeholders, we are conscious of their concerns and develop our understanding from direct communications with individuals, through surveys, and through the work of pressure groups and other non-governmental organisations.

Clients

WSP's vision is to be the outstanding supplier of specialist and integrated services in the built and natural environments. We are passionate about client service, and aim to develop long-lasting, sustainable relationships by exceeding expectations, earning respect and developing trust. Within our various sectors, we consider our clients to be not only the end-users of our products and services, both present and future, but also the other participants who contribute through the supply chain networks and teams in which we operate.

We aim to provide clients with effective technology-based solutions that fulfil their aspirations, with innovation and research being fundamental to providing clients with added value.

In order to ensure client satisfaction, we have established systems and quality assurance procedures throughout the Group with the objective of monitoring project delivery to help ensure that we deliver projects as intended. These include quality systems that are certified to ISO 9001. We further monitor client satisfaction through a number of other mechanisms including client satisfaction surveys.

We recognise the risks associated with under-performance and poor quality service and products. Not only can these undermine client relationships but may lead to claims. While we aim to avoid such situations arising, we maintain professional indemnity insurance to manage the risk.

Staff

A separate report on 'Our People' is included on pages 28 and 29. This includes

an overview of our approach to recruitment, knowledge management, training and development. It is an objective to improve staff retention to protect and develop the skills and knowledge embedded in our staff.

We take responsibility for the safety and health of our staff and those who come into contact with the Group. Our systems are intended to match, if not better, the minimum legal requirements of the countries in which we operate. An example is the UK where we have been awarded a ROSPA Gold Award for our Health and Safety management systems.

We work in many parts of the world which have different attitudes to human rights and equal opportunities. We aim to work within the laws and regulations of these countries, and do not knowingly breach these principles. In South Africa, for a number of years, we have implemented Affirmative Action procedures in line with equal opportunities requirements and also actively support a number of Black Empowerment Enterprises.

By employing skilled staff, predominantly based in modern offices, we consider that the risk of breaches to Human Rights or Equal Opportunities is minimal.

Society

There are two principal areas of concern that we identify through our interactions with society in general, and the communities in which we operate. We seek to address the environment and the social impact of our work. Our impact in these areas can be both direct and indirect, reflecting the effects of our operations and the effects of the projects we deliver for our clients.

The Environment

We consider that the environmental risks directly associated with the Group's own operations are relatively limited in their potential impact. As a service business, our main environmental impacts are generally restricted to energy and raw materials such as stationery. In conjunction with ongoing programmes to improve

Group Policy Statement

WSP strives to contribute to economic, social and sustainable development in its host countries. The Group respects the human rights of people affected by its operations and seeks to stimulate the enhancement of local capacity in its host countries.

In particular:

- WSP does not discriminate due to gender, age, ethnic background, religion, colour or political opinion;
- WSP's aim is to implement where possible suitable methods that will ensure effective transfer and distribution of knowledge and technique;
- WSP strives to perform development work in host countries to meet local needs;
- WSP strives to consider health and safety in its assignments as well as perform its work to secure sustainable development;
- WSP will regularly publish relevant and reliable information about the company, its structure, and financial results;
- Where third parties are involved, WSP will act in accordance with the market and promoting good practice;
- WSP aims to avoid corruption or bribery by conducting its affairs effectively, and without creating restrictions to free trade or competition; and
- WSP supports the public finances of its host countries by fulfilling its statutory and taxation obligations in proper time.



Creating Sustainable Value for Stakeholders – continued

efficiency and reduce waste, WSP has introduced initiatives that include:

- Use of materials from sustainable sources,
- Recycling office waste,
- Use of modern, energy efficient offices,
- Energy saving office equipment, and
- Incentives for alternative means of transport other than cars.

Of even greater significance to the Environment are the indirect effects of the services that we provide. Our environmental consultancy specialises in providing environmental solutions to clients. We act at all levels. At a national level we inform Government policy and develop energy master plans and carbon emission models for cities. At the corporate level we provide a range of services that range from sustainability management to environmental auditing, from remediation of contaminated land to corporate social responsibility. WSP is committed to providing solutions and applying skills and knowledge to improve the Environment globally.

In other areas of the business, in the property and transportation sectors, we also advise clients on sustainable solutions that can minimise the environmental impacts of their schemes. We undertake many of our property projects in the UK according to the British Research Establishment's Environmental Assessment Methodology ('BREEAM'). These include the new Royal Bank of Scotland World Headquarters in Edinburgh which was awarded BREEAM's highest score of excellent. Our work in the USA has been highly acclaimed, with buildings such as the Donald Bren School of Environmental Sciences and Management, part of the University of California being recognised by the award of a Platinum LEED® certification, the highest award of the United States Green Buildings Council. In Transportation, we aim to improve transport integration and reduce congestion, while responding to the



The Donald Bren School of Environmental Sciences and Management, University of California – awarded Platinum LEED® certification by the United States Green Building Council.

The 85,000 gsf facility provides laboratory, office, teaching and research spaces, and includes the following notable features that contributed to Platinum LEED® certification

- Energy reductions that collectively exceed California Title 24 by more than 30%
- Development of advanced glazing, wall and roof solutions
- Natural ventilation optimised to eliminate air conditioning within offices
- Innovative laboratory variable ventilation system
- Extensive daylight control
- Optimised lighting features
- Control system that provides optimisation of chilled water, operating as a 'virtual plant'
- Rooftop photovoltaic array interconnected to building electrical system
- Complete use of reclaimed water for irrigation and toilets
- Waterless urinals throughout
- Infrastructure for future fuel cells

wider environmental concerns associated with road and rail schemes.

We have implemented Environmental Management Systems in many of our offices, and have achieved certification to the International Standard, ISO 14001, for around 60% of our operations.

Social Impact

We are required to directly consider the risks to the business that can arise through inappropriate employment or ethical behaviours towards others. As a knowledge-based consultancy, largely

operating in an office environment with many professional staff we believe the risk of breaches to human rights is generally low. However, there may be a moderate risk of bribery and corruption in certain parts of the world in which we operate, and we seek to mitigate this risk through a combination of effective financial controls and management oversight.

Indirectly, through our work for clients we are able to influence communities by improving infrastructures and general living conditions. Our work in infrastructure, urban regeneration, health,



education, transportation and other sectors helps build stronger communities, by developing services, and improving living standards. By focussing our skills on a sector-led basis we are able to relate more closely to the needs of end users and to concentrate on developing and implementing best practice within our projects for the benefit of our clients and the communities that they serve.

WSP Environmental provides clients with sustainability solutions that include Corporate Social Responsibility and Product Responsibility services. One of our initiatives is Real World Training which provides staff development and Corporate Social Responsibility solutions with the object of helping clients to foster a more effective work environment, and enhance individual leadership skills, team work and staff loyalty. The service includes experiential learning programmes based upon community projects in developing parts of the world that embrace infrastructure development, skills transfer and economic sustainability. WSP has run a number of such projects in South Africa, including an irrigation project, a market garden and an internet cafe owned and operated by a rural community.

Internationally, we work with world aid organisations to develop infrastructure and strategy in many of the world's deprived areas, improving conditions and economic prospects.

Governments

As a global contributor, we aim to add value to those countries in which we operate. We contribute through the employment of local staff, through delivery of projects and through payment of taxes. We aim to comply with the laws and regulations of the countries which host us and in which we operate. Where appropriate, we seek to inform governmental policy and interpretation as global technology and practices develop.

It is not WSP policy to make political donations or donations to parties or institutions whose prime function is to fund political parties or their candidates.

Regulators

In many of our areas of operation, best practice and minimum standards are set by regulators and professional organisations who may not enjoy legal backing. As well as ensuring that our projects and working practices comply with regulations, we also liaise with regulators, supporting the development of new technology and practices.

Suppliers

It is the efforts of our own staff that represent the major input to our delivery of projects on behalf of clients, and WSP has no significant reliance on single sources of supply. In our dealings with suppliers, we aim to:

- Be fair, open and honest in our dealings
- Agree terms and conditions, and to comply with them, and
- Address any safety or health matters where we have such responsibility

We have established systems and procedures for procurement, invoice processing and payment which are intended to ensure that we honour these commitments.

Shareholders

We believe that only by ensuring effective relationships with all our stakeholders can we deliver long term value and satisfaction to our shareholders. We have established systems of Corporate Governance in line with the Combined Code of the UK Listing Authority, and a report on Corporate Governance is set out on pages 37 to 40.

The Board takes account of risks and regularly reviews the Group's systems of internal control. These include Social, Environmental and Ethical ('SEE') risks which can have differing impacts, reflecting the dynamics of the business. The potential likelihood and impact of significant risks, including SEE risks, is subject to internal controls and monitored and assessed by the Board using a combination of quantitative and qualitative measures. Certain directors have received training in SEE risks. As outlined in the Remuneration

report on pages 41 to 44, the executive directors are incentivised to ensure sustainability through long term incentive share plans that reward them for the longer term performance of the Group.

No imminent SEE risk that will have a material impact on the Group has been identified, and no significant failure in policies or procedures for managing SEE risks has been identified. The Board's review of risk management and systems of internal control that is reported on page 39 of the Corporate Governance Report includes consideration of significant SEE risks.

The Future

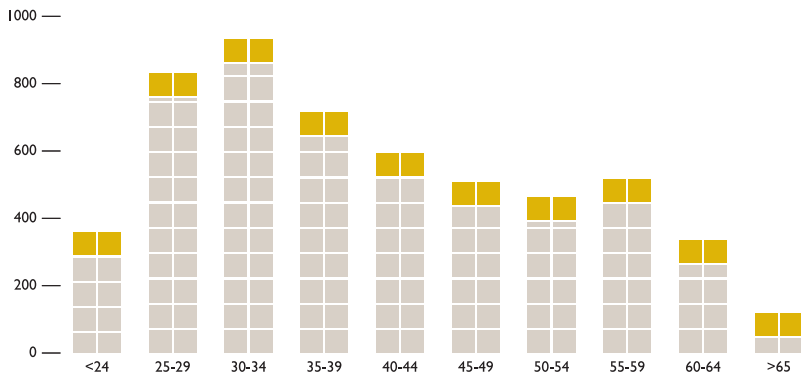
WSP recognises its responsibility to stakeholders and has established systems that recognise, manage and control the significant risks and opportunities that could influence future sustainability. We consider that maintaining and developing a sustainable business is fundamental to the success and integrity of the Group.

During the next year we will re-enforce our communications of the principles and policies relating to sustainability to our staff and, in doing so, will aim to further embed the vision and values that define our culture. The sustainability agenda is one that continues to develop, and we will continue to monitor developments and address the implications for our systems of management and reporting. We recognise areas where our systems of reporting, monitoring and consultation may be improved, and we will develop these.

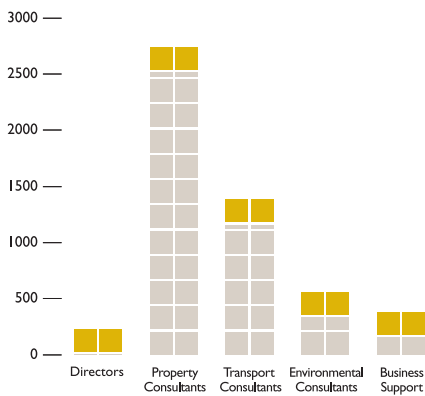
We will aim to ensure the balanced satisfaction of all our stakeholders, to develop our reputation and establish long term relationships. Only by doing so can we be confident of fulfilling our vision to be the outstanding supplier of specialist and integrated services in the built and natural environment.

Our People

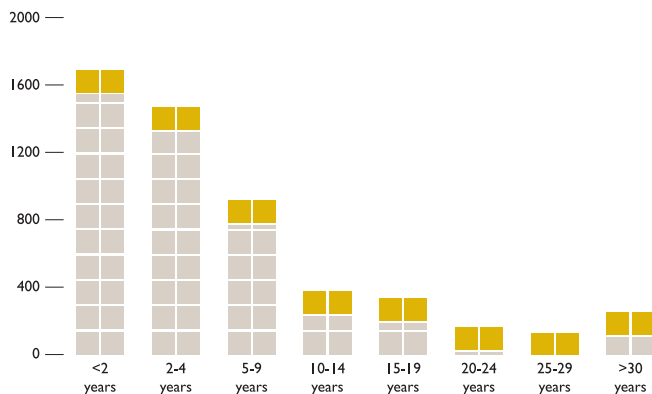
Employee Age Profile



Employees by Role



Length of Service



WSP's employees are our greatest asset and it is our ambition to become the employer of choice, attracting the best staff to support our vision of being the outstanding supplier of specialist and integrated services.

To achieve this WSP provides a global working environment in which the focus is on developing and supporting our staff through a continuous programme of recruitment, training, staff care and attractive remuneration packages where cultural integration and knowledge sharing are actively supported.

At the year end our staff numbered 5,300, with an average period of employment of 7 years. Of these 2,463 were graduates, whilst many other employees have relevant technical qualifications.

Knowledge Management

In WSP the knowledge, experience and expertise of our staff is our most valuable resource. The size and framework of the global organisation brings benefits from economies of scale in terms of sharing knowledge and making information and expertise globally available.

Effective knowledge management is an essential component in increasing opportunities for cross selling both regionally and globally, leading to increased business and a greater market share as well as enhanced brand recognition and reputation.

Knowledge sharing is achieved in many ways. International transfers enable staff to gain overseas experience by providing additional support in offices or on projects where resources or certain skills are lacking.

Staff with similar skills team up to exchange knowledge and share experiences, which encourages the benchmarking of good practice as well as the development of new services. Project teams may be drawn from more than one country to co-operate on individual



projects thus combining global experience with local delivery and older experienced employees are encouraged to share their knowledge with younger staff.

We continue to invest in infrastructure to support knowledge management. Early in 2005 a global CV and competence database will be launched, covering the majority of the staff in the company, sorted by education, skills, region or sector.

Successful implementation of such tools is dependent upon global access to WSP's corporate systems. In 2004, much work was done on developing a common IT standard throughout the Group to provide an improved platform for facilitating the sharing of information and the transfer of knowledge.

Recruitment

Recruitment and retention of high calibre staff is crucial to WSP's continued success in an increasingly competitive market. The Group is actively pursuing a policy of 'recruit for attitude, train for skill', aiming to select individuals whose actual or potential professional competence is enhanced by commercial awareness and a flair for business.

Considerable efforts are made to attract new graduates, of which some 100 are recruited annually worldwide. Intensive recruitment campaigns target this group in the face of stiff competition from other companies in the sector. These campaigns also present an opportunity to gain long term awareness for the WSP brand amongst the industry's high fliers of the future.

Employee Survey

In 2004 our annual employee survey was extended globally. The overall response from our staff was extremely positive, with an overall satisfaction rate of 71%. Particularly pleasing was the fact that 69% of staff said that they understood the company's Vision and Values.



The survey also highlighted areas for improvement, such as the requirement for the Group to provide greater opportunities for career progression. Following analysis of the results of the survey, global and individual company goals for improvement were identified, which include appraisals and career development, knowledge sharing on a global level and the communication of Vision and Values at a local level.

Training and Development

Training and development linked to positions and career progression play an important role in retaining good staff. Annual appraisals for all staff throughout the Group provide feedback and assist in drawing up programmes for continuing professional education which includes appropriate project experience as this is the key to the development of skills and expertise.

The WSP University is now fully operational in Sweden, the UK and Environmental providing staff with opportunities to develop business, technical, personal and procedural skills. It gives structure and accessibility for all to take full advantage of the training opportunities available.

This year there was specific emphasis on leadership skills. In the UK courses were held for middle management, whilst in Sweden the focus was on middle management as well as on more strategic leadership skills. Induction programmes across the Group were very successful and greatly appreciated by new staff.

2004 saw the tenth anniversary of Taskforce, which encourages young people to develop their skills and understanding of the business through undertaking strategy related research, presentations and workshops on matters of importance to the Group. At their conference in October Taskforce members from around the world met in London to consider WSP Vision and Values and this gave rise to many innovative and workable suggestions for ensuring clients see the full benefit of all we do.

Board of Directors



Caroline Brown FCMA MBA
Independent Non-Executive Director

Age 42, Caroline was first appointed to the Board in 2003. She is a finance professional with executive and advisory experience in diverse industry sectors. She was the Director of Finance Change at Norwich Union Insurance, part of Aviva plc, having previously been Chief Financial Officer with an AIM quoted software and services company. Caroline has UK and international banking experience as Director of Corporate Finance with UBS and HSBC. She is a qualified accountant and brings particular experience in finance and risk to the Board, and chairs the WSP Audit Committee.

Shareholding: Nil.

Malcolm Paul FCA
*Group Finance Director
and Company Secretary*

Age 53, Malcolm was first appointed to the Board in 1987 at the time of the WSP IPO. After qualifying as a chartered accountant, Malcolm worked in both practice and industry before joining Longcrofts, a city accountancy firm as a partner specialising in corporate finance. He became Finance Director of WSP in 1987. He is a principal member of the performance and strategy committees and is responsible for the financial control of the Group. Malcolm maintains links with the Group's professional advisers and during the year has renegotiated the Group's long term borrowing facilities.

Shareholding: 822,976

David Turner FRICS
Non-Executive Chairman

Age 67, David was first appointed to the Board in 1997. He was chief executive of Barclays Property Holdings Limited from 1991 to 1997 and a divisional director of Barclays Bank. He is also Vice Chairman and Deputy Pro-Chancellor of the City University, and is a director of a number of private companies. David has a wealth of knowledge of the property industry and has broad business experience. He was appointed Chairman of the Board in 2003 and he also chairs the Nominations Committee.

Shareholding: 10,910



Christopher Cole

C Eng FCIBSE MASHRAE
Chief Executive

Age 58, Chris was first appointed to the Board in 1987 at the time of the WSP IPO. Following initial training and education, Chris spent the first ten years of his career working for a major contracting and subsequently consultancy business. He joined WSP in 1972 at its inception, becoming Managing Director in 1987 and Chief Executive in 2001. He chairs the Performance and Strategy Committees and is responsible for both operational control and the strategic direction of the Group. Chris maintains significant client contact together with regular liaison with our offices around the world. He is also a non-executive director of Ashtead Group plc.

Shareholding: 908,777

Christopher Stephens MA

Senior Independent Non-Executive Director

Age 56, Chris was first appointed to the Board in 2003. He has many years experience in a range of industries including Consumer, High Technology and Business Services. Until recently he was the Group Human Resources Director of Exel plc, the global logistics company, and prior to that with Vivendi in the UK. As well as experience of motivation and incentivisation of large international service companies, Chris has had general commercial experience both in the UK and globally and he chairs the WSP Remuneration Committee.

Shareholding: 5,000

Thomas Erséus MSc CEng

*Executive Director and
Chairman of WSP Europe*

Age 41, Thomas was first appointed to the Board in 2001 following the acquisition of WSP Sweden. After qualifying as a civil engineer, Thomas joined Caran AB, a Swedish consultancy firm as a consultant. Having been instrumental in introducing the company to the Swedish Stock Exchange in 1995, he became Managing Director in 1997. In 1998, Thomas joined WSP Sweden as Managing Director, becoming Chairman of WSP Europe in 2002. He is a principal member of the performance and strategy committees and is responsible for the operational performance of WSP Europe. He is also on the Environmental and International Boards. Thomas is a director of our associate company, Multiconsult Holdings AS and holds two non-executive appointments with Hagstromer & Qviberg AB and DSV Miljo AS.

Shareholding: 352,200

Performance Committee



01



03



05



02



04



06

01 Rikard Appelgren MSc
Managing Director WSP Sweden
Age 39. After working as an engineering consultant and contractor in Sweden and Germany, Rikard joined WSP Sweden in 1996, becoming Managing Director of Construction Design in 1998, and Managing Director of WSP Sweden in September 2002.

02 Stuart McLachlan MSc
Managing Director WSP Environmental
Age 37. Having worked as an environmental consultant, Stuart joined WSP in 1995, becoming Managing Director of WSP Environmental UK in 1997. In 2001 he was appointed Managing Director of WSP Environmental for their global operations.

03 Mike O'Brien CEng
Managing Director WSP UK
Age 57. Mike has over 35 years experience with contractors and consultants in the planning, design and construction of civil and structural projects. He joined WSP in 1979, becoming Managing Director of WSP UK in 2000.

04 Siv Axelsson MBA
Group Human Resources and Communications Director
Age 51. Siv has broad management experience with a variety of organisations and has published several books addressing the management of intellectual businesses. She joined WSP Sweden in 1995 and was appointed Group Human Resources and Communications Director in 2002.

05 Randy Meyers PE
President and CEO Flack + Kurtz Inc.
Age 48. Originally specialising in Electrical Engineering, Randy joined Flack + Kurtz in 1984. He was appointed President and CEO of Flack + Kurtz in 2002.

06 Andrew Mather Pr Eng,
BSc Eng, B Com
Managing Director WSP South Africa
Age 46. Andrew is an electrical engineer who specialises in industrial process control systems. He joined WSP as Managing Director of WSP Group S.A. in 1999, when WSP acquired the WEVS Group.

Directors' Report

The directors have pleasure in presenting their report together with the audited financial statements for the year ended 31 December 2004.

Principal Activity

WSP Group plc is an international business supplying specialist management and integrated services in the built and natural environment.

Review of Business

The results for the Group are set out in the consolidated profit and loss account on page 46.

Details of the Group's operations and its future prospects are contained in the Chairman's statement, the Chief Executive's Review and the Group Finance Director's Review on pages 2 to 11.

Dividends

The directors propose a final dividend of 3.2p net per share, which, together with the interim dividend of 2.1p net per share paid in October 2004, gives a total dividend of 5.3p (2003: 5.0p) for the year. If approved at the Annual General Meeting, which is convened for 3 May 2005, the final dividend will be paid on 12 May 2005 to shareholders on the register of members at the close of business on 15 April 2005. The shares will be ex dividend from 13 April 2005.

Acquisitions

During the year the Group acquired Inregia Intressenter AB, Consulting Kortes OY and EMP Projects OY, details of which are set out in note 20 to the financial statements.

Share Capital

As at 31 December 2004, the issued share capital of the Company comprised 60,458,607 (2003: 60,445,286) ordinary shares of 5p each. During the year 13,321 shares were issued in respect of deferred consideration at an issue price of 209p.

At the Annual General Meeting held on 11 May 2004 a resolution was approved to authorise the Company to make market purchases of up to 10% of its own ordinary shares. The power given by this resolution will only be exercised if the directors are satisfied that any purchase will increase the earnings per share of the ordinary share capital in issue after the purchase and therefore is in the best interest of the shareholders.

At the same meeting a resolution was approved to renew the directors' authority to allot relevant securities pursuant to Section 80 of the Companies Act 1985 up to an aggregate nominal amount of £477,736 and to dis-apply the statutory pre-emption provisions of Section 89 of the Companies Act 1985 in respect of any rights issue and for cash issues up to an aggregate nominal amount of £151,113. Similar resolutions will be proposed at the forthcoming Annual General Meeting on 3 May 2005.

Articles of Association

At the Annual General Meeting, the directors propose to seek shareholder approval to adopt new Articles of Association to enable it to benefit from the introduction of the Electronic Communications Act 2000, the Uncertificated Securities Regulations 2001 and the Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003. Additionally, under the terms of the current Articles one third of the directors are required to retire by rotation at an Annual General Meeting and it is proposed that the new Articles should require that directors retire by rotation on the third anniversary of their appointment. This will enable the Company to appoint directors for a specified term of three years. It is also proposed that the new Articles increase the limit placed on the aggregate amount of fees payable to the non-executive directors from £100,000 to £250,000. This will enable the Company to appoint additional non-executive directors without exceeding the limit, while also providing scope to increase fees to reflect commitment and time requirements. Furthermore, the proposed new Articles allow for the indemnification of alternate directors on the same basis as directors.

Directors' Report – continued

The decision to seek approval to adopt new Articles of Association rather than to seek approval to amend the Articles has been taken on the basis of legal advice, and consequently the resolution combines all of the above proposals.

Detailed explanations of the proposed amendments to the Articles of Association are provided in the Notice of Meeting which accompanies this report.

Research and Development

To enable WSP to deliver innovative solutions, we maintain research links in many areas that make it possible for us to apply some of the latest technical solutions to the benefit of our clients. The sharing of knowledge and innovations is encouraged through the use of the Group intranet and other staff communication.

Directors

Details of Board Committees, directors' roles and responsibilities are set out in the Corporate Governance Report on pages 37 to 40.

The directors who served during the year were:

David Turner	<i>Chairman</i>
Christopher Cole	<i>Chief Executive</i>
Malcolm Paul	<i>Group Finance Director</i>
Thomas Erséus	<i>Executive Director</i>
Christopher Stephens	<i>Senior Independent Non-executive Director</i>
Caroline Brown	<i>Independent Non-executive Director</i>

In accordance with the Company's Articles of Association, David Turner and Christopher Cole will retire by rotation at the Annual General Meeting, and being eligible, offer themselves for re-election. Christopher Cole has a service contract with the Company that requires a one-year rolling notice period. David Turner, as a non-executive director, is appointed for a three-year period, which may be terminated by three month's written notice given by either party. During the year, both Christopher Cole and David Turner have undergone performance evaluations and continue to contribute effectively and demonstrate commitment to their roles. Biographical details are set out on page 30 and 31.

Details of directors' interests in shares and share options are set out in the Remuneration Report on pages 41 to 44.

Other than their service contracts, no director had a material interest in any contract of significance to the Group's business. David Turner is Vice Chairman and Deputy Pro-Chancellor of the City University and a director of the Royal Mail Group Property Board. Christopher Stephens was Human Resources Director of Excel plc and Caroline Brown was director of Finance Change with Norwich Union Insurance. During the year these businesses have occasionally procured services from the Group.

During the year the Company maintained liability insurance for its directors and officers.

Employees

The success of the business depends upon maintaining a highly qualified and well-motivated work force and every effort is made to achieve a common awareness of the financial and economic factors affecting the performance of the Group.

Regular communication with all employees is essential and this is achieved by formal and informal meetings, through national intranets, the global internet, and through the distribution of in-house magazines.

WSP is a committed equal opportunity employer and engages employees with broad backgrounds and skills. Within the limitations of its business, the Group's policy is to engage disabled persons and to provide training, career development and promotion opportunities within standard terms of employment. It is also WSP's policy to retain and re-train those employees who have become disabled. A report on Our People can be found on pages 28 and 29.

Supplier Payment Policy

As a service company WSP's principal cost base is its employees who are paid weekly or monthly in arrears. Many other costs, such as office rents and insurance, are paid in advance. In addition, in common with other businesses in the construction sector, sub-consultants who provide support or specialist services on projects operate on a paid when paid basis.

The terms and conditions of payment for the supply of other capital and revenue items are normally agreed with the supplier. However, subject to regional practices, and in the absence of any such agreement it is our policy to make payment 60 days after the end of the month in which the supplier's invoice was received.

The average number of days credit taken by the Company for trade purchases at 31 December 2004 was 52 days (2003: 51 days).

Social Responsibility

A report on creating sustainable value for stakeholders which includes details of social responsibility may be found on pages 24 to 27.

Donations

During the year the Group made charitable donations of £31,127 (2003: £49,535) principally to local charities serving the communities in which the Group operates. No political donations were made (2003: £Nil).

European Monetary Union

As the Euro has not been introduced either in the United Kingdom or Sweden, the two largest geographical markets in which the Group operates, the impact of the currency has been minimal.

However, the Group's strategy continues to be to build a broad European business, and as this brings greater exposure to the Euro appropriate systems are being developed. It is not anticipated that there will be a material impact on WSP, which will continue to report results in Sterling.

Substantial shareholdings

At 4 March 2005 the directors had been notified of the following substantial interests in the ordinary share capital of the Company:

	Number of Shares	Percentage
Aviva plc	6,752,432	11.17%
Henderson Global Investors	5,282,877	8.74%
Standard Life Investments Ltd	2,544,839	4.21%
Legal & General Group plc	1,829,102	3.03%
Barclays PLC	1,823,807	3.02%

Statement of Directors' responsibilities for preparing financial statements

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period.

In preparing those financial statements the directors are required to:

- Select suitable accounting policies and then apply them consistently
- Make judgements and estimates that are reasonable and prudent
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for the maintenance and integrity of the Group's website on the internet; however information is accessible in many different countries where legislation governing the preparation and dissemination of financial statements may differ from that applicable in the United Kingdom. The responsibilities of the Auditors are set out in the Auditors' report on page 45.

Directors' Report – continued

Going concern

The directors believe, on the basis of current financial projections and facilities available, that the Company and the Group have adequate resources to continue in operation for the foreseeable future. For this reason the directors continue to adopt the going concern basis in preparing the financial statements.

Auditors

A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the company will be proposed at the Annual General Meeting.

By Order of the Board

A handwritten signature in black ink that reads "Malcolm Paul". The signature is written in a cursive, flowing style.

Malcolm Paul

Company Secretary
4 March 2005

Corporate Governance Report

In accordance with the Listing Rules of the Financial Services Authority, the Company is required to:

- explain how it applies the main and supporting principles of the 2003 FRC Combined Code on Corporate Governance, and
- confirm whether or not it complies with the Code's provisions or, where it has not, to provide an explanation.

Directors

The Board of WSP Group plc is collectively responsible for the success of the Group and for its Corporate Governance and aims to provide entrepreneurial leadership of the Group within a framework of prudent and effective financial controls that enable risk to be assessed and managed.

As outlined on pages 30 and 31, the Board comprises the non-executive Chairman, three executive directors together with two independent non-executive directors. The Combined Code identifies the fundamental importance of independent non-executive directors in ensuring the objective balance of the Board, and sets out criteria to be considered in determining the independence of non-executive directors. In accordance with Provision A3.1 of the Code, the Board considers Christopher Stephens and Caroline Brown to be independent non-executive directors, with Christopher Stephens being the senior independent non-executive director. WSP has taken advantage of the exemption provided by the Combined Code, where companies fall outside the FTSE 350, which permits Audit Committees, Remuneration Committees and Boards to comprise a minimum of two non-executive directors.

To ensure its effectiveness, the Board's composition brings together a balance of skills and experience appropriate to the requirements of the business. Board composition and recommendations for the appointment of directors are dealt with by the Nominations Committee and its activities are set out separately in this report.

The Board is responsible to the shareholders for the Group's overall strategy and direction and it usually meets on a monthly basis throughout the year. A formal schedule sets out those matters specifically reserved to the Board and its Committees. Those matters include decisions on Group strategy and direction, acquisitions and disposals, capital structure, material contracts, corporate governance and Group policies.

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

Name	Full Board(1)	Audit Committee(3)	Remuneration Committee(4)	Nomination Committee(1)
David Turner	11	–	–	1
Christopher Cole	11	–	–	–
Malcolm Paul	11	–	–	–
Thomas Erséus	10	–	–	–
Christopher Stephens	11	3	4	1
Caroline Brown	10	3	4	1

The Board has a standing agenda, including receiving and considering reports from the Chief Executive and the Group Finance Director on the Group's operational performance, finances, ongoing strategy and risk profile, all of which are considered at the monthly meetings. Where appropriate, matters are delegated to the Nomination, Audit and Remuneration Committees, and reports on their activities are included on pages 38, 40 and 41 respectively.

The roles of the Chairman and Chief Executive have been established in writing to ensure the clear division of responsibilities, and this has been agreed by the Board. The Chairman has held regular meetings with the non-executive directors without the executive directors present.

The Chairman, who is non-executive, is responsible for leadership of the Board; setting its agenda and taking full account of the issues and concerns of all board members; ensuring effective communication with shareholders; taking the lead on director induction and development; encouraging active engagement by all directors, and ensuring that the performance of individuals and of the board as a whole, and its committees, is evaluated at least once a year.

The Chairman ensures that the Board is supplied with accurate, timely and clear information. Directors are encouraged to update their knowledge and familiarity with the Company through meetings with senior management. As part of the induction process, an induction pack is provided to non-executive directors. All directors have access to the company secretary who is responsible for ensuring good information flows within the Board and its committees and between senior management and non-executive directors. The company secretary is also responsible for advising the Board, through the Chairman, on all corporate governance matters. Directors are encouraged to seek independent or specialist advice or training at the Company's expense where this will add to their understanding of the Group in the furtherance of their duties.

Corporate Governance Report – continued

As required by the Combined Code, the Board has introduced a process to formally evaluate its own performance and that of its Committees and individual directors. The performance of the Board and its Committees was the subject of Board discussion, led by the Chairman to consider effectiveness against performance criteria and potential risks to performance.

The performance evaluations of Board members has been structured in such a way as to ensure balanced and objective review of directors' performance by using a system of questionnaires intended to stimulate discussion of factors including individual performance and commitment. The individual performances of the Chairman, the Chief Executive, the other executive directors and the independent non-executive directors have all been reviewed during the year taking account of the views of the other Board directors. In particular, the senior non-executive director led the non-executive directors' review of the Chairman. Following these performance reviews, the Chairman is responsible for ensuring that the appropriate actions are taken. The evaluations provide a feedback mechanism and have helped in identifying Board performance objectives as well as individual actions such as training.

In accordance with the Company's Articles of Association, one third of directors are required to retire by rotation and, if appropriate, submit themselves for re-election, which in practice means that each director shall retire by rotation at least every three years. At the forthcoming AGM, a resolution will be placed to adopt new Articles of Association which amongst other matters, if adopted, will require directors to retire by rotation on the third anniversary of their appointment or re-appointment to the Board.

Directors appointed during the year are subject to election by shareholders at the first opportunity after their appointment. The names of those directors submitted for re-election are detailed in the Directors' Report on page 34. Biographies of each of the directors are set out on pages 30 and 31.

Nomination Committee Report

The Nomination Committee has written Terms of Reference to lead the process for board appointments and make recommendations to the board thereon.

The Nomination Committee, which met once during the year, comprises the Chairman of the Board, David Turner (Committee Chairman), and two independent non-executive directors, Christopher Stephens and Caroline Brown. Where appropriate, the Nomination Committee receives proposals from, and consults with, the Chief Executive regarding their proposals.

Although, during the year, no new Board appointments have been made, the Nomination Committee has considered the balance of skills, knowledge and experience on the Board. In the light of non-executive director performance evaluations, it has reviewed the time commitment required from non-executive directors to fulfil their duties, and has considered the succession of executive and non-executive directors. The Board has developed succession plans which evaluate the risks associated with changes to directors and identify contingency provisions intended to mitigate the potential down-side impact of such an event.

While the Board has not made any new appointments in the current year, the Nomination Committee's terms of reference require it to develop proposals to the Board, that include a description of any new appointment, the likely capabilities of a suitable candidate, and the likely time commitment. Where appropriate, it is intended that open advertising or an external search consultancy will be used to advertise Board positions.

Remuneration Committee Report

A report on executive directors' remuneration and the activities of the remuneration committee is set out on pages 41 to 44.

Audit Committee Report

The Report of the Audit Committee on page 40 sets out in more detail its delegated role in advising and making recommendations to the Board on matters including financial reporting, internal controls, risk management, and the appointment of auditors.

Internal Control

The directors have ultimate responsibility for the system of internal controls and for reviewing its effectiveness. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives. In pursuing these objectives, internal control can only provide reasonable and not absolute assurance against material misstatement or loss.

The operational and strategic direction of the Group is monitored through the following committees which provide direction and control throughout the Group:

- The Performance Committee has written terms of reference and meets once a month to review and consider the operational and financial performance of the Group. Each meeting has a formal agenda that includes risk management issues. The Committee consists of the executive directors and the chairmen of the Executive Committees. The discussions of the Performance Committee are reported to the Board.
- Three Executive Committees meet monthly and are responsible for the day-to-day management of the Group. These Committees embrace the regional businesses in the UK and Sweden, while the Global Environmental Executive Committee is formed from the

environmental businesses in all regions. The Committees comprise the Managing Directors of each of the principal operating subsidiaries. The Chief Executive and Group Finance Director regularly visit and attend Board meetings in the USA and other international subsidiaries.

- The Strategy Committee, met twice during the year, and has written terms of reference to develop the strategic direction of the Group and consider strategic proposals. The Committee consists of the executive directors, the chairmen of the Executive Committees together with such other senior executives as are deemed appropriate. The Committee reports to the Board.

The members of the Executive Committees and subsidiary directors are responsible for the management and operation of their businesses and clearly defined levels of authority have been established between the Group's executive directors, the Executive Committees and subsidiary Boards. Subsidiaries subscribe to the Group's Vision and Values but have autonomy to develop appropriate and effective ways of working, while operating a control environment established in accordance with Group policies and systems of internal control.

Management are responsible for reviewing risks, and for identifying, evaluating and managing the significant risks applicable to their areas of business. Risks are reviewed and assessed on a regular basis by the Performance Committee, the Group Financial Risk Manager, the Audit Committee and the Board. On an annual basis, individual businesses complete internal control questionnaires from which an assessment of compliance with the Group's systems of internal control is prepared. The effectiveness of controls is considered in conjunction with the range of risks and their significance to the operating circumstances of individual businesses.

Working throughout the Group, the role of the Group Financial Risk Manager is to identify, monitor and report on the significant financial and operating risks faced by the Group to provide assurance that WSP meets the highest standards of corporate governance expected by its stakeholders. Reporting to the Audit Committee, priority is given to key risks.

The Audit Committee assists the Board in its review of the effectiveness of internal controls and is responsible for setting the strategy for the internal control review. In doing so, it takes account of the organisational framework and reporting mechanisms embedded within the Group, and the work of the Group Financial Risk Manager.

During the year the Board has reviewed the effectiveness of its internal controls. In its deliberations the Board has taken account of the advice of the audit committee, reports received from the external auditors, and any other related factors which have come to its attention.

The Board is satisfied that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the company, that it has been in place for the year under review and up to the date of approval of the annual report and accounts, and that it accords with the Turnbull Guidance on internal control. The process does not extend to associate companies or joint ventures where the Group does not have a controlling interest. In joint ventures, systems of internal control are agreed in conjunction with joint venture partners. Details of associate companies and joint ventures are provided in note 13 to the accounts.

Relations with Shareholders

In the interests of developing mutual understanding of objectives, the executive directors have met regularly with institutional investors to discuss the performance of the Group and its future strategy. Invitations have been extended to institutional investors to meet the Chairman and other non executive directors.

The Board is kept informed of shareholder views and correspondence as well as the views of institutional investor advisory bodies such as PIRC and the ABI.

Corporate and financial presentations are regularly made to Fund Managers, Brokers and the Media, particularly at the announcement of interim and final results. Copies of the presentations are published on the Group web site. All shareholders are welcome to attend the Annual General Meeting in May where they have the opportunity to put questions to the directors, including the chairmen of Board Committees.

At the Annual General Meeting separate resolutions are proposed for each substantially different issue to enable each to receive proper consideration. Proxy votes are disclosed after each resolution has been dealt with by a poll. Notice of the Annual General Meeting and related papers are sent to shareholders at least 20 working days in advance. Further information on the activities of the Group and other shareholder information are available via the WSP Group web site, www.wspgroup.com.

Statement of Compliance with the Combined Code

Throughout the year under review, the Group has complied with all the provisions of the 2003 FRC Combined Code on Corporate Governance as laid down in the Listing Rules of the Financial Services Authority.

Corporate Governance – Report of the Audit Committee

Report of the Audit Committee

The Audit Committee advises and makes recommendations to the Board on matters including financial reporting, internal controls, risk management, and the appointment of auditors. The role of the Committee is set out in its written terms of reference.

The Committee, which met three times during the year, comprises two independent non-executive directors, Caroline Brown as chairman and Christopher Stephens. Caroline Brown is a finance professional, and her understanding of corporate financial matters brings recent and relevant financial experience to the Committee. Where appropriate, the Committee consulted with the Chairman of the Board and the Chief Executive regarding their proposals. The Chairman, Executive Directors and Group Financial Risk Manager were invited to the meetings for parts of the agenda. The external auditors also attended two of the meetings, and a portion of their time was spent in private with the Audit Committee.

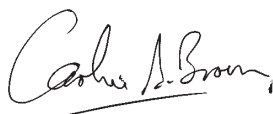
Responsibilities include monitoring the integrity of the financial statements of the company and any formal announcements relating to the Group's financial performance. The Committee has reviewed the Group's financial statements and formal announcements relating to the Group's financial performance before their presentation to the Board. In so doing, it considered accounting policies, areas of judgement or estimate, and reporting requirements, as well as matters brought to their attention by the external auditors. During the year, the Committee has monitored and been kept informed of progress in implementing International Financial Reporting Standards.

The Audit Committee is responsible for assessing the requirement for a separate internal audit function. The Committee remains satisfied that the culture of embedded controls and continual peer review, together with the work of the Group Financial Risk Manager, is effective in monitoring the established systems. An internal audit function would have limited additional benefit at this time, although it remains under review.

The Committee is responsible for reviewing the Group's systems of internal control and risk management, and determines the scope of work undertaken by the Group Financial Risk Manager. It receives reports from the Group Financial Risk Manager, with whom the results are discussed on a regular basis. The Committee concluded its annual review of the effectiveness of the Group's systems of risk management and internal control at its December meeting. As required by the Combined Code, the Committee has reviewed arrangements by which staff may, in confidence, raise concerns about possible improprieties. The Committee considers that these arrangements are appropriate given the nature of the risks involved.

The Committee is responsible for making recommendations to the Board in relation to the appointment of external auditors. It is responsible for monitoring the independence and objectivity of the external auditors, and for agreeing the level of remuneration and the extent of non-audit services.

During the year, PricewaterhouseCoopers LLP ("PwC") reported to the Committee on its audit strategy and the scope of audit work. The Committee has reviewed the performance of PwC and the level of non-audit fees paid to PwC during the year. These are set out in note 6 on page 57. The provision of non-audit services, except tax compliance and routine taxation advice, must be referred to the Committee where it is likely to exceed a pre-determined threshold of £10,000. Any work that falls below that threshold must be pre-approved by the Group Finance Director. No material consultancy work has been carried out by PwC during the year. By monitoring and restricting both the nature and quantum of non-audit services provided by the external auditors, the Committee seeks to safeguard auditor objectivity and independence.



Caroline Brown

Chairman of the Audit Committee

4 March 2005

Remuneration Report

The Remuneration Committee has written Terms of Reference to determine, on behalf of the Board, the Group's policy on executive remuneration and to consider and approve remuneration packages for executive directors. In addition, the Committee monitors and makes recommendations on the level of senior management remuneration across the Group. The Board's report is set out below.

The Committee, which met four times during the year, comprises two independent non-executive directors, Christopher Stephens as chairman and Caroline Brown. Where appropriate, the Committee consulted with the Chairman of the Board and the Chief Executive regarding their proposals.

Remuneration Policy

The policy of the Board is to attract, retain and motivate the best executive directors by rewarding them with competitive salary and benefit packages linked to achieving the Group's strategic goals. Presently, the three executive directors have very significant beneficial holdings of WSP shares and as such their interests are closely aligned with other shareholders.

During the year the Committee considered a variety of independent information including the comparison of the executives' remuneration with companies of a similar size and diversification. In addition, as WSP is an international business the Committee takes into account employment practices both in the UK and overseas, as well as having due regard to the remuneration packages throughout the Group.

The performance related elements of executive remuneration comprise annual bonuses and awards under the WSP Performance Share Plan. These incentives are designed to be relevant to the overall objectives of the Group and to enhance the business. The performance targets set by the Committee are reviewed annually and are intended to be stretching and to reward superior performance in the light of the prevailing economic climate.

The members of the Committee have no personal interest in the outcome of their decisions and give due regard to the interests of shareholders and to the continuing financial and commercial health of the business.

The remuneration packages of the executive directors comprise:

- Basic salaries that are reviewed annually having regard to individual performance, responsibility and skills, and comparable evidence of other companies in the sector; together with specific employee benefits.
- The executive directors are members of defined contribution pension schemes and annual contributions are calculated by reference to basic salaries with neither annual bonuses nor awards under the share incentive schemes taken into account in calculating the amounts due.
- Performance related annual bonuses, up to a maximum of 100% of the executive directors' salary, are calculated by reference to the Group meeting preset annual profit targets. In 2004, these targets required profit before exceptional items, the amortisation of goodwill and tax to grow by 10%, at which point an annual bonus of 40% would be payable and this would increase pro rata up to a maximum of 100% if 20% growth was achieved. In 2004 the profit growth was such that the performance related annual bonus amounted to 82.9% of the executive directors' salary.
- Share awards under the terms of the WSP Performance Share Plan, up to a maximum of 75% of the executive directors' basic salary, are linked to the long-term performance of the Company and further align the executives' interests with those of the shareholders. The extent to which an award will vest, and thus becomes exercisable, is measured by reference to the growth in WSP's earnings per share over the performance period.

In respect of awards granted before 2003, participants only received 100% of any award if the earnings per share over a three-year period from the date of the award had increased by at least 72.8% plus the equivalent increase in the Retail Price Index, which represents 20% annual compounded growth. No award would vest unless the Company's earnings per share over the same period had increased by 15.8% plus the equivalent increase in the Retail Price Index, which represents 5% annual compound growth, and at this level the participant would receive 25% of any award.

In the opinion of the Committee these performance criteria were unsustainable in the medium term and therefore from 2003 were changed so that participants only receive 100% of any award if the earnings per share over a three-year period from the date of the award has increased by at least 8% per annum plus the equivalent increase in the Retail Price Index. No award will vest unless the Company's fully diluted earnings per share over the same period has increased by 4% per annum plus the equivalent increase in the Retail Price Index, and at this level the participant would receive 25% of any award. Principal Institutional shareholders were notified of the change in 2003.

- The executive directors also qualify for the WSP Deferred Bonus Share Plan that allows them and other senior executives to invest up to 50% of their after tax annual bonus in shares of the Company. If these shares are held for more than three years the Company will grant an award of the right to acquire a matching number of shares for a nominal price. This plan is designed to retain senior staff for at least a three-year period from the date the individual invests in the shares of the Company. For awards made after 2003, performance criteria have been set that require fully diluted earnings per share to have grown by at least 5% per annum plus the Retail Price Index by the vesting date.

Remuneration Report – continued

Where awards under the above schemes depend upon earnings per share growth, the Committee are aware of the necessity to ensure that the impact of the introduction of International Financial Reporting Standards are taken into account to ensure that earnings per share are calculated on a consistent basis.

Directors' Service Contracts

The Board's policy is to offer service agreements to executive directors with notice periods of not more than 12 months.

The Directors' service contracts may be summarised as follows:

Director	Contract Date	Unexpired Term	Notice Period	Contractual Termination Payments
David Turner	01.06.1997	3 months	3 months	3 months' in lieu of notice
Christopher Cole	01.01.2004	12 months	12 months	One year's remuneration
Malcolm Paul	01.01.2004	12 months	12 months	One year's remuneration
Thomas Erséus	29.05.2001	12 months	12 months	One year's remuneration
Caroline Brown	01.07.2003	3 months	3 months	3 months' in lieu of notice
Christopher Stephens	10.01.2003	3 months	3 months	3 months' in lieu of notice

With effect from 1 January 2004, the Committee agreed new service agreements with Christopher Cole and Malcolm Paul which, *inter alia*, reduced the notice period from 24 to 12 months.

The terms of the new service contracts allow for liquidated damages that extend beyond basic salaries to include bonuses, which the Committee consider reflects the true financial entitlement of the individuals concerned.

The non-executive directors of the Company are appointed for a three-year term, which may be terminated on three months' written notice, with their remuneration determined by the Board. Renewal of their appointment is not automatic and they stand for re-election in accordance with the Company's Articles of Association.

The targeted composition of each director's remuneration for the forthcoming year is as follows:

Director	Position	Non Performance Related	Performance Related
David Turner	Non-executive Chairman	100%	–
Christopher Cole	Chief Executive	36%	64%
Malcolm Paul	Group Finance Director	36%	64%
Thomas Erséus	Executive Director	36%	64%
Caroline Brown	Non-executive Director	100%	–
Christopher Stephens	Non-executive Director	100%	–

Directors' Remuneration (Audited information)

The following table shows an analysis of the remuneration of each director:

Director	Salary and fees £'000	Performance Bonus in cash £'000	Performance Bonus in WSP shares £'000	Employee Benefits £'000	2004 Total £'000	2003 Total £'000	2004 Pension £'000	2003 Pension £'000
David Turner	45	–	–	–	45	35	–	–
Christopher Cole	270	134	90	21	515	284	94	44
Malcolm Paul	250	124	83	20	477	278	87	43
Thomas Erséus	220	182	–	5	407	228	67	51
Christopher Stephens	25	–	–	–	25	25	–	–
Caroline Brown	25	–	–	–	25	12	–	–
Peter Welch	–	–	–	–	–	34	–	–
Jan Åkesson	–	–	–	–	–	19	–	–
	835	440	173	46	1,494	915	248	138

The employee benefits include a car allowance, together with medical and health insurance cover.

Christopher Cole and Malcolm Paul have agreed with the Committee to invest 40% of their after tax performance bonus in WSP shares.

Where executive directors have received approval to serve in a non-executive capacity with other companies, the Board has agreed that they may retain any remuneration received. In 2004 the remuneration received in respect of such appointments by Christopher Cole and Thomas Erséus amounted to £30,000 and £15,000 respectively.

Long Term Incentive Share Plans (Audited information)

a) The WSP Performance Share Plan

At 31 December 2004, the Committee had made the following awards under the WSP Performance Share Plan, which are dependent upon the Company's future earnings per share growth. The LTIP awards made to directors on 1 April 2001 have lapsed as a result of the failure to meet the required growth in earnings per share since that date.

Director	Award Date	Earliest Vesting Date	Market price at Award Date	Number of shares at 01.01.2004 No.	Granted in year No.	Number of shares Lapsing No.	Number of shares Vesting No.	Number of shares at 31.12.2004 No.	2004 Value of entitlement £'000	2003 Value of entitlement £'000
Christopher Cole										
	01.04.2001	01.04.2004	425.0p	42,552	–	(42,552)	–	–	–	84
	01.04.2002	01.04.2005	320.0p	51,563	–	–	–	51,563	134	102
	01.04.2003	01.04.2006	75.0p	220,000	–	–	–	220,000	572	435
	01.04.2004	01.04.2007	200.0p	–	65,000	–	–	65,000	169	–
				314,115	65,000	(42,552)	–	336,563	875	621
Malcolm Paul										
	01.04.2001	01.04.2004	425.0p	41,586	–	(41,586)	–	–	–	82
	01.04.2002	01.04.2005	320.0p	50,391	–	–	–	50,391	131	100
	01.04.2003	01.04.2006	75.0p	215,000	–	–	–	215,000	559	425
	01.04.2004	01.04.2007	200.0p	–	60,000	–	–	60,000	156	–
				306,977	60,000	(41,586)	–	325,391	846	607
Thomas Erséus										
	01.04.2002	01.04.2005	320.0p	44,063	–	–	–	44,063	115	87
	01.04.2003	01.04.2006	75.0p	210,000	–	–	–	210,000	546	415
	01.04.2004	01.04.2007	200.0p	–	55,000	–	–	55,000	143	–
				254,063	55,000	–	–	309,063	804	502

b) The WSP Deferred Bonus Share Plan

At 31 December 2004, outstanding awards to directors under the Deferred Bonus Share Plan were as follows:

Director	Award Date	Earliest Vesting Date	Market price at Award Date	Number of shares 01.01.2004 No.	Exercised in year No.	Granted in year No.	Number of shares 31.12.2004 No.	2004 Value of entitlement £'000	2003 Value of entitlement £'000
Christopher Cole	01.04.2003	01.04.2006	75.0p	83,333	–	–	83,333	217	165
Malcolm Paul	01.04.2003	01.04.2006	75.0p	83,333	–	–	83,333	217	165
Thomas Erséus	01.04.2003	01.04.2006	75.0p	83,333	–	–	83,333	217	165

The value of entitlements under the WSP Performance Share Plan and the WSP Deferred Bonus Share Plan are calculated by reference to the middle market share price at 31 December 2004 which was 260p (2003: 197.5p) and the range in the year was 181.5p to 260p.

In accordance with the Group's accounting policy for Employee Share Schemes, long term incentive compensation arising out of the above plans is disclosed in directors' remuneration when they crystallise, which will normally be after the third anniversary of the award, and appropriate provisions are built up over the vesting period.

Remuneration Report – continued

Directors' Interests

The beneficial and contingent interests of the directors in the 5p ordinary shares of the Company were as follows:

Director	Beneficial Shares No.	Performance Share plan No.	Deferred Bonus Share plan No.	Total Shares No.
<i>At 31 December 2004</i>				
David Turner	10,910	–	–	10,910
Christopher Cole	908,777	336,563	83,333	1,328,673
Malcolm Paul	822,976	325,391	83,333	1,231,700
Thomas Erséus	352,200	309,063	83,333	744,596
Christopher Stephens	5,000	–	–	5,000
Caroline Brown	–	–	–	–
<i>At 1 January 2004</i>				
David Turner	10,217	–	–	10,217
Christopher Cole	908,777	314,115	83,333	1,306,225
Malcolm Paul	822,976	306,977	83,333	1,213,286
Thomas Erséus	252,200	254,063	83,333	589,596
Christopher Stephens	5,000	–	–	5,000
Caroline Brown	–	–	–	–

There have been no changes in directors' share interests since 31 December 2004.

Performance Graph

Set out below is a Performance Graph that compares the total shareholder return (TSR) of WSP shares with the FTSE Small Cap index. The FTSE Small Cap index has been selected because it includes UK quoted companies of a similar size to WSP.

WSP Group plc Total Shareholder Return compared to the FTSE Small Cap index in the 5 years to December 2004



TSR is defined as the return shareholders would receive if they held a notional number of shares and received dividends on those shares over a period of time. The graph demonstrates that WSP's position continues to strengthen by comparison with the Small Cap index.

Christopher Stephens

Chairman of the Remuneration Committee

4 March 2005

Auditors' Report

Independent auditors' report to the members of WSP Group plc

We have audited the financial statements which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement, the statement of Group total recognised gains and losses, the reconciliation of movements in Group equity shareholders' funds and the related notes which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the directors' remuneration report ('the auditable part').

Respective responsibilities of directors and auditors

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

Our responsibility is to audit the financial statements and the auditable part of the directors' remuneration report in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the auditable part of the directors' remuneration report have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report, the unaudited part of the directors' remuneration report, the chairman's statement, the Chief Executive's report, the Group Finance Director's report, the corporate governance report and other information for shareholders.

We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the auditable part of the directors' remuneration report. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 December 2004 and the profit and cash flows of the Group for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the directors' remuneration report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

1 Embankment Place

London WC2N 6RH

4 March 2005

Consolidated Profit and Loss Account

For the year ended 31 December 2004

	Notes	Before Goodwill £'000	Goodwill £'000	2004 Total £'000	Before Goodwill £'000	Goodwill £'000	2003 Total £'000
Group and share of joint ventures and associated undertakings turnover							
– continuing operations	1	321,123	–	321,123	298,868	–	298,868
– acquisitions in the year	1	7,095	–	7,095	–	–	–
	1	328,218	–	328,218	298,868	–	298,868
Less: share of turnover of joint ventures and associated undertakings – continuing operations	4	(19,972)	–	(19,972)	(15,315)	–	(15,315)
Turnover		308,246	–	308,246	283,553	–	283,553
Group and share of joint ventures and associated undertakings operating profit, before exceptional items and amortisation of goodwill							
		17,813	–	17,813	16,004	–	16,004
Exceptional item	3	–	–	–	(2,250)	–	(2,250)
Amortisation of goodwill		–	(5,446)	(5,446)	–	(5,269)	(5,269)
Total operating profit, including joint ventures and associated undertakings		17,813	(5,446)	12,367	13,754	(5,269)	8,485
Group share of operating profit							
– continuing operations		16,605	(5,332)	11,273	13,532	(5,269)	8,263
– acquisitions in the year		342	(114)	228	–	–	–
Group operating profit		16,947	(5,446)	11,501	13,532	(5,269)	8,263
Share of operating profit of joint ventures and associated undertakings – continuing operations		866	–	866	222	–	222
Total operating profit	2	17,813	(5,446)	12,367	13,754	(5,269)	8,485
Profit on sale of subsidiary undertaking	20	–	–	–	409	–	409
Net finance costs	5	(2,801)	–	(2,801)	(3,313)	–	(3,313)
Profit on ordinary activities before taxation		15,012	(5,446)	9,566	10,850	(5,269)	5,581
Taxation	8	(4,777)	–	(4,777)	(3,429)	–	(3,429)
Profit on ordinary activities after taxation		10,235	(5,446)	4,789	7,421	(5,269)	2,152
Minority interests (equity)		(209)	–	(209)	(90)	–	(90)
Profit for the financial year		10,026	(5,446)	4,580	7,331	(5,269)	2,062
Dividends	9	(3,204)	–	(3,204)	(3,010)	–	(3,010)
Retained profit/(loss) for the financial year	19	6,822	(5,446)	1,376	4,321	(5,269)	(948)
Basic earnings per share	10	16.6p	(9.0p)	7.6p	12.7p	(9.1p)	3.6p
Diluted earnings per share	10	16.0p	(8.7p)	7.3p	12.4p	(8.9p)	3.5p
Dividends per ordinary share	9			5.3p			5.0p

The above results all relate to continuing operations.

Balance Sheets

As at 31 December 2004

	Notes	The Group		The Company	
		2004 £'000	2003 £'000 Restated	2004 £'000	2003 £'000 Restated
Fixed assets					
Intangible assets	11	89,088	92,556	1,271	1,357
Tangible assets	12	16,663	16,845	105	153
Investments in associated undertakings	13	4,802	3,196	–	–
Investments in joint ventures	13				
Share of gross assets		2,848	1,836	–	–
Share of gross liabilities		(2,733)	(1,808)	–	–
		115	28	–	–
Investments in subsidiary undertakings	13	–	–	38,751	25,025
Other investments	13	1,090	1,164	–	–
		111,758	113,789	40,127	26,535
Current assets					
Debtors	14	95,907	88,661	97,793	137,112
Cash at bank		10,749	16,444	962	131
		106,656	105,105	98,755	137,243
Creditors due within one year	15	(74,263)	(127,374)	(22,733)	(73,321)
Net current assets/(liabilities)		32,393	(22,269)	76,022	63,922
Total assets less current liabilities		144,151	91,520	116,149	90,457
Creditors due after more than one year	15	(50,854)	(1,027)	(23,800)	–
Provisions for liabilities and other charges					
Deferred taxation	16	(5,578)	(5,174)	(47)	(47)
Other provisions	17	(1,599)	(870)	(102)	(194)
Net assets		86,120	84,449	92,200	90,216
Capital and reserves					
Called up share capital	18	3,023	3,022	3,023	3,022
Share premium account	19	76,537	76,510	76,537	76,510
Shares to be issued	18	207	253	207	253
Other reserves	19	–	–	8,210	8,210
Profit and loss account	19	6,033	4,552	4,223	2,221
Equity shareholders' funds		85,800	84,337	92,200	90,216
Minority interests – equity		320	112	–	–
		86,120	84,449	92,200	90,216

Approved by the Board of Directors on 4 March 2005 and signed on their behalf by:

CHRISTOPHER COLE, Chief Executive

MALCOLM PAUL, Group Finance Director

Consolidated Cash Flow Statement

For the year ended 31 December 2004

	Notes	2004 £'000	2003 £'000
Net cash inflow from operating activities	21	24,022	17,301
Dividend received from associated undertaking		169	532
Returns on investments and servicing of finance			
Bank interest paid		(2,992)	(3,685)
Bank interest received		261	448
Interest paid on finance leases		(70)	(76)
Closure of Swedish Kronor currency swap		(6,827)	–
		(9,628)	(3,313)
Taxation paid			
UK taxation		(2,157)	(1,325)
Overseas taxation		(2,522)	(1,089)
		(4,679)	(2,414)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(5,346)	(4,732)
Sale of tangible fixed assets		229	542
Purchase of investments		(148)	(149)
		(5,265)	(4,339)
Acquisitions and disposals			
Sale of subsidiary undertaking		–	1,252
Net cash of subsidiary acquired/(disposed)		802	(259)
Purchase of subsidiary undertakings		(2,474)	(369)
Deferred consideration paid		(467)	(4,871)
		(2,139)	(4,247)
Equity dividends paid		(3,083)	(2,794)
Net cash (outflow)/inflow before financing		(603)	726
Financing	22	(7,030)	3,718
(Decrease)/increase in cash in the year	23	(7,633)	4,444

Statement of Group Total Recognised Gains and Losses

For the year ended 31 December 2004

	Notes	2004 £'000	2003 £'000
Profit for the financial year		4,580	2,062
Translation differences on foreign exchange		(514)	(1,203)
Total gains and losses recognised in the year		4,066	859
Prior year adjustment	30	162	
Total gains and losses recognised since last Annual Report		4,228	

There is no material difference between the historical cost and the reported profit.

Reconciliation of Movements in Group Equity Shareholders' Funds

For the year ended 31 December 2004

	2004 £'000	The Group 2003 £'000 Restated	2004 £'000	The Company 2003 £'000 Restated
Profit for the financial year	4,580	2,062	3,837	3,582
Dividends	(3,204)	(3,010)	(3,204)	(3,010)
Retained profit/(loss) for the financial year	1,376	(948)	633	572
New ordinary shares issued	28	5,617	28	5,617
Movement in shares to be issued	(46)	(5,516)	(46)	(5,516)
Performance share plan	619	235	619	235
Translation differences on foreign exchange	(514)	(1,203)	750	(1,567)
Net addition to/(deduction from) equity shareholders' funds	1,463	(1,815)	1,984	(659)
Equity shareholders' funds at 1 January as restated (originally £86,265,000 for the Group and £90,988,000 for the Company before deducting prior year adjustment of £113,000)	84,337	86,152	90,216	90,875
Equity shareholders' funds at 31 December	85,800	84,337	92,200	90,216

Accounting Policies

For the year ended 31 December 2004

The financial statements have been prepared in accordance with Accounting Standards applicable in the United Kingdom. The principal accounting policies have been applied consistently except in respect of UITF Abstract 38 'Accounting for ESOP Trusts' as noted below.

Accounting policies

In accordance with FRS 18, the directors have reviewed the appropriateness of the Group's accounting policies, and with one exception no changes in accounting policy are required.

UITF Abstract 38, 'Accounting for ESOP Trusts', has been adopted in the current year. UITF 38 requires that investments in own shares previously disclosed in Fixed Assets Other Investments are presented as a deduction in Shareholders' Funds.

The 2003 comparatives have been restated to reflect the adoption of UITF Abstract 38 and the reversal of prior year amortisation charges. Note 30 sets out the effect of the change on the 2003 results.

Basis of accounting

The financial statements have been prepared in accordance with the Companies Act 1985 using the historical cost basis of accounting and on a going concern basis. In accordance with Section 230 of the Companies Act 1985, a separate profit and loss account for the Company is not presented.

Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings all prepared to 31 December each year. The results and net assets of subsidiary undertakings acquired are included in the Group profit and loss account and balance sheet using the acquisition method of accounting from the effective date of acquisition.

The results, and net assets of subsidiary undertakings disposed of, are included in the Group profit and loss account and balance sheet using the acquisition method of accounting to the effective date of disposal. Income and expenditure relating to transactions between Group undertakings are eliminated on consolidation.

The consolidated profit and loss account includes the results of the Group's equity interests and results of the Group's joint ventures and associated undertakings in accordance with FRS 9 'Associates and Joint Ventures'.

Investments

Investments in subsidiaries, associated undertakings and joint ventures are stated in the Company's balance sheet at cost less any permanent impairment in value. Certain other investments are included at cost less provision for any diminution in value.

Goodwill

Goodwill represents the difference between the fair value of cost of acquisitions and the fair value of net assets acquired. The cost of acquisitions comprises the fair value of the initial consideration, deferred consideration paid or accrued and professional and other costs directly associated with the acquisition.

Purchased goodwill arising on consolidation in respect of acquisitions before 1 January 1998, when FRS 10 'Goodwill and intangible assets' was adopted, was written off to reserves in the year of acquisition. When a subsequent disposal occurs any related goodwill previously written off to reserves is written back through the profit and loss account as part of the profit or loss on disposal.

Purchased goodwill arising on consolidation in respect of acquisitions since 1 January 1998 is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life on a case-by-case basis up to 20 years.

Impairment of purchased goodwill is reviewed in accordance with FRS 10 by reference to expected future profits and cash flows, discounted at an appropriate rate.

Turnover

Group turnover comprises the value of work performed during the year on contracts by reference to total sales value and stage of completion of these contracts.

Long term contracts

Amounts recoverable on contracts are stated at cost plus attributable profits less foreseeable losses and progress payments received and receivable and are disclosed under debtors. Cost comprises direct labour and attributable overheads. Attributable profit is that proportion of the total profit currently estimated to arise over the duration of a contract, which has been earned based on the work carried out at the balance sheet date.

Foreseeable losses are all losses currently expected to arise on contracts in progress, irrespective of their stage of completion at the balance sheet date. Progress payments receivable in excess of the value of work executed on individual contracts are included in creditors under the heading payments received on account.

In the case of short term projects, profit is not recognised until the end of the contract except where a right to consideration has been established as a result of performance. Under such circumstances revenue is based on the fair value of the right to consideration.

Depreciation

Depreciation is provided at rates calculated to write off the cost of tangible fixed assets less estimated realisable value by equal annual instalments over their expected useful lives, subject to an impairment review. The rates applicable are as follows:

Freehold and long leasehold property	1%
Short leasehold property	lease term
Motor vehicles	25%
Office equipment	20-33%
Fixtures and fittings	10%

Leasing

The capital cost of equipment acquired under finance leases is capitalised. Finance costs are charged to the profit and loss account over the period of the agreement. Obligations under finance leases are included in creditors net of finance costs allocated to future periods.

Rentals paid under operating leases are charged to the profit and loss account as incurred on a straight-line basis.

Earnings per share

In accordance with FRS 14 'Earnings Per Share' the Group presents both basic and diluted earnings per share for the current and preceding years. The basis of calculation is given in note 10 to the financial statements.

Foreign currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction, or where forward cover contracts have been arranged, at the contracted rates. Monetary assets and liabilities denominated in foreign currencies, where a contracted rate does not apply, are translated at the exchange rates ruling at the balance sheet date and any exchange differences are taken to the profit and loss account.

The profit and loss accounts and balance sheets of overseas subsidiaries are translated into sterling at the rates of exchange ruling at the balance sheet date. Differences arising on the translation of opening and closing net assets are shown as a movement in reserves and in the statement of total recognised gains and losses.

The Group's significant overseas equity investments are hedged by borrowings in the currencies in which those assets are denominated and by the use of derivative financial instruments. Exchange differences arising on the retranslation of overseas net investments, including goodwill, less exchange differences on the borrowings and derivative financial instruments are taken to reserves through the statement of total recognised gains and losses.

Accounting Policies – continued

For the year ended 31 December 2004

Derivatives and other financial instruments

The Group uses various derivative financial instruments to manage its exposure to foreign exchange and interest rate risks. These may include currency swaps, foreign exchange swaps, forward foreign currency contracts, currency options, interest rate swaps and interest rate caps and collars. The Group considers its derivative financial instruments to be hedges and matches them with the relevant hedged items.

Cash flows relating to these derivative financial transactions are netted against hedged transactions in the cash flow statement within net cash inflow from operating activities or return on investments and servicing of finance as appropriate.

- **Currency swaps and foreign exchange swaps**

Swaps are revalued at the exchange rates ruling at the balance sheet date. Realised and unrealised exchange gains and losses on swaps that hedge investment in overseas operations are taken to reserves through the statement of total recognised gains and losses. Realised and unrealised exchange gains and losses on other swaps are recognised in the profit and loss account. The premium or discount on foreign exchange swaps and interest payments and receipts on currency swaps are recognised as part of the net interest payable over the period of the contract.

- **Forward foreign exchange contracts**

The Sterling equivalent of forward foreign exchange contracts used to hedge foreign currency trade debtors and creditors is recorded at the contracted amount. Realised and unrealised exchange gains and losses on these contracts are recognised in the profit and loss account.

- **Currency options**

Currency option premia are recognised at their historic cost in the consolidated balance sheet. At maturity the hedged item is recorded at the spot exchange rate net of option premia and any realised gains on exercise.

- **Interest rate swaps**

Interest payments and receipts are accrued with net interest payable. They are not revalued to fair value or shown on the consolidated balance sheet at the year end.

- **Interest rate caps and collars**

The option premia paid are recognised on the consolidated balance sheet as other debtors. The options are not revalued to fair value in the consolidated balance sheet. The option premia, net of any realised gains, are taken to net interest payable spread evenly over the life of the cap and collar.

- **Upfront fees**

Upfront fees on debt are amortised evenly over the term of the debt.

Pension costs

The Group makes contributions into six separate defined benefit schemes. These schemes are closed to new entrants. Payments are made into trust funds, which are financially separate from the Group, in accordance with periodic calculations by independent professionally qualified actuaries. The expected cost to the Group of providing defined benefit pensions is charged to the Profit and Loss account so as to spread the cost of pensions over the remaining service lives of employees in the schemes, in such a way that the cost is substantially a level percentage of payroll cost, with experience surpluses and deficits being amortised on a straight line basis.

Amounts payable to defined contribution schemes are charged to the profit and loss account in the year in which they arise.

FRS 17 'Retirement Benefits'

FRS 17 'Retirement Benefits' requires the assets of a defined benefit pension scheme to be measured at market value at each balance sheet date and the liabilities to be measured using a specified actuarial valuation method and to be discounted using a corporate bond rate.

It also requires the resulting pension scheme surplus or deficit to be recognised immediately on the Group balance sheet and any resulting actuarial gains and losses to be recognised immediately in the Group statement of total recognised gains and losses rather than being recognised gradually in the Group profit and loss account.

Full compliance with this standard is not currently required and the Group continues to account for pension costs under SSAP 24, however transitional disclosure has been made in note 25 to these financial statements.

Employee share schemes

The cost of awards to employees that take the form of shares or rights to shares (including conditional rights) are charged to the profit and loss account over the period to which the employees' performance relates and credited to reserves. Long term incentive compensation is disclosed in directors' remuneration when it crystallises.

Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, and where these transactions or events result in an obligation to pay more tax, or a right to pay less tax in the future. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements.

Deferred taxation assets are only recognised when the recoverability of these can be determined with a degree of certainty. Deferred taxation 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 substantially enacted at the balance sheet date. Deferred tax is measured on a non-discounted basis.

Related party transactions

The Group has taken advantage of the exemption under FRS 8 'Related Party Disclosures' not to disclose transactions between Group companies.

Research and development

Research and development costs are written off in the year incurred.

Notes to the Financial Statements

For the year ended 31 December 2004

I Segmental analysis

a) Turnover

	Continuing operations 2004 £'000	Acquisitions 2004 £'000	Total 2004 £'000	Total 2003 £'000
<i>By class of business:</i>				
Property	175,515	2,590	178,105	160,183
Transport & Infrastructure	90,027	3,991	94,018	91,097
Environmental	35,609	514	36,123	32,273
Turnover	301,151	7,095	308,246	283,553
<i>Share of turnover of:</i>				
Associated undertakings – Multi-disciplinary services	10,403	–	10,403	11,275
Joint ventures – Transport & Infrastructure	9,569	–	9,569	4,040
Group and share of joint ventures and associated undertakings turnover	321,123	7,095	328,218	298,868
<i>By location of operations:</i>				
United Kingdom	127,990	–	127,990	120,684
Mainland Europe	119,280	6,933	126,213	111,547
United States of America	27,101	–	27,101	27,780
Africa	14,593	77	14,670	11,253
Asia	10,048	85	10,133	8,694
Other	2,139	–	2,139	3,595
Turnover	301,151	7,095	308,246	283,553
<i>Share of turnover of:</i>				
Associated undertakings – Mainland Europe	10,403	–	10,403	11,275
Joint ventures – United Kingdom	9,569	–	9,569	4,040
Group and share of joint ventures and associated undertakings turnover	321,123	7,095	328,218	298,868

There was no material difference between geographical turnover by location of operation and by location of client.

b) Profit before taxation

By class of business:

Operating profit before exceptional items and amortisation of goodwill				
Property	8,884	178	9,062	7,559
Transport & Infrastructure	5,250	138	5,388	6,164
Environmental	2,471	26	2,497	2,059
	16,605	342	16,947	15,782
<i>Share of operating profit/(loss) of:</i>				
Associated undertakings – Multi-disciplinary services	771	–	771	353
Joint ventures – Transport & Infrastructure	95	–	95	(131)
	17,471	342	17,813	16,004
Exceptional item – Property			–	(2,250)
Amortisation of goodwill			(5,446)	(5,269)
Total operating profit			12,367	8,485
Profit on sale of subsidiary undertaking – Property			–	409
Net finance costs			(2,801)	(3,313)
Profit before taxation			9,566	5,581

	Continuing operations 2004 £'000	Acquisitions 2004 £'000	Total 2004 £'000	Total 2003 £'000
<i>By location of operations:</i>				
Operating profit/(loss) before exceptional items and amortisation of goodwill				
United Kingdom	7,813	–	7,813	8,339
Mainland Europe	5,980	334	6,314	5,165
United States of America	1,274	–	1,274	1,185
Africa	1,343	4	1,347	1,189
Asia	49	4	53	(227)
Other	146	–	146	131
	16,605	342	16,947	15,782
<i>Share of operating profit/(loss) of:</i>				
Associated undertakings – Mainland Europe	771	–	771	353
Joint ventures – United Kingdom	95	–	95	(131)
	17,471	342	17,813	16,004
Exceptional item – United Kingdom			–	(2,250)
			17,813	13,754
Amortisation of goodwill			(5,446)	(5,269)
Total operating profit			12,367	8,485
Profit on sale of subsidiary undertaking – Mainland Europe			–	409
Net finance costs			(2,801)	(3,313)
Profit before taxation			9,566	5,581

A segmental analysis of amortisation of goodwill and net finance costs has not been disclosed as the directors are of the opinion that its components cannot be meaningfully analysed across regions and classes of business.

c) Net assets

				Restated
<i>By class of business:</i>				
Property	75,811	736	76,547	79,965
Transport & Infrastructure	37,465	1,134	38,599	42,242
Environmental	15,190	146	15,336	16,382
	128,466	2,016	130,482	138,589
<i>Share of net assets/(liabilities) of:</i>				
Associated undertakings	4,802	–	4,802	3,196
Joint ventures	115	–	115	28
Medium-term bank loans	(49,279)	–	(49,279)	(57,364)
	84,104	2,016	86,120	84,449
<i>By location of operations:</i>				
United Kingdom	35,482	–	35,482	46,382
Mainland Europe	72,277	2,016	74,293	70,797
United States of America	15,229	–	15,229	16,856
Africa	2,714	–	2,714	1,437
Asia	3,234	–	3,234	3,591
Other	(470)	–	(470)	(474)
	128,466	2,016	130,482	138,589
<i>Share of net assets/(liabilities) of:</i>				
Associated undertakings – Mainland Europe	4,802	–	4,802	3,196
Joint ventures – United Kingdom	115	–	115	28
Medium-term bank loans	(49,279)	–	(49,279)	(57,364)
	84,104	2,016	86,120	84,449

The medium-term bank loans are shown separately as they service the Group as a whole.

Notes to the Financial Statements – continued

For the year ended 31 December 2004

2 Total operating profit	2004	2003
	£'000	£'000
Group and share of joint ventures and associated undertakings turnover continuing operations		
Continuing operations	321,123	298,868
Acquisitions in the year	7,095	–
	328,218	298,868
Less: share of turnover of joint ventures and associated undertakings – continuing operations	(19,972)	(15,315)
Turnover	308,246	283,553
Cost of sales	(224,029)	(205,856)
Gross profit	84,217	77,697
Administrative expenses	(72,716)	(69,434)
Group share of operating profit	11,501	8,263
Continuing operations	11,273	8,263
Acquisitions in the year	228	–
	11,501	8,263
Share of operating profit of joint ventures and associated undertakings	866	222
Total operating profit	12,367	8,485

3 Exceptional item

In 2003, the Group made a provision of £2.25m against the uninsured element of a professional negligence claim relating to a building completed in 1991. This amount was settled in 2004. Tax credits of £0.7m were recorded in 2003 in respect of this item.

4 Joint ventures and associated undertakings	2004	2003
	£'000	£'000
Share of associated undertakings turnover	10,403	11,275
Share of joint ventures turnover	9,569	4,040
	19,972	15,315
Operating profit of associated undertakings	771	353
Operating profit of joint ventures	95	(131)
	866	222
Interest receivable	177	114
Interest payable	(116)	–
Share of profit on ordinary activities before taxation	927	336
Taxation on profit on ordinary activities	(263)	(100)
Share of operating profit on ordinary activities after taxation	664	236

4 Joint ventures and associated undertakings (continued)

	2004 £'000	2003 £'000
Share of net assets of joint ventures and associated undertakings		
Intangible assets – Goodwill	995	132
Tangible fixed assets	1,861	931
Current assets	8,828	7,471
	11,684	8,534
Liabilities due within one year	(5,991)	(5,310)
Liabilities due in more than one year	(776)	–
	4,917	3,224
Group turnover with joint ventures and associated undertakings	3,454	2,429
Included in joint ventures and associated undertakings' current assets are:		
Trading balances with WSP	105	3
Included in joint ventures and associated undertakings' liabilities due within one year are:		
Trading balances with WSP	1,246	20

The Group's balances in respect of joint ventures and associated undertakings relate mainly to its 40% interest in Carillion WSP and its 24.7% interest in Multiconsult AS.

5 Net finance costs

	2004 £'000	2003 £'000
<i>Interest on loans and other borrowings wholly repayable within five years:</i>		
Bank overdrafts	395	567
Bank loans	2,597	3,118
Finance leases	70	76
Interest payable	3,062	3,761
Interest receivable and other similar income	(261)	(448)
Net finance costs	2,801	3,313

Net finance costs include amounts in respect of the joint ventures and associated undertakings as disclosed in Note 4.

6 Profit on ordinary activities before taxation

	2004 £'000	2003 £'000
<i>As stated after charging/(crediting):</i>		
Property lease rentals	11,786	12,474
Equipment lease rentals	2,515	2,149
Auditors' remuneration for the statutory audit	490	522
Other fees paid to the auditors:		
Taxation services	42	96
Interim review	32	32
Other services	–	24
Amortisation of goodwill	5,446	5,269
Depreciation of owned assets	5,337	5,872
Depreciation of assets held under finance leases	402	506
Research and development expenditure	2,492	2,293
Rents receivable	(44)	–
Loss/(Profit) on disposal of fixed assets	12	(1)

The audit fee for the Company was £58,000 (2003: £50,000)

Notes to the Financial Statements – continued

For the year ended 31 December 2004

7 Directors and employees

	2004 £'000	2003 £'000
<i>Staff costs, including directors, were as follows:</i>		
Wages and salaries	147,875	132,700
Social security costs	24,986	23,097
Other pension costs	14,962	13,083
Contract and agency staff	11,043	10,197
Total staff costs	198,866	179,077

	Number	Number
<i>The weekly average number of employees, contract and agency staff, including directors, was as follows:</i>		
Engineering and technical	4,801	4,583
Administration	406	387
Total staff	5,207	4,970

	2004 £'000	2003 £'000
<i>Aggregate emoluments of the directors of the Company was as follows:</i>		
Salaries and benefits	1,399	790
Pension contributions	248	138
Non executive directors' fees	95	125
Aggregate emoluments	1,742	1,053
Aggregate gains on the exercise of long-term share incentive plans	–	127

Full details of the directors' emoluments, share options, long term incentive plans including gains on exercise and pension entitlements are included in the Remuneration Report on pages 41 to 44.

8 Taxation

(a) Current tax

	2004 £'000	2003 £'000
UK corporation tax on profits of the year at 30% (2003:30%)	2,293	2,125
Adjustments in respect of previous years	352	235
	2,645	2,360
Foreign tax on profits of the year	1,618	1,038
Adjustments in respect of previous years	(55)	(247)
Share of tax of joint ventures and associated undertakings	263	100
Total current tax charge – note 8 (b)	4,471	3,251
Movement in deferred tax – note 16	306	178
Tax on profit on ordinary activities	4,777	3,429

(b) Factors affecting the current tax charge for the year

The tax assessed for the year is higher (2003: higher) than the standard rate of corporation tax in the UK (30% (2003:30%))

The differences are explained below:

	2004 £'000	2003 £'000
Profit on ordinary activities before taxation and amortisation of goodwill	15,012	10,850
Amortisation of goodwill	(5,446)	(5,269)
Profit on ordinary activities before taxation	9,566	5,581
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2003: 30%)	2,870	1,674
Effect of different tax rates on overseas earnings	(68)	(109)
Expenses not deductible for tax purposes	595	692
Other timing differences	(606)	(813)
Adjustments to current tax charge in respect of previous periods	297	(12)
Unrelieved overseas losses	–	238
Utilisation of brought forward overseas losses	(251)	–
Current tax charge before non deductible goodwill	2,837	1,670
Non deductible goodwill amortisation	1,634	1,581
Total current tax charge	4,471	3,251

The directors are not aware of any factors which may materially affect the future tax charge.

Further details of movements in deferred tax can be found in note 16.

9 Dividends

	2004 £'000	2003 £'000
Interim dividend of 2.1p (2003: 2.0p) per share	1,269	1,197
Proposed final dividend of 3.2p (2003: 3.0p) per share	1,935	1,813
Total dividend of 5.3p (2003: 5.0p) per share	3,204	3,010

If approved at the Annual General Meeting, which is convened for 3 May 2005, the final dividend will be paid on 12 May 2005 to shareholders on the register of members at the close of business on 15 April 2005.

Notes to the Financial Statements – continued

For the year ended 31 December 2004

10 Earnings per share

The directors believe that the presentation of an adjusted earnings per share, being the basic and diluted earnings per share adjusted for amortisation of goodwill, assists with the understanding of the underlying performance of the Group.

	Basic 2004 £'000	Adjusted 2004 £'000	Basic 2003 £'000	Adjusted 2003 £'000
Profit for the financial year attributable to shareholders	4,580	4,580	2,062	2,062
Amortisation of goodwill	–	5,446	–	5,269
Basic and Diluted earnings	4,580	10,026	2,062	7,331
	No. '000	No. '000	No. '000	No. '000
Weighted average number of shares in issue	60,280	60,280	57,524	57,524
Basic earnings per share	7.6p		3.6p	
Basic earnings per share before amortisation of goodwill		16.6p		12.7p

	Diluted 2004 No. '000	Adjusted 2004 No. '000	Diluted 2003 No. '000	Adjusted 2003 No. '000
Weighted average number of shares in issue	60,280	60,280	57,524	57,524
Dilution effects of shares to be issued	104	104	128	128
Dilution effects of share options	2,071	2,071	1,501	1,501
	62,455	62,455	59,153	59,153
Diluted earnings per share	7.3p		3.5p	
Diluted earnings per share before amortisation of goodwill		16.0p		12.4p

The weighted average number of shares in issue excludes 167,146 shares held by the WSP Employee Benefit Trust.

The dilutive effect of shares to be issued is calculated by reference to the market value of shares at the year end as applied to the total performance related deferred consideration where conditions have been met at the year end.

11 Intangible assets

Intangible fixed assets comprise goodwill arising on the acquisition of businesses and subsidiaries, details of which are as follows:

	The Group £'000	The Company £'000
Cost at 1 January 2004	107,209	1,717
Additions	2,180	–
Translation differences on foreign exchange and other movements	(635)	–
Cost at 31 December 2004	108,754	1,717
Amortisation at 1 January 2004	14,653	360
Charge for the year	5,446	86
Translation differences on foreign exchange	(433)	–
Amortisation at 31 December 2004	19,666	446
Net book value		
At 31 December 2004	89,088	1,271
At 31 December 2003	92,556	1,357

In accordance with the Group's accounting policy, goodwill arising is capitalised and amortised over its estimated useful life which the directors consider to be up to 20 years to reflect the nature of the businesses acquired and their prospective earnings stream. No reinstatement has been made for goodwill written off prior to 1 January 1998 which amounted to £9.8m.

12 Tangible fixed assets

	Freehold £'000	Long leasehold £'000	Short leasehold £'000	Motor vehicles £'000	Office equipment £'000	Fixtures & fittings £'000	Total £'000
The Group							
Cost at 1 January 2004	1,174	2,786	1,859	1,673	33,548	10,430	51,470
On acquisition of subsidiaries	18	–	–	46	368	52	484
Additions during year	241	–	238	119	4,193	703	5,494
Disposals during year	(48)	(5)	(8)	(323)	(5,033)	(993)	(6,410)
Foreign exchange differences	13	57	(93)	29	140	31	177
Cost at 31 December 2004	1,398	2,838	1,996	1,544	33,216	10,223	51,215
Depreciation at 1 January 2004	263	377	630	1,099	26,257	5,999	34,625
On acquisition of subsidiaries	–	–	–	10	223	9	242
Charge for the year	29	28	211	218	3,968	1,285	5,739
Disposals during year	(21)	–	(6)	(273)	(4,935)	(934)	(6,169)
Foreign exchange differences	3	–	(15)	14	81	32	115
Depreciation at 31 December 2004	274	405	820	1,068	25,594	6,391	34,552
Net book value							
At 31 December 2004	1,124	2,433	1,176	476	7,622	3,832	16,663
At 31 December 2003	911	2,409	1,229	574	7,291	4,431	16,845
The Company							
Cost at 1 January 2004 and at 31 December 2004	–	–	12	–	519	397	928
Depreciation at 1 January 2004	–	–	10	–	494	271	775
Charge for the year	–	–	1	–	12	35	48
Depreciation at 31 December 2004	–	–	11	–	506	306	823
Net book value							
At 31 December 2004	–	–	1	–	13	91	105
At 31 December 2003	–	–	2	–	25	126	153

The net book value of Group fixed assets of £16.7m (2003: £16.8m) includes an amount of £0.6m (2003: £0.6m) in respect of assets held under finance leases.

The net book value of Company fixed assets of £0.1m (2003: £0.2m) includes an amount of £Nil (2003: £Nil) in respect of assets held under finance leases.

Notes to the Financial Statements – continued

For the year ended 31 December 2004

13 Investments

The Group's interest in joint ventures, associated undertakings and other investments was as follows:

	Other investments Note 13 (a) £'000	Investment in joint ventures Note 13 (b) £'000	Investment in associated undertakings Note 13 (b) £'000
Value at 1 January 2004	1,164	28	3,196
Additions	148	–	1,254
Profit for year	–	87	577
Dividends	–	–	(169)
Reductions in carrying values	(92)	–	–
Other movements	(63)	–	(92)
Foreign exchange	(67)	–	36
Value at 31 December 2004	1,090	115	4,802

The Company's interest in subsidiary undertakings was as follows:

	Subsidiary undertakings Note 13 (c) £'000
Cost at 1 January 2004	25,112
Additions	1,934
Capitalisation of intercompany loans to overseas subsidiaries	11,792
Cost at 31 December 2004	38,838
Provision at 1 January 2004	87
Charge for the year	–
Provision at 31 December 2004	87
Net investments	
At 31 December 2004	38,751
At 31 December 2003	25,025

(a) Other investments

Other investments primarily relate to the capital value of life assurance policies written on the lives of certain vendors of Flack + Kurtz that were transferred to the Group at the time of the acquisition of that business, and minor other property interests. The cost of these is not significantly different to the market value.

(b) Principal joint ventures and associated undertakings

	Group's interest	Class of shares held	Country of Registration	Principal activities
<i>Associated undertakings:</i>				
Gifford Graham & Partners Limited	50.0%	ordinary	England	Civil engineering
Multiconsult AS	24.7%	ordinary	Norway	Multi-disciplined consultancy
Talone AS	49.0%	ordinary	Estonia	Structural building design
<i>Joint ventures:</i>				
Ryan Hanley WSP Limited	50.0%	ordinary	Ireland	Civil engineering
Carillion WSP	40.0%	unincorporated	England	Civil engineering
Diarchon TSA	50.0%	ordinary	Greece	Project management
Knowledge Based Management Limited	50.0%	ordinary	England	Asset management planning

(c) Principal subsidiary undertakings

Unless otherwise indicated the following principal subsidiary undertakings are registered in England and Wales and operate throughout the UK.

The Group's interest entirely comprises ordinary equity shares.

Principal subsidiary undertakings	Group's interest	Principal activities
WSP Buildings Limited	100%	Multi-disciplined building design
WSP Civils Limited*	100%	Civil engineering and network management
WSP Development Limited*	100%	Infrastructure and transport planning
WSP Environmental Limited*	100%	Environmental and geotechnical services
WSP Knowledge Solutions plc	100%	Facilities management
WSP International Management Consulting Limited*	100%	Management consultancy and infrastructure support
WSP Management Services Limited	100%	Management services
WSP Remediation Limited*	100%	Remediation of contaminated land
WSP Sweden AB*	100%	Multi-disciplined consultancy, <i>registered in Sweden</i>
WSP LT Konsultit Oy*	100%	Multi-disciplined consultancy, <i>registered in Finland</i>
WSP Korttes Oy*	100%	Structural engineering design, <i>registered in Finland</i>
WSP Environmental Oy*	100%	Environmental and geotechnical services, <i>registered in Finland</i>
WSP Cantor Seinuk Inc.*	100%	Structural building design, <i>registered in U.S.A.</i>
Flack + Kurtz Inc.*	100%	Building services design, <i>registered in U.S.A.</i>
Flack + Kurtz UK Limited*	100%	Building services design
WSP Group South Africa (Pty) Limited*	100%	Multi-disciplined building design, <i>registered in South Africa</i>
WSP Asia Limited	100%	Multi-disciplined building design, <i>registered in Hong Kong</i>
WSP Hong Kong Limited*	100%	Building services design, <i>registered in Hong Kong</i>
WSP Asia Philippines Inc*	100%	Building services design, <i>registered in Philippines</i>
Shanghai WSP Consulting Limited – 上海科进咨询有限公司*	100%	Building services design, <i>registered in China</i>

* The investment in these companies is held through subsidiary undertakings.

Notes to the Financial Statements – continued

For the year ended 31 December 2004

14 Debtors

	The Group		The Company	
	2004	2003	2004	2003
	£'000	£'000	£'000	£'000
<i>Due within one year:</i>				
Trade debtors	60,817	54,359	34	40
Amounts recoverable on contracts	24,203	24,513	–	–
Amounts due from group undertakings	–	–	97,328	136,767
Amounts due from joint ventures and associated undertakings	1,246	20	–	–
Other debtors	3,734	3,311	60	147
Prepayments and accrued income	5,907	6,458	371	158
	95,907	88,661	97,793	137,112

15 Creditors

	The Group		The Company	
	2004	2003	2004	2003
	£'000	£'000	£'000	£'000
<i>Due within one year:</i>				
Bank overdrafts	3,050	1,112	8,935	1,422
Bank loans	3,386	58,495	–	57,364
Property mortgage	–	40	–	–
Obligations under finance leases	336	378	–	–
Trade creditors	10,490	10,244	239	63
Amounts due to joint ventures and associated undertakings	105	3	–	–
Amounts due to group undertakings	–	–	9,375	10,606
Payments received on account	6,099	4,362	–	–
Corporation tax	1,843	2,002	709	579
Other taxes and social security costs	12,042	10,179	11	145
Dividend payable	1,935	1,813	1,935	1,813
Other creditors and accruals	34,977	38,727	1,529	1,329
Deferred consideration	–	19	–	–
	74,263	127,374	22,733	73,321
<i>Due after more than one year:</i>				
Bank loans	48,766	81	23,800	–
Property mortgage	–	489	–	–
Future pension liabilities	1,881	–	–	–
Obligations under finance leases				
– Between one and two years	207	419	–	–
Deferred consideration	–	38	–	–
	50,854	1,027	23,800	–

At 31 December 2003 creditors due within one year included the Group's bank borrowings against the pre-existing £60m syndicated loan facility that was due for renewal in May 2004. In February 2004, the Group renewed its medium-term bank facilities in order to replace the £60m syndicated loan facility. Principal bank facilities were negotiated in the UK and Sweden and are made up of two lines of credit of £30m, each comprising a £25m reducing revolving credit renewable in February 2007 and an overdraft of £5m. The borrowings against the two £25m reducing revolving credits are now shown as creditors due after more than one year.

16 Provisions for liabilities and other charges – Deferred taxation

Group	Work in progress £'000	Accelerated capital allowances £'000	Other short term timing differences £'000	2004 Total £'000	2003 Total £'000
At 1 January 2004	6,424	(442)	(808)	5,174	4,689
Charged during year	727	188	(609)	306	178
Translation differences on foreign exchange	72	–	26	98	307
At 31 December 2004	7,223	(254)	(1,391)	5,578	5,174

Full provision has been made for deferred tax liabilities. In Sweden, a deferred tax liability of £7,223,000 (2003: £6,424,000) relates to the value of work in progress written down to tax value in the individual entities but included at cost in the consolidated accounts. Other short-term timing differences include in the United States, a deferred tax asset of £927,000 (2003: £808,000) relating to short term timing differences on disallowed provisions.

The Company has a deferred tax liability of £47,000 (2003: £47,000) relating to short term timing differences.

17 Provisions for liabilities and other charges – Other provisions

Group	Deferred consideration £'000	Vacant property provisions £'000	2004 Total £'000	2003 Total £'000
At 1 January 2004	676	194	870	6,558
Created during year	1,256	–	1,256	–
Release of unused provisions	(30)	(92)	(122)	–
Translation differences on foreign exchange	5	–	5	(271)
Provisions utilised during the year	(410)	–	(410)	(5,417)
At 31 December 2004	1,497	102	1,599	870

Deferred consideration may become payable depending on the future financial performance of certain businesses acquired. Provision for this liability has been calculated on the basis that the maximum deferred consideration will fall due.

The provision for vacant properties relates to the rent, service charge and other associated costs should the properties remain vacant for the duration of the lease or the next 10 years, whichever is the shorter.

In the Company accounts, provisions relate solely to vacant properties and amount to £102,000 (2003: £194,000).

18 Called up share capital

The share capital of the Company comprises 5p ordinary shares.

	2004 No '000	Authorised 2004 £'000	Issue Price	Allotted and fully paid 2004 No '000	2004 £'000
At 1 January 2004	70,000	3,500		60,446	3,022
<i>Issued during the year</i>					
As deferred consideration for Walmsley Environmental			208.5p	13	1
At 31 December 2004	70,000	3,500		60,459	3,023

Notes to the Financial Statements – continued

For the year ended 31 December 2004

18 Called up share capital (continued)

The following number of shares to be issued in respect of acquisitions assumes that the performance targets set will be achieved and therefore the maximum deferred consideration will become payable. The number of shares to be issued has been determined with reference to the middle market share price at 31 December 2004 which was 260p (2003: 197.5p).

	2004 No '000	2004 £'000	2003 No '000	2003 £'000
Shares to be issued	80	207	128	253

19 Reserves

	Share premium account £'000	Merger reserve £'000	Profit and loss account £'000
The Group			
At 31 December 2003	76,510	–	4,665
Prior year adjustment – see note 30	–	–	(113)
At 1 January 2004 – as restated	76,510	–	4,552
Retained profit for the year	–	–	1,376
Loss on foreign exchange	–	–	(514)
Performance share plan	–	–	619
Premium arising on issue of ordinary shares	27	–	–
At 31 December 2004	76,537	–	6,033
The Company			
At 31 December 2003	76,510	8,210	2,334
Prior year adjustment – see note 30	–	–	(113)
At 1 January 2004 – as restated	76,510	8,210	2,221
Retained profit for the year	–	–	633
Profit on foreign exchange	–	–	750
Performance share plan	–	–	619
Premium arising on issue of ordinary shares	27	–	–
At 31 December 2004	76,537	8,210	4,223

The profit after tax for the Company for the year amounted to £3,837,000 (2003: £3,582,000).

20 Acquisitions and disposals

In 2004, the Group acquired Inregia Intressenter AB, a group of companies providing planning services, Consulting Kortés OY, a group of companies specialising in structural engineering design and EMP Projects OY, a group of companies providing environmental services. The details of those transactions are summarised in the table below:

Acquisition	Place of incorporation	Date of transaction	Percentage of shares acquired	Initial consideration in cash £'000	Deferred consideration £'000	Book and fair value of assets acquired £'000	Goodwill £'000
Inregia Intressenter AB	Sweden	January 2004	100%	431	203	344	290
Consulting Kortés OY	Sweden	February 2004	100%	1,936	719	1,127	1,528
EMP Projects OY	Finland	June 2004	55%	107	334	79	362
				2,474	1,256	1,550	2,180

In March 2003, the Group sold its interest in Intégria Certifiering AB, a wholly owned subsidiary providing certification and training services, for £1,252,000 resulting in a profit to the Group of £409,000. The goodwill disposed of amounted to £455,000.

21 Reconciliation of operating profit to operating cash flows

	2004 £'000	2003 £'000
Group share of operating profit	11,501	8,263
Depreciation	5,739	6,378
Amortisation of goodwill	5,446	5,269
Performance share plan	619	235
Loss/(profit) on disposal of tangible fixed assets	12	(1)
Movements in provisions	(92)	(743)
Changes in debtors	(5,661)	2,221
Changes in creditors	6,458	(4,325)
Other movements	–	4
Net cash inflow from operating activities	24,022	17,301

Major non-cash transactions entered into during the year were as follows:

The Group entered into or acquired finance leases with a total capital value of £148,000 (2003: £729,000).

22 Financing

	2004 £'000	2003 £'000
Share issues	28	28
Other new loans/drawdowns on existing facilities	51,855	6,927
Bank loan and property mortgage repayments	(58,491)	(2,730)
Repayments on finance leases	(422)	(507)
Total financing	(7,030)	3,718

Notes to the Financial Statements – continued

For the year ended 31 December 2004

23 Reconciliation of net cash flow to movement in net debt

	2004 £'000	2003 £'000
(Decrease)/Increase in cash balances in the year	(5,695)	4,442
(Increase)/Decrease in bank overdrafts in the year	(1,938)	2
(Decrease)/Increase in cash in the year	(7,633)	4,444
New finance leases	(148)	(730)
Net debt acquired with acquisitions	(443)	–
Finance lease repayments	422	507
Property mortgage repayments	529	114
New bank loans/drawdowns on existing facilities	(51,855)	(6,927)
Bank loan repayments	57,962	2,616
Movement in net debt resulting from cash flows	(1,166)	24
Foreign exchange	740	1,037
Movement in net debt in the year	(426)	1,061
Net debt at 1 January 2004	(44,570)	(45,631)
Net debt at 31 December 2004	(44,996)	(44,570)

24 Analysis of net debt

	1 January 2004 £'000	Net cash flows £'000	Acquisitions (excluding cash) £'000	Other movements £'000	Foreign exchange £'000	31 December 2004 £'000
Cash balances	16,444	(5,695)	–	–	–	10,749
Bank overdrafts	(1,112)	(1,938)	–	–	–	(3,050)
	15,332	(7,633)	–	–	–	7,699
<i>Due within one year</i>						
Property mortgage	(40)	40	–	–	–	–
Bank loans	(58,495)	6,107	(443)	48,685	760	(3,386)
Finance leases	(378)	210	–	(148)	(20)	(336)
<i>Due after one year</i>						
Property mortgage	(489)	489	–	–	–	–
Bank loans	(81)	–	–	(48,685)	–	(48,766)
Finance leases	(419)	212	–	–	–	(207)
	(44,570)	(575)	(443)	(148)	740	(44,996)

25 Pensions

a) SSAP 24 'Accounting for Pension Costs'

The Group operates both defined contribution and funded defined benefit pension schemes. The Group's defined benefit schemes (which are closed to new members) consist of the WSP Group plc Retirement Benefit Scheme, the Graham Consulting Group Retirement Benefit Scheme, the Donald Rudd & Partners Pension Fund, the Cairns & Byles Pension Scheme, the Brian Ford Partnership Employee Benefits Scheme and the James Carrington Pension Plan.

The assets of the defined contribution and defined benefit schemes are held in separate independently administered funds.

Contributions to the Group's defined benefit pension schemes are charged to the profit and loss account so as to spread the cost of pensions over the employees' working lives with the Group. The contributions are determined by independent qualified actuaries on the basis of triennial valuations principally using the projected unit method.

The Group's pension cost amounted to £15.0m (2003: £13.1m) of which £13.2m (2003: £11.6m) related to defined contribution and £1.8m (2003: £1.5m) to defined benefit schemes. Contributions of £102,000 (2003: £28,000) were outstanding at the balance sheet date. Included in the pension charge for the year is an amount of £524,000 (2003: £336,000) in respect of the amortisation of historic experience deficits/(surpluses) that are being recognised over the average remaining service lives of employees.

SSAP 24 requires the disclosure of the most recent actuarial valuations of the Group's pension funds, which are normally carried out every three years by independent professionally qualified actuaries. The effective dates of the most recent valuations were between November 2001 and May 2004. The assumptions which have the most significant effect on the results of the valuations are those relating to the rate of return on investments which range from 5.0% to 7.5%, the rates of increase in salaries which range from nil to 5.0% and the rates of increase in pensions which range from 2.3% to 2.8%. These valuations showed that the market value of the schemes assets were £32.8m and that the actuarial value of those assets represented 85% of the benefits that had accrued to members, after allowing for expected future increase in earnings. The contributions of the Group and employees will be 24.3% and 9.7% of earnings respectively.

WSP Sweden is partly responsible for its staff occupational pension scheme. At 31 December 2004 the company's liability to long-term pensions commitments was £1.9m which is secured and guaranteed by a mutual credit insurance company. Substantial other assets to meet the full pension liabilities are held within a Government run scheme and as the directors are unable to identify the underlying assets and liabilities it has been treated as a defined contribution scheme for the purposes of disclosure.

b) FRS 17 'Retirement Benefits'

The Group still accounts for pension costs under SSAP 24, as the Board has decided to defer full implementation of FRS 17 following the UK Accounting Standards Board proposal to extend the transitional regime for the new Standard. FRS 17 requires pension fund valuations to be updated by actuaries at each balance sheet date using different criteria to SSAP 24, and on this basis the defined benefit schemes in existence in the UK show a net deficit, after deferred tax relief, of £10.5m (2003: £14.2m). This improvement follows measures taken during the year to increase contributions and, in consultation with the members of the schemes, to freeze for an initial three year period, the level of salary to which the schemes apply. The amount of this net pension liability would have a consequential effect on reserves.

Set out below are the FRS 17 valuations, together with the assumptions used by the actuaries, which due to the timescale covered, may not necessarily be borne out in practice. These valuations show the best estimates of the fair value of the schemes' assets at the balance sheet dates, which are not intended to be realised in the short term and may be subject to significant change before they are realised, together with the present value of the schemes' liabilities, which are derived from cash flow projections over long periods and are thus inherently uncertain. The anticipated rate of return on scheme investments is also disclosed.

The major assumptions used in these valuations were:	2004	2003	2002
Rate of increase in pensionable salaries	nil	4.0%	3.8%
Rate of increase in pensions in payment	2.5%	2.5%	2.3%
Discount rate	5.4%	5.6%	5.4%
Inflation assumption	2.5%	2.5%	2.3%

Notes to the Financial Statements – continued

For the year ended 31 December 2004

25 Pensions (continued)

FRS 17 valuations and anticipated return on investments:

	Anticipated return on investments 2004	Valuation 2004 £'000	Anticipated return on investments 2003	Valuation 2003 £'000	Anticipated return on investments 2002	Valuation 2002 £'000
Equities	8.0%	21,007	8.2%	20,481	8.2%	16,680
Bonds	4.6%	5,230	4.7%	4,806	5.2%	5,853
Property	8.0%	559	8.2%	1,005	8.0%	452
Other assets	5.8%	10,011	3.8%	7,068	6.0%	6,064
Fair value of schemes' assets		36,807		33,360		29,049
Actuarial value of schemes' liabilities		(51,851)		(53,634)		(48,377)
Pension deficit		(15,044)		(20,274)		(19,328)
Related deferred tax asset		4,513		6,082		5,798
Net pension liability under FRS 17		(10,531)		(14,192)		(13,530)

Had the Group adopted FRS 17 in full, profit and loss reserves would have been adjusted as follows:

Analysis of amount charged to operating profit in respect of defined benefit schemes

	2004 £'000	2003 £'000
Current service cost	698	906
Settlements and curtailments	(7,018)	14
Total operating charge	(6,320)	920

Movement in deficit during the year

Deficit in the schemes at the beginning of the year	(20,274)	(19,328)
Movement:		
Current service cost	(956)	(906)
Contributions	1,684	1,413
Settlements and curtailments	7,018	(14)
Other finance income	(600)	(672)
Actuarial loss	(1,904)	(767)
Deficit in the schemes at the end of the year	(15,032)	(20,274)

Analysis of the amount credited to other finance income

Expected return on pension scheme assets	2,385	2,077
Interest on pension scheme liabilities	(2,985)	(2,749)
Net return	(600)	(672)

Analysis of amount recognised in statement of total recognised gains and losses

Actual return less expected return on pension scheme assets	334	1,954
Experience gains and losses arising on the scheme liabilities	(555)	328
Changes in the assumptions underlying the present value of the scheme liabilities	(1,683)	(3,049)
Actuarial loss recognised in the statement of total recognised gains and losses	(1,904)	(767)

History of experience gains and losses

The following disclosures will be built up over time as a five year history:

	2004	2003	2002
Difference between the actual and expected return on scheme assets			
Amount (£'000)	334	1,954	(6,733)
Percentage of scheme assets	1%	6%	(23%)
Experience gains and losses on scheme liabilities			
Amount (£'000)	(555)	328	(1,911)
Percentage of the present value of scheme liabilities	1%	(1%)	4%
Changes in the assumptions underlying the present value of scheme liabilities			
Amount (£'000)	1,683	(3,049)	(1,051)
Percentage of the present value of scheme liabilities	(3%)	6%	2%

26 Financial Instruments

The explanation of the Board's objectives, policies and strategies for holding and issuing financial instruments is set out in the Group Finance Director's Review on pages 8 to 11.

Short term debtors and creditors, as permitted by FRS 13, have been omitted from all of the numerical financial instruments disclosures, except for those relating to foreign currency risks. The Group and the Company have £10.7m and £1.0m respectively of cash at the year end held in bank accounts (2003: £16.4m the Group, £0.1m the Company) which is immediately available for use.

Cash at bank at year end by major currency	Functional currency of the local operation					
	The Group		The Company			
	2004 £'000 Sterling	2004 £'000 Other	2003 £'000 Sterling	2003 £'000 Other	2004 £'000 Sterling	2003 £'000 Sterling
Sterling	1,916	46	8,639	–	–	88
US Dollars	609	2,853	450	988	–	43
Swedish Kronor	342	834	–	4,886	–	–
Euro	–	1,761	–	843	–	–
South African Rand	–	1,240	–	684	–	–
Other	792	356	–	(46)	–	–
	3,659	7,090	9,089	7,355	–	131

Cash surplus to short term requirements is usually invested overnight on the money market to earn interest at rates close to the prevailing local base rates.

a) Liquidity

The maturity of financial liabilities is as follows:

	The Group		The Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
In one year or less, or on demand	7,125	60,424	8,935	58,786
In more than one year but not more than two years	18,432	452	–	–
In more than two years but not more than five years	31,409	544	23,800	–
In more than five years	2,157	327	–	–
	59,123	61,747	32,735	58,786

Notes to the Financial Statements – continued

For the year ended 31 December 2004

26 Financial Instruments (continued)

In addition to medium-term bank loans the Group has negotiated working capital facilities with local relationship banks in the countries in which it operates.

These facilities are negotiated annually and are normally repayable on demand. At 31 December 2004 committed but undrawn working capital facilities amounted to £16.7m (2003: £10.7m) of which £0.5m is renewable in one year or less and £16.2m is renewable in more than one year (2003: £8.1m in one year or less and £2.6m was in more than two years).

b) Interest rate risk profile of financial liabilities

	Floating rate liabilities 2004 £'000	Fixed rate liabilities 2004 £'000	Non-interest bearing liabilities 2004 £'000	Total 2004 £'000	Floating rate liabilities 2003 £'000	Fixed rate liabilities 2003 £'000	Non-interest bearing liabilities 2003 £'000	Total 2003 £'000
Sterling	23,800	186	50	24,036	45,500	359	50	45,909
US Dollars	2,797	58	–	2,855	12,917	107	–	13,024
Swedish Kronor	27,757	–	3,297	31,054	18,128	45,401	613	64,142
Hong Kong Dollars	461	–	–	461	651	–	–	651
South African Rand	685	–	32	717	787	163	71	1,021
	55,500	244	3,379	59,123	77,983	46,030	734	124,747

In 2003 the interest rate risk profile shown in the table above took into account various interest rate and currency swaps which have all been closed during 2004.

The floating rate liabilities apply to short and medium-term bank overdrafts and loans with interest rates falling within the range 0.75% to 1.5% over the relevant country national bank base rates.

The fixed rate liabilities apply to sundry small loans to overseas subsidiaries and finance leases with a weighted average interest rate of between 7% and 9%.

The weighted average period on which interest rates on the fixed rate financial liabilities are fixed is 3 years (2003: 3 years).

The Group's worldwide banking facilities are secured by fixed and floating charges over a variety of the Group's assets including cross-guarantees from subsidiaries.

Finance lease obligations are secured on the assets to which they relate.

c) Swaps and hedges

The Swedish Kronor swap used to hedge the Group's investment in the Swedish subsidiary was closed during the year at a cash outflow of £6.8m.

There were no outstanding currency swaps or derivatives at 31 December 2004.

d) Currency risk

The analysis of the Group's net monetary assets denominated in other than the functional currencies of the local operation may be summarised as follows:

Net foreign currency monetary assets	Functional currency of the local operation					
	Sterling 2004 £'000	Others 2004 £'000	Total 2004 £'000	Sterling 2003 £'000	Others 2003 £'000	Total 2003 £'000
US Dollars	560	30	590	450	–	450
Swedish Kronor	341	–	341	–	–	–
Other	375	1,829	2,204	478	–	478
	1,276	1,859	3,135	928	–	928

e) Fair values

The fair value of financial assets and liabilities of the Group with the exception of the 3 year interest rate fixing swap contracts in 2003 were and are considered to be materially equivalent to their book value. The fair values of these interest rate fixing swaps are shown below.

	Fair Value 2004 £'000	Book Value 2004 £'000	Fair Value 2003 £'000	Book Value 2003 £'000
Interest rate fixing swaps	–	–	(560)	–

The figures shown above were derived from third party valuations as at the balance sheet date.

27 Guarantees, contingent liabilities and other commitments

At the year end the Company and certain of its subsidiary undertakings cross guarantee the bank loans of the Group.

In common with other professional firms, the Group maintains professional indemnity insurance against claims for professional negligence which in the ordinary course of business have been, or may in the future be, received. The directors assess each claim and make provision for legal and settlement costs where, on the basis of advice received, it is considered that a liability may exist.

No other commitments, either authorised or contracted for, existed at 31 December 2004.

At the year end there existed the following annual commitments under operating leases which expire:

	The Group		The Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Equipment and plant:				
Within one year	724	655	16	16
Between two and five years	2,163	1,314	–	–
	2,887	1,969	16	16
Property:				
Within one year	1,067	803	114	74
Between two and five years	10,570	9,353	675	901
After more than five years	1,009	1,519	–	35
	12,646	11,675	789	1,010

28 Related party transactions

During the year the Group entered into arm's length transactions with its joint ventures and associated undertakings. Turnover with these companies amounted to £3.5m (2003: £2.4m) and the Group purchased services of £Nil (2003: £0.1m).

At 31 December 2004 a net balance of £1,141,000 (2003: £17,000) was due from joint ventures and associated undertakings to the Group.

As disclosed in the Directors' Report, the Group has entered into arm's length transactions in the normal course of its business with companies with which the non-executive Directors are associated by virtue of their employments. These Directors have no controlling influence over these companies or a material interest in the outcome of these contracts.

Certain senior employees are entitled to receive deferred consideration payable in cash and shares in respect of the acquisition of businesses in which they formerly held equity interests. At 31 December 2004, the maximum total due to these senior employees was £1,257,000 (2003: £986,000), subject to meeting performance targets.

Notes to the Financial Statements – continued

For the year ended 31 December 2004

29 Share options, the performance share plan and the bonus share plan

At 31 December 2004 outstanding options and awards to subscribe for ordinary shares of 5p each in the Company, granted in accordance with the rules of the relevant share option schemes, the bonus share plan and the performance share plan were as follows:

Exercise or vesting date	Exercise price	SAYE Options No	Ordinary Options No	Performance plan awards No	Bonus plan awards No	Total No
WSP Group plc 1997 Save As You Earn scheme						
11.04.2001-11.04.2004	420.0p	3,227				3,227
11.04.2002-11.04.2005	300.0p	149,301				149,301
WSP Group plc 1997 Share Option Scheme						
08.04.2001-08.04.2008	91.0p		70,696			70,696
30.06.2003-30.06.2009	183.0p		89,879			89,879
26.05.2004-26.05.2010	242.0p		150,161			150,161
06.04.2004-06.04.2011	429.0p		302,515			302,515
06.04.2005-06.04.2012	334.0p		371,750			371,750
10.04.2006-10.04.2013	75.0p		104,500			104,500
WSP Group plc 1997 Performance Share Plan						
01.04.2005	–			206,455		206,455
01.04.2006	–			1,190,000		1,190,000
01.04.2007	–			300,000		300,000
WSP Group plc 1997 Deferred Bonus Share Plan						
01.04.2005	–				2,275	2,275
20.05.2005	–				6,017	6,017
01.04.2006	–				308,293	308,293
01.04.2007	–				17,482	17,482
		152,528	1,089,501	1,696,455	334,067	3,272,551

In accordance with the rules of the various WSP Share Option Schemes the number and price of options have been subject to appropriate adjustment to reflect the impact of the rights issue in June 2001.

a) Ordinary Options

The exercise of ordinary options are contingent upon meeting performance targets set by the Remuneration Committee that presently require Earnings Per Share to grow by at least the equivalent to the increase in the Retail Price Index plus, on average, 3% per annum.

b) Performance Share Plan and Deferred Bonus Share Plan – The WSP Employee Benefit Trust

The Group operates the WSP Performance Share Plan and the WSP Deferred Bonus Share Plan for the benefit of its executive directors and senior management. The WSP Employee Benefit Trust, which was set up in 1997, holds ordinary shares in the Company to meet commitments in respect of the share awards granted under these schemes. The shares of the Trust are presented as a deduction in shareholders' funds in accordance with UITF 38.

WSP Group plc has provided loans totalling £1,529,141 (2003: £1,529,141) to the Trust in the form of interest free loans to enable the Trust to purchase shares in the Company. Subsidiary undertakings of the Group will make cash contributions to the Trust which will be used to repay the loans.

The cost of the potential future awards of the two schemes is accrued over the 3-year performance periods of each plan. The cost of future awards charged in 2004 in the accounts of WSP Group plc was £619,425 (2003: £234,654).

As at 31 December 2004 the Trust owned 167,146 ordinary shares of the Company (2003: 167,146), all of which are due for transfer, at nil exercise price, to directors and senior management under the conditions of the Performance Share Plan and the Deferred Bonus Share Plan. The performance conditions applicable to awards granted under the Performance Share Plan are set out in the Remuneration Committee Report. The market value of each share held at 31 December 2004 was 260p per share (2003: 197.5p). All shares held are reserved to meet existing commitments under the employee incentive schemes.

	Scheme shares at 1 January 2004 No	Granted in Year No	Vested in Year No	Lapsed in Year No	Scheme shares at 31 December 2004 No
Performance Share Plan	1,546,357	300,000	–	(149,902)	1,696,455
Deferred Bonus Share Scheme	347,430	17,482	(14,178)	(16,667)	334,067
Total	1,893,787	317,482	(14,178)	(166,569)	2,030,522

30 Change to accounting policies

UITF Abstract 38 Accounting for ESOP Trusts has been adopted in the current year. UITF 38 requires that investments in own shares previously disclosed in Fixed Assets Other Investments are presented as a deduction in shareholders' funds. The 2003 comparatives have been restated and £162,000 of prior years' amortisation has been reversed. The table below sets out the effect of the change on the 2003 results.

Consolidated Balance Sheet	£'000
Fixed Assets Other Investments – as previously stated	1,277
Prior year adjustment	(113)
Fixed Assets Other Investments – restated	1,164
Equity shareholders' funds – as previously stated	84,562
Prior year adjustment	(113)
Equity shareholders' funds – restated	84,449

There was no material impact on the profit and loss account.

Five Year Review

Consolidated profit and loss accounts

	2004 £'000	2003 £'000	2002 £'000	2001 £'000	2000 £'000
Group and share of joint ventures and associated undertakings turnover	328,218	298,868	272,024	230,545	137,925
Less: share of turnover of joint ventures and associated undertakings	(19,972)	(15,315)	(10,574)	(5,812)	–
Turnover	308,246	283,553	261,450	224,733	137,925
Operating profit on ordinary activities before exceptional items and goodwill	17,813	16,004	14,451	17,502	10,945
Exceptional items	–	(2,250)	(6,505)	–	–
Amortisation of Goodwill	(5,446)	(5,269)	(5,128)	(3,592)	(844)
Operating profit	12,367	8,485	2,818	13,910	10,101
Profit on sale of subsidiary undertaking	–	409	–	–	–
Net finance costs	(2,801)	(3,313)	(2,444)	(2,408)	(1,352)
Profit before tax	9,566	5,581	374	11,502	8,749
Taxation	(4,777)	(3,429)	(1,988)	(4,696)	(3,127)
Profit/(loss) after tax	4,789	2,152	(1,614)	6,806	5,622
Minority interests	(209)	(90)	(17)	–	(21)
Dividends	(3,204)	(3,010)	(2,662)	(2,657)	(1,560)
Retained profit/(loss) for the year	1,376	(948)	(4,293)	4,149	4,041
Basic earnings/(loss) per share	7.6p	3.6p	(3.1p)	14.9p	14.8p
Basic earnings per share before operating exceptional items and profit on sale of subsidiary undertaking	16.6p	15.0p	15.2p	22.7p	17.0p

Consolidated balance sheets

	2004 £'000	2003 £'000 Restated	2002 £'000 Restated	2001 £'000 Restated	2000 £'000 Restated
Fixed assets	111,758	113,789	115,815	120,662	42,772
Current assets	106,656	105,105	103,245	98,571	70,652
	218,414	218,894	219,060	219,233	113,424
Creditors due within one year	(74,263)	(127,374)	(66,789)	(63,824)	(63,622)
Debtors due after more than one year	–	–	–	7,594	–
Total assets less current liabilities	144,151	91,520	152,271	163,003	49,802
Long term liabilities and provisions	(58,031)	(7,071)	(66,097)	(67,464)	(18,086)
Net assets	86,120	84,449	86,174	95,539	31,716
Called up share capital	3,023	3,022	2,662	2,657	1,752
Share premium account	76,537	76,510	71,253	70,976	10,190
Shares to be issued	207	253	5,769	7,748	8,761
Profit and loss account	6,033	4,552	6,468	14,158	10,789
Equity shareholders' funds	85,800	84,337	86,152	95,539	31,492
Minority interests – equity	320	112	22	–	224
	86,120	84,449	86,174	95,539	31,716



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