WSP Group plc

Annual Report and Accounts 2005

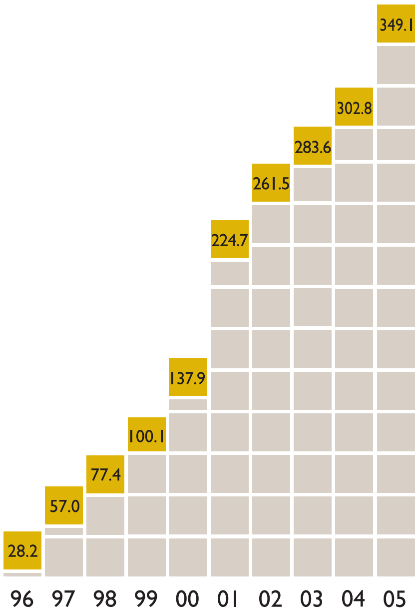
Annual Report

05

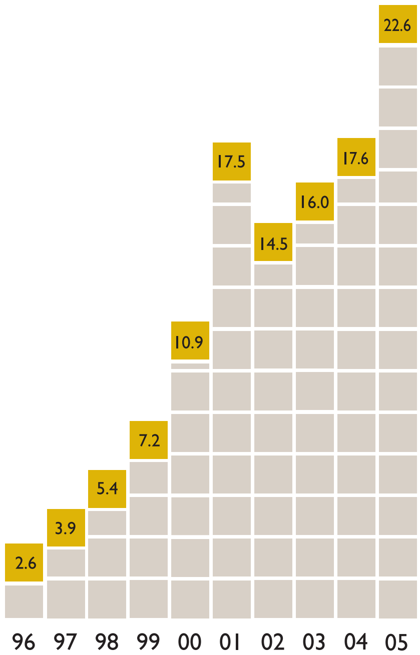
WSP is a global business with the vision to be the outstanding supplier of specialist and integrated services in the built and natural environment.

Contents

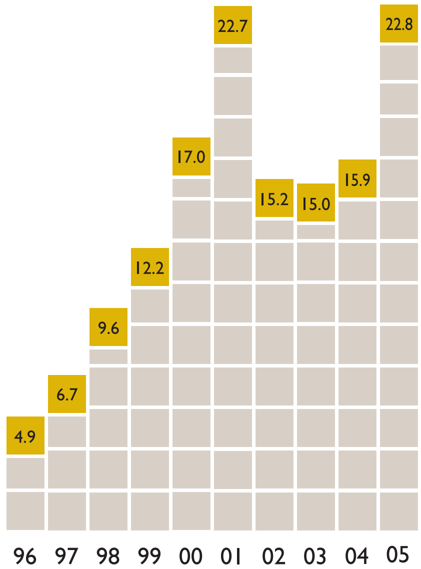
Financial Highlights



Revenue (£m)



Adjusted Profit before Interest and Tax (£m)



Adjusted Earnings per share (pence)

Property

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.

Revenue	Profit Before Interest and Tax	Employees
58%	54%	59%

Transport & Infrastructure

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.

Revenue	Profit Before Interest and Tax	Employees
29%	31%	30%

Environmental

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.

Revenue	Profit Before Interest and Tax	Employees
13%	15%	11%

In the above charts, 2004 and 2005 figures reflect the results of the Group, reporting in accordance with International Financial Reporting Standards (IFRS). It is not practicable to re-state previous years' results according to IFRS, and therefore the charts reflect the results for 1996 through to 2003 according to UK GAAP as originally reported. Due to differences between IFRS and UK GAAP, there may be some inconsistency in the charts. Refer to note 30 on page 74 for an indication of the adjustments to comply with IFRS. Set out in Table 3 on page 9, are the adjustments made to the statutory financial information relating to the taxation of joint ventures and associated undertakings and a pension credit in 2004 which the directors believe assist with understanding the underlying performance of the Group.

Chairman's Statement

I consider the Group to be well placed to build on this year's excellent performance. Our strategy is aligned to delivering continued profitable growth, improving profit margins and strong cash flows supported by the quality of our projects and the strength of our order book.

I am very pleased to report an excellent performance by the Group in 2005. Our financial results are well ahead of market expectations showing significantly increased revenue and profit, improved net profit margins, a strengthening order book which has increased by 15% and substantially reduced net debt.

Our operations throughout the world have contributed to this performance as well as supporting our ongoing commitment to continually improve client care and operational efficiency.

We are seeing generally strong and stable global markets with activity in the UK, Sweden, the USA and the Middle East particularly good. The demand for our services continues to grow and we have established an increasingly prominent position in the sectors in which we operate.

Financial Results and Dividends

The financial statements for 2005 have been prepared under International Financial Reporting Standards ('IFRS') and consequently the comparative figures for 2004 have been restated to reflect this change.

Revenue for 2005, plus our share of joint ventures and associated undertakings, increased by 16% to £373.9m generating adjusted profit before interest and tax of £22.6m at a net margin of 6.0%. Adjusted profit before tax increased by 36% to £20.2m. Basic and fully diluted earnings per share were 22.8p and 21.8p respectively.

In 2004, revenue plus our share of joint ventures and associated undertakings was £322.3m, adjusted profit before interest and tax was £17.6m and net margins were 5.5%. Adjusted basic and fully diluted earnings per share were 15.9p and 15.4p respectively and adjusted profit before tax was £14.8m. Basic and fully diluted earnings per share were 24.1p and 23.2p.

Once again we have seen strong operating cash flows from our trading activities of £31.9m (2004: £24.0m) which has resulted in net debt falling to £32.2m (2004: £45.0m). Net interest paid of £2.4m (2004: £2.8m) is covered more than 8 times by operating profit.

In view of these excellent financial results and in line with our progressive dividend policy, the directors believe that it is appropriate to increase the proposed final dividend to 4.0p (2004: 3.2p) giving a full year dividend of 6.4p (2004: 5.3p) which represents an increase for the year of 21%.

Set out in Table 3 on page 9, are the adjustments made to the statutory financial information relating to the taxation of joint ventures and associated undertakings and a pension credit in 2004 which the directors believe assist with understanding the underlying performance of the Group.

Review of Activities

Our strategic focus to improve our financial performance whilst continuing to invest in the development and diversification of the Group's activities has progressed well during the year. We continue to strengthen our technical and managerial resource to facilitate new business initiatives and, importantly, to maintain and extend our relationships with major national and international clients.

Property

As predicted, we have seen an improvement in the performance of Property, our largest business segment. The quality of opportunities in this area, across all regions, is increasing thanks to our acknowledged expertise and the general stability of the markets particularly in the UK where we are seeing clear improvements in the important commercial sector and in Europe where there are also

David Turner Chairman

encouraging signs. In the USA we have also been very busy in strong markets enabling us to deliver excellent results and we are opening new offices in Las Vegas and Los Angeles to respond to client and market needs.

Our position as a leader in high-rise building design, coupled with unprecedented worldwide demand, has ensured an excellent flow of new projects. We are currently engaged on notable schemes in the USA, UK, Europe, Middle East and Asia and expect the market demand to continue, thus enhancing our reputation and overall brand awareness.

South Africa continues to perform satisfactorily with well managed growth. The economy currently enjoys relatively stable interest and currency rates, which has encouraged strong local markets. We have also progressed in Asia under new direction and management and I consider we have now stabilised the business in this region. As the Group has grown on a global platform we have won an increasing number of international projects in many new regions.

Transport & Infrastructure

Transport & Infrastructure has seen good organic growth, particularly from Sweden where we are the leading consultant in the country's road and rail sectors. In the UK, our joint venture with Carillion to support the Yorkshire area road network has performed very well and produced strong financial results. Elsewhere in the UK we have been less successful in generating new business opportunities and we have therefore restructured the business and recruited a new managing director who is already producing results. We continue to deliver transport solutions in South Africa and we are extending our skill in this area to other regions including Eastern Europe and the Middle East.

Environmental

The Environmental business, which has been mainly organically grown, has delivered an improved all round performance. Our global presence has been further extended and our share of international projects for global clients increased. The markets in which we work have remained strong, driven by legislation and an increasing recognition of the importance of the environment to all stakeholders.

There are increasing opportunities to leverage our global skill base to ensure that we compete for major international projects and we have seen a particularly strong corporate market with global clients who require complimentary environmental support. I am convinced that there are enormous market opportunities to continue to grow our Environmental business across a broad range of sectors and to this end we are presently launching WSP Energy and WSP Waste to respond to the requirements of these active and growing sectors.

Staff

Our staff, that now total more than 6,000, are enormously committed to WSP and they have worked very hard to further the Group's reputation and produce these excellent financial results. My thanks to them all for their dedication and desire to deliver the Group's growth strategy.

We have devoted significant resource to the recruitment and retention of staff throughout the year. We recognise that in a world of skill shortages we must always be the preferred employer and I believe our commitment and investment in this business priority will ensure we achieve this objective.

Board Changes

At the beginning of 2006 we announced important changes to the Board. Stuart McLachlan who has worked tirelessly to build WSP Environmental into a global business was appointed as an executive director.

In addition, I would like to welcome three new non executive directors. Marisa Cassoni is a chartered accountant who was, until recently, Group Finance Director of the Royal Mail Group. Marisa is a member of the Accounting Standards Board and will chair the audit committee. Ernest Sheavills is a chartered surveyor who recently retired from The Royal Bank of Scotland as Property Development and Asset Management Director and Mark Rollins, who is also a chartered accountant, is presently Group Finance Director of Senior plc.

At the end of the year Caroline Brown retired as a non executive director due to the pressure of her other work commitments and I would like to thank Caroline for her contribution to WSP during her period as a director.

The Future

We have a clearly defined strategy to deliver growth, which is understood and supported by our senior management and staff, and I am pleased with the visibility this provides.

We continue to be focused on our operational activities, thereby providing the infrastructure to support sustained improved performance and provide a reliable platform for future organic and acquisitive growth.

The increasing breadth of the Group's activities throughout the world, and the global projects on which we work is impressive and promotes both our reputation and brand to support our goal of being a truly global consultant. I expect our long term strategy of diversification in the markets we know to be maintained and to provide resilient ongoing trading. In addition, our growing long term order book will provide support for our organic growth targets.

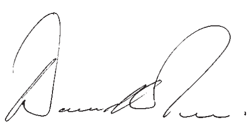
The markets in which we operate are generally stable and in some cases growing. The demand for our services is strong as we increasingly cross-sell all our services thus increasing our market share across most sectors and skills. I believe the market will support our growth ambitions and we are well placed to address changes as and when they arise.

The niche acquisitions made during the year have complemented our worldwide activities and others will continue to be progressed whilst we remain alert to larger strategic regional opportunities to diversify further the business.

Our directors and staff are focused on managing the expected growth and delivering improved performance, supported by the latest technology and well organised systems. We are continually active in the need to reinforce the business with quality recruitment and the improved retention of existing staff.

I consider the Group to be well placed to build on this year's excellent performance. Our strategy is aligned to delivering continued profitable growth, improving profit margins and strong cash flows supported by the quality of our projects and the strength of our order book.

I therefore look forward to the Group continuing to deliver strong growth and enhanced shareholder value in the coming years.



David Turner

Chairman
9 March 2006

Chief Executive's Review

The future strategy of the Group is clear, ambitious and importantly, achievable. The strategy does not promote radical change, but it does progress continued diversification which remains one of the cornerstones of our growth.

I am pleased to report that all aspects of our business have made excellent progress in 2005. We have seen increases in both revenue and profit, coupled with an improvement to our overall net profit margin. Careful cash management has reduced our net debt ahead of expectations.

Our order book has continued to increase throughout the year and now stands at £580m, a 15% improvement compared to this time last year. Furthermore, our secured work, on a rolling 12 months basis, is at a record level of 70% of targeted revenue, with framework agreements and other long term procurement arrangements making up 40% of our order book. Our unequalled range of multidisciplinary skills continues to be successfully cross-sold to our broad client base, which in turn has ensured an increase in our market share.

As we expected, over the course of 2005, the division of work has became a little more private sector biased. However there are regional differences with Sweden remaining evenly divided between the public and private sectors. In the UK we are seeing increasing activity in the private sector and the busy market in the USA remains predominantly private.

We have made progress in staff retention and the recruitment of quality staff and our worldwide workforce has increased to more than 6,000 people, thus reinforcing our prominent position in all our markets. The Group structure, supported by effective management and processes, has ensured a resilient platform to control our diverse operations.

We are focused on embedding the culture that excellent client care and service are paramount business priorities, providing added value to our clients and thus improving performance. We continue to regard this as the fundamental cornerstone of our business. This culture, when combined with our activities to enhance our efficiency through improved management and investment in the latest technologies, has continued to ensure a sustainable improvement in all aspects of our performance.

We have experienced stable and generally robust markets in the sectors and regions in which we work. There has been particularly strong demand in the USA, Southern Africa and the Middle East, whilst the public sectors of the UK and Scandinavia remain buoyant. Many areas in the private sector continued to be active including urban regeneration, aviation and residential, and we are seeing improvements in the commercial and financial markets in the UK and the industry sector in Scandinavia. In line with our expectations, the Environmental business continues to grow significantly on a global basis in strong markets with a continual demand for an increasing range of expertise and technological solutions.

During 2005 we have made a number of small acquisitions in the UK, Scandinavia and in the Middle East. In order to complement our already strong position in the UK health and education market, we acquired front-end consultancies, IBS and Edunova, to position us higher up the value supply chain. In Dubai we acquired a property design consultancy to reinforce and extend our existing small business in the region and since this transaction was completed in April we have doubled our local resource to more than 150 people. In Sweden we acquired Riskteknik, a risk management business, and Transek, a traffic management consultant.

Property

Our Property segment, which is predominantly private sector focused, has progressed well and represents 58% of our worldwide revenue and 56% of our operating profit, before the results of associates and joint ventures. Net profit margins in this

Christopher Cole Chief Executive

segment have increased from 5.1% to 5.7%. We now hold a prominent market position in Property services across all our principal regions of operation.

In the UK, I believe WSP is the most diversified consultant with a leading position in the majority of sectors. The stable markets and the improving commercial activity have supported our growth and this is demonstrated by our pre-eminence in the high-rise design market where we are actively engaged on ten schemes representing more than half of the current opportunities in this country.

Our urban regeneration and retail skills have ensured our appointment to major new schemes in Dublin, Bury St Edmonds and Glasgow. The residential market remains strong both in terms of large, high quality city centre projects and the master planning of extensive rural developments in cities such as Swindon, Cambridge and Exeter. The recovering commercial sector has provided significant new appointments from clients including Land Securities, Hammerson and the Royal Bank of Scotland.

Our framework activities in the aviation sector continue where we act for BAA and British Airways at Terminal 5, Heathrow. In addition, we have been won substantial work at Luton Airport and our existing appointments on the new Stansted terminal are progressing well. We were also pleased to have supported BAA in their successful management bid for Budapest Airport.

In the health sector, notwithstanding the current funding issues faced by the Local Health Trusts, our existing projects are unaffected and we continue to work on new enquiries. In addition, the Building Schools for the Future programme is providing new opportunities in education, underpinned by our selection as BECTA framework consultants in this sector.

In Sweden, similar market dynamics exist but added to this is our participation in a strong industrial sector, including steel, mining, paper and pulp for clients including Stora Enso, LKAB and ARLA. Low interest rates have ensured continued activity in the residential market where we are a leading designer with attractive "green" credentials. Whilst increased activity in the commercial sector is not yet evident, there is a new optimism for imminent progress. The Government's strong and predictable public sector expenditure commitment underpins our ongoing workload in health and education, with service offerings complemented by our UK experience.

In Finland, where we now employ nearly 300 people, we completed the design for the timber office headquarters project for Finnforest, the largest such structure in Europe, which has received national recognition and awards. To strengthen our operation and accelerate integration, we have recently appointed a new managing director.

Multiconsult, our associated Norwegian company, has delivered a strong trading performance from their diverse markets which notably include the oil and gas sector. Small local operations in Germany, Poland and France have each contributed to Europe's significant contribution.

New Providence Wharf, London
WSP is delivering multi-disciplinary services to this development that includes 1050 homes and an hotel.

In the USA, where Property is our principal area of activity, the performance has been excellent. We work on some of the world's largest and tallest schemes including the 15 million square foot mixed leisure development in Las Vegas for MGM, which has enabled us to open a local office and we have just opened another local office in Los Angeles. The USA order book is currently at record levels underpinned by projects including the Freedom Tower, Walt Disney Family Foundation Museum and Jacob K. Javits Convention Center. Our USA reputation and experience on such major projects has contributed to the winning of other large international projects in Asia, the Middle East and the UK.

South Africa has had another good year with substantial growth in what are considered strong local market conditions influenced by more stable interest and currency rates. Our work in Africa is carefully developing into new territories, including Nigeria, Ghana, Tanzania and Mozambique, and the future 2010 World Cup continues to provide business confidence and opportunities.

We are pleased that our small Asia business under the direction of a new managing director has shown sustainable progress. We have maintained our presence in Hong Kong whilst increasing in China, particularly Shanghai, in addition to our smaller offices in Beijing and Shenzhen. We have secured large leisure projects in Macau and commercial schemes in Shanghai. The off-shoring facility in the Philippines continues to service the Group as a low-cost production centre. We still consider the markets unchanged but we have had some success in penetrating specific sectors. Our presence in the region has also aided our offices in the UK and USA to win high-value, front-end consultancy work in the region.

The progress in the Middle East, particularly Dubai, has been very satisfying following the local acquisition of PHB in April 2005. Following the merging of our local business, the re-branding as WSP and securing larger premises, growth and financial performance have been significant. We are working on landmark projects including the City of Arabia with a $1 billion construction value, Dubai Festival City, Dubai International Financial Centre and the Mall of the Emirates, currently the largest shopping mall outside North America, which opened recently. As activity increases in other Gulf regions, notably Qatar and Abu Dhabi, we are looking to open new offices in these locations to further build upon the work other offices have already won in the area.

We have recently opened an office in Delhi to explore the opportunities for the Group in India and provide an off-shoring production facility for the Middle East, which will also act as a back-up for our existing facilities in the Philippines.

Binh Bridge, Vietnam
WSP's team of bridge specialists prepared the feasibility study and detailed design for the 1,347m bridge at Haiphong which was opened in May 2005.

Transport and Infrastructure

Our Transport and Infrastructure segment, which focuses principally on the public sector road and rail markets in the UK, Scandinavia and South Africa represents 29% of our worldwide revenue and operating profit, before the results of associates and joint ventures. Net profit margins in this segment, including joint ventures, have increased from 5.7% to 5.9%. During 2005 we have also secured transport projects in other regions including China, Estonia, Serbia and Romania.

The principal market in the UK remained unchanged with our emphasis being on the roads sector. We were recently appointed to two significant projects by the UK Highways Agency, our largest UK client, which complements our existing framework agreements. We are penetrating the Local Authority market with further wins from Essex County Council, the London Borough of Barnet, Dublin Council and extensions to our major appointments with Transport for London and Westminster City Council. I am pleased to announce the appointment of a new UK Managing Director whose brief is to progress our growth and financial performance in this sector.

Our joint venture with Carillion for Yorkshire, Area 12, has performed excellently throughout the year and provides encouragement for future such ventures. The reassessed CAT (Capability Assessment) score continued to secure our position as technically in the top three consultants operating in the UK. The successful early completion of the M25 widening and Terminal 5 Heathrow access has been positively acclaimed.

Although the Group carries out only limited rail line work in the UK, we have seen opportunities arising from Network Rail's realisation of their substantial station assets. In particular, we were very pleased to be appointed as lead consultants to the £350m redevelopment of New Street Station, Birmingham which complements our existing extensive activity in the city.

In Sweden we remain the most prominent consultant in both the road and rail sectors. The National Rail and the Road Administration of Sweden are the Group's largest clients and we have continued to win major awards in all regions, including the Western Link in Gothenburg and the Botnia line in the north. Our work on the Southern Link road tunnel under Stockholm received a national award. The recent acquisition of Transek AB in 2005 and the earlier acquisition of Inregia presents a high-value transportation service to the market.

In Finland, where our business has an international reputation in bridge design we have completed the Binh Bridge in Vietnam and we are also working on projects in Africa and India as well as securing new projects in South America. In South Africa, we are the principal consultant to the N3 motorway between Durban and Johannesburg, a project that has generated substantial revenue.

Elsewhere, Aid Agency work has resulted in projects in the West Indies, Turkey, Bangladesh, Vietnam, Ukraine and we have established a significant presence in Libya to support a major infrastructure project in Tripoli, which will continue for some years.

Environmental

Our Environmental segment, has again delivered strong organic growth with revenue growing by 25%, representing 13% of our worldwide revenue and 15% of our operating profit, before the results of associates and joint ventures. Net profit margins in this segment have also increased from 7.0% to 7.3%.

Having grown consistently from a zero base 10 years ago, we now have established operations in the UK, Scandinavia and South Africa with newer businesses in the USA and the Middle East. To continue our global strategy and provide our clients with increased coverage we have opened offices in China, Italy, Romania, France and we are currently reviewing a future presence in Australia.

Our order book continues to incorporate global framework agreements with new clients such as

Seagate, Cisco Systems, and Deutsche Bank which demonstrates our position as one of the few global environmental consultants.

The UK market continues to present diverse opportunities which last year included acting for Abbey National on the UK's largest property transaction with ING, the design of the first carbon neutral airport terminal at Stansted and environmental planning for the redevelopment of the Birmingham Gateway.

We delivered a much improved performance in Sweden, where we are moving away from the delivery of commodity services, and focusing on innovative environmental and energy technology, creating a knowledge base which we transfer to our clients worldwide.

We are witnessing growth in the areas of sustainable master planning, corporate outsourcing of environmental and social responsibility reporting, carbon trading and risk liability transfer, and we are using these skills to support our entry into new territories. With regard to energy, we will shortly be launching WSP Energy, utilising existing resources and supplemented, where appropriate, with new recruitment to provide the global market with expert management and design services across a wide range of energy issues. In addition, to address the opportunities in waste management, we have formed WSP Waste.

Staff

Firstly, my sincere thanks to all our directors and staff for their hard work, commitment and motivation in delivering an excellent set of results.

During the year we have engaged wide audiences from within the Group at conferences, workshops and presentations to convey to them our progress, future strategy and thanks. I am pleased with the confident and positive demeanour seen throughout our business regarding our performance and prospects.

With growth this year of nearly 15%, recruitment and retention of staff has been a priority. Our management and human resource support continually strive to achieve our objective of being the preferred employer in all our sectors. With the exception of Asia, where we have restructured, we have improved our overall retention rate and have different targets set for our various operations and staff grades going forward. The Group overall target is to achieve a voluntary staff turnover worldwide of 12% and we achieved 14% in 2005.

Strategy and Outlook

The future strategy of the Group is clear, ambitious and importantly, achievable. The strategy does not promote radical change, but it does progress continued diversification which remains one of the cornerstones of our growth. We continue to identify new sectors, skills and regions in which to develop the Group, while ensuring we maintain a thorough understanding of the markets in which we work. We remain convinced that well researched diversification ensures resilient growth and smoothes operational performance through inevitable market and economic cycles.

We expect to deliver profitable growth with increased margins through organic and niche acquisitions. In 2005, we more than achieved the first step of our five year strategy plan with our goal, over that time, to increase our revenues by more than 50% and deliver net profit margins of above 7%, excluding any significant acquisitions that may arise.

Our commitment to improve continually the efficiency of our operations and the embedded culture of client care and client relationships, will ensure we continue to improve our overall performance. As we grow we are mindful of the need to ensure a mature management and technology infrastructure, and we are implementing the appropriate changes in a timely manner.

We expect all areas of the Group to grow in the coming years and particularly the attractive environmental, energy, and waste sectors together with potential PFI opportunities in Europe. We will continue to enter and develop new regions and make further progress in the Middle East, India and Eastern Europe.

We believe our environmental business will continue to deliver strong global growth underpinned by the increasingly growing and diversified global market, the recognition of our brand and resource, major company trends to outsource all aspects of the environmental and CSR agenda, and importantly the maturing ability and motivation of our management and workforce to manage growth.

We will continue to build upon our UK success in cross selling our unique and diverse range of services to our clients, whilst ensuring the promotion of a single source consultancy worldwide. Our focus on developing a global business and securing an increased global client base is supported by our business development commitment and related strategic investment.

With our markets expected to remain stable and generally strong, together with the continued growth of the UK commercial sector and recovery of this business area in Europe, we remain very confident that our long term order book will continue to grow with high quality project wins. In the UK we are experiencing early opportunities directly relating to the 2012 Olympic Games, where clients are already addressing the enhancement of their strategically located property portfolios.

I am very pleased with our progress and performance in 2005. I believe we are well positioned, financially and operationally, to responsibly achieve ongoing strong growth.

I am therefore confident, and know this view is shared by my management and staff, that we will continue our growth in 2006 and beyond.

Chris Cole

Chief Executive
9 March 2006

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.

Revenue and adjusted profit before interest and tax have grown significantly in 2005 and we are also able to report strong cash flows resulting in a substantial reduction in net debt.

These are the first annual financial statements prepared under International Financial Reporting Standards ('IFRS'). As a result, where appropriate, comparative figures for 2004 have been restated and reconciliations of the differing treatment between IFRS and UK GAAP are contained on pages 76 to 81.

Set out in Table 3 are the adjustments made to the statutory financial information relating to the taxation of joint ventures and associated undertakings and a pension credit in 2004 which the directors believe assist with understanding the underlying performance of the Group.

Revenue and Profit for the year

Revenue plus the share of our joint venture and associated undertakings' revenue, has increased by 16% to £373.9m (2004: £322.3m), of which £156.4m (42%) arose in the UK, £146.9m (39%) in Europe and the balance of £70.6m (19%) from our other overseas businesses.

Adjusted profit before interest and tax amounted to a very satisfactory £22.6m (2004: £17.6m) producing a net profit margin of 6.1% (2004: 5.4%), and adjusted profit before tax has increased to £20.2m, compared to £14.8m in 2004, which represents an increase of 37%.

These results include the relatively small contribution from a number of acquisitions made during the year which contributed £5.0m to revenue and £0.5m to operating profit. The initial cost of these acquisitions was £4.5m, which was paid wholly in cash and there remains potential deferred consideration of an estimated maximum of £3.9m dependent on future financial performance. At the end of the year, the total outstanding deferred consideration on all past acquisitions amounted to £5.4m.

A summary of the results for the year, and the segmental analysis, are set out in Tables 1 and 2 respectively.

Joint Venture and Associated Undertakings

WSP has a 24.7% equity interest in Multiconsult, one of the top design consultants in Norway, which has had a very good year with record revenue and profits. The Group's share of revenue was £13.1m (2004: £9.9m) and our share of profit before tax was £1.2m (2004: £0.7m).

In the UK, our joint venture with Carillion plc for the Yorkshire motorway and trunk road network management contract, has produced significantly improved results. Our share of joint venture revenue was £11.8m (2004: £9.6m) and profit before tax was £0.6m (2004: £0.1m).

Table 1: 2005 Results

	Increase	2005 £'000	2004 £'000
Revenue plus share of joint venture and associated undertakings revenue	16%	373,931	322,313
Less: share of joint venture and associated undertakings revenue		(24,857)	(19,468)
Revenue		349,074	302,845
Adjusted profit before interest and taxation	29%	22,636	17,596
Net interest payable		(2,428)	(2,796)
Adjusted profit before taxation	37%	20,208	14,800
Taxation		(6,215)	(5,011)
Adjusted Profit for the financial period		13,993	9,789

Malcolm Paul Group Finance Director

Profit Margins

We are pleased to have seen a steady improvement in overall net profit margins over the year from 5.4% to 6.1%, slightly ahead of our expectations. These margins have been calculated from adjusted profits before interest and tax. WSP reports its net profit margins based on reported revenue plus our share of joint ventures and associated undertakings revenue. Revenue is stated inclusive of amounts charged in respect of sub contractor costs incurred which amounted to £26.5m.

In the Property segment we have seen a satisfying increase from 5.1% to 5.7% reflecting our ability to leverage our operational gearing as the market improves. The profit margin in the public segment of Transport & Infrastructure has been more static increasing slightly from 5.7% to 5.9%.

As anticipated, our Environmental profit margins have increased once again and have now reached 7.3% as against 6.9% in 2004.

Goodwill

Under IFRS, goodwill is no longer amortised however it is subject to an annual impairment test. As a result, amortisation of goodwill of £5.4m charged in 2004 under UK GAAP has been reversed as shown in note 30.

Set out in note 9 is the outcome of the impairment tests and the assumptions on which these were based. The directors are satisfied that there has been no impairment to the carrying value of goodwill during 2005.

Bank interest

Positive trading cash flows have again reduced our net debt position and also the net charge for interest for the year which amounted to £2.4m (2004: £2.8m). Interest is covered more than 9 times by profit before interest and tax.

Taxation

The tax charge for the year amounted to £5.8m (2004: £4.7m before a charge of £2.1m related to the pension credit). This represents an effective corporate tax rate on profit before tax of 29.4% (2004: 31.9%) reflecting profits arising in the Middle East on which no local taxes are payable, and the benefits of tax relief on such items as research and development expenditure in the UK. Full details of how the tax charge is calculated may be found in note 6 to the financial statements.

Earnings per share

Adjusted basic and adjusted fully diluted earnings per share have increased significantly to 22.8p and 21.8p respectively when compared to the comparable figures of 15.9p and 15.4p in 2004, as adjusted for the pension credit. The 2004 comparatives including the pension credit were 24.1p and 23.2p respectively.

Table 2: Revenue and Operating Profit before amortisation of goodwill

	Property	Transport & Infrastructure	Environmental	Joint ventures & Associates	Total
2005 Revenue plus share of joint ventures and associated undertakings revenue	£'000	£'000	£'000	£'000	£'000
United Kingdom	84,169	31,527	28,879	11,788	156,363
Mainland Europe	63,440	56,986	13,461	13,069	146,956
USA	34,433	-	875	-	35,308
Africa & Middle East	15,920	5,366	1,100	-	22,386
Asia	4,969	6,493	-	-	11,462
Other	-	1,443	13	-	1,456
	202,931	101,815	44,328	24,857	373,931
2005 Adjusted profit before taxation					
United Kingdom	4,748	1,631	2,378	572	9,329
Mainland Europe	3,031	3,453	723	1,246	8,453
USA	2,383	-	91	-	2,474
Africa & Middle East	1,453	456	49	-	1,958
Asia	(27)	372	1	-	346
Other	-	97	(21)	-	76
	11,588	6,009	3,221	1,818	22,636
2005 Operating margins	5.7%	5.9%	7.3%	7.3%	6.1%
2004 Operating margins	5.1%	5.7%	6.9%	4.5%	5.4%

Table 3: Reconciliation of statutory to adjusted results

	2005 £'000	2004 £'000
Revenue	349,074	302,845
Share of joint ventures and associated undertakings	24,857	19,468
Total	373,931	322,313
Operating profit	20,818	23,769
Add back pension credit	-	(7,018)
Adjusted operating profit	20,818	16,751
Profit before interest and taxation	22,250	24,379
Add back share of joint ventures and associated undertakings taxation	386	235
Add back pension credit	-	(7,018)
Adjusted profit before interest and taxation	22,636	17,596
Profit before taxation	19,822	21,583
Add back share of joint ventures and associated undertakings taxation	386	235
Add back pension credit	-	(7,018)
Adjusted profit before taxation	20,208	14,800
Profit attributable to equity shareholders	13,718	14,507
Add back pension credit, net of taxation at 30%	-	(4,913)
Adjusted profit attributable to equity shareholders	13,718	9,594

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 2.4p (2004: 2.1p) and with the excellent financial performance of the Group during 2005 and having regard to the improvement in net debt the directors believe that it is appropriate to substantially increase the proposed final dividend to 4.0p (2004: 3.2p) giving a full year dividend of 6.4p (2004: 5.3p) representing an increase for the year of 21%. The final dividend will be payable in May 2006.

The proposed total dividend for the year of 6.4p is covered 3.6 times by the profit for the financial year.

Cash flow

We continue to generate significant positive cash flows from our trading activities of £31.9m (2004: £24.0m), and whilst revenue has increased we have effectively managed our working capital requirement.

Expenditure has been carefully controlled during the year and at the end of the year net debt amounted to £32.2m (2003: £45.0m).

The principal cash flow movements during the year are set out in Table 4.

Group Finance Director's Review – continued

IFRS and Accounting Policies

Set out on page 74 of the financial statements are detailed notes on the first time adoption of IFRS and on pages 46 to 48 the accounting policies that have been used in these financial statements.

Pensions

The 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, and in Sweden a proportion of the multi-employer Government scheme is treated as a defined benefit scheme.

Liabilities of £31.0m relating to the defined benefit pension schemes, including the Swedish PRI scheme, have been recognised in full. On the advice of actuaries, pension contributions in the UK have been increased, and at £1.9m significantly exceed the amount charged in the income statement. In accordance with IAS 19, the charge to the income statement which included £1.6m in respect of the Swedish PRI scheme totalled £2.3m, being the accumulation of current service costs, returns on plan assets and interest costs. In 2004, there was a one off pension credit of £7.0m as a consequence of UK pensionable salaries being frozen following consultation with staff.

Current service costs of £1.8m reflect the increase in the pension obligation that results from employee service in the year. The return on plan assets and interest costs are based on actuarial assumptions about the expected financial performance of the funds. These are used to assess the £2.6m return on fund investments, together with interest charges of £3.0m associated with calculating the present value of defined benefit pension obligations that are expected to arise in the year.

Actuarial losses of £10.6m which are recognised in the Statement of Recognised Income and Expense comprise actuarial accounting adjustments for two separate components. Experience gains of £0.2m are the differences between previous actuarial assumptions and what has actually occurred.

M25 Junctions 12-15 widening and Heathrow Spur, UK

Involving some 19km of motorway and link roads, this is the busiest section of motorway in Europe, carrying over 200,000 vehicles a day, and was delivered on programme with minimal disruption to road users.

Table 4: Cash Flow

	2005 £'000	2004 £'000
Operating Cash Flow	31,873	24,021
Closure of currency swap	-	(6,827)
Bank and finance lease interest	(2,428)	(2,801)
Tax	(5,490)	(4,679)
Dividends	(3,386)	(3,082)
Capital expenditure (net)	(7,259)	(5,117)
Acquisitions and disposals of subsidiaries and joint ventures	(3,516)	(2,139)
Currency and other movements	2,988	198
	12,782	(426)
Net Debt at 1 January 2005	(44,996)	(44,570)
Net Debt at 31 December 2005	(32,214)	(44,996)

The second component takes account of the impact of changes to actuarial assumptions which amount to a £10.8m increase in forecast pension scheme obligations.

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 receivables and payables 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. We 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 page 70.

The Future

The financial performance of WSP during 2005 is a reflection of the action taken over the past three years to restructure the business, to control costs and maximise cash flows.

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
9 March 2006

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 6,000 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 is the case 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 & 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

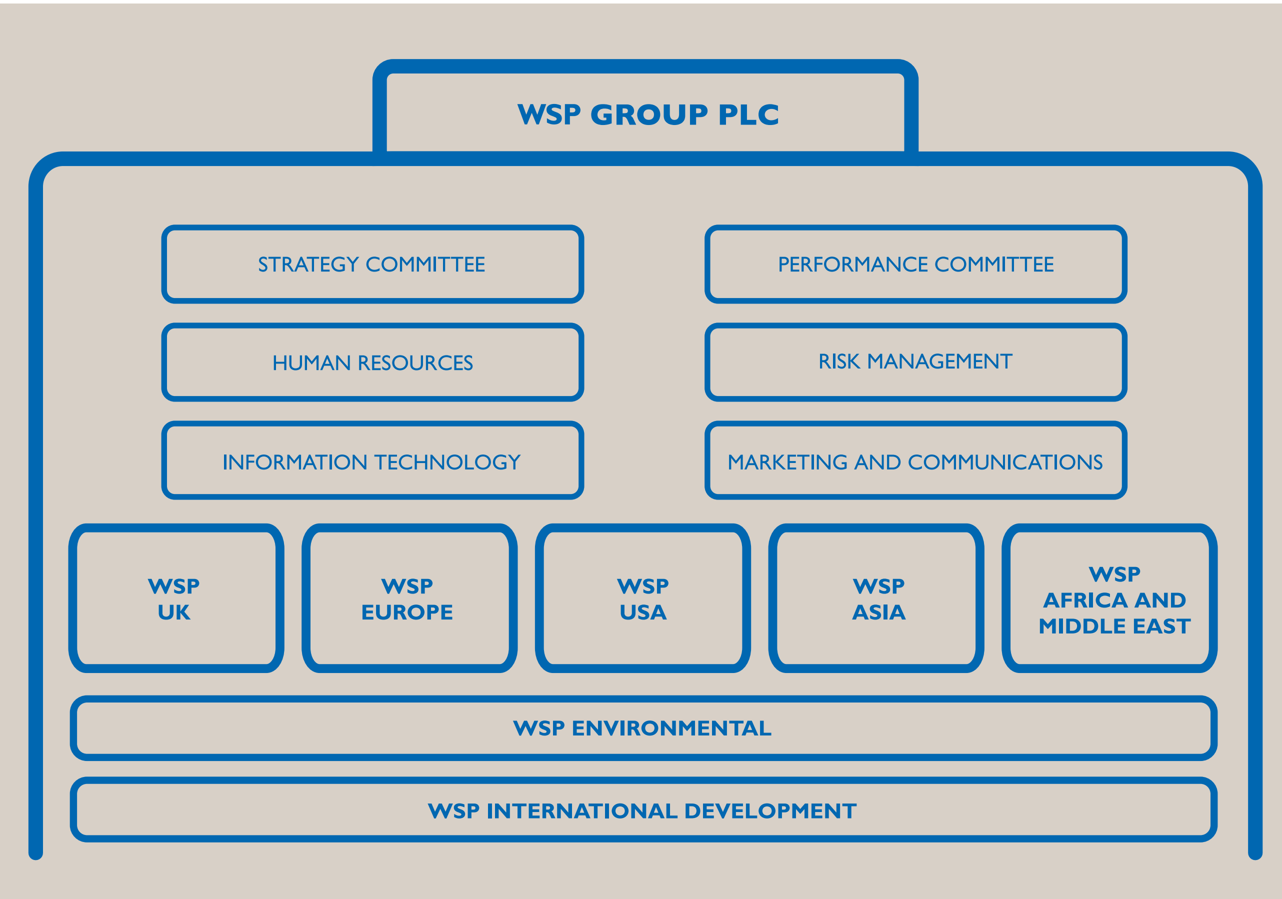
Our largest resource is focused in the UK and Scandinavia where we employ more than 4,500 people who deliver approximately 80% of the Group's revenue from multi-disciplinary services in all sectors.

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. Following an acquisition during 2005, our business in the Middle East has benefited from significant organic growth, as we have leveraged skills and client relationships through cross-selling.

Our principal offices in Hong Kong and Shanghai provide a hub for delivering a broad-based service to the rest of Asia.

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.



United Kingdom

WSP UK	2005	2004
Revenue	£116m	£106m
Staff	1,928	1,731

Our confidence at the beginning of 2005 was well placed. Markets have remained good across all the sectors in which we are active, and we have ensured that the key indicators reflecting the health of our business have improved yet again.

The strategy and business plans put in place during 2005 should result in steady growth over the next four years.

Property

The Royal Bank of Scotland's new World Headquarters building at Gogarburn, Edinburgh was opened by the Queen this year to considerable public and industry acclaim. The project is a world class benchmark and was delivered on budget and ahead of programme thanks to a collaborative team approach by all involved. This success has lead to further RBS commissions for their city centre rationalisation projects in Glasgow, Edinburgh and London, as well as the NatWest branch refurbishment programme.

Early in the year we secured the lead consultant appointment for the redevelopment of Birmingham New Street Station for Network Rail as part of our multidisciplinary framework. The project, known as Birmingham Gateway, is one of the UK's largest transport and regeneration projects with WSP leading the design team which includes one of the UK's leading signature architects, John McAslan + Partners, in developing an outline design that is both affordable and deliverable.

Through the year we reinforced our leading position in the healthcare market with a number of major project successes including the £200m Broadmoor Hospital redevelopment through the Procure 21 procurement process and various PFI schemes at Ipswich and Walsall. We have also acquired Integrated Building Services Design which provides front end added value services to the Local Healthcare Trusts.

We further enhanced our retail reputation with major shopping centre successes including the Dundrum project in Dublin, the Martineau Galleries in Birmingham, the Trinity Quarter development in Leeds with Land Securities, and The Shires in Leicester with Sir Robert McAlpine. We continue to develop close relationships and framework arrangements with many of the leading retailers including Marks & Spencer and Primark.

A key area for future growth is the education sector and we have had major schools success with Midlothian Schools PFI, North Lanarkshire PFI and South Lanarkshire PFI, as well as being invited to join leading contractors' supply chains bidding for Building Schools for the Future projects. The

acquisition of Edunova will also support our focus on this important business area.

Over the year we increased the volume of international work undertaken out of the UK with projects in Russia, Romania, the Middle East, France, Ireland and India where we focused on the higher value front-end and value-added concept design services that international clients and architects are seeking.

We have secured the planning, transport, infrastructure and building design appointment for the next phase of Luton Airport's development with a potential capital spend of £250m. This success capped an excellent year for our aviation team as we now have projects at Heathrow, Stansted, Manchester, Birmingham and Luton, as well as international airports in Budapest, Khartoum and Abu Dhabi. Our involvement at Heathrow Terminal 5 was supplemented by the multidisciplinary engineering appointment by British Airways for their new lounges and ancillary buildings.

Prospects for commercial office work are healthy, particularly in London where rentals are forecast to grow over the next four to five years, and we have secured over 1m sq ft of new office projects for blue chip clients including Hammerson, Land Securities and Canary Wharf.

The outlook is healthy with private sector workload generating increasing opportunities particularly in the retail, office and data centre markets. In the private sector, education will take over from healthcare as the main beneficiary of PFI and PPP funding, and the investments we have made in this sector over the last two years mean that we are well positioned for this shift.

The London economy is predicted to grow at 2.7% per annum between 2005 and 2009, supported by major infrastructure projects including Crossrail, Heathrow Terminal 5 and the Thames Gateway including the Olympics and we are well placed to benefit from this growth.

London Bridge Tower

WSP Cantor Seinuk is structural engineer for the 310m 'Shard of Glass' which will be Europe's tallest building.

Our strong client care culture has generated many international opportunities with global players such as IBM in Sweden, Morgan Stanley in Dubai, Standard Chartered Bank in China and Dubai, Heron in Sweden and Carillion in the United Arab Emirates. With our strong international network and the proactive role played by the UK in exploiting these linkages, we are confident that we are well positioned to exploit growth in global sectors and clients. To underpin future growth we have developed a strategic major bid team that includes a UK Director dedicated to our bidding strategy, with a remit that encompasses not just the bid process but also evaluation of the risk-reward dynamic.

In our drive for higher value, front-end work that complements our core business, we have established a new management consultancy business. This business has grown to around 70 people in four months, delivering high-level advice in the Education and Health sectors. Other clients include the Football Association, where we are working for the lenders on Wembley Stadium.

We aim to further expand the use of our low cost production facility in Manila to reduce our cost base and improve competitiveness.

Transport & Infrastructure

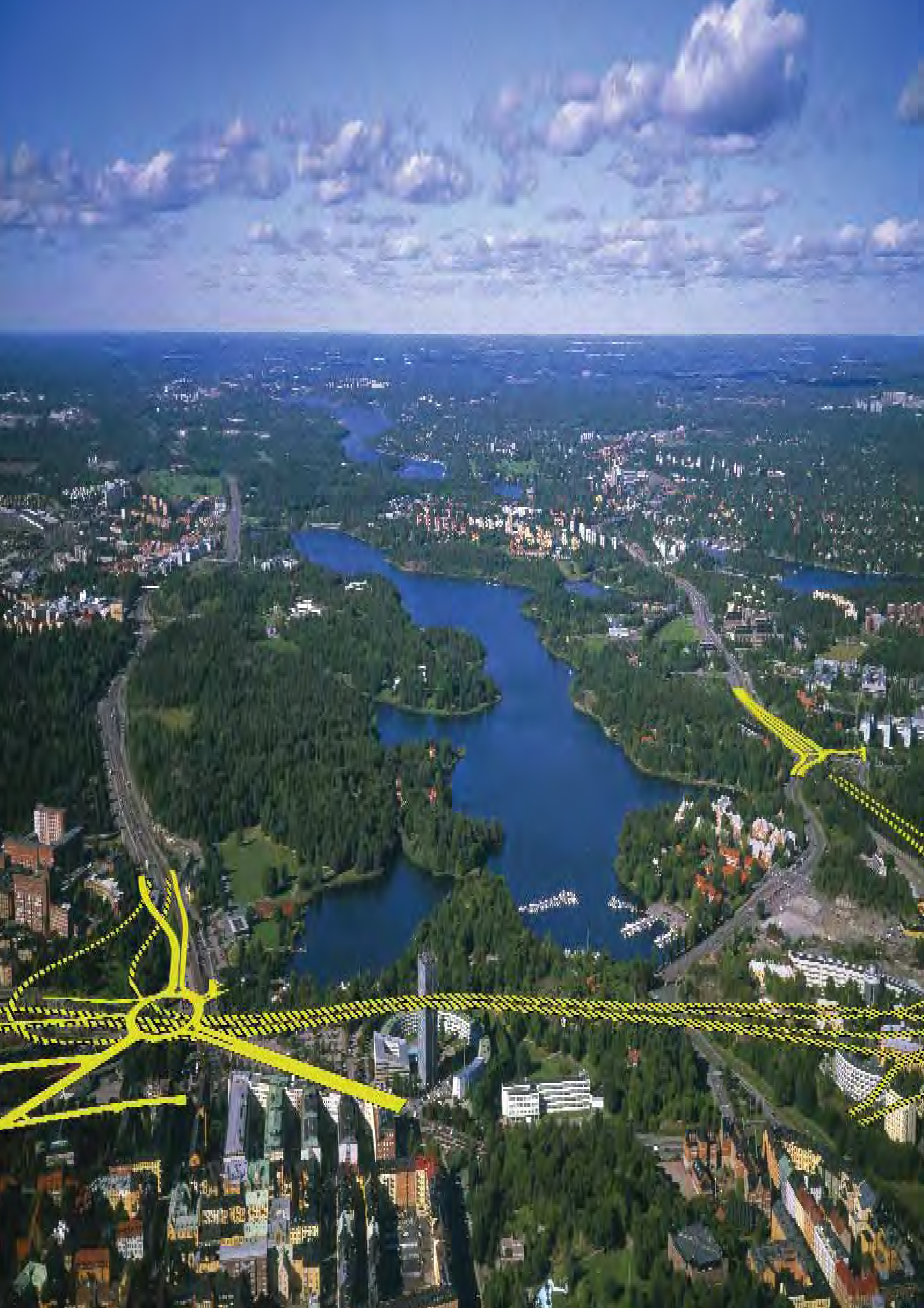
Our Area 12 motorway maintenance project in Yorkshire continued successfully through 2005 and we will be seeking further opportunities of this nature over the next two years. The latest widening of the M25 adjacent to Heathrow was opened by Transport Secretary, Alistair Darling, in December 2005 and we look forward to playing a major role in the next generation of schemes on the M25. We also completed the prestigious Eastern Region Control Centre for the Highways Agency. Our work with Transport for London continues to move forward with the award of the London-wide engineering and project management framework for the next four years.

Our successful partnership with Ryan Hanley in Ireland continues unabated with appointments that include the N5 Charlestown bypass, the N6 Kilbeggan to Athlone, and the N11 Enniscorthy bypass. In Northern Ireland we have been appointed to the Westlink DBFO Package 1.

We have seen our street lighting team grow substantially in 2005, with our latest appointment as PFI adviser to Leeds City Council. Our utility business has been awarded two frameworks with National Grid Wireless.

There will be significant continuing opportunities in our existing core markets of national and local highways and communications infrastructure in the UK and Ireland. We expect the trend towards fewer large providers to continue, particularly in the highways market, and we are developing strategic alliances to maintain our pre-eminent position in this market. We also see opportunities to further extend our penetration of the UK and Irish markets and, for example, are actively targeting the Scottish highways market together with local highways markets.

Whilst operating predominantly in the UK and Ireland, our Civils business will be proactive in using its extensive skills and experience to support the Group's activities in the international market, particularly in Sweden, Romania and the Middle East.



Europe

WSP Europe	2005	2004
Revenue	£120m	£111m
Staff	2,043	1,893

Sweden – Property

The property sector in Sweden has had a successful year, with increased revenue, and effective staff utilisation. Economic conditions have been good, with strong demand and low interest rates stimulating investment.

The industrial sector has seen high levels of investment, with major projects that have included two large pulp and paper mill extension projects for Stora Enso, and projects for the LKAB mining company in Kiruna and Malmberget aimed at increasing the production capacity in their dressing and pellets plants. New projects have also been commenced for the steelworks in Oxelösund, where WSP is the lead engineering consultant, and we have provided road planning, training and environmental services to a new dairy plant in Vimmerby for ARLA.

Our building service division is now well established, with a platform in all regions and improved margins now comparable to our peer group.

During the year, niche acquisitions have included Jet VVS, adding improved coverage of the building services market in northern Sweden, and Device Design which has introduced specialist automotive experience and skills to Gothenburg.

WSP has been appointed to three of the five teams that are competing for the master design of a significant new hospital in Stockholm. In one of the teams, we are co-operating with UK architects Ancher and Dyer. The competition will come to an end late this spring.

Our Fire business is now the leader in its field, and during the year our coverage in the area of risk management has further extended to include designing for more general risks through the acquisition of market leader, Riskteknik AB. The complementary parts of this business are integrating very well across a broad client base.

The residential market has recovered well, aided by low interest rates and high demand for new dwellings, particularly in Stockholm. A number of new residential areas have been designated, opening up new opportunities for our architecture team. Their position has improved following the launch of 'a room with a view', a concept for energy-efficient, high-rise residential buildings. Our team has also been awarded The Glass Prize 2006 for their contribution to Solna Business Park.

While the commercial market has remained relatively static, general improvements in the economy are expected to prompt additional demand in this sector.

The Northern Link, Sweden

WSP is responsible for the design of the ancillary systems such as ventilation, fire safety and traffic management for the 13km of mainly tunnelled roads, that will form this important link.

Sweden – Transport & Infrastructure

The market for Transport & Infrastructure continues to be good and we continue to strengthen our position as the clear market leader in this sector, working for both the Swedish National Rail Administration and the Swedish National Road Administration.

Our diversified position as market leader in all our regions places us in a strong position in the event of a shift in the market. We are also well placed to develop into the newly opened up markets in Eastern Europe, which will require expertise in rail and road planning and design.

Major rail projects, which include the Western Link in Gothenburg and the Botnia Line in the north, are progressing well. We have also been appointed for the conceptual design to extend the Svealand Line between Stockholm and Arboga, intended to improve the line capacity, as well as the Ådal Line between Bollstabruk and Nyland, for renewal of a section of the railway in central Sweden.

Major road projects include the Northern Link, a new highway in Stockholm that aims to relieve local traffic pressure in Stockholm, the E6 highway between Lugnet and Vik on the west coast, and a large design project for Road 55 in central Sweden.

The acquisition of Transek AB followed the acquisition of Inregia in 2004 and introduces to the Group a specialist team of analysts in the transport sector, with clients that include the Swedish National Rail and Road Administrations. The combined Inregia and Transek team moves WSP radically up the value chain and is now well positioned to develop further in the wider European market. Most recently, they have had a significant involvement in the project to introduce congestion charging to central Stockholm later in 2006. A connected acquisition in the area of Distribution and Logistics has also introduced new knowledge and skills in route-mapping and planning for the distribution sector.

WSP Sweden International AB won a significant project in Libya, over a five-year project for the urban development of, and water supply to, the western part of Libya that includes the Tripoli region.

Finland

WSP now has a strong presence in the country, with nearly 300 staff working accross multi-disciplined services. Operating through WSP ConsultingKortes and WSP LT Consultants, significant projects included the completion of Finnforest's wooden modular office, the biggest wooden commercial office building in Europe, the Binh Bridge in Haiphong, Vietnam, which was opened in May, and the Chenab Bridge in India which will be the longest single arch steel railway bridge ever built. Within Finland, our Transport & Infrastructure team has completed some large assignments during the year that have included the road plan of the Lappeenranta - Imatra motorway section of Highway 6, and construction design of the Lohjanharju-Lohja section on motorway number 1.

We have also secured long-term partnership agreements with major cities including Helsinki, Espoo and Oulu, and been awarded many new projects including the Salmisaari district of Helsinki municipal planning assignment and a number of medium-sized road-planning assignments for the Roads Authority.

Operational Review – continued

Poland

In Poland we have had another good year, working in the commercial, residential, aviation and leisure sectors. Our clients, although predominately private investors, include local municipalities and other public sector clients, with projects including the opera house in Bialystok and an airport terminal in Modlin.

Germany

With a presence in Salzgitter, Berlin and Moenchengladbach, and most recently Hanover, WSP Consult serves its biggest client Defence Estates, which represents 75% of our revenue in Germany. During the year we have diversified the business, with increased revenue and profits coming from the commercial and retail sectors.

Norway

Our associate company, Multiconsult, has enjoyed high levels of activity in all areas of the business. With capabilities in property, industry, oil and gas, transport & infrastructure, environmental, energy and natural resources, revenues and profit have been very satisfactory. Oil and gas has enjoyed a high level of activity that includes an appointment on the Ormen Lange oil and gas plant, believed to be the biggest industrial project in Europe. There has also been substantial activity in the energy sector, particularly exporting expertise in hydro power plants. International revenues now account for some 15% of Multiconsult's total revenue.

Hearst Headquarters, New York

Both WSP Cantor Seinuk and Flack + Kurtz collaborated on this distinctive 46-storey office tower that will be one of the first to be awarded the LEED® Gold certification by the United States Green Building Council.

United States of America

WSP USA	2005	2004
Revenue	£34m	£25m
Staff	405	354

Flack + Kurtz

Market conditions in the USA in 2005 showed significant improvement over 2004. Continued strength in the housing market, particularly high-end condominium and hotel high-rise projects, added significantly to our order book. In addition to further gains made in the research laboratory market sector, our New York office benefited from starting work on a major mixed-use project for MGM Mirage in Las Vegas. Our San Francisco office later succeeded in securing an extension of the same project. In Seattle, our presence is increasing as the office continues to grow. We are starting to see a pick-up in the commercial market sector, with build-to-suit and speculative office building projects being proposed. Revenue from Asian based projects has increased, with limited engagement design contracts executed in both the San Francisco and New York offices.

New project wins in 2005 bolstered our order book to an all-time high, with high volume expected to persist throughout 2006. Among the larger commissions secured are the Metro Center II located in Connecticut; the UC Berkeley Cal Memorial Stadium; Anaheim Hotel and Condominiums; the Walt Disney Family Foundation Museum and Library at the Presidio, Plaza Hotel renovation; the State Library and Courts Renovation in Sacramento; the Jacob K. Javits Convention Center expansion and renovation and various embassies around the world.

Due to our high volume of work in Las Vegas, we have opened an office there and are starting to relocate staff to develop and grow the office. In addition to the CityCenter project in Las Vegas, we are working on the Hard Rock Hotel and Casino expansion, a new corporate office building for Molasky Development, and several residential/hotel high-rise projects.

WSP Cantor Seinuk

The improvement in market conditions seen during 2004 continued throughout 2005, resulting in WSP Cantor Seinuk achieving record revenues. The residential market provided a significant amount of the increase, remaining buoyant despite further interest rate rises. There are no signs of a slowdown at present, and this is reflected in our order book which doubled during the year to an all-time high.

The order book has also been bolstered by work beyond the residential sector - during the year we were appointed to the Shea Stadium for the New York Mets baseball team, the renovation of the Plaza Hotel, New York and the mixed-use Grand Avenue project in Los Angeles, amongst others. We have also won a number of appointments with signature architects, many for the first time, including Frank Gehry with whom we are working on the Beekman Tower in New York.

Work continues on the Freedom Tower and we have also been commissioned by Silverstein Properties, Inc. as structural engineer for the third World Trade Center tower to be constructed since 9/11. Located at 200 Greenwich Street, the sixty-five storey commercial tower, with Foster & Partners as the architect, will contain 2.4 million square feet of office space as well as approximately 130,000 square feet of retail.

Our continued efforts to produce innovative yet economically sound designs were again rewarded as Dr Ahmad Rahimian was awarded the Civil Engineering Research Foundation's (CERF) Charles Pankow Award for Innovation for the Torre Mayor tower in Mexico City.

We have been working in collaboration with the Group in the UK and on a number of prestigious projects in the United Arab Emirates which include a 70-storey tower in Sharjah and a further one in Burj Dubai.

An increasing demand for our services on the West Coast has led us to open an office in Los Angeles in 2006.

Africa and the Middle East

WSP Africa and Middle East	2005	2004
Revenue	£21m	£13m
Staff	588	370

Africa

Our businesses in Africa continued to flourish in 2005. For the third consecutive year, we saw in excess of 20% growth in revenue. We were able to capitalise on a buoyant economy, lower and more stable interest rates, and a stronger and more stable currency.

We managed to achieve growth 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, and have diversified the range of civil engineering services that we offer. These additional services set us apart from our competitors.

We have recently completed a number of prestigious projects, including the 22-storey, mixed-use Michelangelo Towers in Sandton, Johannesburg and extensions to the Aspen Pharmaceuticals manufacturing facility in Port Elizabeth. This is the first facility to be licensed to manufacture generic anti retro-virals, and we received the South African Association of Consulting Engineers Award for Engineering Excellence for this project. Acting for the Gauteng education department, we were responsible for all engineering services for the Sci-Bono Science Center.

We have recently completed the first phase of the refurbishment of the National N3 Highway between Johannesburg and Durban.

Our recent appointments include the Dakar Hotel in Senegal; the Ikoyi Towers, a 300 room luxury hotel and a twin block of 300 residential apartments in Lagos, Nigeria; a large distribution centre and cold room facility for Spinney's in Dubai; the Caudin Bassin Retail Centre in Port Louis, Mauritius and the new 50,000 sq m Standard Bank regional Head Office in Durban.

We have established a new business in Tanzania and are currently opening a business in Kenya. We have been particularly pleased at the increased number of project awards in the rest of Africa which, together with the growing number of multi-disciplinary project awards, are improving our market share. Once again, we saw extensive co-operation between WSP Africa and other WSP regions. WSP has continued to be active in Corporate Social Investment Projects and initiatives in Africa.

The economy remains buoyant and it has received a further boost with the award of the 2010 Soccer World Cup, which will create further opportunities for our business. Our order book for 2006 is stronger than ever and is well balanced across the public and private sectors.

City of Arabia, Dubai

WSP is providing multi-disciplinary services for the City which will include the world's largest shopping mall together with extensive residential and leisure facilities.

Middle East

Following the acquisition of the PHB Group and through organic growth, WSP is well placed as one of the top engineering consultants in the Middle East. This year, we have worked on major developments in Dubai including City of Arabia, Motor City, Sports City, Dubai Festival City, Dubai Healthcare City and Dubai International Financial Centre with an approximate construction value approaching US$2 billion.

Work has now started on site on City of Arabia, our largest project, with a construction value in excess of US$1 billion, and design should reach completion by the middle of 2006. Our scope includes the Mall of Arabia, Wadi Walk Apartments, Restless Planet and the Elite Towers.

Our largest completed project to date, the Mall of the Emirates, opened in September 2005 to considerable acclaim and we are very proud to have been associated with this landmark development.

Major project wins have ensured continued growth of the business and provided a strong order book for 2006. These include high-rise towers at Park Plaza and the Ajman Corniche Development, UP Town residential development in Motor City and a number of retail projects at Dubai Festival City. Our clients include Union Properties, The Ruler of Sharjah, The Ruler of Ajman and I&M Galadari.

Specialist engineering services from other WSP companies have been introduced into the region and we see this continuing; in particular, WSP Cantor Seinuk's and Flack + Kurtz's high-rise expertise.

Following the phenomenal growth in Dubai, surrounding regions are showing the beginnings of similar growth. To capitalise on this, WSP Middle East will be opening offices in Abu Dhabi and Doha during 2006, which builds upon the projects in which we are already involved, including Etihad's Interim Terminal and the Sector E35 multi-use development in Abu Dhabi, the Al Shaqab International Equestrian Centre in Doha and involvement in Qatar Petroleum's new city at Ras Laffan.

We are also setting up an off-shoring facility in Delhi to assist growth in the region.

To manage the growth in staff numbers within the Dubai market, we will be moving into new offices in Dubai this year where our full range of services covering building design, environmental, infrastructure and transportation will be integrated in one location.

As the Middle East grows as both a leisure and commercial destination, we are increasingly developing our existing relationships with global organisations such as Morgan Stanley and Standard Chartered Bank.


W F P

Asia and International Development

WSP Asia and International Development	2005	2004
Revenue	£14m	£12m
Staff	327	252

WSP Asia

Progress has been made in our Asia operations during the year. Despite the difficult market positions in the region, we have increased revenues and, with new management in place, we have also achieved an improvement in our project performance and work-winning during the year.

We have maintained our presence in Hong Kong during the year and made progress in delivering some major projects including hotel refurbishments, design for developments at Hong Kong International Airport, together with engineering designs for projects in the Middle East, China and Macau.

During the year, we increased our presence in China and opened new offices in Beijing and Shenzhen to supplement our Shanghai operation. Whilst we continue to work predominantly on building projects, we have also started to develop infrastructure projects. Currently, we are working on two major on-going projects in China, one for the integrated engineering design of a Business Park development in Shanghai, and the other for the design of a new river course and bridges in Hainan.

Our office in Manila continues to expand, delivering projects in the Philippines including a major hotel in Boracay, and residential towers in Manila, as well as providing design support to our UK and USA operations. In Vietnam, we have been commissioned to deliver three high-rise building projects.

We expect the improvement of our operations in Asia to continue, maintaining our presence in Hong Kong and expanding our businesses in China and the Philippines. We have an improved new management team in place and an increased order book. We expect to continue to support increasing Group activity in the region.

Kabul-Torkham Highway, Afghanistan

WSP has been appointed by the Swedish International Development Cooperation Authority to design and supervise the reconstruction of 221km of highway forming part of the route from Kabul to the port of Karachi in Pakistan.

International Development

2005 was another successful year for our development assistance business, a year in which we integrated our two aid businesses in Sweden and the UK, strengthened our staff resources and capabilities, expanded our geographical markets and diversified into new markets.

Notable project wins include construction supervision of the trunk road expansion programme in Trinidad; the electrification and upgrading of sections of the Svilengrad Railway between Bulgaria, Turkey and the Middle East; construction supervision of the Jõhvi-Tartu-Valga road in Estonia which forms part of the Trans-European Transport Network (TEN-T); developing a road management and financing plan in the Ukraine; technical assistance for supervision works for the improvement of the border access infrastructure in Romania; construction supervision of the Motorway from Novi Sad to Belgrade in Serbia; the road safety audit of 600km of expressway in India; institutional strengthening and capacity building for the Ethiopian Roads Authority; organisational development and change management of Yemen Customs Authority; developing a road sector policy and master plan for Jamaica; and an institutional study of the Ministry of Roads and Transport in Ghana.

The India office continued to expand during 2005 and is pursuing significant private sector development and build-ings opportunities, some of which we expect to secure in the coming months.

Our future strategy is one of growth, diversification and balance: we will continue to grow our existing core businesses in engineering, institutional development and management in the road and highway sector; strengthen our public sector reform business; diversify to develop our business in infrastructure economics, maritime and rail businesses; and get a better balance across the public and private sectors and developed and developing countries.

Environmental

WSP Environmental	2005	2004
Revenue	£44m	£36m
Staff	639	572

WSP Environmental, in their tenth year of operation, has delivered another year of strong organic growth in both revenue and profit. As we emerge into one of the truly global companies in this sector, our penetration of the global market with blue chip corporations continues and this is delivering both margin improvement and order book resilience. We are very pleased to have opened new offices in Milan, Paris, Bucharest, Hong Kong, Shanghai and Beijing, and our embryonic Australian business is presenting significant investment opportunities for us in this region. With the launch of our new German business early in 2006, we now have a permanent presence in 17 countries. In addition to a sharp increase in international framework commissions, we are leveraging value from lower cost resource bases and have a particular focus on India in support of our Middle Eastern interests.

The management team of WSP Environmental continues to strengthen and diversify. We have also continued to build teams with some of the world's leading experts to create a dynamic, energetic and entrepreneurial culture. During 2005 we built on the commitments we have previously made and increased our profile of industry-leading staff, recruiting from a wide range of backgrounds including major industrial, financial, management consulting and engineering organisations.

The UK remains a strong market and one in which we continue to grow and take market share. The emergence of our global due diligence team has been particularly notable. Projects have included vendor due diligence to support one of the largest commercial property transaction in UK history, for which WSP Environmental advised Abbey National Plc during the sale of its portfolio of 128 commercial properties to ING Real Estate Investment Management (UK Funds) Ltd for approximately £1.2 billion. We also assessed the Vendex KBB retail

Environmental

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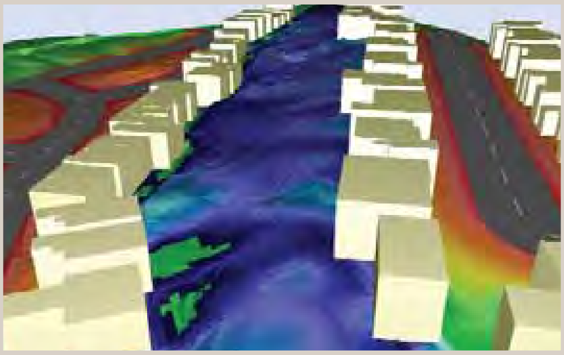

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1. WSP Environmental is involved in energy efficiency projects across the world.
2. Environmental due diligence reporting included one of the largest commercial property transaction in the UK for Abbey National plc.
3. The School of Business, Ithaca College, New York commissioned WSP to develop and design this building that will incorporate sustainable design principles in order to exemplify the school's commitment to sustainable development.
4. WSP is setting standards for environmental performance in Middle East power stations.
5. Cutting edge acoustics noise mapping techniques are used by our global acoustics team.
6. Our geotechnical teams remain at the forefront of the industry across Europe.

Operational Review – continued

portfolio in the Netherlands on behalf of KKR and Cinven - one of the largest property transactions in Dutch corporate history. Major projects in the area of environmental planning included the redevelopment of Birmingham Gateway and an assessment of the electricity infrastructure in Scotland to ensure that renewable energy can be transmitted effectively. Our sustainability and energy design specialists are working on a variety of innovative low carbon solutions for major capital projects worldwide and closer to home are assisting our London based developers to meet the new planning requirements for on-site renewable energy.

Our acoustics team, which is one of the largest acoustic teams globally, has used advanced modelling methods to produce a noise map of Cardiff for the Welsh Assembly. The same team is also contributing to a new noise management guide on behalf of the Department for Food Environment and Rural Affairs.

Also in 2005, WSP Environmental secured much of the first national industrial symbiosis programme in the world. The programme facilitates links between industries from different sectors to create sustainable commercial opportunities and improve resource efficiency. We are running three regions of this groundbreaking nationwide programme.

In Sweden, our business has been particularly pleasing, with strong growth in profits and margin improvement in line with our stated aims for this part of our business.

Our market leading experts have won two major research projects for the Swedish Environmental Protection Agency.

The Nordic region is recognised as an extremely innovative region of the world for environmental technology and energy solutions, and our strength in this area is allowing us to export this knowledge to the benefit of clients in other parts of WSP. Notable activity has included market leading carbon trading advice for Eesti Energia and, in Finland, our colleagues have project managed the move of a power station from China to Vietnam. WSP have been commissioned by Ökotec Management Gmbh to screen the southern parts of Sweden for suitable sites for wind energy generation using computer mapping

We are providing project management, investigation and remedial design for the remediation of 12 petrol stations for the Swedish Petroleum Institute's Environmental Cleanup Fund. We are also undertaking remediation design and supervision on a site that will form part of the 2012 Olympic site in London.

Increasingly we are benefiting from the trend to outsource Environmental, Health, Safety and Social Responsibility functions. We are also proud to be delivering the UK's National Industrial Symbiosis Programme (NISP) across a number of regions.

Our North American business made some very pleasing advances and is now a leading environmental consulting business in the technology sector. The relationship between our North American team and some of the world's best known technology brands such as Seagate Systems, Lifescan and Harris goes from strength to strength.

In Italy, we have seen contributions towards our developing track record in the oil and gas sector, which sees Exxon Mobil, Eni, Petronet, Sasol and Statol amongst our global clients. It is also very satisfying to have been awarded the contract to provide a technical and environmental assessment for the largest domestic oil and gas field in Yemen by the Ministry of Oil and Minerals.

We have seen strong performance from our rapidly growing Middle East business. In Saudi Arabia we have undertaken an Environmental and Social Impact Assessment for the Shuaibah Independent Water and Power Project. The project received Royal approval from the Presidency of Meteorology and Environment (PME) as a new benchmark for assessment of power and desalination plants in Saudi Arabia. We have also supported PME by providing strategic review and capacity building advice to support the transition of the organisation into a world class regulator.

New leadership is strengthening our business in Poland, with a project award to develop the first National pollution register for Polish industry representing a high profile and prestigious contract in this region.

In South Africa, we have been appointed as Independent Environmental Auditor on the Gautrain Rapid Rail infrastructure project in the Gauteng Province, a highly prestigious project which must be operational in time for the 2010 Soccer World Cup.

Our long track record with the mining industry in South Africa continues to deliver success and our business is a centre of excellence in this challenging sector. Our clients include Anglo-Gold and Anglo-American, and we have worked across South Africa and Namibia on a variety of high profile sites.

Our interests in Asia, particularly those in China, have rapidly begun to deliver upon their early potential. We have strengthened our presence with the introduction of a new leader for our Environmental Planning Services in Beijing and additional senior recruitment to direct our Energy and Environmental Design Services in Hong Kong.

We are global leaders in sustainable master planning, embracing energy, water, waste, air quality and transportation, and have been active with the high level design of a 13km waterway linking a development at Sayna in China to the sea. We have also acted as advisors to William McDonough & Partners on the sustainable master planning and infrastructure strategies for the new city of Miyun in China.

We are well set to take a leading position globally in Environmental, Health, Safety, Social Responsibility and Energy Consulting alongside our specialist Remediation services. Our international network of offices will develop rapidly over the next five years and we anticipate strong growth in all sectors.

Board of Directors

from left to right

Christopher Cole CEng FCIBSE MASHRAE

Chief Executive

Age 59, 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: 928,777

Malcolm Paul FCA

Group Finance Director

Age 54, 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 Group Finance Director of WSP in 1987. He is a principal member of the performance and strategy committees. Malcolm maintains links with the Group's professional advisers and is responsible for the financial control of the Group.

Shareholding: 842,976

Thomas Erséus MSc CEng

Executive Director and Chairman of WSP Europe

Age 42, 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 Associated Company, Multiconsult Holdings AS and holds two non executive appointments with Hagstromer & Qviberg AB and DSV Miljo AS.

Shareholding: 352,200

Stuart McLachlan MSc

Executive Director and Managing Director of WSP Environmental

Age 38. Having worked both as a practising Environmental Consultant and a Manager of a London based Environmental and Testing firm, Stuart joined WSP in 1995 to be responsible for the start-up of the Environmental business. He became Managing Director of WSP Environmental UK in 1997, and in 2001 he was appointed Managing Director of WSP's global Environmental business. Stuart was appointed to the board of WSP Group plc on 1st January 2006 and retains responsibility for the development of the Environmental business while undertaking a wider Group role.

Shareholding: 4,214

David Turner **FRICS**

Non-Executive Chairman

Age 68, 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: 12,282

Christopher Stephens **MA**

Independent Non-Executive Director

Age 57, 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 2004 he was the Group Human Resources Director of Exel plc (now DHL), the global logistics company. He is a Civil Service Commissioner and holds a number of non-executive positions. Chris is the senior independent non-executive director and chairs the WSP Remuneration Committee.

Shareholding: 7,610

Marisa Cassoni **BSc ACA**

Independent Non-Executive Director

Age 54, Marisa was appointed to the board on 1 January 2006. She is a chartered accountant who was until recently Group Finance Director of the Royal Mail Group, having formerly been Group Finance Director of Britannic Assurance plc. Marisa is a member of the Accounting Standards Board, and a non-executive director of Severn Trent plc and GFI Group Inc. Marisa chairs the Audit Committee.

Shareholding: Nil

Mark Rollins **BEng ACA**

Independent Non-Executive Director

Age 43, Mark was appointed to the board on 1 January 2006. He is a chartered accountant, and has been Group Finance Director of Senior plc since 2000. He was formerly with The Morgan Crucible Company plc and, before that, with BDO Binder Hamlyn.

Shareholding: Nil

Ernest Sheavills **FRICS ACI Arb**

Independent Non-Executive Director

Age 60, Ernest was appointed to the board on 1 January 2006. He is a chartered surveyor who until his recent retirement was with The Royal Bank of Scotland as Director, Property Development and Asset Management, a position that he held since 1992. He maintains a close involvement with many national and international property organisations.

Shareholding: Nil

Performance Committee and Company Secretary

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01 Rikard Appelgren MSc
Managing Director WSP Sweden
Age 40. 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 Siv Axelsson MBA
Group Human Resources and Communications Director
Age 52. 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.

03 Andrew Mather
Pr Eng, BSc Eng B Com
Managing Director WSP South Africa
Age 47. 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.

04 Randy Meyers PE
President and CEO Flack + Kurtz Inc.
Age 49. Originally specialising in Electrical Engineering, Randy joined Flack + Kurtz in 1984. He was appointed President and CEO of Flack + Kurtz in 2002.

05 Mike O'Brien C Eng
Managing Director WSP UK
Age 58. 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.

06 Graham Bisset BAcc CA
Company Secretary
Age 43. Having qualified as a Chartered Accountant with KPMG, Graham joined WSP in 1993. Appointed Company Secretary in 2005, he has had broad responsibilities throughout the Group for corporate governance, risk management, systems implementation and financial management.

Directors' Report

The directors have pleasure in presenting their report together with the audited financial statements for the year ended 31 December 2005.

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 income statement account on page 42.

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 8 to 11.

Dividends

The directors propose a final dividend of 4.0p (2004: 3.2p) net per share which, together with the interim dividend of 2.4p (2004: 2.1p) net per share paid in October 2005, gives a total dividend of 6.4p (2004: 5.3p) for the year. If approved at the Annual General Meeting, which is convened for 3 May 2006, the final dividend will be paid on 12 May 2006 to shareholders on the register of members at the close of business on 18 April 2006. The shares will be ex dividend from 12 April 2006.

In accordance with International Financial Reporting Standards, which require that only those dividends paid in the year be included in the profit and loss account, the dividend charge in the accounts for the year ended 31 December 2005 reflects dividends paid during the year totalling 5.6p (2004: 5.1p) net per share.

Acquisitions

During the year the Group made a number of acquisitions, details of which are set out in note 20 to the financial statements.

Share Capital

During the year the Company has issued the following ordinary 5p shares:

	Issue Price	Ordinary 5p Shares
Issued share capital at 1 January 2005		60,458,607
Shares issued during the year:		
The WSP 1997 Savings-Related Share Option Plan options exercised	300p	25,003
The WSP 1997 Share Option Plan options exercised	91p – 268p	42,571
Issued share capital at 31 December 2005		**60,526,181**

At the Annual General Meeting held on 3 May 2005 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 £477,070 (9,541,393 shares) 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 £151,146 (3,022,920 shares).

Similar resolutions will be proposed at the forthcoming Annual General Meeting on 3 May 2006.

Additionally, the following resolutions will be put to the Annual General Meeting concerning the following:

- To approve an increase in the authorised share capital of the Company from 70,000,000 to 100,000,000 ordinary shares of 5p each.
- To approve the adoption of the 2006 Performance Share Plan to replace the 1997 Performance Share Plan.

Full details of the Annual General Meeting resolutions are included in the separate circular and notice of Annual General Meeting sent to shareholders.

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's common databases, the intranet and other staff communication.

Directors

The directors who served during the year were:

David Turner	*Chairman*
Christopher Cole	*Chief Executive*
Malcolm Paul	*Group Finance Director*
Thomas Erséus	*Executive Director*
Christopher Stephens	*Senior Independent Non-executive Director*
Caroline Brown	*Independent Non-executive Director (resigned 31 December 2005)*

The following directors have been appointed following the year end:

Stuart McLachlan	*Executive Director (appointed 1 January 2006)*
Marisa Cassoni	*Independent Non-executive Director (appointed 1 January 2006)*
Mark Rollins	*Independent Non-executive Director (appointed 1 January 2006)*
Ernest Sheavills	*Independent Non-executive Director (appointed 1 January 2006)*

In accordance with the Company's Articles of Association, Christopher Stephens will retire by rotation at the Annual General Meeting and, being eligible, offers himself for re-election. During the year, Christopher Stephens has undergone performance evaluation and continues to contribute effectively and demonstrates commitment to his role. Stuart McLachlan, Marisa Cassoni, Mark Rollins and Ernest Sheavills, having been appointed since the last Annual General Meeting will retire and, being eligible, offer themselves for re-election. Stuart McLachlan has a service contract with the Company that requires a one-year rolling notice period. Non-executive directors are appointed for a three-year period, which may be terminated by three month's written notice given by either party

Biographical details of all directors are set out on pages 26 to 27, and details of directors' interests in shares and share options are set out in the Remuneration Report on page 40.

Other than their service contracts, no director had a material interest in any contract of significance to the Group's business. Christopher Cole is a non-executive director of Ashtead Group plc, David Turner is Vice Chairman and Deputy Pro-Chancellor of the City University and a director of the Royal Mail Group Property Board. Caroline Brown was director of Finance Change with Norwich Union Insurance. During the year these businesses have occasionally procured services from the Group, and the Group has procured goods or services from these companies. These contracts are conducted on an arms length basis, without the involvement of the relevant director. The Company maintains 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. The Corporate Responsibility Report which may be obtained on request from the Company, and is available on the website, www.wspgroup.com, provides further details of employees and employee relationships.

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 for the year ended 31 December 2005 was 51 days (2004: 52 days).

Donations

During the year the Group made charitable donations of £237,556 (2004: £31,127) principally to local charities and foundations serving the communities in which the Group operates. No political donations were made (2004: £Nil).

Corporate Responsibility including Social, Environmental and Ethical risks

The Company has published a separate report on Corporate Responsibility which may be obtained on request from the Company and is available on the website, www.wspgroup.com.

The directors believe that only by ensuring effective relationships with all our stakeholders can WSP deliver long term value and satisfaction to its shareholders. The Group has established systems of Corporate Governance in line with the Combined Code as set out on pages 32 to 36. The Board takes account of risk 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 37 to 40, 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 33 of the Corporate Governance Report includes consideration of significant SEE risks.

Substantial shareholdings

At 9 March 2006 the directors had been notified of the following substantial interests in the ordinary share capital of the Company:

	Number of Shares	Percentage
Henderson Global Investors	4,454,388	7.4%
Aviva plc	3,604,198	6.0%
Standard Life Investments Ltd	2,996,517	5.0%
Barclays PLC	2,578,371	4.3%
Legal & General Group plc	1,829,102	3.0%

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 that the financial statements comply with International Financial Reporting Standards
- Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group will continue in business.

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 and 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 41.

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

Graham Bisset
Company Secretary
9 March 2006

Corporate Governance Report

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
- to 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 26 and 27, during 2005 the Board comprised the non-executive Chairman and three executive directors together with two independent non-executive directors. 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. With effect from 1 January 2006, the Board has been enlarged and comprises the non-executive Chairman, four executive directors and four 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, Marisa Cassoni, Ernest Sheavills and Mark Rollins to be independent non-executive directors. Prior to her resignation, Caroline Brown was considered to be independent. Christopher Stephens is the senior independent non-executive director.

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 delegated to 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 (11)	Audit Committee (3)	Remuneration Committee (4)	Nomination Committee (4)
David Turner	11	–	–	4
Christopher Cole	11	–	–	–
Malcolm Paul	11	–	–	–
Thomas Erséus	10	–	–	–
Christopher Stephens	11	3	4	4
Caroline Brown	11	3	4	4

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 33, 36 and 37 respectively. The committees' terms of reference, together with directors' service contracts, are available for inspection at the Company's registered office during normal office hours.

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.

As required by the Combined Code, the Board has a process to formally evaluate its own performance and that of its Committees and individual directors. In 2004, questionnaires were used to create an evaluation structure, helping to identify objectives and stimulate discussion. The performance of the Board and its Committees has been the subject of ongoing discussions during the year, with a number of the identified objectives have been delivered. The evaluations of the Board, its Committees, and individual directors have been the subject of continuous review. Through this process, led by the Chairman, effectiveness has been evaluated, and performance and commitment have been addressed.

The individual performances of the Chairman, the Chief Executive, the other executive directors and the independent non-executive directors have all been reviewed 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. 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, directors are required 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 re-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 30. Biographies of each of the directors are set out on pages 26 and 27.

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 on four occasions during the year, comprised the Chairman of the Board, David Turner (Committee Chairman), and the 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. From1 January 2006, the Nomination Committee comprises the four independent non-executive directors along with David Turner, the Committee Chairman, and Christopher Cole.

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 also 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.

During the year the Nomination Committee made recommendations to the Board regarding the appointment of Stuart McLachlan, Marisa Cassoni, Ernest Sheavills and Mark Rollins to the Board. In accordance with the Committee's terms of reference, it developed proposals to the Board, that included the likely capabilities of suitable candidates and the likely time commitment. As regards the non-executive appointments, these proposals were put to an external search consultant which was engaged to advertise the positions, conduct initial interviews and provide advice on the proposed appointments.

Remuneration Committee Report

A report on executive directors' remuneration and the activities of the Remuneration Committee is set out on pages 37 to 40.

Audit Committee Report

The Report of the Audit Committee on page 36 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 control 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 representatives of the environmental businesses in its key 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 of the key subsidiary operations in the USA and the rest of the world.
- 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 reporting and 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, key risks are prioritised.

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 the Group's 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 Group, 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 12 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 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. Where it is considered appropriate, the Board has consulted with institutional shareholders on matters such as directors' remuneration.

Corporate and financial presentations are regularly made to fund managers, brokers and the media, particularly when interim and final results are announced. 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 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 one 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, including shareholder information and copies of regulatory announcements can be accessed 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 – 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 Audit Committee, which met three times during 2005, comprised the two independent non-executive directors, Caroline Brown as chairperson and Christopher Stephens. Caroline Brown is a finance professional, and her understanding of corporate financial matters brought recent and relevant financial experience to the Committee. From 1 January 2006, the committee has comprised Marisa Cassoni (Chairperson), Mark Rollins and Christopher Stephens. Both Marissa Cassoni and Mark Rollins are finance professionals with recent and relevant financial experience. Where appropriate, the Committee consulted with the Chairman of the Board, the Chief Executive and the Group Finance Director in its deliberations and in developing proposals. The Chairman, Executive Directors and Group Financial Risk Manager are invited to meetings of the Committee for parts of the agenda. The external Auditors also attended two of the meetings during the year, and a portion of their time is 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 monitored and was 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 benefit at this time, although the potential requirement 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 ('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 4 on page 53. 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.

Marisa Cassoni

Marisa Cassoni
Chairperson of the Audit Committee
9 March 2006

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 Remuneration Committee, which met four times during the year, comprises two independent non-executive directors, Christopher Stephens as chairman and Caroline Brown. Following Caroline Brown's resignation on 31 December 2005, Marisa Cassoni and Ernest Sheavills have been appointed to the committee. Where appropriate, the Committee consults with the Chairman of the Board and the Chief Executive regarding its proposals.

Remuneration Policy (unaudited information)

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, three of the executive directors have very significant beneficial holdings of WSP shares and as such their interests are closely aligned with other shareholders. The Board proposes to introduce a policy requiring executive directors to build and maintain a minimum shareholding that is linked to their level of remuneration. Under this policy, it is anticipated that directors will be required to build their holdings by investing a sum at least equivalent to 50 per cent of their after tax annual bonus, until such time as they establish the requisite holding.

During the year, the Remuneration Committee appointed New Bridge Street Consultants LLP to provide independent remuneration advice to the Committee. New Bridge Street Consultants LLP has no other relationships with the Company. The Remuneration Committee has considered a variety of independent information including comparisons of the executives' remuneration with companies of a similar size and diversification. As WSP is an international business the Remuneration Committee takes into account employment practices both in the UK and overseas, and has taken due regard of 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 Remuneration Committee are reviewed annually and are intended to be stretching and to reward superior performance in the light of the prevailing economic climate.

Shareholders will have received a circular accompanying this Annual Report in which the Board, on the recommendation of the Remuneration Committee, proposes to amend and extend the WSP share schemes for a further 10 years.

The members of the Remuneration 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.
- 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. The final cycle of awards under the WSP Deferred Bonus Share Plan will be made in 2006 (linked to the annual bonus earned in 2005) but this plan will be discontinued after 2006.
- The WSP Performance Share Plan will soon expire on reaching the end of its ten-year life and will be replaced by a new Performance Share Plan, which will be operated as the sole long-term incentive vehicle. The new plan (details of which are contained in the circular accompanying this Annual Report) are fundamental to the Remuneration Committee's policy and, if approved at the Annual General Meeting on 3 May 2006, will form the basis of future share-based awards.

  For 2006, it is anticipated that awards will be made over shares worth between 20% and 50% of base salary for the most senior executives. Dividends will accrue on performance shares from the date of grant, payable on vesting (to the extent that the shares ultimately vest.)

The performance condition attached to the awards in 2006 will require stretching earnings per share growth targets to be achieved over a single three year period. It is currently intended that the initial target will require average annual earnings per share growth of RPI plus 4% to 10% for 30% to 100% of an award to vest.

The Remuneration Committee considers that earnings per share is the most appropriate measure of performance for the initial awards as it will reward significant and sustained increases in profitability that would be expected to flow through into shareholder value. Earnings per share is a transparent performance measure at WSP as the Company's approach to revenue recognition is firmly established in accounting practices and the strong trading cash flow is clearly linked, on an annual basis, to profit. In addition, as 40% of the executives who will be participating in the new Plan are based overseas, earnings per share will deliver a strong focus.

Directors' Service Contracts (unaudited information)

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
Stuart McLachlan *(appointed 01.01.06)*	01.01.2006	12 months	12 months	One year's remuneration
Caroline Brown *(resigned 31.12.05)*	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
Marisa Cassoni *(appointed 01.01.06)*	01.01.2006	3 months	3 months	3 months in lieu of notice
Ernest Sheavills *(appointed 01.01.06)*	01.01.2006	3 months	3 months	3 months in lieu of notice
Mark Rollins *(appointed 01.01.06)*	01.01.2006	3 months	3 months	3 months in lieu of notice

The terms of the service contracts of Christopher Cole and Malcolm Paul allow for liquidated damages that extend beyond basic salaries to include bonuses, which the Remuneration Committee considers 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	42%	58%
Malcolm Paul	Group Finance Director	42%	58%
Thomas Erséus	Executive Director	41%	59%
Stuart McLachlan *(appointed 01.01.06)*	Executive Director	46%	54%
Christopher Stephens	Non-executive Director	100%	–
Marisa Cassoni *(appointed 01.01.06)*	Non-executive Director	100%	–
Ernest Sheavills *(appointed 01.01.06)*	Non-executive Director	100%	–
Mark Rollins *(appointed 01.01.06)*	Non-executive Director	100%	–

Directors' Remuneration (audited information)

The following table shows an analysis of the remuneration of each director who served during the year:

Director	Salary and fees £'000	Performance Bonus £'000	Employee Benefits £'000	Termination Payments £'000	2005 Total £'000	2004 Total £'000	2005 Pension £'000	2004 Pension £'000
David Turner	45	–-	–	–	45	45	–	–
Christopher Cole	281	281	21	–	583	515	98	94
Malcolm Paul	260	260	20	–	540	477	91	87
Thomas Erséus	220	220	12	–	452	407	74	67
Christopher Stephens	25	–	–	-	25	25	–	–
Caroline Brown	25	–	–	12	37	25	–	–
	856	761	53	12	1,682	1,494	263	248

In 2005, annual bonus targets required profit before exceptional items and tax to grow by 13%, at which point an annual bonus of 40% would be payable and this would increase pro rata up to a maximum of 100% if 25% growth was achieved. In 2005 the profit growth was such that the performance related annual bonus amounted to 100% of the executive directors' salary.

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

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 2005 the remuneration received in respect of such appointments by Christopher Cole and Thomas Erséus amounted to £30,000 and £16,204 respectively.

Long Term Incentive Share Plan (audited information)

a) The WSP Performance Share Plan

At 31 December 2005, the Committee had made the following awards under the WSP Share Performance Plan, which are dependent upon the Company's future earnings per share growth. The awards made to directors on 1 April 2002 have lapsed, unexercised as a result of the failure to meet the required growth in earnings per share since that date. Awards are made at nil exercise price.

Director	Award Date	Earliest Vesting Date	Market price at Award Date	Number of shares at 01.01.2005 No.	Granted in year No.	Number of shares Lapsing No.	Number of shares Vesting No.	Number of shares at 31.12.2005 No.	2005 Value of entitlement £'000	2004 Value of entitlement £'000
Christopher Cole										
	01.04.2002	01.04.2005	320.0p	51,563	–	(51,563)	–	–	–	134
	01.04.2003	01.04.2006	75.0p	220,000	–	–	–	220,000	814	572
	01.04.2004	01.04.2007	200.0p	65,000	–	–	–	65,000	240	169
	01.04.2005	01.04.2008	275.0p	–	41,000	–	–	41,000	152	–
				336,563	41,000	(51,563)	–	326,000	1,206	875
Malcolm Paul										
	01.04.2002	01.04.2005	320.0p	50,391	–	(50,391)	–	–	–	131
	01.04.2003	01.04.2006	75.0p	215,000	–	–	–	215,000	796	559
	01.04.2004	01.04.2007	200.0p	60,000	–	–	–	60,000	222	156
	01.04.2005	01.04.2008	275.0p	–	33,000	–	–	33,000	122	–
				325,391	33,000	(50,391)	–	308,000	1,140	846
Thomas Erséus										
	01.04.2002	01.04.2005	320.0p	44,063	–	(44,063)	–	–	–	115
	01.04.2003	01.04.2006	75.0p	210,000	–	–	–	210,000	777	546
	01.04.2004	01.04.2007	200.0p	55,000	–	–	–	55,000	204	143
	01.04.2005	01.04.2008	275.0p	–	26,000	–	–	26,000	96	–
				309,063	26,000	(44,063)	–	291,000	1,077	804
Stuart McLachlan (appointed 01.01.06)										
	01.04.2002	01.04.2005	320.0p	10,000	–	(10,000)	–	–	–	26
	01.04.2003	01.04.2006	75.0p	75,000	–	–	–	75,000	277	195
	01.04.2004	01.04.2007	200.0p	20,000	–	–	–	20,000	74	52
	01.04.2005	01.04.2008	275.0p	–	15,000	–	–	15,000	56	–
				105,000	15,000	(10,000)	–	110,000	407	273

b) The WSP Deferred Bonus Share Plan

At 31 December 2005, 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 01.01.2005 No.	Exercised in year No.	Granted in year No.	Number of shares 31.12.2005 No.	2005 Value of entitlement £'000	2004 Value of entitlement £'000
Christopher Cole	01.04.2003	01.04.2006	75.0p	83,333	–	–	83,333	308	217
	30.04.2005	30.04.2008	268.0p	–	–	33,333	33,333	123	–
				83,333	–	33,333	116,666	431	217
Malcolm Paul	01.04.2003	01.04.2006	75.0p	83,333	–	–	83,333	308	217
	30.04.2005	30.04.2008	268.0p	–	–	33,333	33,333	123	–
				83,333	–	33,333	116,666	431	217
Thomas Erséus	01.04.2003	01.04.2006	75.0p	83,333	–	–	83,333	308	217
				83,333	–	–	83,333	308	217

The value of entitlements under the WSP Share Performance Plan and the WSP Deferred Bonus Share Plan are calculated by reference to the middle market share price at 31 December 2005 which was 370p (2004: 260p) and the range in the year was 250p to 385p.

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.

Directors' interests (unaudited information)

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

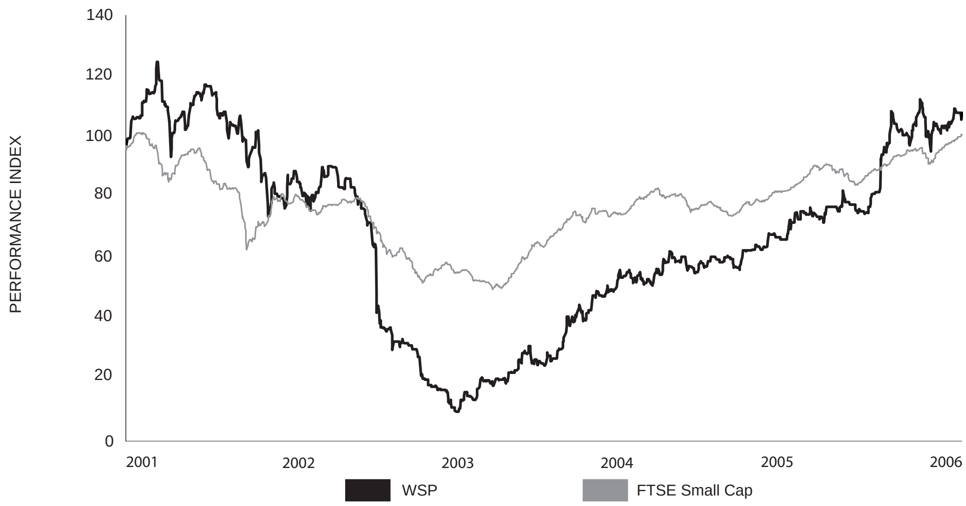
Director	Beneficial Shares No.	Performance Share plan No.	Deferred Bonus Share plan No.	Total Shares No.
At 31 December 2005				
David Turner	12,282	–	–	12,282
Christopher Cole	928,777	326,000	116,666	1,371,443
Malcolm Paul	842,976	308,000	116,666	1,267,642
Thomas Erséus	352,200	291,000	83,333	726,533
Stuart McLachlan *(appointed 01.01.06)*	4,214	110,000	–	114,214
Christopher Stephens	7,610	–	–	7,610
Caroline Brown *(resigned 31.12.05)*	–	–	–	–
Marisa Cassoni *(appointed 01.01.06)*	–	–	–	–
Ernest Sheavills *(appointed 01.01.06)*	–	–	–	–
Mark Rollins *(appointed 01.01.06)*	–	–	–	–
At 1 January 2005				
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	–	–	–	–

There have been no changes in directors' share interests since 31 December 2005.

Performance Graph (unaudited information)

Set out below is a Performance Graph that compares the total shareholder return 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 Cap Index in the 5 years to December 2005



Total shareholder return 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 FTSE Small Cap index.

Christopher Stephens
Chairman of the Remuneration Committee
9 March 2006

Auditors' Report

Independent Auditors' report to the members of WSP Group plc

We have audited the Group and Company financial statements (the "financial statements") of WSP Group plc for the year ended 31 December 2005 which comprise the Group Income Statement, the Group and Company Balance Sheets, the Group and Company Cash Flow Statements, the Group and Company Statements of Recognised Income and Expense, the Group and Company Statements of Change in Shareholders' Equity and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Remuneration Report that is described as having been audited.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, the Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). 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 part of the Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. 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 other transactions is not disclosed.

We review whether the Corporate Governance Report 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.

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

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and 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 part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's and the Company's affairs as at 31 December 2005 and of the Group's and the Company's profit and the Group's and Company's cash flows for the year then ended; and
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
1 Embankment Place
London WC2N 6RH
9 March 2006

Consolidated Income Statement

For the year ended 31 December 2005

	Notes	2005 £'000	2004 £'000
Revenue		**349,074**	302,845
Cost of sales			
Subcontractor costs		**(26,455)**	(24,912)
Employee benefits costs			
– standard	5	**(221,155)**	(195,135)
– pension scheme settlements and curtailments		**–**	7,018
Gross profit		**101,464**	89,816
Administrative expenses		**(80,646)**	(66,047)
Operating profit		**20,818**	23,769
Joint ventures and associated undertakings	2		
– share of profit		**1,818**	845
– share of taxation		**(386)**	(235)
		1,432	610
Profit before interest and taxation		**22,250**	24,379
Interest payable	3	**(2,645)**	(3,054)
Interest receivable	3	**217**	258
Profit before taxation		**19,822**	21,583
Taxation	6	**(5,829)**	(6,881)
Profit for the financial year		**13,993**	14,702
Profit attributable to			
– Equity shareholders		**13,718**	14,507
– Minority interests		**275**	195
		13,993	14,702
Basic earnings per share	8	**22.8p**	24.1p
Diluted earnings per share	8	**21.8p**	23.2p

The above results all relate to continuing activities.

Balance Sheets

As at 31 December 2005

	Notes	Group 2005 £'000	Group 2004 £'000	Company 2005 £'000	Company 2004 £'000
Assets					
Non–current assets					
Goodwill	9	**97,060**	94,534	**1,357**	1,357
Intangible assets	10	**1,946**	1,018	**–**	–
Property, plant and equipment	11	**15,669**	15,661	**55**	105
Investment in subsidiary and joint venture undertakings	12	**–**	–	**38,527**	38,751
Financial assets available for sale	12	**604**	1,090	**–**	–
Investments accounted for using the equity method	12	**5,467**	4,917	**–**	–
Deferred taxation asset	13	**9,249**	6,310	**1,470**	396
		129,995	123,530	**41,409**	40,609
Current assets					
Trade and other receivables	14	**114,510**	95,891	**90,705**	99,322
Cash and cash equivalents		**16,090**	10,749	**293**	888
		130,600	106,640	**90,998**	100,210
Liabilities					
Current liabilities					
Financial liabilities	15	**(5,574)**	(6,772)	**(1,600)**	(8,935)
Trade and other payables	16	**(85,362)**	(63,713)	**(12,586)**	(11,129)
Liabilities for current taxation		**(3,208)**	(1,843)	**–**	(709)
		(94,144)	(72,328)	**(14,186)**	(20,773)
Net current assets		**36,456**	34,312	**76,812**	79,437
Non-current liabilities					
Financial liabilities	15	**(42,730)**	(48,973)	**(20,600)**	(23,800)
Pension liabilities	25	**(31,037)**	(20,500)	**–**	–
Deferred taxation liability	13	**(4,342)**	(6,219)	**–**	(47)
Provisions	17	**(5,407)**	(1,599)	**(169)**	(102)
		(83,516)	(77,291)	**(20,769)**	(23,949)
Net assets		**82,935**	80,551	**97,452**	96,097
Equity					
Called up share capital	18	**3,026**	3,023	**3,026**	3,023
Share premium account	19	**76,681**	76,537	**76,681**	76,537
Shares to be issued	18	**–**	207	**–**	207
Other reserves	19	**–**	–	**8,210**	8,210
Profit and loss account	19	**2,646**	477	**9,535**	8,120
Total shareholders' equity		**82,353**	80,244	**97,452**	96,097
Minority interests		**582**	307	**–**	–
Total equity		**82,935**	80,551	**97,452**	96,097

The financial statements on pages 42 to 82 were approved by the Board of Directors on 9 March 2006 and signed on their behalf by:

CHRISTOPHER COLE, Chief Executive

MALCOLM PAUL, Group Finance Director

Cash Flow Statements

For the year ended 31 December 2005

		Group		Company	
	Notes	**2005** **£'000**	2004 £'000	**2005** **£'000**	2004 £'000
Cash flows from operating activities					
Cash generated from operations	*21*	**31,873**	24,021	**448**	965
Interest paid		**(2,645)**	(3,062)	**(1,469)**	(1,786)
Interest received		**217**	261	**821**	918
Taxation paid		**(5,490)**	(4,679)	**(141)**	(117)
Net cash from operating activities		**23,955**	16,541	**(341)**	(20)
Cash flows from investing activities					
Purchase of subsidiary undertakings (net of cash acquired)		**(3,365)**	(1,672)	**–**	–
Deferred consideration paid		**(219)**	(467)	**–**	–
Purchase of intangible assets		**(1,623)**	–	**–**	–
Purchase of property, plant and equipment		**(8,438)**	(5,346)	**–**	–
Proceeds from sale of property, plant and equipment		**2,802**	229	**–**	–
Return of capital from joint venture		**68**	–	**–**	–
Disposal of financial asset (available for sale)		**1,325**	–	**–**	–
Net repayment of intercompany loans to the Company		**–**	–	**9,059**	31,748
Intercompany loans advanced to the Company		**–**	–	**2,000**	50
Dividend received from associated undertaking		**478**	169	**–**	–
Net cash used in investing activities		**(8,972)**	(7,087)	**11,059**	31,798
Cash flows from financing activities					
Net proceeds of share issues		**147**	28	**147**	28
Purchase of shares		**(406)**	(148)	**–**	–
Drawdown of loan facilities		–	51,855	**–**	23,800
Repayment of loan facilities		**(5,284)**	(58,491)	**(1,600)**	(57,364)
Repayment of finance leases		**(284)**	(422)	**–**	–
Closure of Swedish Kronor currency swap		**–**	(6,827)	**–**	(6,827)
Equity dividends received		**–**	–	**2,461**	5,000
Equity dividends paid		**(3,386)**	(3,082)	**(3,386)**	(3,082)
Net cash used in financing activities		**(9,213)**	(17,087)	**(2,378)**	(38,445)
Net increase/(decrease) in cash and cash equivalents		**5,770**	(7,633)	**8,340**	(6,667)
Cash and cash equivalents at 1 January		**7,699**	15,332	**(8,047)**	(1,380)
Cash and cash equivalents at 31 December	*24*	**13,469**	7,699	**293**	(8,047)

Statements of Recognised Income and Expense

For the year ended 31 December 2005

	Group 2005 £'000	Group 2004 £'000	Company 2005 £'000	Company 2004 £'000
Profit for the financial year	**13,993**	14,702	**2,903**	3,963
Actuarial loss on pension scheme (net of taxation)	**(7,468)**	(1,333)	**–**	–
Foreign exchange differences	**(1,887)**	(249)	**302**	750
Net (losses)/gains not recognised in the income statement	**(9,355)**	(1,582)	**302**	750
Total income and expense recognised in the year	**4,638**	13,120	**3,205**	4,713

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

Statements of Changes in Shareholders' Equity

For the year ended 31 December 2005

	Notes	Group 2005 £'000	Group 2004 £'000	Company 2005 £'000	Company 2004 £'000
Profit for the financial year		**13,993**	14,702	**2,903**	3,963
Dividends	7	**(3,386)**	(3,082)	**(3,386)**	(3,082)
Retained profit for the financial year		**10,607**	11,620	**(483)**	881
New ordinary shares issued		**147**	28	**147**	28
Movement in shares to be issued		**(207)**	(46)	**(207)**	(46)
Performance share plan adjustment		**534**	619	**938**	619
Deferred taxation related to the performance share plan adjustment		**658**	247	**658**	247
Actuarial loss on pension schemes		**(10,599)**	(1,904)	**–**	–
Deferred taxation related to the actuarial loss on pension schemes		**3,131**	571	**–**	–
Foreign exchange differences		**(1,887)**	(249)	**302**	750
Net addition to shareholders' funds		**2,384**	10,886	**1,355**	2,479
Opening issued capital and reserves –					
Equity shareholders		**80,244**	69,553	**96,097**	93,618
Minority interests		**307**	112	**–**	–
		80,551	69,665	**96,097**	93,618
Net addition to shareholders' funds attributable to –					
Equity shareholders		**2,109**	10,691	**1,355**	2,479
Minority interests		**275**	195	**–**	–
		2,384	10,886	**1,355**	2,479
Closing issued capital and reserves –					
Equity shareholders		**82,353**	80,244	**97,452**	96,097
Minority interests		**582**	307	**–**	–
		82,935	80,551	**97,452**	96,097

Accounting Policies

For the year ended 31 December 2005

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and IFRIC interpretations and with those parts of the Companies Act, 1985 applicable to companies reporting under IFRS.

The principal accounting policies, which have been consistently applied, are set out below.

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis, except for financial assets available for sale and pension assets and liabilities, all of which have been measured at fair value.

Basis of consolidation

The consolidated financial statements comprise the accounts of WSP Group plc and its subsidiaries as at 31 December each year prepared under IFRS using consistent accounting policies.

The consolidated balance sheet and income statement include the Group's equity interests and results of the Group's associated undertakings, along with the Group's interests and results of the Group's joint venture undertakings in accordance with the net equity method. In accordance with Section 230 of the Companies Act 1985, a separate profit and loss account for the Company is not presented.

Foreign currency translation

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates ruling at the balance sheet date and any exchange differences are taken to the income statement.

On consolidation, income statements and cash flows of foreign subsidiaries are translated into sterling using average rates that existed during the accounting period. The balance sheets of foreign subsidiaries are translated into pounds sterling at the rates of exchange ruling at the balance sheet date. Gains or losses arising on the translation of opening and closing net assets are recognised in the statement of recognised income and expense.

Revenue

Revenue is stated net of sales tax and is recognised to the extent that it is probable that economic benefits will flow to the Group and can be reliably measured. Revenue represents fee income recognised in respect of services provided during the period.

The Group has a number of long term contracts that span more than one financial period. In calculating revenue, the percentage of completion method is used, based on a review of contract progress and the proportion of contract work completed in relation to the total contract works. Profits are only recognised where they can be reliably measured. Full provision is made for all known or anticipated losses on each contract immediately such losses are identified. Contract costs include direct staff costs and disbursements.

Amounts due from customers are stated at the proportion of the anticipated net sales value earned to date less amounts billed on account. To the extent that fees paid on account exceed the value of work performed, they are included in trade and other payables.

Segmental reporting

The directors regard the Group's primary segments of business to be Property, Transport & Infrastructure and Environmental. The secondary segments of business are the geographic regions in which the Group operates. Costs are allocated to the appropriate segment as they arise with central overheads apportioned on a fair basis.

Depreciation

Depreciation is provided at rates calculated to write off the cost of property, plant and equipment by equal annual instalments over their expected useful lives, having regard to their residual values. The carrying amounts of property, plant and equipment are also subject to an impairment review at each balance sheet date. The annual depreciation 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%

Depreciation is not charged on assets held for sale.

Goodwill

Goodwill recognised under UK GAAP prior to 1 January 2004, the date of transition to IFRS, is stated at net book value as at this date. Goodwill on business combinations recognised subsequent to 1 January 2004 is initially measured at cost being the excess of the cost of the business combination over the interest in the net fair value of the identifiable net assets acquired. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if changes in circumstances indicate that the carrying value may be impaired.

Intangible assets

Intangible assets acquired are capitalised at cost and those identified in a business combination are capitalised at fair value as at the date of acquisition. Following initial recognition, the carrying amount of an intangible asset is its cost less any accumulated amortisation and any accumulated impairment provisions. Useful lives of intangible assets are assessed on acquisition to be either indefinite or finite. Amortisation is charged as appropriate on those intangibles with finite lives, while those with indefinite lives are tested for impairment. The annual amortisation rates applicable are as follows:

Software	20-33%
Assets arising on business combinations	over the life of the asset

Investments

Available for sale investments are carried at their fair value and held in non-current assets, unless it is anticipated that they will be sold within 12 months of the balance sheet date. Realised gains and losses arising from changes in the fair value of available for sale assets are included in the consolidated income statement in the period in which they are realised. Unrealised gains and losses are recorded in a separate category of reserves. Investments that the Group has the intent and ability to hold to maturity are classified as held to maturity and are included in either current or non current assets as appropriate. They are carried at amortised cost.

Trade Receivables

Trade receivables are recognised and carried at original invoice amount less an allowance for uncollectable amounts. An estimate of uncollectable amounts is made when collection of the full amount is no longer probable. Uncollectable amounts are written off when identified.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and those deposits held with banks having a maturity date of less than 3 months from the date the deposit was made and being available on demand within one working day without significant penalty. They are carried in the balance sheet at cost.

For the purposes of the cash flow statement cash and cash equivalents are net of bank overdrafts.

Pension schemes

The Group maintains a number of defined contribution schemes and contributions are charged to the income statement in the year in which they are due. In addition, the Group operates defined benefit schemes which require contributions to be made to separately administered funds. The cost of providing benefits under defined benefit schemes is determined separately for each scheme using the projected unit credit actuarial valuation method. The employer's portion of current and past service costs, curtailment and settlement costs, together with interest costs and expected return on assets, is charged to operating profit. Actuarial gains and losses are fully recognised in equity through the statement of recognised income and expense as they arise such that the balance sheet reflects the schemes' full surplus or deficit at the balance sheet date.

Leasing

Finance leases which transfer to the Group substantially all the risks and benefits of ownership of the asset are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Finance costs are charged to the income statement over the period of the agreement. Obligations under finance leases are included in financial liabilities net of finance costs allocated to future periods. Capitalised leased assets are depreciated over the shorter of the estimated life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Rentals paid under operating leases are charged to the income statement as incurred on a straight-line basis over the lease term.

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 8 to the financial statements.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events and it is likely that an outflow of resources embodying economic benefits will be required to settle the obligation and that amount can be reasonably estimated. Where the Group expects all or some of the obligation to be reimbursed, the reimbursement is recognised as a separate asset to the extent that it is virtually certain to be reimbursed. The expense relating to any provision is presented in the income statement net of any reimbursement.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. If material, provisions are determined by discounting the expected future cash flows using rates that reflect current market assessments of the time value of money.

Deferred taxation

Full provision has been made for deferred taxation balances on all temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the balance sheet date using the full liability method.

A deferred taxation asset is recognised only to the extent that it is probable that taxable profit will be available to offset against the asset. Deferred taxation assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to utilise the asset.

Deferred taxation assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. Income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Share based payments

The Company operates a number of executive and employee share schemes. For all grants of share options and awards, the fair value as at the date of grant is calculated using an appropriate option pricing model and the corresponding expense is recognised over the period to which the associated employee's service relates. The Company has taken advantage of the transitional provisions of IFRS 2 'Share-based Payments' in respect of equity-settled awards and has applied IFRS 2 only to equity settled awards granted after 7 November 2002 that had not vested before 1 January 2005.

Employee Benefit Trust (EBT)

The Company's EBT is a separately administered discretionary trust for the benefit of employees. The assets of the EBT mainly comprise shares in the Company. The assets, liabilities, income and costs of the EBT are consolidated in the financial statements. The investment in own shares is treated as a deduction in Shareholders' Funds.

Sources of estimation uncertainty

The preparation of the financial statements requires the Group to make estimates, judgements and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. The directors base their estimates on historical experience and various other assumptions that they believe are reasonable under the circumstances, the results of which form the basis for making judgements about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Significant judgements

The Group believes that the most significant critical judgement area in the application of its accounting policies is revenue recognition and the assessment of the percentage of completion achieved. The Group assesses contract progress and determines the proportion of contract work completed at the balance sheet date in relation to the total contract works. The other principal areas where judgements have been made are defined benefit assumptions and provisions for deferred consideration under acquisition earn-out arrangements.

Notes to the Financial Statements

For the year ended 31 December 2005

1. Segmental analysis

a) Primary segmental analysis

Revenue	Continuing operations 2005 £'000	Acquisitions 2005 £'000	**Total 2005 £'000**	Total 2004 £'000
Property	197,978	4,953	**202,931**	175,930
Transport & Infrastructure	101,815	–	**101,815**	91,363
Environmental	44,328	–	**44,328**	35,552
Revenue	344,121	4,953	**349,074**	302,845
Joint ventures				
Transport & Infrastructure	11,787	–	**11,787**	9,569
Associated undertakings				
Property	4,570	–	**4,570**	3,861
Transport & Infrastructure	7,573	–	**7,573**	5,148
Environmental	927	–	**927**	890
Share of joint venture and associated undertakings revenue	24,857	–	**24,857**	19,468
Total	368,978	4,953	**373,931**	322,313

Profit	Continuing operations 2005 £'000	Acquisitions 2005 £'000	Joint ventures & associates: Share of profit 2005 £'000	Joint ventures & associates: Share of tax 2005 £'000	**Total 2005 £'000**	Total 2004 £'000
Property	11,093	495			**11,588**	8,952
Transport & Infrastructure	6,008	–			**6,008**	5,325
Environmental	3,222	–			**3,222**	2,474
	20,323	495	–	–	**20,818**	16,751
Pension settlements and curtailments	–	–	–	–	**–**	7,018
Operating profit	20,323	495	–	–	**20,818**	23,769
Joint ventures						
Transport & Infrastructure			572	(172)	**400**	82
Associated undertakings						
Property			435	(75)	**360**	206
Transport & Infrastructure			739	(127)	**612**	275
Environmental			72	(12)	**60**	47
Profit before interest and taxation			1,818	(386)	**22,250**	24,379
Net finance costs					**(2,428)**	(2,796)
Profit before taxation					**19,822**	21,583
Taxation					**(5,829)**	(6,881)
Profit for the financial year					**13,993**	14,702

A segmental analysis of 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.

1. Segmental analysis (continued)

Assets, liabilities and other items

	Property 2005 £'000	Transport & Infrastructure 2005 £'000	Environmental 2005 £'000	Group 2005 £'000	Property 2004 £'000	Transport & Infrastructure 2004 £'000	Environmental 2004 £'000	Group 2004 £'000
Segment assets	169,649	61,650	23,829	**255,128**	149,765	55,323	20,165	225,253
Investment in equity accounted investments	2,547	2,419	501	**5,467**	2,438	2,001	478	4,917
Total Assets	172,196	64,069	24,330	**260,595**	152,203	57,324	20,643	230,170
Segment liabilities	64,345	27,362	9,499	**101,206**	48,514	19,788	8,665	76,967
Unallocated liabilities								
– Financial liabilities – bank loans				**45,417**				52,152
– Pension liabilities				**31,037**				20,500
Total liabilities				**177,660**				149,619
Other items								
Capital expenditure	4,545	3,289	604	**8,438**	3,025	2,012	457	5,494
Depreciation	3,084	2,035	621	**5,740**	2,872	1,909	588	5,369
Amortisation of intangibles	948	56	38	**1,042**	337	20	13	370
Impairment of trade receivables	1,881	36	53	**1,970**	1,216	144	175	1,535

b) Secondary segmental analysis

The tables below are based on the location of the client, which is not materially different from the location where the order is received and the assets are based.

Revenue	Continuing operations 2005 £'000	Acquisitions 2005 £'000	2005 £'000	2004 £'000
United Kingdom	141,784	2,791	**144,575**	127,990
Mainland Europe	133,013	874	**133,887**	120,197
United States of America	35,308	–	**35,308**	28,552
Africa & the Middle East	21,098	1,288	**22,386**	13,703
Asia	11,462	–	**11,462**	10,227
Other	1,456	–	**1,456**	2,176
Revenue	344,121	4,953	**349,074**	302,845
Joint ventures				
United Kingdom	11,788	–	**11,788**	9,569
Associated undertakings				
Mainland Europe	13,069	–	**13,069**	9,899
Total	368,978	4,953	**373,931**	322,313

Profit

	Continuing operations 2005 £'000	Acquisitions 2005 £'000	Joint ventures & associates Share of profit 2005 £'000	Share of tax 2005 £'000	**Total 2005 £'000**	Total 2004 £'000
United Kingdom	8,506	251			**8,757**	7,940
Mainland Europe	7,142	65			**7,207**	5,998
United States of America	2,474	–			**2,474**	1,362
Africa & the Middle East	1,779	179			**1,958**	1,256
Asia	346	–			**346**	47
Other	76	–			**76**	148
	20,323	495	–	–	**20,818**	16,751
Pension settlements and curtailments	–	–	–	–	**–**	7,018
Operating profit	20,323	495	–	–	**20,818**	23,769
Joint ventures						
United Kingdom			572	(172)	**400**	82
Associated undertakings						
Mainland Europe			1,246	(214)	**1,032**	528
Profit before interest and taxation			1,818	(386)	**22,250**	24,379
Net finance costs					**(2,428)**	(2,796)
Profit before taxation					**19,822**	21,583
Taxation					**(5,829)**	(6,881)
Profit for the financial year					**13,993**	14,702

Assets and capital expenditure

	Segment assets **2005 £'000**	2004 £'000	Capital expenditure **2005 £'000**	2004 £'000
United Kingdom	**105,821**	85,875	**4,277**	2,733
Mainland Europe	**107,226**	101,733	**3,181**	2,030
United States of America	**29,346**	26,863	**568**	299
Africa & the Middle East	**8,675**	6,897	**343**	272
Asia	**4,060**	3,886	**69**	160
	255,128	225,254	**8,438**	5,494
Investments accounted for using the equity method	**5,467**	4,916	**–**	–
Total	**260,595**	230,170	**8,438**	5,494

c) Revenue by category

	2005 £'000	2004 £'000
Revenue from construction contracts	**202,931**	175,930
Revenue from consultancy contracts	**146,143**	126,915
	349,074	302,845

In the opinion of the directors, work in the property sector is substantially related to construction contracts as set out in IAS 11 'Construction Contracts'. Work in the transportation and environmental sectors is more generally in the nature of consultancy. As at the balance sheet date, the cumulative revenue attributable to those construction projects in progress at the year end was £235.6m. This reflects the aggregate of costs incurred and recognised profits from the inception of such projects up until the balance sheet date.

2. Joint venture and associated undertakings

	2005 £'000	2004 £'000
Share of associated undertakings' revenue	**13,069**	9,899
Share of joint ventures' revenue	**11,788**	9,569
	24,857	19,468
Share of operating profit of associated undertakings	**1,205**	720
Share of operating profit of joint ventures	**527**	95
	1,732	815
Interest receivable	**102**	140
Interest payable	**(16)**	(110)
Share of profit before taxation	**1,818**	845
Taxation	**(386)**	(235)
Share of profit after taxation	**1,432**	610

Share of net assets of joint venture and associated undertakings	2005 £'000	2004 £'000
Goodwill	**253**	995
Property, plant and equipment	**851**	1,861
Current assets	**7,891**	8,828
	8,995	11,684
Current liabilities	**(2,986)**	(5,991)
Non-current liabilities	**(542)**	(776)
	5,467	4,917

	2005 £'000	2004 £'000
Group revenue with joint venture and associated undertakings	**12,932**	3,454
Included in joint venture and associated undertakings' current assets are:		
Trading balances with WSP	**289**	105
Included in joint venture and associated undertakings' current liabilities are:		
Trading balances with WSP	**33**	1,246

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

3. Net finance costs

	2005 £'000	2004 £'000
Interest on loans and other borrowings wholly repayable within five years:		
Bank overdrafts	**405**	395
Bank loans	**2,192**	2,589
Finance leases	**48**	70
Interest payable	**2,645**	3,054
Interest receivable	**(217)**	(258)
Net finance costs	**2,428**	2,796

4. Profit before taxation

	2005 £'000	2004 £'000
Is stated after charging/(crediting):		
Property lease rentals	**12,812**	11,786
Equipment lease rentals	**2,530**	2,515
Auditors' remuneration for the statutory audit:		
Principal auditor	**420**	490
Other auditors	**70**	60
Other fees paid to principal auditor:		
Taxation services	**81**	42
Interim review	**33**	32
Other services	**45**	–
Amortisation of intangibles	**1,042**	370
Depreciation of owned assets	**5,084**	4,967
Depreciation of assets held under finance leases	**656**	402
Research and development expenditure	**2,672**	2,492
Rents receivable	**(34)**	(44)
Loss on disposal of property, plant and equipment	**51**	12
Impairment of trade receivables	**1,970**	1,535

The audit fee for the Company was £65,000 (2004: £58,000).

5. Directors and employees

	Group 2005 £'000	Group 2004 £'000	Company 2005 £'000	Company 2004 £'000
Staff costs, including directors, were as follows:				
Wages and salaries	**167,739**	145,684	**1,809**	1,843
Social security costs	**26,910**	24,286	**157**	127
Pension costs	**13,593**	14,722	**240**	224
Pension schemes settlements and curtailments	**–**	(7,018)	**–**	–
Contract and agency staff	**12,913**	10,443	**35**	82
Total staff costs	**221,155**	188,117	**2,241**	2,276

	Number	Number	Number	Number
The weekly average number of employees, contract and agency staff, including directors, was as follows:				
Engineering and technical	**5,448**	4,801	**–**	–
Administration	**474**	406	**13**	11
Total Staff	**5,922**	5,207	**13**	11

	Group 2005 £'000	Group 2004 £'000
Aggregate emoluments of the directors of the Company was as follows:		
Salaries and benefits	**1,575**	1,399
Pension contributions	**263**	248
Non executive directors' fees	**107**	95
Aggregate emoluments	**1,945**	1,742

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 37 to 40.

5. Directors and employees (continued)

The directors have identified 46 (2004:42) (Company 2005: 2; 2004: 2) key management personnel whose compensation was as follows:

	Group		Company	
	2005 £'000	2004 £'000	**2005 £'000**	2004 £'000
Short term employment benefits	**8,560**	7,478	**1,280**	1,131
Post employment benefits	**616**	555	**189**	181
Share based payments	**842**	560	**371**	247
	10,018	8,593	**1,840**	1,559

6. Taxation

	2005 £'000	2004 £'000
a) Analysis of charge in the year		
UK corporation tax on profits of the year at 30% (2004:30%)	**2,211**	2,293
Adjustments in respect of previous years	**(37)**	352
	2,174	2,645
Foreign taxation on profits of the year	**4,275**	1,546
Adjustments in respect of previous years	**(113)**	(55)
Total current taxation – note 6 (b)	**6,336**	4,136
Movement in deferred taxation	**(507)**	2,745
Taxation	**5,829**	6,881

b) Factors affecting taxation for the year

The taxation assessed for the year is lower (2004: higher) than the standard rate of corporation tax in the UK which is 30% (2004:30%). The differences are explained below:

	2005 £'000	2004 £'000
Profit before taxation	**19,822**	21,583
Profit before taxation multiplied by the standard rate of corporation tax in the UK of 30% (2004:30%)	**5,947**	6,475
Effect of different taxation rates on overseas earnings	**(347)**	(68)
Expenses not deductible for taxation purposes	**383**	433
Other timing differences	**718**	(2,750)
Adjustments to current taxation in respect of previous periods	**(150)**	297
Unrelieved overseas losses	**151**	(251)
Current taxation attributable to joint venture and associated undertakings	**(366)**	–
Total current taxation	**6,336**	4,136
Current year deferred taxation	**(517)**	2,745
Adjustments to deferred taxation in respect of previous periods	**10**	–
Total taxation	**5,829**	6,881

c) Taxation items charged to equity		
Deferred taxation asset related to the performance share plan adjustment	**658**	247
Deferred taxation asset related to the actuarial loss on pension scheme	**3,131**	571
Deferred taxation credited to equity	**3,789**	818

The directors are not aware of any factors which may materially affect the future tax charge. Further details of deferred taxation can be found in note 13.

7. Dividends

	2005 £'000	2004 £'000
Dividends charged to equity in the period		
Final dividend paid in May 2005 of 3.2p (2004: 3.0p) per share	**1,935**	1,813
Interim dividend paid in October 2005 of 2.4p (2004: 2.1p) per share	**1,451**	1,269
Total dividend paid in 2005 of 5.6p (2004: 5.1p) per share	**3,386**	3,082
Final dividend proposed for payment in May 2006 of 4.0p (2004: 3.2p) per share	**2,416**	1,935

If approved at the 2006 AGM, which is convened for 3 May 2006, the proposed final dividend of 4.0p per share will be paid on 12 May 2006 to those shareholders on the register at the close of business on 18 April 2006.

8. 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 the credit for pension settlements and curtailments in 2004, assists with the understanding of the underlying performance of the Group.

	2005 £'000	2004 £'000
Profit for the financial year attributable to shareholders	**13,718**	14,507
Exclusion of pension settlements and curtailments, less tax at 30%	–	(4,913)
Adjusted profit for the financial year attributable to shareholders	**13,718**	9,594
	No.'000	No.'000
Weighted average number of shares in issue	**60,169**	60,280
Earnings per share calculated by reference to the profit for the financial year attributable to shareholders		
Basic earnings per share	**22.8p**	24.1p
	No.'000	No.'000
Weighted average number of shares in issue	**60,169**	60,280
Dilution effect of shares to be issued	–	104
Dilution effect of share options	**2,723**	2,071
	62,892	62,455
Diluted earnings per share	**21.8p**	23.2p
Earnings per share calculated by reference to the adjusted profit for the financial year attributable to shareholders		
Adjusted basic earnings per share	**22.8p**	15.9p
Adjusted diluted earnings per share	**21.8p**	15.4p

The weighted average number of shares in issue excludes 314,772 (2004: 167,146) shares held by the WSP Employment Benefit Trust, which are treated as cancelled for the purposes of IAS 33 calculations. In 2004, the dilutive effect of shares to be issued is calculated with 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.

9. Goodwill

	Group £'000	Company £'000
Cost at 1 January 2005	94,534	1,357
Additions	6,572	–
Foreign exchange differences	(4,046)	–
Cost at 31 December 2005	**97,060**	**1,357**
Aggregate impairments at 1 January 2005 and 31 December 2005	**–**	**–**
Net book value		
At 31 December 2005	**97,060**	**1,357**
At 31 December 2004	94,534	1,357

At the balance sheet date, the value of capitalised goodwill has been tested for impairment using the following key assumptions:

a) Budgeted revenue for 2006, growing at the rate of 5% for 3 years and 3% thereafter which compares to our strategy plan of 5% per annum organic growth.

b) Maintaining margins at 2005 levels, despite a target to grow margins through operational leverage.

c) Applying the weighted average cost of capital of 6%.

On the basis of the above assumptions the directors have concluded that there is no goodwill impairment.

The carrying values of goodwill by both primary and secondary segments is as follows:

	Property £'000	Transport & Infrastructure £'000	Environmental £'000	**Total £'000**
United Kingdom	4,456	355	128	**4,939**
Mainland Europe	36,481	28,833	7,208	**72,522**
United States of America	14,468	–	–	**14,468**
Africa & the Middle East	2,567	856	–	**3,423**
Asia	1,708	–	–	**1,708**
	59,680	30,044	7,336	**97,060**

10. Intangible assets

Group

	Computer software £'000	Sales order books £'000	Customer lists £'000	Trading names £'000	Other intangibles £'000	Total £'000
Cost at 1 January 2005	3,565	–	–	–	1	3,566
Additions – separately acquired	1,622	–	–	–	1	1,623
– on business combinations	16	143	132	36	–	327
Disposals	(45)	–	–	–	–	(45)
Foreign exchange differences	72	–	–	–	–	72
Cost at 31 December 2005	**5,230**	**143**	**132**	**36**	**2**	**5,543**
Amortisation at 1 January 2005	2,548	–	–	–	–	2,548
Charge for the year	965	42	27	8	–	1,042
Disposals	(45)	–	–	–	–	(45)
Foreign exchange differences	52	–	–	–	–	52
Amortisation at 31 December 2005	**3,520**	**42**	**27**	**8**	**–**	**3,597**
Net book value						
At 31 December 2005	**1,710**	**101**	**105**	**28**	**2**	**1,946**
Cost at 1 January 2004	3,564	–	–	–	1	3,565
Foreign exchange differences	1	–	–	–	–	1
Cost at 31 December 2004	**3,565**	**–**	**–**	**–**	**1**	**3,566**
Amortisation at 1 January 2004	2,160	–	–	–	–	2,160
Charge for the year	370	–	–	–	–	370
Foreign exchange differences	18	–	–	–	–	18
Amortisation at 31 December 2004	**2,548**	**–**	**–**	**–**	**–**	**2,548**
Net book value						
At 31 December 2004	**1,017**	**–**	**–**	**–**	**1**	**1,018**

Where appropriate, intangible assets identified in business combinations have been recognised in accordance with the provisions of IFRS 3 'Business Combinations' and IAS 38 'Intangible Assets'. Intangible assets have only been recognised where they have identifiable future economic benefits that are controlled by the entity, it is probable that these benefits will flow to the entity and their fair value can be measured reliably.

The useful lives for the intangible assets acquired during the year were assessed to be as follows:

	Years
Computer software	Between 3 and 5
Sales order books	Between 2 and 4
Customer lists	Between 2 and 4
Trading names	3

There are no intangible assets with indefinite lives. Amortisation has been charged to administrative expenses.

There are no intangible assets in the Company (2004:£Nil).

11. Property, plant and equipment

	Freehold £'000	Long leasehold £'000	Short leasehold £'000	Motor vehicles £'000	Office equipment £'000	Fixtures & fittings £'000	Total £'000
Group							
Cost at 1 January 2005	1,398	2,838	1,996	1,544	29,666	10,223	47,665
On acquisition of subsidiaries	–	–	133	140	252	84	609
Additions during year	9	5	539	132	5,952	1,801	8,438
Disposals during year	(121)	(2,821)	(152)	(203)	(3,751)	(726)	(7,774)
Foreign exchange differences	(97)	(2)	65	(39)	(795)	(317)	(1,185)
Cost at 31 December 2005	**1,189**	**20**	**2,581**	**1,574**	**31,324**	**11,065**	**47,753**
Depreciation at 1 January 2005	274	405	820	1,068	23,046	6,391	32,004
On acquisition of subsidiaries	–	–	19	65	62	33	179
Charge for the year	23	22	274	229	4,053	1,139	5,740
Disposals during year	–	(427)	(88)	(170)	(3,727)	(509)	(4,921)
Foreign exchange differences	(19)	–	31	(27)	(655)	(248)	(918)
Depreciation at 31 December 2005	**278**	**–**	**1,056**	**1,165**	**22,779**	**6,806**	**32,084**
Net book value							
At 31 December 2005	**911**	**20**	**1,525**	**409**	**8,545**	**4,259**	**15,669**
Cost at 1 January 2004	1,174	2,786	1,859	1,673	29,998	10,430	47,920
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**	**29,666**	**10,223**	**47,665**
Depreciation at 1 January 2004	263	377	630	1,099	23,661	5,999	32,029
On acquisition of subsidiaries	–	–	–	10	223	9	242
Charge for the year	29	28	211	218	3,598	1,285	5,369
Disposals during year	(21)	–	(6)	(273)	(4,507)	(934)	(5,741)
Foreign exchange differences	3	–	(15)	14	71	32	105
Depreciation at 31 December 2004	**274**	**405**	**820**	**1,068**	**23,046**	**6,391**	**32,004**
Net book value							
At 31 December 2004	**1,124**	**2,433**	**1,176**	**476**	**6,620**	**3,832**	**15,661**

The net book value includes an amount of £0.3m (2004: £0.6m) in respect of office equipment held under finance leases.

Company

	Short leasehold £'000	Office equipment £'000	Fixtures & fittings £'000	Total £'000
Cost at 1 January 2005 and at 31 December 2005	**12**	**519**	**397**	**928**
Depreciation at 1 January 2005	11	506	306	823
Charge for the year	1	13	36	50
Depreciation at 31 December 2005	**12**	**519**	**342**	**873**
Net book value				
At 31 December 2005	**–**	**–**	**55**	**55**
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**

The net book value includes an amount of £Nil (2004: £Nil) in respect of assets held under finance leases.

12. Financial assets

The Group's interest in joint ventures, associated undertakings and available for sale financial assets was as follows:

	Financial assets available for sale Note 12 (a) £'000	Investment in joint ventures Note 12 (b) £'000	Investment in associated undertakings Note 12 (b) £'000
Value at 1 January 2005	1,090	115	4,802
Additions	38	–	8
Disposals	(617)	–	(12)
Share of profit for the year	–	400	1,032
Dividends received/capital returned	–	(68)	(478)
Foreign exchange differences	93	–	(332)
Value at 31 December 2005	**604**	**447**	**5,020**

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

	Subsidiary and joint venture undertakings Note 12 (c)
Cost at 1 January 2005	38,838
Inter group transfer	(224)
Cost at 31 December 2005	**38,614**
Provision at 1 January and 31 December 2005	**(87)**
Net investment	
At 31 December 2005	**38,527**
At 31 December 2004	38,751

12. Financial assets (continued)

a) Financial assets available for sale

Financial assets available for sale 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 materially equivalent to the fair value and therefore there are no material unrealised gains or losses to be recognised.

b) Principal joint venture and associated undertakings

	Group's interest	Class of shares held	Country of Registration	Principal activities
Associated undertakings:				
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
Joint ventures:				
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

Carillion WSP is unincorporated and operates from offices in Dewsbury Road, Tingley, West Yorkshire, WF3 1SW.

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 Management Consultants Limited*	100%	Management consultancy
Integrated Building Services Design Partnership plc*	100%	Healthcare consultants
Edunova Limited*	100%	Education consultants
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, registered in Sweden
WSP LT Konsultit Oy*	100%	Multi-disciplined consultancy, registered in Finland
WSP Kortes Oy*	100%	Structural engineering design, registered in Finland
WSP Environmental Oy*	100%	Environmental and geotechnical services, registered in Finland
WSP Cantor Seinuk Inc.*	100%	Structural building design, registered in U.S.A.
Flack + Kurtz Inc.*	100%	Building services design, registered in U.S.A.
Flack + Kurtz UK Limited*	100%	Building services design
WSP Group South Africa (Pty) Limited*	100%	Multi-disciplined building design, registered in South Africa
WSP Middle East Limited	100%	Multi-disciplined consultancy, registered in Jersey
WSP Asia Limited	100%	Multi-disciplined building design, registered in Hong Kong
WSP Hong Kong Limited*	100%	Building services design, registered in Hong Kong
WSP Asia Philippines Inc*	100%	Building services design, registered in Philippines
Shanghai WSP Consulting Limited – 上海科进咨询有限公司 *	100%	Building services design, registered in China

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

13. Deferred taxation

Deferred taxation asset

Group

	Accelerated capital allowances £'000	Other short term timing differences £'000	**Total 2005 £'000**	Total 2004 £'000
At 1 January	253	6,057	**6,310**	7,481
Charged during the year	(163)	(111)	**(274)**	(2,017)
Deferred taxation arising on acquisitions	(5)	–	**(5)**	–
Movement in reserves	–	3,104	**3,104**	872
Foreign exchange differences	–	114	**114**	(26)
At 31 December	**85**	**9,164**	**9,249**	6,310

Company

At 1 January	–	396	**396**	149
Movement in reserves	–	658	**658**	247
Charged during the year	–	416	**416**	–
At 31 December	**–**	**1,470**	**1,470**	396

Deferred taxation liability

Group

	Work in progress £'000	Other short term timing differences £'000	**Total 2005 £'000**	Total 2004 £'000
At 1 January	6,008	211	**6,219**	5,431
Charged during the year	349	(1,130)	**(781)**	728
Reserves movements	–	(685)	**(685)**	–
Foreign exchange differences	(424)	13	**(411)**	60
At 31 December	**5,933**	**(1,591)**	**4,342**	6,219

Company

At 1 January	–	47	**47**	47
Charged during the year	–	(47)	**(47)**	–
Movement in reserves	–	–	**–**	–
At 31 December	**–**	**–**	**–**	**47**

Full provision has been made for deferred taxation assets and liabilities. Deferred taxation assets and liabilities have been offset only to the extent they relate to the same taxation regime. In the UK, a deferred taxation asset of £8,217,000 (2004:£5,537,000) primarily relates to pension liabilites and the taxation treatment of employee share awards. In Sweden, a deferred taxation liability of £5,934,000 (2004: £6,008,000) arises in relation to the the taxation treatment of work in progress, offset by a deferred taxation asset in relation to pension liabilities. In the United States, a deferred taxation asset of £877,000 (2004: £686,000) relates to short term timing differences on certain provisions.

14. Trade and other receivables

Current	Group 2005 £'000	Group 2004 £'000	Company 2005 £'000	Company 2004 £'000
Trade receivables	**73,451**	60,817	**–**	34
Amounts recoverable on contracts	**29,763**	24,203	**–**	–
Amounts due from group undertakings	**–**	–	**90,139**	98,857
Amounts due from joint ventures and associated undertakings	**33**	1,246	**–**	–
Other receivables	**5,036**	3,718	**517**	60
Prepayments and accrued income	**6,227**	5,907	**49**	371
	114,510	95,891	**90,705**	99,322

15. Financial liabilities

Current	Group 2005 £'000	Group 2004 £'000	Company 2005 £'000	Company 2004 £'000
Bank loans	**2,800**	3,386	**1,600**	–
Bank overdrafts	**2,621**	3,050	**–**	8,935
Obligations under finance leases	**153**	336	**–**	–
	5,574	6,772	**1,600**	8,935
Non-Current				
Bank loans	**42,617**	48,766	**20,600**	23,800
Obligations under finance leases – due in not more than five years	**113**	207	**–**	–
	42,730	48,973	**20,600**	23,800

Principal bank facilities are negotiated in the UK and Sweden and comprise two £30m lines of credit renewable in February 2007. Each consists of £25m reducing revolving credit and an overdraft of £5m.

There is no material difference between the total of the future minimum finance lease payments at the balance sheet date and their present value.

16. Trade and other payables

Current	Group 2005 £'000	Group 2004 £'000	Company 2005 £'000	Company 2004 £'000
Trade payables	**13,540**	10,490	**58**	238
Amounts due to group undertakings	**–**	–	**11,043**	9,375
Amounts due to joint ventures and associated undertakings	**289**	105	**–**	–
Payments received on account	**12,305**	6,099	**–**	–
Other taxes and social security costs	**13,079**	12,042	**27**	11
Other payables and accruals	**44,729**	34,977	**1,458**	1,505
Deferred consideration	**1,420**	–	**–**	–
	85,362	63,713	**12,586**	11,129

17. Provisions

Group

	Deferred consideration £'000	Property provisions £'000	**2005 Total £'000**	2004 Total £'000
At 1 January	1,497	102	**1,599**	870
Created during year	3,110	1,390	**4,500**	1,256
Reclassification to current trade and other payables	(490)	–	**(490)**	–
Release of unused provisions	(33)	(73)	**(106)**	(122)
Foreign exchange differences	(88)	–	**(88)**	5
Provisions utilised during the year	–	(8)	**(8)**	(410)
At 31 December	**3,996**	**1,411**	**5,407**	1,599

Deferred consideration may become payable depending on the future financial performance of certain businesses acquired. Provision for this liability has been calculated based upon the estimated deferred consideration that will fall due, amounts being payable in more than one but less than four years. Amounts the Group deem to be payable within one year are included within trade and other payables. The property provision relates to the rent, service charge and other associated costs relating to properties that are vacant or nearing the end of their lease term. The amount and timing of payments will depend on future commercial agreements.

In the Company accounts, provisions relate solely to property and amount to £169,000 (2004: £102,000). During the year, the Company utilised £73,000 in relation to costs incurred on vacant property and created a further £140,000 in relation to estimated future vacant property costs.

18. Called up share capital

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

	Authorised			Allotted and fully paid	
	2005 No'000	2005 £'000	Issue price	2005 No'000	2005 £'000
At 1 January 2005	70,000	3,500		60,459	3,023
Issued during the year			91p to 300p	67	3
At 31 December 2005	**70,000**	**3,500**		**60,526**	**3,026**

In 2004, the following shares to be issued in respect of acquisitions assumed that the performance targets set were to be achieved and therefore the maximum deferred consideration would become payable. The performance targets were duly met however the directors chose to settle the deferred consideration in cash and, as a result, the number of shares to be issued has been cancelled.

	2005 No'000	2005 £'000	2004 No'000	2004 £'000
Shares to be issued	–	–	80	207

As at 31 December 2005, the Employee Benefit Trust owned 314,772 ordinary shares of the Company (2004: 167,146), some or all of which may be used during 2006 to meet obligations under the WSP Share Option Plans.

19. Reserves

Group	2005 Share premium account £'000	2005 Merger reserve £'000	2005 Profit and loss account £'000	2004 Share premium account £'000	2004 Merger reserve £'000	2004 Profit and loss account £'000
At 1 January	**76,537**	**–**	**477**	76,510	–	(10,232)
Retained profit for the year	**–**	**–**	**10,332**	–	–	11,425
Foreign exchange differences	**–**	**–**	**(1,887)**	–	–	(249)
Performance share plan adjustment	**–**	**–**	**534**	–	–	619
Deferred taxation related to the performance share plan adjustment	**–**	**–**	**658**	–	–	247
Actuarial loss on pension scheme	**–**	**–**	**(10,599)**	–	–	(1,904)
Deferred taxation related to the actuarial loss on pension scheme	**–**	**–**	**3,131**	–	–	571
Premium arising on the issue of ordinary shares	**144**	**–**	**–**	27	–	–
At 31 December	**76,681**	**–**	**2,646**	**76,537**	**–**	**477**

Company	2005 Share premium account £'000	2005 Merger reserve £'000	2005 Profit and loss account £'000	2004 Share premium account £'000	2004 Merger reserve £'000	2004 Profit and loss account £'000
At 1 January	**76,537**	**8,210**	**8,120**	76,510	8,210	5,623
Retained (loss)/profit for the year	**–**	**–**	**(483)**	–	–	881
Foreign exchange differences	**–**	**–**	**302**	–	–	750
Performance share plan adjustment	**–**	**–**	**938**	–	–	619
Deferred taxation related to the performance share plan adjustment	**–**	**–**	**658**	–	–	247
Premium arising on the issue of ordinary shares	**144**	**–**	**–**	27	–	–
At 31 December	**76,681**	**8,210**	**9,535**	**76,537**	**8,210**	**8,120**

The profit after taxation for the Company for the year amounted to £2,903,000 (2004: £3,963,000).

20. Acquisitions and disposals

The principal entities acquired during the year are set out in the table below. In all cases, the Group acquired 100% of the equity voting capital.

Acquisition	Place of incorporation	Date of Acquisition	Initial cash consideration including legal fees £'000	Deferred cash consideration £'000	Book value of assets acquired £'000	Fair value of assets acquired £'000	Goodwill £'000
The PHB Group	United Arab Emirates	April 2005	507	718	308	362	863
Edunova Limited	England	April 2005	135	300	–	–	435
Riskteknik Martin Uulas AB	Sweden	May 2005	292	403	108	162	533
Integrated Building Services Design Partnership plc	England	July 2005	1,640	1,575	838	995	2,220
GW Building Services Limited	England	September 2005	257	400	–	60	597
Transek AB	Sweden	December 2005	598	241	364	216	623

The assets and liabilities of the businesses acquired in the year are set out below:

	Carrying values pre acquisition £'000	Provisional fair value £'000
Goodwill	148	–
Intangible assets	16	16
Property, plant and equipment	431	431
Other financial assets	35	35
Amounts recoverable on contracts	342	353
Trade and other receivables	1,665	1,665
Other financial assets	1,602	1,602
Cash and cash equivalents	1,120	1,120
Trade and other payables	(1,400)	(1,400)
Current financial liabilities	(2,212)	(2,212)
Net assets acquired	**1,747**	**1,610**
Goodwill acquired		6,572
Intangible assets acquired		311
Consideration		**8,493**

In addition to the figures above, the Group may pay additional sums amounting to £3,947,000 dependent on a number of performance targets being met. The fair value adjustments contain some provisional amounts which will be finalised in the 2006 accounts.

The outflow of cash and cash equivalents on acquisitions during the year is calculated as follows

	£'000
Initial cash consideration	4,485
Cash acquired	(1,120)
	3,365

Had all acquisitions been made at the beginning of the year, the Group's revenue and profit before interest and taxation would have been reported as £376,164,000 and £22,549,000 respectively. This information is not necessarily indicative of the results of operations that would have occurred had the purchase been made at the beginning of the year or the future results of the combined operations.

The intangible assets identified as part of businesses acquired in the year are analysed below. Further details of these are given in note 10.

	£'000
Computer software	16
Sales order book	143
Customer lists	132
Trading names	36
Total	**327**

21. Reconciliation of operating profit to operating cash flows

	Group 2005 £'000	Group 2004 £'000	Company 2005 £'000	Company 2004 £'000
Profit for the financial period	**13,993**	14,702	**2,903**	3,963
Employee benefits costs – pension scheme settlements and curtailments	**–**	(7,018)	**–**	–
	13,993	7,684	**2,903**	3,963
Taxation	**5,829**	6,881	**(2,179)**	–
Depreciation	**5,740**	5,369	**50**	48
Performance share plan	**938**	619	**938**	619
Loss on disposal of property, plant and equipment	**51**	12	**–**	–
Gain on disposal of other investments	**26**	–	**–**	–
Amortisation of intangibles	**1,042**	370	**–**	–
Dividend income	**–**	–	**(2,461)**	(5,000)
Interest income	**(217)**	(258)	**(821)**	(918)
Interest expense	**2,645**	3,054	**1,469**	1,786
Share of results of joint venture and associated undertakings after taxation	**(1,432)**	(610)	**–**	–
Changes in working capital (excluding effects of acquisitions of subsidiaries):				
(Increase)/decrease in trade and other receivables	**(15,001)**	(5,662)	**59**	(392)
Increase/(decrease) in trade and other payables	**16,914**	6,458	**(236)**	242
Increase/(decrease) in other provisions	**1,009**	104	**67**	(92)
Other non cash items	**336**	–	**659**	709
Cash generated from operations	**31,873**	24,021	**448**	965

22. Financing

	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Net proceeds of share issues	**147**	28	**147**	28
Purchase of shares	**(406)**	(148)	**–**	–
Drawdown on loan facilities	**–**	51,855	**–**	23,800
Repayment of loan facilities	**(5,284)**	(58,491)	**(1,600)**	(57,364)
Repayments on finance leases	**(284)**	(422)	**–**	–
Closure of Swedish Kronor currency swap	**–**	(6,827)	**–**	(6,827)
Equity dividends received	**–**	–	**2,461**	5,000
Equity dividends paid	**(3,386)**	(3,082)	**(3,386)**	(3,082)
Total financing	**(9,213)**	(17,087)	**(2,378)**	(38,445)

23. Reconciliation of net cash flow to movement in net debt

	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Increase/(decrease) in cash balances in the year	**5,341**	(5,695)	**(595)**	846
Decrease/(increase) in bank overdrafts in the year	**429**	(1,938)	**8,935**	(7,513)
Increase/(decrease) in cash in the year	**5,770**	(7,633)	**8,340**	(6,667)
New finance leases	**–**	(148)	**–**	–
Net debt acquired with acquisitions	**–**	(443)	**–**	–
Finance lease repayments	**284**	422	**–**	–
Bank loan and property mortgage repayments	**5,284**	58,491	**1,600**	57,364
New bank loans/drawdowns on existing facilities	**–**	(51,855)	**–**	(23,800)
Movement in net debt resulting from cash flows	**11,338**	(1,166)	**9,940**	26,897
Foreign exchange differences	**1,444**	740	**–**	–
Movement in net debt in the year	**12,782**	(426)	**9,940**	26,897
Net debt at 1 January	**(44,996)**	(44,570)	**(31,847)**	(58,744)
Net debt at 31 December	**(32,214)**	(44,996)	**(21,907)**	(31,847)

24. Analysis of net debt

Group

	1 January 2005 £'000	Net cash flows £'000	Other movements £'000	Foreign Exchange £'000	**31 December 2005 £'000**
Cash balances	10,749	5,196	–	145	**16,090**
Bank overdrafts	(3,050)	326	–	103	**(2,621)**
Cash and cash equivalents	7,699	5,522	–	248	**13,469**
Current					
Bank loans	(3,386)	5,284	(4,764)	66	**(2,800)**
Finance Leases	(336)	284	(95)	(6)	**(153)**
Non-current					
Bank loans	(48,766)	–	4,764	1,385	**(42,617)**
Finance Leases	(207)	–	95	(1)	**(113)**
	(44,996)	11,090	–	1,692	**(32,214)**

Company

	1 January 2005 £'000	Net cash flows £'000	Other movements £'000	Foreign Exchange £'000	**31 December 2005 £'000**
Cash balances	888	(595)	–	–	**293**
Bank overdrafts	(8,935)	8,935	–	–	**–**
Cash and cash equivalents	(8,047)	8,340	–	–	**293**
Current					
Bank loans	–	–	(1,600)	–	**(1,600)**
Non-current					
Bank loans	(23,800)	1,600	1,600	–	**(20,600)**
	(31,847)	9,940	–	–	**(21,907)**

25. Pensions

Pension costs included in employee benefit costs consist of the following:

	2005 £'000	2004 £'000
Defined benefit schemes	**2,276**	3,435
Effect of curtailment	**–**	(7,018)
	2,276	(3,583)
Defined contribution schemes	**11,317**	11,287
	13,593	7,704

The Group operates both defined contribution and defined benefit pension schemes. Defined contributions are charged to the profit and loss account as they are incurred.

In the UK, there are six separate defined benefit schemes, all of which are closed to new members. The assets of the schemes are held separately from those of the Group in independently administered funds. In 2004, pensionable salaries were frozen following consultation with staff.

In Sweden, a proportion of the multi-employer Government run plan is treated as a defined benefit scheme. This liability is unfunded and is carried in the Group's balance sheet. The multi-employer Government plan retains substantial other assets to meet the balance of pension liabilities. As the directors are unable to identify the underlying assets and liabilities of this portion of the scheme, this portion is treated as a defined contribution scheme for the purposes of IAS 19 'Employee Benefits'.

25. Pensions (continued)

For funded and unfunded defined benefit plans, any deficit of the fair value of plan assets over the present value of the defined benefit obligation is recognised as a liability in the balance sheet, taking into account any unrecognised actuarial gains or losses and past service cost. Actuarial gains and losses are recognised in full as they arise in the statement of recognised income and expense. These reflect changes in actuarial assumptions and differences between actuarial assumptions and what has actually occurred.

The actuarial cost charged to the income statement in respect of defined benefit plans consists of current service costs, interest costs, expected return on plan assets, past service costs and costs of curtailments.

The liabilities of the Group arising from defined benefit obligations and their related current service cost are determined using the projected unit credit method. Valuations are performed annually for the largest plans and on a regular basis for other plans. Actuarial advice is provided both by external consultants and actuaries. The actuarial assumptions used to calculate the benefit obligations vary according to the economic conditions of the country in which the plan is located and are set out below.

UK	**2005**	2004
Rate of increase in pensionable salaries	**nil**	nil
Rate of increase in pensions in payment	**2.7%**	2.5%
Discount rate	**4.8%**	5.4%
Inflation assumption	**2.7%**	2.5%
Expected return on plan assets	**6.6%**	6.9%
Sweden		
Rate of increase in pensionable salaries	**2.8%**	2.8%
Rate of increase in pensions in payment	**2.8%**	2.8%
Discount rate	**3.8%**	4.5%
Inflation assumption	**2.0%**	2.0%
Expected return on plan assets	**n/a**	n/a

The major categories of plan assets as a percentage of total plan assets are as follows:

	2005	2004
Equities	**60%**	57%
Bonds	**23%**	14%
Property	**1%**	2%
Other	**16%**	27%

	2005 £'000	2004 £'000
Fair value of plan assets	**44,948**	36,939
Present value of funded obligations	**(66,876)**	(51,973)
	(21,928)	(15,034)
Present value of unfunded obligations	**(9,109)**	(5,466)
Pension liability	**(31,037)**	(20,500)

Amounts recognised in the income statement are as follows:

	2005 Charge excluding the effect of curtailments £'000	**2005 Effect of Curtailments £'000**	**2005 Total £'000**	2004 Charge excluding the effect of curtailments £'000	2004 Effect of Curtailments £'000	2004 Total £'0000
Current service costs	**1,827**	**–**	**1,827**	2,835	–	2,835
Curtailments	**–**	**–**	**–**	–	(7,018)	(7,018)
Interest cost	**3,036**	**–**	**3,036**	2,985	–	2,985
Expected return on plan assets	**(2,587)**	**–**	**(2,587)**	(2,385)	–	(2,385)
Total charge/(credit) to the income statement	**2,276**	**–**	**2,276**	3,435	(7,018)	(3,583)

Changes in the present value of the defined benefit obligation are as follows:

	2005 £'000	2004 £'000
Present value of obligation as at 1 January	**57,439**	57,171
Service cost	**1,827**	2,835
Contributions	**466**	708
Benefits paid	**(1,028)**	(1,521)
Interest cost	**3,036**	2,985
Settlements and curtailments	**–**	(7,018)
Actuarial losses	**14,643**	2,237
Foreign exchange differences	**(398)**	42
Present value of obligation as at 31 December	**75,985**	57,439

Changes in the fair value of plan assets are as follows:

Fair value of plan assets as at 1 January	**36,939**	33,350
Expected return on plan assets	**2,587**	2,385
Contributions	**2,403**	2,392
Benefits paid	**(1,025)**	(1,521)
Actuarial gains	**4,044**	333
Fair value of plan assets as at 31 December	**44,948**	36,939

Analysis of the movement in pension scheme liabilities:

As at 1 January	**20,500**	23,821
Total charge/(credit)	**2,276**	(3,583)
Contributions	**(1,937)**	(1,684)
Net actuarial losses recognised in the year	**10,599**	1,904
Benefits paid	**(3)**	–
Foreign exchange differences	**(398)**	42
As at 31 December	**31,037**	20,500

Cumulative actuarial gains and losses recognised in equity

As at 1 January	**(1,904)**	–
Net actuarial losses recognised in the year	**(10,599)**	(1,904)
As at 31 December	**(12,503)**	(1,904)

25. Pensions (continued)

History of experience gains and losses

	2005	2004
Experience adjustments arising on scheme assets:		
Amount (£'000)	**4,044**	333
Percentage of scheme assets	**9%**	1%
Experience adjustments arising on scheme liabilities:		
Amount (£'000)	**(3,883)**	(556)
Percentage of scheme liabilities	**(5%)**	(1%)
Changes in the assumptions underlying the value of scheme liabilities:		
Amount (£'000)	**(10,760)**	(1,681)
Percentage of scheme liabilities	**(14%)**	(3%)
Present value of scheme liabilities (£'000)	**(75,985)**	(57,439)
Fair value of scheme assets (£'000)	**44,948**	36,939
Deficit (£'000)	**(31,037)**	(20,500)

The combined employee and employer contributions expected to be paid during the financial year ended 31 December 2006 amount to £2.6m.

26. Financial instruments

The Group's activities expose it to a variety of financial risks, including the effects of foreign currency exchange rates, liquidity and interest rates. An explanation of the Board's objectives, policies and strategies for holding and issuing financial instruments to manage these risks is set out in the Group Finance Director's Review on page 11.

a) Foreign currency risk

The Group is exposed to foreign exchange risk primarily with respect to the Swedish Kronor and the US Dollar. Most of our trading activity is denominated in the currencies relevant to the local subsidiaries, thus matching the currency with its cost base.

Cash and cash equivalents by major currency

	Functional currency of the local operation					
	Group				Company	
	2005 £'000 Sterling	**2005 £'000 Other**	2004 £'000 Sterling	2004 £'000 Other	**2005 £'000 Sterling**	2004 £'000 Sterling
Sterling	**6,127**	**7**	1,916	46	**276**	74
US Dollars	**117**	**4,093**	609	2,853	**26**	546
Swedish Kronor	**3**	**1,016**	342	834	**3**	342
Euro	**–**	**1,844**	–	1,761	**–**	–
South African Rand	**–**	**1,117**	–	1,240	**–**	–
Other	**674**	**1,092**	792	356	**–**	–
	6,921	**9,169**	3,659	7,090	**305**	962

The Group and the Company have £16.1m and £0.3m respectively of cash and cash equivalents at the year end held in bank accounts (2004: £10.7m the Group; £1.0m the Company) which is immediately available for use. 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.

b) Liquidity risk

The maturity of financial liabilities is as follows:

	Group		Company	
	2005 £'000	2004 £'000	**2005 £'000**	2004 £'000
In one year or less, or on demand	**5,573**	7,125	**1,600**	10,535
In more than one year but not more than two years	**24,574**	18,432	**20,769**	102
In more than two years but not more than five years	**13,747**	31,409	**–**	22,200
In more than five years	**40,854**	20,878	**–**	–
	84,748	77,844	**22,369**	32,837

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 2005 committed but undrawn working capital facilities amounted to £19.8m (2004:£16.7m) all of which are renewable in 2007 (2004: £0.5m in one year or less and £16.2m in more than one year).

c) Interest rate risk

	Floating rate liabilities 2005 £'000	**Fixed rate liabilities 2005 £'000**	**Non-interest bearing liabilities 2005 £'000**	**Total 2005 £'000**	Floating rate liabilities 2004 £'000	Fixed rate liabilities 2004 £'000	Non-interest bearing liabilities 2004 £'000	Total 2004 £'000
Sterling	**22,200**	**27**	**24,593**	**46,820**	23,800	186	15,186	39,172
US Dollars	**2,131**	**7**	**–**	**2,138**	2,797	58	–	2,855
Swedish Kronor	**22,642**	**–**	**11,687**	**34,329**	27,757	–	6,882	34,639
Hong Kong Dollars	**432**	**–**	**–**	**432**	461	–	–	461
South African Rand	**864**	**–**	**165**	**1,029**	685	–	32	717
	48,269	**34**	**36,445**	**84,748**	55,500	244	22,100	77,844

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 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 2 years (2004: 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.

Financial assets are non interest bearing with the exception of cash and cash equivalents as detailed in (a) above.

d) Credit risk

The Group has no significant concentrations of credit risk. The Group has implemented policies that require appropriate credit checks on potential customers before sales commence.

e) Derivative financial instruments and hedging activities

There were no outstanding currency swaps or derivatives at 31 December 2005 (2004:nil) and no designated hedges as defined by IAS 39, 'Financial Instruments: Recognition and Measurement'. In accordance with IAS 39, the Group has reviewed all contracts for embedded derivatives that are required to be separately accounted for if they do not meet certain requirements. No such arrangements have been identified.

f) Fair values

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

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 2005.

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

		Group		Company
	2005	2004	**2005**	2004
	£'000	£'000	**£'000**	£'000
Equipment and plant:				
Within one year	**468**	724	**16**	16
Between two and five years	**2,947**	2,163	**–**	–
	3,415	2,887	**16**	16
Property:				
Within one year	**1,367**	1,067	**113**	114
Between two and five years	**12,612**	10,570	**1,124**	675
After more than five years	**744**	1,009	**–**	–
	14,723	12,646	**1,237**	789

28. Related party transactions

Group

During the year the Group entered into arm's length transactions with its joint ventures and associated undertakings. Turnover with these companies amounted to £12.9m (2004: £3.5m) and the Group purchased services of £0.6m (2004: £Nil).

At 31 December 2005 a net balance of £256,000 was due to joint ventures and associated undertakings by the Group (2004: £1,141,000 due from the Group to joint ventures and associated undertakings).

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 2005, the maximum total due to these senior employees was £5,416,000 (2004: £1,257,000), subject to meeting performance targets.

Details of the aggregate remuneration of key management personnel of the Group are set out in note 5.

Company

The Company operates as a holding company for the group and, as such, receives management fees for services supplied to Group companies. Mangement fees received from other Group companies amounted to £4,507,000 (2004: £3,788,000). During the year, the Company received interest on loans to other Group companies amounting to £816,000 (2004: £888,000).The Company received dividends from subsidiary undertakings amounting to £2,461,000 (2004:£5,000,000).

The Company has outstanding balances with other Group companies that are disclosed in notes 14 and 16, and has investments in group companies as detailed in note 12(c).

Compensation of the Company key management personnel is detailed in note 5.

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

At 31 December 2005 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	At 1 Jan 2005	Exercised	Lapsed	Awarded	At 31 Dec 2005	Exercisable at 31 Dec 2004	Exercisable at 31 Dec 2005
WSP Group plc 1997 Save As You Earn								
11.04.2001 – 11.04.2004	420.0p	3,227	–	(3,227)	–	–	3,227	–
11.04.2002 – 11.04.2005	300.0p	149,301	(25,003)	(124,298)	–	–	–	–
		152,528	(25,003)	(127,525)	–	–	3,227	–
WSP Group plc 1997 Share Option Scheme								
08.04.2001 – 08.04.2008	91.0p	70,696	(16,441)	–	–	54,255	70,696	54,255
30.06.2002 – 30.06.2009	183.0p	89,879	(14,053)	(192)	–	75,634	89,879	75,634
26.05.2003 – 26.05.2010	242.0p	150,161	(6,576)	–	–	143,585	150,161	143,585
06.04.2004 – 06.04.2011	429.0p	302,515	–	(176,486)	–	126,029	302,515	126,029
06.04.2005 – 06.04.2012	334.0p	371,750	(5,500)	(197,750)	–	168,500	–	168,500
10.04.2006 – 10.04.2013	75.0p	104,500	–	(2,500)	–	102,000	–	–
		1,089,501	(42,570)	(376,928)	–	670,003	613,251	568,003
WSP Group plc 1997 Performance Share Plan								
01.04.2005	0.0p	206,455	–	(206,455)	–	–	–	–
01.04.2006	0.0p	1,190,000	–	–	–	1,190,000	–	–
01.04.2007	0.0p	300,000	–	–	–	300,000	–	–
01.04.2008	0.0p	–	–	–	281,000	281,000	–	–
		1,696,455	–	(206,455)	281,000	1,771,000	–	–
WSP Group plc 1997 Deferred Bonus Share Plan								
01.04.2005	0.0p	2,275	(2,275)	–	–	–	–	–
20.05.2005	0.0p	6,017	(6,017)	–	–	–	–	–
01.04.2006	0.0p	308,293	–	–	–	308,293	–	–
01.04.2007	0.0p	17,482	–	–	–	17,482	–	–
01.04.2008	0.0p	–	–	–	82,312	82,312	–	–
		334,067	(8,292)	–	82,312	408,087	–	–
		3,272,551	(75,865)	(710,908)	363,312	2,849,090	616,478	568,003

The weighted average share price at the date of exercise for share options exercised in the period was 334.25p. 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 IFRS 2.

WSP Group plc has provided loans totalling £1,859,141 (2004: £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.

29. Share options, the performance share plan and the bonus share plan (continued)

The fair value of the potential future awards of the two schemes is accrued over the 3-year performance periods of each plan. The fair value of future awards charged in 2005 in the accounts of WSP Group plc was £938,501 (2004: £619,425).

In respect of share awards granted during the period of 363,312, the weighted average fair value of the shares amounted to 251.1p calculated using the Black Scholes valuation model. The inputs to this model included, inter alia, an average yield of 4.38% from British government securities and an average dividend yield of 2.5%. The volatility has been calculated as the annualised standard deviation of the continuously compounded historic rates of return on WSP shares.

As at 31 December 2005 the Trust owned 314,772 ordinary shares of the Company (2004: 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 2005 was 370p per share (2004: 260p). All shares held are reserved to meet existing commitments under the employee incentive schemes.

30. International Financial Reporting Standards

WSP Group plc ('the Company'') has prepared its consolidated financial statements for the year ended 31 December 2005 in accordance with International Financial Reporting Standards ('IFRS') and IFRIC interpretations and with those parts of the Companies Act, 1985 applicable to companies reporting under IFRS. References to IFRS throughout these financial statements refer to the application of International Accounting Standards and International Financial Reporting Standards.

Previously, the Company prepared financial statements in accordance with UK Generally Accepted Accounting Principles ('UK GAAP'). These are the first financial statements prepared under IFRS and this note explains the differences that have arisen when the Group's financial statements are prepared under IFRS rather than UK GAAP. Reconciliations of the Group's and the Company's UK GAAP balance sheets to those prepared in accordance with IFRS as at 1 January 2004 (the opening balance sheet as at the date of transition to IFRS) and 31 December 2004 are set out on pages 77, 78, 80 and 81. In addition, reconciliations of the Group's and Company's income statements prepared under UK GAAP to those prepared in accordance with IFRS for the year to 31 December 2004 are set out on pages 76 and 79.

The restatement has been prepared on the basis that all IFRSs, International Financial Reporting Interpretation Committee ('IFRIC') interpretations and current IASB exposure drafts will be issued as final standards and endorsed by the EU.

First-time Adoption of International Financial Reporting Standards

The Company has applied IFRS 1 'First-time Adoption of International Financial Reporting Standards' for its initial implementation of IFRS. The Company's date of transition to IFRS is 1 January 2004 and comparative information in the financial statements has been restated to reflect the Company's adoption of IFRS except where otherwise required or permitted by IFRS 1.

IFRS 1 requires an entity to comply with each IFRS effective at the reporting date for its first financial statements prepared under IFRS. As a general rule, IFRS 1 requires such standards to be applied retrospectively. However, the standard permits several optional exemptions from full retrospective application. The Company has elected to take advantage of the following exemptions:

- The Company has adopted IFRS 3 'Business Combinations' to the extent that it applies to acquisitions after 1January 2004. Acquisitions before that date will be recorded under previous accounting rules as the Company intends to take advantage of the exemption permitted in IFRS 1. All goodwill and intangibles have been tested for impairment in accordance with our accounting policy. In addition, the Company has taken advantage of the exemption allowed in IFRS 1 which means that IAS 21 'The Effects of Changes in Foreign Exchange Rates' will not apply retrospectively to fair value adjustments and goodwill arising in business combinations that occurred before the date of transition to IFRSs.
- The Company has elected to take advantage of the exemption which allows cumulative actuarial gains or losses on defined benefit pension schemes at the date of transition to IFRS to be recognised immediately.
- The Company has elected to take advantage of the exemption allowed in IFRS 1 regarding cumulative translation differences. Accordingly, the cumulative translation differences for all foreign operations are deemed to be nil at the date of transition to IFRS.
- The Group has elected to apply the exemptions in IAS 32 'Financial Instruments: Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement', and will apply these standards from 1 January 2005 only.
- The Company has elected to take advantage of the exemptions allowed in IFRS 1 regarding IFRS 2 'Share based payments'. The Company has applied the exemptions for share based payments granted on or before 7 November 2002. The Company has met all the disclosure requirements of IFRS 2.

Main impacts of International Financial Reporting Standards

Outlined below are those International Financial Reporting Standards which have had an impact upon the financial statements of WSP Group plc. Details of adjustments are set out in the reconciliations to UK GAAP on pages 76 to 82.

IFRS 3 – 'Business Combinations'
The standard deals with accounting for business combinations including goodwill and intangible assets. The Company's previous policy under UK GAAP was to capitalise goodwill and then amortise the balance over its useful economic life. Under IFRS, goodwill is reviewed for impairment annually or more frequently if changes in circumstances indicate that the carrying value may be impaired. Where appropriate, in respect of business combinations completed after the date of transition to IFRS, separately identified intangible assets will be valued and will be subject to amortisation or impairment review.

IAS 19 – 'Employee Benefits'
The standard covers all forms of employee benefits, in particular post-retirement benefits and defined benefit pension schemes. The Group previously accounted for defined benefit pension schemes using SSAP 24 and also complied with the transitional rules of FRS 17. As at 1 January 2004, the impact of IAS 19 on the financial statements has been the introduction of a liability on the balance sheet in respect of the deficit in defined benefit pension schemes and the reduction of shareholders' equity by a corresponding amount, net of deferred taxation.

IAS 1 – 'Presentation of Financial Statements'
Previously, under UK GAAP, the Group's profit before taxation included the profits of joint venture and associated undertakings, determined on a pre-tax basis. IAS 1 requires that the profits of associated undertakings and joint ventures should be presented net of taxation, and consequently the impact of this standard is to present the Group's profit before taxation inclusive of profits of joint venture and associated undertakings after taxation.

IAS 12 – 'Income Taxes'
This standard requires entities to provide for deferred taxation based on temporary differences between the carrying amount of assets and liabilities and their tax base. Consequently, the Company has made additional provision for deferred taxation on tax deductible purchased goodwill amortisation, share based payments and pension costs.

IAS 21 – 'The Effects of Changes in Foreign Exchange Rates'
Income statements and cash flows of foreign subsidiaries are reported in sterling using average rates of exchange that existed during the accounting period rather than the closing rates at the end of the accounting period as was previously permitted by UK GAAP.

IAS 10 – 'Events after the balance sheet date'
The standard does not permit dividends declared after the balance sheet date to be recognised as a liability. Consequently the Company no longer makes provision for dividends not approved by the period end. Actual dividends paid in the period are charged to shareholders' equity.

IFRS 2 – 'Share-based Payments'
Historically, provision has been made for the cost of awards to employees (including conditional rights) based on the share price ruling at grant date. Under IFRS 2, share awards will be measured at fair value at grant date and recognised as an expense over the period to which the employees performance relates. The impact of this standard on the financial statements of the Company has been a small reduction in the charge to the income statement for the year ended 31 December 2004 and an equivalent increase in shareholders' funds, net of deferred tax. Additionally there is a small reduction in the cumulative charge to retained earnings at the date of transition to IFRS.

IAS 38 – 'Intangible Assets'
Previously, all software was classified as tangible assets. IAS 38 attaches additional focus on software as a separate class of intangible assets, and the impact of this standard has been the reclassification of certain acquired software applications as intangible assets.

IAS 14 – 'Segment Reporting'
Previously, the Group presented segment reporting based on its three primary business segments being Property, Transport & Infrastructure, and Environmental. Secondary segments are reported on the basis of the five principal geographic regions in which those services are provided. The Group now reports additional segmental analysis in accordance with IAS 14.

30. International Financial Reporting Standards (continued)

Reconciliation of IFRS profit for the year ended 31 December 2004

Group	*Note 31*	Audited UK GAAP 31 December 2004 £'000	Write-back amortisation of goodwill *(f)* £'000	Translation of foreign exchange at average Exchange Rates *(g)* £'000	Defined benefit pension schemes *(c)* £'000	Accounting for JVs and associates by net equity method *(a)* £'000	Other adjustments *(d)* £'000	IFRS 31 December 2004 £'000
Revenue		308,246	–	(5,401)	–	–	–	302,845
Cost of sales								
Subcontractor costs		(25,163)	–	251	–	–	–	(24,912)
Employee benefits costs								
– standard		(198,866)	–	3,603	128	–	–	(195,135)
– pension scheme settlements and curtailments		–	–	–	7,018	–	–	7,018
Gross profit		84,217	–	(1,547)	7,146	–	–	89,816
Administrative expenses		(67,270)	–	1,224	–	–	(1)	(66,047)
Amortisation of goodwill		(5,446)	5,446	–	–	–	–	–
Operating profit		11,501	5,446	(323)	7,146	–	(1)	23,769
Joint venture and associated undertakings								
– share of profit		866	–	(51)	–	30	–	845
– share of taxation		–	–	14	–	(249)	–	(235)
		866	–	(37)	–	(219)	–	610
Profit before interest and taxation		12,367	5,446	(360)	7,146	(219)	(1)	24,379
Interest payable		(2,801)	–	38	–	(30)	(261)	(3,054)
Interest receivable		–	–	(3)	–	–	261	258
Profit before taxation		9,566	5,446	(325)	7,146	(249)	(1)	21,583
Taxation		(4,777)	–	86	(2,143)	249	(296)	(6,881)
Profit for the financial year		4,789	5,446	(239)	5,003	–	(297)	14,702
Profit attributable to								
– Equity shareholders		4,580	5,446	(225)	5,003	–	(297)	14,507
– Minority interests		209	–	(14)	–	–	–	195
		4,789	5,446	(239)	5,003	–	(297)	14,702

Reconciliation of equity as at 1 January 2004 (date of transition to IFRSs)

Group	Note 31	Audited UK GAAP 31 December 2003 £'000	Balance sheet reclass-ifications *(b)* £'000	Pension schemes *(c)* £'000	Other adjustments *(d),(e)* £'000	IFRS 31 December 2003 £'000
Assets						
Non-current assets						
Goodwill		92,556	–	–	–	92,556
Intangible assets		–	1,405	–	–	1,405
Property, plant and equipment		16,845	(954)	–	–	15,891
Financial assets		1,164	–	–	–	1,164
Investments accounted for using the equity method		3,224	–	–	–	3,224
Deferred taxation asset		–	1,250	6,082	149	7,481
		113,789	1,701	6,082	149	121,721
Current assets						
Trade and other receivables		88,661	(451)	–	–	88,210
Cash and cash equivalents		16,444	–	–	–	16,444
		105,105	(451)	–	–	104,654
Liabilities						
Current liabilities						
Financial liabilities		–	(60,044)	–	–	(60,044)
Trade and other payables		(127,374)	62,046	–	1,813	(63,515)
Liabilities for current taxation		–	(2,002)	–	–	(2,002)
		(127,374)	–	–	1,813	(125,561)
Net current assets		(22,269)	(451)	–	1,813	(20,907)
Non-current liabilities						
Financial liabilities		(1,027)	–	–	–	(1,027)
Pension liabilities		–	–	(23,821)	–	(23,821)
Deferred taxation liability		(5,174)	(1,250)	993	–	(5,431)
Provisions		(870)	–	–	–	(870)
		(7,071)	(1,250)	(22,828)	–	(31,149)
Net assets		**84,449**	**–**	**(16,746)**	**1,962**	**69,665**
Equity						
Called up share capital		3,022	–	–	–	3,022
Share premium account		76,510	–	–	–	76,510
Shares to be issued		253	–	–	–	253
Profit and loss account		4,552	–	(16,746)	1,962	(10,232)
Total shareholders' equity		84,337	–	(16,746)	1,962	69,553
Minority interests		112	–	–	–	112
Total equity		**84,449**	**–**	**(16,746)**	**1,962**	**69,665**

30. International Financial Reporting Standards (continued)

Reconciliation of equity as at 31 December 2004

Group	Note 31	Audited UK GAAP 31 December 2004 £'000	Balance sheet reclass-ifications (b) £'000	Pension schemes (c) £'000	Write-back amortisation of goodwill (f) £'000	Other adjustments (d),(e) £'000	IFRS 31 December 2004 £'000
Assets							
Non-current assets							
Goodwill		89,088	–	–	5,446	–	94,534
Intangible assets		–	1,018	–	–	–	1,018
Property, plant and equipment		16,663	(1,002)	–	–	–	15,661
Financial assets		1,090	–	–	–	–	1,090
Investments accounted for using the equity method		4,917	–	–	–	–	4,917
Deferred taxation asset		–	1,645	4,510	–	155	6,310
		111,758	1,661	4,510	5,446	155	123,530
Current assets							
Trade and other receivables		95,907	(16)	–	–	–	95,891
Cash and cash equivalents		10,749	–	–			10,749
		106,656	(16)	–	–	–	106,640
Liabilities							
Current liabilities							
Financial liabilities		(6,772)	–	–	–	–	(6,772)
Trade and other payables		(65,648)	–	–	–	1,935	(63,713)
Liabilities for current taxation		(1,843)	–	–	–	–	(1,843)
		(74,263)	–	–	–	1,935	(72,328)
Net current assets		32,393	(16)	–	–	1,935	34,312
Non-current liabilities							
Financial liabilities		(48,973)	–	–	–	–	(48,973)
Pension liabilities		(1,881)	–	(18,619)	–	–	(20,500)
Deferred taxation liability		(5,578)	(1,645)	1,004	–	–	(6,219)
Provisions		(1,599)	–	–	–	–	(1,599)
		(58,031)	(1,645)	(17,615)	–	–	(77,291)
Net assets		**86,120**	**–**	**(13,105)**	**5,446**	**2,090**	**80,551**
Equity							
Called up share capital		3,023	–	–	–	–	3,023
Share premium account		76,537	–	–	–	–	76,537
Shares to be issued		207	–	–	–	–	207
Profit and loss account		6,033	–	(13,105)	5,446	2,103	477
Total shareholders' equity		85,800	–	(13,105)	5,446	2,103	80,244
Minority interests		320	–	–	–	(13)	307
Total equity		**86,120**	**–**	**(13,105)**	**5,446**	**2,090**	**80,551**

Reconciliation of IFRS profit for the year ended 31 December 2004

Company	Note 31	Audited UK GAAP 31 December 2004 £'000	Write-back amortisation of goodwill *(f)* £'000	Employee benefit trust *(h)* £'000	Other adjustments *(b),(d),(e)* £'000	IFRS 31 December 2004 £'000
Revenue		13	–	–	–	13
Cost of sales		–	–	–	–	–
Subcontractor costs		–	–	–	–	–
Employee benefits costs						
– standard		(2,845)	–	–	–	(2,845)
– pension scheme settlements and curtailments		–	–	–	–	–
Gross profit		(2,832)	–	–	–	(2,832)
Administrative expenses		7,620	–	18	25	7,663
Amortisation of goodwill		(86)	86	–	–	–
Operating profit		4,702	86	18	25	4,831
Joint venture and associated undertakings						
– share of profit		–	–	–	–	–
– share of taxation		–	–	–	–	–
		–	–	–	–	–
Profit before interest and taxation		4,702	86	18	25	4,831
Interest payable		(1,786)	–	–	–	(1,786)
Interest receivable		921	–	(3)	–	918
Profit before taxation		3,837	86	15	25	3,963
Taxation		–	–	–	–	–
Profit for the financial year		3,837	86	15	25	3,963

30. International Financial Reporting Standards (continued)

Reconciliation of equity as at 1 January 2004 (date of transition to IFRSs)

Company	*Note 31*	Audited UK GAAP 31 December 2003 £'000	Employee benefit trust *(h)* £'000	Other adjustments *(d),(e)* £'000	IFRS 31 December 2003 £'000
Assets					
Non-current assets					
Goodwill		1,357	–	–	1,357
Property, plant and equipment		153	–	–	153
Investments in subsidiary and joint venture undertakings		25,025	–	–	25,025
Deferred taxation asset		–	–	149	149
		26,535	–	149	26,684
Current assets					
Trade and other receivables		137,112	1,529	–	138,641
Cash and cash equivalents		131	(89)	–	42
		137,243	1,440	–	138,683
Liabilities					
Current liabilities					
Financial liabilities		(58,786)	–	–	(58,786)
Trade and other payables		(13,956)	–	1,813	(12,143)
Liabilities for current taxation		(579)	–	–	(579)
		(73,321)	–	1,813	(71,508)
Net current assets		63,922	1,440	1,813	67,175
Non-current liabilities					
Deferred taxation liability		(47)	–	–	(47)
Provisions		(194)	–	–	(194)
		(241)	–	–	(241)
Net assets		**90,216**	**1,440**	**1,962**	**93,618**
Equity					
Called up share capital		3,022	–	–	3,022
Share premium account		76,510	–	–	76,510
Shares to be issued		253	–	–	253
Other reserves		8,210	–	–	8,210
Profit and loss account		2,221	1,440	1,962	5,623
Total shareholders' equity		90,216	1,440	1,962	93,618
Minority interests		–	–	–	–
Total equity		**90,216**	**1,440**	**1,962**	**93,618**

Reconciliation of equity as at 31 December 2004

Company	Note 31	Audited UK GAAP 31 December 2004 £'000	Write-back amortisation of goodwill *(f)* £'000	Employee benefit trust *(h)* £'000	Other adjustments *(d),(e)* £'000	IFRS 31 December 2004 £'000
Assets						
Non-current assets						
Goodwill		1,271	86	–	–	1,357
Property, plant and equipment		105	–	–	–	105
Investments in subsidiary and joint venture undertakaings		38,751	–	–	–	38,751
Deferred taxation asset		–	–	–	396	396
		40,127	86	–	396	40,609
Current assets						
Trade and other receivables		97,793	–	1,529	–	99,322
Cash and cash equivalents		962	–	(74)	–	888
		98,755	–	1,455	–	100,210
Liabilities						
Current liabilities						
Financial liabilities		(8,935)	–	–	–	(8,935)
Trade and other payables		(13,089)	–	–	1,960	(11,129)
Liabilities for current taxation		(709)	–	–	–	(709)
		(22,733)	–	–	1,960	(20,773)
Net current assets		76,022	–	1,455	1,960	79,437
Non-current liabilities						
Financial liabilities		(23,800)	–	–	–	(23,800)
Deferred taxation liability		(47)	–	–	–	(47)
Provisions		(102)	–	–	–	(102)
		(23,949)	–	–	–	(23,949)
Net assets		**92,200**	**86**	**1,455**	**2,356**	**96,097**
Equity						
Called up share capital		3,023	–	–	–	3,023
Share premium account		76,537	–	–	–	76,537
Shares to be issued		207	–	–	–	207
Other reserves		8,210	–	–	–	8,210
Profit and loss account		4,223	86	1,455	2,356	8,120
Total shareholders' equity		92,200	86	1,455	2,356	96,097
Minority interests		–	–	–	–	–
Total equity		**92,200**	**86**	**1,455**	**2,356**	**96,097**

31. Explanation of reconciling items between UK GAAP and IFRS

(a) Under UK GAAP, the profits before taxation of joint venture and associated undertakings were included in the Group's profit before taxation. IAS 1 requires that the profits of joint venture and associated undertakings should be presented net of taxation. Consequently the Group's profit before taxation is presented based on the Group's share of joint venture and associated undertakings profit after taxation.

(b) In accordance with IAS 38 'Intangible Assets', certain software applications are reclassified as intangible assets.

(c) In accordance with IAS 19 'Employee Benefits', as at 1 January 2004 defined benefit pension scheme deficits net of deferred taxation are recognised on the Group balance sheet. Pension settlements and curtailments are recognised in the income statement.

(d) In accordance with IFRS 2 'Share-based Payment', share awards are measured at fair value at grant date and recognised as an expense over the period to which the associated employees' service relates.

(e) In accordance with IAS 10 'Events after the Balance Sheet Date', dividends declared after the balance sheet date have been written back. Actual dividends paid in the period are recognised in shareholders' equity.

(f) In accordance with IFRS 3 'Business Combinations', goodwill in respect of acquisitions before 1 January 2004, together with any unamortised pre-existing goodwill, is no longer amortised but is subject to an annual impairment review. Amortisation recognised in 2004 is written back.

(g) In accordance with IAS 21 'The Effects of Changes in Foreign Exchange Rates', profit and loss accounts and cash flows of foreign subsidiaries are translated into sterling using average rates that existed during the accounting period rather than the closing rates at the end of the accounting period as was allowed under UK GAAP.

(h) As there is no equivalent of UITF 38 in IFRS, the Employee Benefit Trust is no longer consolidated in the Company's financial statements.

Explanation of material adjustments to the cashflow statements for 2005

Under IFRS cash flows are categorised under three separate headings rather than the seven under UK GAAP. Apart from presentation there are no material differences between the cash flow statement under IFRSs and the cash flow statement under UK GAAP.

Five Year Review

Consolidated income statements

	IFRS 2005 £'000	IFRS 2004 £'000	UK GAAP 2003 £'000	UK GAAP 2002 £'000	UK GAAP 2001 £'000
Group revenue and share of joint venture and associated undertakings revenue	**373,931**	322,313	298,868	272,024	230,545
Less: share of revenue of joint venture and associated undertakings	**(24,857)**	(19,468)	(15,315)	(10,574)	(5,812)
Revenue	**349,074**	302,845	283,553	261,450	224,733
Profit before interest, taxation, exceptional items and goodwill	**22,250**	17,361	16,004	14,451	17,502
Exceptional items	**–**	7,018	(2,250)	(6,505)	–
Amortisation of goodwill	**–**	–	(5,269)	(5,128)	(3,592)
Profit before interest and taxation	**22,250**	24,379	8,485	2,818	13,910
Profit on sale of subsidiary undertaking	**–**	–	409	–	–
Net finance costs	**(2,428)**	(2,796)	(3,313)	(2,444)	(2,408)
Profit before taxation	**19,822**	21,583	5,581	374	11,502
Taxation	**(5,829)**	(6,881)	(3,429)	(1,988)	(4,696)
Profit/(loss) after taxation	**13,993**	14,702	2,152	(1,614)	6,806
Minority interests	**(275)**	(195)	(90)	(17)	–
Dividends	**(3,386)**	(3,082)	(3,010)	(2,662)	(2,657)
Retained profit/(loss) for the year	**10,332**	11,425	(948)	(4,293)	4,149
Basic earnings/(loss) per share	**22.8p**	24.1p	3.6p	(3.1p)	14.9p
Basic earnings per share before operating exceptional items and profit on sale of subsidiary undertaking	**22.8p**	15.9p	15.0p	15.2p	22.7p

Consolidated balance sheets

	IFRS 2005 £'000	IFRS 2004 £'000	UK GAAP 2003 £'000	UK GAAP 2002 £'000	UK GAAP 2001 £'000
Property, plant & equipment	**129,995**	123,530	113,789	115,815	120,662
Current assets	**130,600**	106,640	105,105	103,245	98,571
	260,595	230,170	218,894	219,060	219,233
Current financial liabilities and trade payables	**(94,144)**	(72,328)	(127,374)	(66,789)	(63,824)
Non-current receivables	**–**	–	–	–	7,594
Total assets less current liabilities	**166,451**	157,842	91,520	152,271	163,003
Non-current liabilities and provisions	**(83,516)**	(77,291)	(7,071)	(66,097)	(67,464)
Net assets	**82,935**	80,551	84,449	86,174	95,539
Called up share capital	**3,026**	3,023	3,022	2,662	2,657
Share premium account	**76,681**	76,537	76,510	71,253	70,976
Shares to be issued	**–**	207	253	5,769	7,748
Profit and loss account	**2,646**	477	4,552	6,468	14,158
Equity shareholders' funds	**82,353**	80,244	84,337	86,152	95,539
Minority interests – equity	**582**	307	112	22	–
	82,935	80,551	84,449	86,174	95,539

In the above table, 2004 and 2005 figures reflect results and the state of affairs of the Group, reported in accordance with International Financial Reporting Standards (IFRS). It is not practicable to re-state previous years' results according to IFRS, and therefore the above table reflects the results and the state of affairs for 2001, 2002 and 2003 according to UK GAAP as originally reported. Due to differences between IFRS and UK GAAP, there may be some inconsistency in the above tables. Refer to note 30 for an indication of the adjustments that would be required to comply with IFRS.

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