Waterman Group plc
Engineering & Environmental Consultants

Interim Report December 2006

Index

Chairman's Statement

I am pleased to report that, in the six months to 31 December 2006, Waterman Group achieved an increased pre tax profit of £2.28m (2005 : £2.01m) on revenue of £47.4m (2005 : £40.3m). Basic earnings per share increased to 5.0p (2005: 4.6p) and the Board has decided to increase the interim dividend to 2.1p per share (2005 : 2.0p) payable on 19 April to shareholders on the register on 23 March 2007.

Group Activities – UK

During the first six months of the financial year Waterman has achieved continued organic growth and good progress has been made on a number of the UK's largest urban regeneration projects. These include Paradise Development in Liverpool, Cabot in Bristol, White City in London and High Cross Quarter in Leicester. In London, the inflow of new orders is most encouraging, as the commercial and residential markets continue to strengthen.

The Group's structural engineering specialist, Waterman Structures Ltd, has delivered increased revenue during the period. Major projects in progress include Princess Quay in Hull, Westgate in Oxford and the new Dakota Hotel at Farnborough. The order book of new work includes the first phase of the major Kings Cross development in London, a number of residential tower buildings and retail developments. Work on the main newsprint facility for News International at Broxbourne in Hertfordshire is nearing completion.

The Group's civil engineering activities have grown during the year, with a number of important projects in progress, including [ ]. The new Central Line depot at White City for LUL has been successfully completed and the new Oakham bypass (A606) was officially opened in [ ] 2006. A number of new commissions have been secured including [ ]. A further AutorailTM commission has also been awarded, to update and extend the route maps of the UK's rail network. Waterman Aspen, the Group's specialist outsourcing company, has continued to grow, with a number of new clients being added during the period.

The environmental sector continues to expand with a further contribution from JP Envirosystems (acquired in 2005), accompanied by sustained organic growth. The demand for Environmental Impact Assessments (EIA's) and Strategic Environmental Assessments (SEA's) continues to grow and a number of major EIA's have recently been secured in the UK and overseas including developments in London and Merseyside in the UK and Domdedovo in Russia.. The emerging overseas markets are becoming increasingly aware of environmental issues, and this is expected to provide further opportunities for the Group in the future. Waterman CPM, the Group's Cirencester based consultancy is advising on the Old Brewery in Tadcaster and the redevelopment of South Crofty tin mine in Cornwall. Sustainable energy advice has been given for [ ] and new technology developments include [ ].

The building services sector has shown encouraging signs of growth during the period. Further progress has been made on a number of projects including White City and Watermark Place in London and a number of new commissions have been won across a wide range of sectors. The growing order book includes a number of medical centres, hotels, leisure and industrial developments. Increasingly, advice is being provided to clients on renewable energy sources and low energy buildings for new developments and for retro fitting more efficient systems to existing buildings.

Group Activities - Overseas

The Group's revenue from overseas operations has increased by 49% compared to the first six months of financial year 05-06 and provided 24% of the Group's total revenue. The principal areas of growth have been Ireland, Russia, Poland, the Emirates and Australia. Significant new projects have been awarded in Russia and in the Emirates and a new office has been opened in Tianjin, China and new larger offices have been established in Dubai, Warsaw and Moscow to accommodate growing staff numbers. With the recent addition of AHW (Victoria) Waterman now employs [ ] staff overseas, out of a total headcount of [ ].

The Group's Irish consultancy, Moylan, has continued to expand. Major projects in progress include the Grange and City Junction in North Dublin. An encouraging number of new commissions have been won including Rathbourne Village, Adamstown New Town and six new schools for the Department of Education and Science.

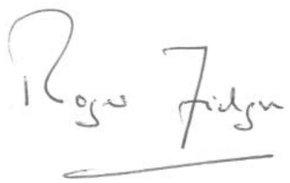
I am pleased to draw shareholders' attention to the high quality of our overseas projects which are fully commensurate with the Group's prestigious UK portfolio.

Acquisitions

On 1 November 2006 Waterman acquired a 51% interest in the business and assets of AHW (Victoria) Pty Ltd, a multi discipline consulting engineer based in Melbourne, Australia. The company, which will trade as Waterman AHW (Vic) Pty Ltd, is one of the leading consulting engineers in the state of Victoria and the acquisition will strengthen Waterman's access to the Australian and Asian markets. Following the acquisition, the Group now employs in excess of 100 staff in Australia.

Future Prospects

Having achieved an increase in revenue of 17.6% during the first six months of the financial year and with a growing order book, the Group is well placed to achieve further growth in the future. New investment is planned in future organic and acquisitive growth in areas and operations which will deliver increased revenue and profitability. The Group's presence in the world's fast growing markets is now well established and the development of Waterman as an international group will remain a high priority. Your board will continue to invest in its operations in the UK and overseas and we view the future with confidence.



Roger Fidgen
Chairman
10 March 2006

Independent Review Report to Waterman Group plc

for the six months ended 31 December 2006

Introduction

We have been instructed by the company to review the financial information for the six months ended.31 December 2006 which comprises the consolidated interim balance sheet as at 31 December 2006 and the related consolidated interim statements of income, cash flows and changes in shareholders' equity for the six months then ended and related notes. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the directors. The Listing Rules of the Financial Services Authority require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

This interim report has been prepared in accordance with the basis set out in Note 8

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the disclosed accounting policies have been applied. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance. Accordingly we do not express an audit opinion on the financial information. This report, including the conclusion, has been prepared for and only for the company for the purpose of the Listing Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, 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.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 31 December 2005.

PricewaterhouseCoopers LLP
Chartered Accountants
London
10 March 2006

Notes:

(a) The maintenance and integrity of the Waterman Group web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the interim report since it was initially presented on the web site.

(b) Legislation in the United Kingdom governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

Consolidated Income Statement

for the six months ended 31 December 2006

	Notes	**Unaudited Six months to 31 December 2006 £'000**	Restated Unaudited Six months to 31 December 2005 £'000	Audited Twelve months to 30 June 2006 £'000
Revenue	2	**47,374**	40,276	83,680
Operating expenses		**(44,186)**	(37,467)	(77,783)
Earnings before interest, taxes, depreciation and amortisation (EBITDA)		**3,188**	2,809	5,897
Depreciation of property, plant and equipment		**(587)**	(526)	(1,061)
Amortisation of intangible assets		**(108)**	(105)	(249)
Operating profit	2	**2,493**	2,178	4,587
Interest payable		**(293)**	(247)	(518)
Interest receivable		**81**	81	145
Profit before taxation		**2,281**	2,012	4,214
Taxation	3	**(749)**	(711)	(1,421)
Profit for the financial period from continuing operations		**1,532**	1,301	2,793
Profit attributable to - Equity shareholders		**1,427**	1,294	2,749
- Minority interests		**105**	7	44
		1,532	1,301	2,793
Basic earnings per share	4	**5.0p**	4.6p	9.7p
Diluted earnings per share	4	**4.9p**	4.5p	9.5p
Dividend paid per share	5	**3.4p**	3.3p	5.3p
Dividend proposed per share	5	**2.1p**	2.0p	3.4p

Consolidated Balance Sheet
as at 31 December 2006

	Unaudited Six months to 31 December 2006 £'000	Restated Unaudited Six months to 31 December 2005 £'000	Audited Twelve months to 30 June 2006 £'000
Assets			
Non-current assets			
Goodwill	**13,351**	11,191	11,128
Intangible assets	**288**	306	335
Property, plant and equipment	**13,543**	13,673	13,536
Loan and receivables	**10**	10	10
	27,192	25,180	25,009
Current Assets			
Trade and other receivables	**41,811**	33,534	35,611
Cash and cash equivalents	**4,898**	4,296	3,332
	46,709	37,830	38,943
Total assets	**73,901**	63,010	63,952
Liabilities			
Current liabilities			
Trade and other payables	**29,378**	23,184	24,264
Financial liabilities	**3,011**	2,678	1,251
Current tax liability	**895**	792	583
	33,284	26,654	26,098
Non-current liabilities			
Financial liabilities - borrowings	**6,735**	5,090	4,927
Provisions	**2,329**	1,566	2,023
Deferred tax liability	**1,042**	983	1,042
	10,106	7,639	7,992
Total Liabilities	**43,390**	34,293	34,090
Net Assets	**30,511**	28,717	29,862
Shareholders' equity			
Share capital	**2,868**	2,824	2,856
Share premium account	**11,725**	11,571	11,685
Merger reserve	**2,146**	2,146	2,146
Revaluation reserve	**1,450**	1,450	1,450
Profit and loss account	**11,685**	10,380	11,361
Total shareholders' equity	**29,874**	28,371	29,498
Minority interest in equity	**637**	346	364
Total Equity	**30,511**	28,717	29,862

Consolidated Cash Flow Statement

for the six months ended 31 December 2006

	Notes	**Unaudited Six months to 31 December 2006 £'000**	Unaudited Six months to 31 December 2005 £'000	Audited Twelve months to 30 June 2006 £'000
Cash flows from operating activities				
Cash generated from operations	7a	**1,930**	3,116	5,899
Interest paid		**(206)**	(221)	(477)
Interest received		**81**	81	145
Tax paid		**(437)**	(856)	(1,581)
Net cash from operating activities		**1,368**	2,120	3,986
Cash flows from investing activities				
Purchase of subsidiary undertakings		**(1,001)**	(556)	(582)
Part disposal of subsidiary undertaking		**12**	-	-
Deferred consideration paid		**(75)**	-	(1,272)
Purchase of intangible fixed assets		**(34)**	(64)	(150)
Purchase of property, plant and equipment (PPE)		**(473)**	(401)	(901)
Proceeds from sale of PPE		**10**	25	32
Net cash used in investing activities		**(1,561)**	(996)	(2,873)
Cash flows from financing activities				
Share issues		**52**	152	298
Proceeds from borrowing		**2,304**	-	-
Repayments of borrowing		**(330)**	(243)	(445)
Repayments on finance leases		**(16)**	(23)	(62)
Equity dividends paid		**(972)**	(930)	(1,499)
Purchase of shares by Waterman Trustees Ltd		**(181)**	-	(165)
Net cash from / (used) in financing activities		**857**	(1,044)	(1,873)
Effect of exchange rate changes		**(34)**	38	21
Net increase / (decrease) in cash and cash equivalents		**630**	118	(739)
Cash and cash equivalents at 1 January / 1 July		**2,785**	3,524	3,524
Cash and cash equivalents at 31 December / 30 June	7b	**3,415**	3,642	2,785

Consolidated Statement of Changes in Shareholders' Equity
as at 31 December 2006

	Attributable to equity holders of the Company							
	Share Capital £'000	Share Premium £'000	Merger Reserve £'000	Revaluation Reserve £'000	Profit and Loss Account £'000	**Total £'000**	Minority Interest £'000	**Total Equity £'000**
Balance at 1 July 2005	**2,791**	**11,452**	**2,146**	**1,450**	**9,875**	**27,714**	**704**	**28,418**
Currency translation adjustments	-	-	-	-	80	**80**	1	**81**
Deferred tax charge for the period	-	-	-	-	42	**42**	-	**42**
Share based payments charge	-	-	-	-	18	**18**	-	**18**
Acquisition of 21% of minority, interest, in subsidiary and undertaking	-	-	-	-	-	-	(366)	**(366)**
Net expense recognised directly in equity	-	-	-	-	140	**140**	(365)	**(225)**
New ordinary shares issued	33	119	-	-	-	**152**	-	**152**
Profit for the financial period	-	-	--		1,295	**1,295**	7	**1,302**
Dividend	-	-	-	-	(930)	**(930)**	-	**(930)**
Balance at 31 December 2005	**2,824**	**11,571**	**2,146**	**1,450**	**10,380**	**28,371**	**346**	**28,717**
Currency translation adjustments	-	-	-	-	(59)	**(59)**	(19)	**(78)**
Deferred tax charge for the period	-	-	-	-	159	**159**	-	**159**
Share based payments charge	-	-	-	-	17	**17**	-	**17**
Adjustment in respect of Share Incentive Plan	-	-	-	-	(21)	**(21)**	-	**(21)**
Net income recognised directly in equity	-	-	-	-	96	**96**	19	**77**
New ordinary shares issued	32	114	-	-	-	**146**	-	**146**
Profit for the financial period	-	-	-	-	1,454	**1,454**	37	**1,491**
Dividend	-	-	-	-	(569)	**(569)**	-	**(569)**
Balance at 30 June 2006	**2,856**	**11,685**	**2,146**	**1,450**	**11,361**	**29,498**	**364**	**29,862**
Currency translation adjustments	-	-	-	-	(162)	**(162)**	(1)	**(163)**
Share based payments charge	-	-	-	-	24	**24**	-	**24**
Adjustment in respect of Share Incentive Plan	-	-	-	-	(1)	**(1)**	-	**(1)**
Profit on disposal of own shares	-	-	-	-	8	**8**	-	**8**
Acquisition of 51% of share capital in subsidiary undertaking	-	-	-	-	-	-	138	**138**
Part disposal of 1% of share capital in subidory undertaking	-	-	-	-	-	-	31	**31**
Net income recognised directly in equity	-	-	-	-	(13)	**(13)**	168	**37**
New ordinary shares issued	12	40	-	-	-	**52**	-	**52**
Profit for the financial period	-	-	-	-	1,427	**1,427**	105	**1,532**
Dividend	-	-	-	-	(972)	**(972)**	-	**(972)**
Balance at 31 December 2006	**2,868**	**11,725**	**2,146**	**1,450**	**11,685**	**29,874**	**637**	**30,511**

Notes to the Interim Report
for the six months ended 31 December 2006

1. Principal Accounting Policies of Waterman Group plc

The principal accounting policies which have been consistently applied unless otherwise stated, in the preparation of the Interim Report, are set out below.

Basis of preparation
The consolidated financial statements have been prepared on the historical cost basis, with the exception of land and freehold property which have been modified to fair value at the date of transition to IFRS.

Basis of consolidation
The consolidated financial statements consist of the accounts of Waterman Group plc and all of its subsidiaries for the six month period ended 31 December 2006. Subsidiaries are those entities over which the group has the power to govern financial and operating policies, generally accompanying a shareholding that confers more than half of the voting rights. The results of the subsidiary undertakings have been included from the date of acquisition being the date when control passed. All intra group trading and profits are eliminated on consolidation.

Business combinations
The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the cash consideration, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's identifiable net assets acquired is recorded as goodwill. Subsidiaries accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group.

Revenue
Revenue is stated net of VAT and is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. For short term contracts, the amount of revenue recognised reflects the accrual of the right to consideration as the contract progresses.

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, which is normally after the contract has reached 40% completion. Full provision is made for all known or anticipated losses on each contract immediately such losses are identified. Contract costs comprise direct labour, direct expenses and attributable overheads.

Gross amounts due from customers are stated at the value of the costs incurred plus recognised profits (less recognised losses) where they exceed progress billings. Progress billings not yet paid by customers are included within trade and other receivables. To the extent that progress billings exceed costs incurred plus recognised profits (less recognised losses) they are included in trade and other payables.

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 the 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, but only when the reimbursement is virtually certain. 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.

2. Segmental information

All revenue and operating profit arose from the Group's principal activity as engineering and environmental consultants. £12,233,000 (31 December 2005: £6,702,000 and 30 June 2006: £15,211,000) of revenue relates to overseas operations in Ireland, Australasia and mainland Europe.

3. Taxation

Taxation for the six months ended 31 December 2006 has been calculated at 35% of the UK profits being the estimated effective rate for the year, together with £120,000 being the estimated overseas tax charge.

4. Earnings per share

The basic earnings per share has been calculated on the profit attributable to shareholders and based on the weighted average of 28,601,153 shares in issue during the period and ranking for dividend (31 December 2005: 28,029,803 and 30 June 2006: 28,243,803).

The fully diluted earnings per share also takes account of unexercised options potentially convertible into new ordinary shares and the calculation is based on a weighted average of 29,146,638 shares during the period (31 December 2005: 28,890,871 and 30 June 2006: 29,012,872).

5. Dividends

The directors propose an interim dividend of 2.1p per share (December 2005: 2.0p per share). The shares become ex-dividend on 21 March 2007 and the dividend will be paid on 19 April 2007 to those shareholders on the register at the close of business on 23 March 2007.

	Unaudited Six months to 31 December 2006 £'000	Unaudited Six months to 31 December 2005 £'000	Audited Year ended 30 June 2006 £'000
Dividends charged to equity in the period	**972**	930	1,499
Dividend per ordinary share paid in period	**3.4p**	3.3p	5.3p

6. Acquisitions

On 1 November 2006, the Group purchased 51% of the issued share capital of AHW Consulting Engineers (Victoria) Pty Limited, a multi disciplinary consulting engineer based in Melbourne,Australia. The initial consideration of Aus $3.9m (£1.6m) plus expenses was settled by payment in cash.

Deferred consideration of up to Aus $1.725m (£0.7m) in aggregate over the first three years following completion is to be satisfied by cash or the issue of new Waterman Group ordinary shares of 10p each subject to the achievement of an agreed performance target. The fair value of the assets acquired was Aus $0.7m (£0.28m) and goodwill of £2,207,000 arose. Revenue of £539,000 and operating profits of £151,000 have been consolidated in the Group income statement since the date of acquisition.

7. Notes to the Cash Flow Statement

a) Cash generated from operations

	Unaudited Six months to 31 December 2006 £'000	Unaudited Six months to 31 December 2005 £'000	Audited Year ended 30 June 2006 £'000
Profit for the financial period	**1,532**	1,299	2,793
Taxation	**749**	711	1,421
Interest payable	**293**	247	518
Interest receivable	**(81)**	(81)	(145)
Amortisation of other intangible assets	**108**	105	249
Depreciation	**587**	528	1,061
Profit on disposal of property, plant and equipment (PPE)	**(6)**	-	1
Shares granted under the SIP	**189**	-	144
Non cash charge	**27**	18	35
Changes in working capital			
Increase in Trade and other receivables	**(5,357)**	(771)	(1,683)
Increase in Trade and other payables	**3,604**	782	785
Increase in provisions	**285**	278	720
Cash generated from operations	**1,930**	3,116	5,899

b) Analysis of net debt

	31 December 2005 £'000	30 June 2006 £'000	Net Cashflows £'000	Other non-cash changes £'000	Foreign Exchange £'000	**31 December 2006 £'000**
Cash balances	**4,296**	3,332	1,611	-	(44)	**4,899**
Bank overdrafts	**(654)**	(547)	(947)	-	10	**(1,484)**
	3,642	2,785	664	-	(34)	**3,415**
Due within one year						
Bank loans	**(1,977)**	(666)	405	(496)	(45)	**(802)**
Finance leases	**(47)**	(13)	16	(35)	-	**(32)**
Due after one year						
Bank loans	**(5,047)**	(4,914)	-	(1,808)	-	**(6,722)**
Finance leases	**(43)**	(38)	-	25	-	**(13)**
Net debt	**(3,472)**	(2,846)	1,085	(2,314)	(79)	**(4,154)**

8. Further Information

The Interim Report for the six months ended 31 December 2006 which does not constitute statutory accounts as defined in Section 240 of the Companies Act 1985 was approved by the directors on 9 March 2007.

The Interim Report is unaudited but has been reviewed by the independent auditors. The disclosures made meet the requirements of the Listing Rules. The next annual financial statements of the Group will be prepared in accordance with accounting standards adopted for use in the European Union. The accounting policies used in this report are consistent with those the directors intend to use in the next annual financial statements. It is possible that new standards may be applicable to the year end financial statements that have not yet been adopted in the European Union.

The comparative figures for the financial year ended 30 June 2006 which are based on the financial statements for that year, are audited. The report of the auditors on the financial statements for the year ended 30 June 2006 was unqualified and did not contain a statement under section 237 (2) or (3) of the Companies Act 1985.The financial statements for the financial year ended 30 June 2006 have been delivered to the Registrar of Companies.

Copies of the Interim Report have been sent to shareholders. Additional copies are available from the Company's registered office at Pickfords Wharf, Clink Street, London SE1 9DG. In addition, electronic copies of the Interim Report and the 30 June 2006 financial statements can be viewed on the Group's website:www.waterman-group.co.uk. The directors are 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 information may differ to that applicable to the United Kingdom.

UK and Ireland Office Locations

International Office Locations

Beijing
Brussels
Bucharest
Dubai
Moscow
Sydney
Warsaw
Melbourne

Printed on recyclable paper from 100% sustainable forests

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