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robert walters plc

annual report & accounts 2002

ROBERT WALTERS

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"We will continue to maintain a sharp focus on our efficiency and cost control"

chairman's statement

I am pleased to report on the Group's results for the year to 31 December 2002.

Turnover for the year was £260.3m (2001: £253.6m) producing a gross profit ("net fee income") of £55.6m (2001: £65.2m) resulting in operating profit (before exceptional items) of £1.2m (2001: £7.7m). Profit before tax for the year was £0.9m (2001: £6.5m).

Last year was exceptionally hard for the recruitment industry: difficult conditions in all market sectors affected permanent recruitment and increased pressure on both hiring levels and margins in the contract business. For Robert Walters, net fee income was volatile and deteriorated in the fourth quarter.

The Board has responded to this environment by making sure that costs are tightly controlled and measures taken to enhance productivity. Costs have been reduced, particularly by the reduction of staff levels. We have, however, invested in additional training of our consultants to equip them with the skills they need to be successful in these difficult markets.

During the fourth quarter we closed five of the Group's smallest offices which consistently struggled to produce satisfactory levels of fee income and management is focusing on those of our operations with the greatest potential. These closures resulted in an exceptional charge of £551k. In addition, an exceptional charge of £103k was incurred on the write-off of a minority investment in a small mentoring business and the Group has written off the £523k goodwill relating to the acquisition of Interim Leaders, our specialist interim management business.

Despite the difficult trading conditions, the Board recommends maintaining the full year dividend at 3.15p per share. This reflects the strength of the Group's balance sheet.

The outlook for the first quarter of 2003 remains uncertain. At this point we believe that net fee income for the first three months will fall somewhat below the level achieved in 2002.

In summary, we will continue to maintain a sharp focus on our efficiency and cost control in order to strike the right balance between the short term requirements of the business and the resources needed to respond effectively to improvements in market conditions.

On behalf of the Board I would like to thank all our staff for their continuing commitment to the Group during these difficult times.

T. S. Barker

TIMOTHY BARKER
Chairman

"We continue to invest
in our brand"

chief executive's statement

The last year has seen the worst market for recruitment services for a decade. Against this backdrop our business has suffered. The Group operated at break-even over the second half of 2002 due to particularly difficult trading conditions encountered from September onwards.

United Kingdom

In the UK turnover rose by 4.0% to £190.9m (2001: £183.6m) and net fee income declined by 25.1% to £27.1m (2001: £36.2m). Operating profit declined from £5.1m to £0.5m.

Permanent recruitment was the worst hit with a 38.7% fall in net fee income across our UK specialist divisions. The continued decline in the investment banking sector, and overall uncertainty among major corporates, has particularly affected permanent recruitment. The proportion of contract business in the UK increased from 52.9% to 58.3%. This reflects the slower decline of our contract markets.

The IT recruitment market continued to be extremely difficult throughout 2002. We downsized our IT business and broadened our customer base to adapt to these conditions and succeeded in increasing our profits over 2001.

Interim Leaders, our specialist interim management business, underperformed in 2002. Given the current conditions for this business, the Board decided that it was appropriate to write off the remaining goodwill associated with this acquisition which resulted in a charge of £0.5m.

Continental Europe

In Benelux, France and Germany turnover remained static at £10.1m while net fee income fell by 12.9% to £5.3m (2001: £6.1m). Operating profit of £1.2m in 2001 has turned into an operating loss of £0.5m in 2002. This includes an exceptional charge of £0.4m that arose on the closure of our German office. Situated in Frankfurt it had been opened four years previously but had constantly struggled to reach a profitable level of operation and following the decline in the financial services sector we decided to concentrate on our profitable Continental European operations. During the year these experienced falling levels of permanent recruitment, whilst the interim business grew.

chief executive's statement continued

In spite of the overall decline in the net fee income of Continental Europe our Paris office increased its net fee income by 5.5%. We believe the scale of the French recruitment market offers excellent long term potential to the Group. The remainder of our established European operations found trading more difficult but succeeded in remaining profitable in a challenging year.

Asia Pacific

In Asia Pacific turnover fell by 1.2% to £54.8m (2001: £55.5m) and net fee income rose by 0.8% to £19.8m (2001: £19.6m). Operating profit fell from £1.1m to £0.4m. This figure includes an exceptional charge of £0.2m following the decision to close our four smallest Australasian offices in Wellington, Canberra, Gold Coast and Darwin.

Our fully integrated and re-branded Dunhill acquisition has given us growth in market share and a significant presence in the retained advertised market. Our remaining Australasian offices will continue to provide an excellent platform for future growth.

Net fee income in Japan increased by 36.3% in 2002. Although this was an excellent overall performance, the fourth quarter fee income levels were the lowest of the year and we enter 2003 cautiously. In spite of this we feel that this market offers us substantial long term opportunities.

Our Singapore office performed well throughout 2002, despite facing the worst recession for over 35 years. However, our Hong Kong office struggled with its heavy exposure to the financial services market. Following internal restructuring, it is now better placed to take advantage of the opportunities that exist as well as providing an excellent springboard for exploiting the longer term opportunities in China.

Other International

Turnover in the USA, Ireland and South Africa increased by 3.8% to £4.5m (2001: £4.3m). Net fee income rose by 3.0% to £3.4m (2001: £3.3m) and operating profit grew marginally from £248,000 to £260,000.

The South African and Irish operations remain a continuing source of candidates for several of our other offices.

Resource Solutions

Clients continue to see the benefit of outsourcing their recruitment processes and Resource Solutions has increased the number of its clients. However, the volume of recruitment by these companies has declined, and with it, the volume of Resource Solutions business. Together with pricing pressures this resulted in a fall in fee income in 2002.

General Overview

We continue to manage our cost base across the world in line with the prevailing economic environment. Total staff numbers have been reduced by 16.7% to approximately 760 in the year to 31 December 2002, with most of that reduction happening in the last quarter. We continue to invest in our brand and in various initiatives to assist our employees to deal with this difficult economic climate.

We remain extremely cautious in our outlook. Markets are highly volatile and difficult to predict. We continue to manage our business with daily attention to costs, risks and opportunities. The strength of our balance sheet, with £19.2m cash and no borrowings, allows us to balance short term requirements against the long term objective to ensure the business can capitalise on any future upturn in business confidence.

ROBERT WALTERS

Chief Executive

"At 31 December 2002 the Group had cash balances of £19.2m (2001: £9.0m)"

financial review

Turnover

Turnover for the Group is the total income from the placement of permanent and contract staff and therefore includes the remuneration costs of contract candidates and the value of advertising invoiced to clients. It also includes the outsourcing fees, consultancy fees and total income from payrolling contracts charged by Resource Solutions to its clients.

Turnover increased by 2.7% to £260.3m (2001: £253.6m) with 49.9% of the annual total being generated in the second half (2001: 52.9%).

The turnover increase is essentially due to the growth in outsourced payroll contracts operated by Resource Solutions. Turnover from permanent recruitment and the contract business in Robert Walters declined, as did the fees in Resource Solutions.

Gross Profit (Net Fee Income)

Net fee income is the total placement fees of permanent candidates, the margin earned on the placement of contract candidates and advertising income. It also includes the outsourcing and consultancy margin earned by Resource Solutions.

Net fee income for the year decreased by 14.7% to £55.6m (2001: £65.2m). Net fee income was virtually identical for both the first half of the year and the second half. Net fee income for the second quarter showed a healthy increase on the first quarter but deteriorated through the second half.

The increased volume of low margin outsourced payroll contracts explains why the growth in turnover is not reflected in net fee income.

financial review continued

Operating Profit

Administrative expenses before exceptional items were £54.4m (2001: £57.5m). The principal reason for this decline is the fall in Group headcount from 917 at the start of 2002 to 764 at the year end, most of which took effect in the last quarter.

The reduction in the cost base was not enough to offset the fall in net fee income resulting in a decline in the Group's operating profit, before exceptional items, to £1.2m (2001: £7.7m).

Following a review of the Group's goodwill, the Board has decided to write off in full the goodwill of £523k associated with the acquisition of Interim Leaders.

Exceptional Items

In the last quarter of 2002 the Group closed five of its smallest offices at a cost of £551k. This amount consists of lease terminations, redundancy costs, and the disposal of assets at below book value which are considered to be exceptional items.

The decision was also taken to make a provision against the carrying value of the minority investment in a small mentoring business. This has resulted in an additional exceptional charge to the profit and loss account of £103k.

The total exceptional charge is £654k (2001: £1,457k).

Taxation

The tax charge in 2002 was £1.2m (2001: £2.4m) which was disproportionately large in relation to the Group profit. This was due to the relative proportion to profit of the goodwill write off and disallowable items, unrelieved losses in Germany and profits generated in high tax jurisdictions.

Loss per share and dividends

Basic loss per share was 0.4p (2001: earnings per share 4.9p) and adjusted earnings per share before exceptional items were 0.3p (2001: 6.1p). The weighted average number of shares for the year was 83.2m (2001: 82.6m).

A final dividend of 2.1p (2001: 2.1p) is being proposed by the Board. Together with the interim dividend of 1.05p (2001: 1.05p) per ordinary share paid in November 2002 the total dividend would amount to 3.15p (2001: 3.15p) per ordinary share. The final dividend, which amounts to £1.8m will be paid on 11 April 2003 to those shareholders on the register at 14 March 2003. Although the dividend is not covered by earnings per share, it is covered 6.2 times by cash earnings per share of 19.9p. (Cash earnings for the Group are the operating cash flows before taxation, capital expenditure and dividends).

Balance Sheet

The Group had net assets of £37.7m at 31 December 2002 (2001: £40.9m) including goodwill of £7.2m (2001: £9.4m).

The majority of the movement is accounted for by the retained loss for the year of £3.0m (2001: profit of £1.6m).

During the course of 2003, the Company will be taking measures to enable it to make market purchases of its own shares, in common with most listed companies. Completion of these powers would require shareholder approval and the standard legal process of a reduction in capital.

Cash Flow and Net Cash Position

At 31 December 2002 the Group had cash balances of £19.2m (2001: £9.0m). Cash flow from operating activities was £16.4m (2001: £15.0m) reflecting the focus on improving the working capital position of the Group during the year.

The significant payments made from the operational cash flow were £2.6m of taxation, dividends of £2.7m and capital expenditure of £1.3m.

Surplus cash balances are generally invested in short term deposits at floating rates. The Group also has a committed £5.0m overdraft facility available, which is due for renewal in October 2003.

IAN NASH
Group Finance Director

directors and advisors

TIMOTHY BARKER, AGED 62

Timothy Barker was a Vice Chairman of Dresdner Kleinwort Benson, the investment banking division of Dresdner Bank A.G. from 1998 to 2000, having been Vice Chairman of Kleinwort Benson Group plc from 1993 to 1998 and previously Deputy Chief Executive and Head of Corporate Finance. In 1984 and 1985 he was Director General of the Panel on Take-overs and Mergers. He is Chairman of Kleinwort Benson Private Bank and a non-Executive Director of Electrocomponents plc. He was appointed to the Board of Robert Walters in July 2000, appointed acting Chairman in May 2001 and Chairman in September 2001.

ROBERT WALTERS, AGED 48

After graduating with a degree in economics in 1975, Robert joined Deloitte & Touche. In 1978 he joined Michael Page International plc, initially working in their commerce division, and subsequently setting up and running their public practice unit. In 1982 he set up and managed their New York office, resigned in 1984 and founded the business of Robert Walters in 1985.

GILES DAUBENEY, AGED 41

After working in recruitment for Accountancy Selection Limited and Badenoch & Clark Limited, Giles joined the Company in 1988. From 1990 to 1994 he was based in Amsterdam and was responsible for the Dutch and Belgian operations. Giles was appointed to the Board of Robert Walters in February 1992 and in 1999 was appointed to the role of Chief Operating Officer.

IAN NASH, AGED 47

After qualifying as a chartered accountant with Deloitte Haskins and Sells, Ian joined Michael Page International plc in 1986 as Financial Controller and in 1988 was appointed Group Finance Director. In 1999 Ian moved to the UK media agency Wheel Limited as Chief Financial Officer. Ian was appointed to the Board of Robert Walters in September 2001.

PHILIP AIKEN, AGED 54

After graduating as a chemical engineer in 1970, Philip worked for BOC plc and BTR plc in both Australia and the UK before joining BHP in May 1997. He was appointed head of BHP Petroleum in 1997, the position he currently holds as President and CEO Petroleum, BHP Billiton. He is Chairman of the Organising Committee of the 2004 World Energy Congress and director of the Mt. Eliza Business School. He was appointed to the Board of Robert Walters in July 2000.

GRAHAM LUFF, AGED 58

After a career with Kodak, Graham joined Newspaper Publishing Plc in 1986, the publisher of The Independent Newspaper, where he was Finance Director and then Managing Director, playing a key role in its subsequent sale. In 1994 he became Managing Director of London News Radio, working on the acquisition of LBC and the subsequent sale of the company to Reuters. From 1995 to 2000 Graham was Chief Executive of Hurst Publishing Limited, and thus instrumental in the formation of Trader Media Group where he is now CEO. Graham was appointed to the Board of Robert Walters in September 2001.

RUSSELL TENZER, AGED 46

Russell qualified as a chartered accountant in 1979 before joining KPMG. In 1981 he joined N.M. Rothschild Limited. In 1983 he became a founding partner of Hazlems Fenton Chartered Accountants. Russell was appointed to the Board of Robert Walters in October 1989.

Registered office

55 Strand
London WC2N 5WR

Registered number

3956083

Auditors

Deloitte & Touche
Chartered Accountants
180 Strand
London WC2R 1BL

Solicitors

Dechert
2 Serjeant's Inn
London EC4Y 1LT

Stockbrokers

WestLB Panmure Limited
Woolgate Exchange
25 Basinghall Street
London EC2V 5HA

Principal bankers

HSBC
70 Pall Mall
London SW1Y 5EZ

Registrars

Capita IRG
Bourne House
34 Beckenham Road
Beckenham
Kent BR3 4TU

report of the directors

The Directors present their review of the affairs of the Group, together with the audited accounts for the year ended 31 December 2002.

Principal activities

The Group's principal activity comprises the provision of recruitment on a permanent and contract basis in the United Kingdom, Ireland, Continental Europe, South Africa, the US and the Asia Pacific region, with clients in the commercial and financial sectors. The Group's activities also include human resources outsourcing services.

The subsidiary undertakings principally affecting the profits or net assets of the Group in the year are listed in note 13 to the accounts.

Business review

A review of the Group's business and future developments is set out in the Chief Executive's Statement and in the Financial Review.

Results and dividends

The Group's audited accounts for the year ended 31 December 2002 are set out on pages 29 to 50.

The Group's loss after taxation for the year ended 31 December 2002 was £0.3m (2001: profit of £4.1m).

The Directors recommend a final dividend of 2.1p (2001: 2.1p) per ordinary share to be paid on 11 April 2003, to ordinary shareholders on the register on 14 March 2003 which together with the interim dividend of 1.05p paid on 7 November 2002 makes a total of 3.15p for the year (2001: 3.15p).

The Group's retained loss for the year of £3.0m (2001: profit of £1.6m) will be transferred to reserves.

Directors and their interests

The Directors who served during the year and at the date of this report are shown as follows:

Timothy G Barker*

Robert C Walters

Giles P Daubeney

Ian V Nash

Philip S Aiken*

Graham E Luff*

Russell P Tenzer*

*Non-executive directors

All Directors are subject to re-election every three years although none are subject to re-election in the current year.

Details of the Directors' service contracts are shown in the report of the Remuneration Committee on page 22.

Details of share options granted to Directors and the interests of the Directors in the ordinary shares of the company are shown on pages 24 and 25.

Substantial shareholdings

On 28 February 2003 the Company had been notified that there were holdings of 3% or more in the ordinary share capital of the Company as follows:

Name of shareholder	Holding	% Holding
Fidelity Investment	10,497,459	12.4
Unicorn Asset Management	6,305,741	7.5
Baillie Gifford & Co	5,473,867	6.5
Deutsche Asset Management	5,334,763	6.3
Capital Group	5,000,000	5.9
M & G Asset Management	4,248,963	5.0
Edinburgh Fund Managers	3,735,000	4.4
Legal & General	3,338,366	3.9
Aegon Asset Management	2,845,749	3.4

report of the directors continued

Disabled persons

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

Equal opportunity

The Group endorses and supports the principles of equal employment opportunities. It is the policy of the Group to provide equal employment opportunities to all qualified individuals, and to ensure that all employment decisions are made, subject to legal obligations, on a non-discriminatory basis.

Environment

Where possible, the Group takes steps to minimise any adverse environmental impact, such as the recycling of waste material.

Employee involvement

The Group places considerable value on the involvement of its employees and has continued its practice of keeping them informed on matters affecting them as employees and on the various factors affecting the performance of the Group.

This is achieved through formal and informal meetings as well as a regular internal memorandum for all employees and the use of the Group intranet.

The Directors consider that the ability of employees to participate in the share ownership of the Company is vital for the success of the Group. Details of the Executive Share Option Schemes are included on page 24 to the accounts.

The Group operates a bonus matching scheme which is open to all employees. The scheme allows employees to invest all or part of their bonuses in ordinary shares and receive one free share for each five shares purchased. The free shares vest after one year as long as the employee remains employed by the Group.

A savings related share option scheme (SAYE) was offered to all employees, except those in the United States of America, during 2001. The options will be exercisable at a discount of 20% to the market price of the Group's shares at the time of grant.

Political and charitable donations

The Group made charitable donations of £500 (2001: £9,000) during the year. The Group made no political donations during the year (2001: £nil).

Supplier payment policy

The Group's companies agree standard terms of payment with their major suppliers at the commencement of business. Suppliers fulfilling the conditions of supply are paid in accordance with the agreed standard terms. Other suppliers will be paid in accordance with contractual terms as agreed from time to time.

Creditor days for the Group at 31 December 2002 were equivalent to 24 days (2001: 28 days), based on the average daily amount invoiced by suppliers during the year.

The Company has no trade creditors as at 31 December 2002 (2001: £nil).

Appointment of Auditors

The Directors will place a resolution before the Annual General Meeting to appoint Deloitte & Touche as auditors for the ensuing year.

Annual General Meeting

The Annual General Meeting will be held on 8 May 2003 and the Notice of the Annual General Meeting, including an explanation of the special business of the meeting, will be sent out in due course.

On behalf of the Board
Ian Nash
Company Secretary

12 March 2003

corporate governance statement

Statement of compliance with the Combined Code

The Company has complied throughout the year ended 31 December 2002 with the principles of good governance and the Code of Best Practice known as the Combined Code and which is annexed to the Listing Rules of the Financial Services Authority except that the Non-executive directors do not have fixed term contracts (code provision para. A.6.1) and that there is 'no senior independent Non-executive director' (code provision para. A.2.1).

All Non-executive directors' contracts include notice periods and the terms of the contracts will be reviewed, as will be the position of a senior independent Non-executive director.

Further explanation of how the principles have been applied is set out below and, in connection with Directors' remuneration, in the report of the Remuneration Committee.

The Group's approach to corporate governance

The Group has a policy of seeking to comply with established best practice in the field of corporate governance. In addition, one of the core values communicated within the Group is a belief that the highest standard of integrity is essential in business. The Group has an express aim of respecting the needs of shareholders, staff and its clients, candidates and contractors.

Board effectiveness

The Board, which meets on a regular basis throughout the year, considers that it has shown its commitment to leading and controlling the Group by:

- having a Board constitution which details the Board's responsibility to shareholders for the management of the Group's affairs. The Board exercises direction and supervision of the Group's operations throughout the world and defines the lines of responsibility from the Board to the Chief Executive and the Executive Committee in whom responsibility for the executive management of the business is vested.

Division of responsibilities between Chairman and Chief Executive

The Board has shown its commitment to dividing responsibilities for the Board and running the Company's business by:

- appointing Timothy Barker as Non-executive Chairman;
- appointing Robert Walters as Chief Executive;
- establishing an executive committee consisting of the Executive Directors under the chairmanship of the Chief Executive responsible for the execution of all operating issues for monitoring the progress of the Group against the strategies agreed by the Board.

Board balance

The Group's commitment to achieving a balance of Executive and Non-executive directors is shown by:

- the four Non-executive directors comprising more than half of the Board of seven Directors; and
- the four Non-executive directors being considered to be independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement.

Timeliness and quality of Board information

The Board has sought to ensure that Directors are properly briefed on issues arising at Board meetings by establishing procedures for:

- distributing Board papers in advance of meetings and considering the adequacy of the information provided before making decisions;
- adjourning meetings or deferring decisions when Directors have concerns about the information available to them; and
- making the Company Secretary responsible to the Board for the timeliness and quality of information.

Transparency of Board appointments

The Nomination Committee is responsible for nominating candidates to fill Board vacancies and for making recommendations on Board composition and balance. The members of the Committee are the Non-executive directors – Timothy Barker (Chairman), Philip Aiken, Graham Luff and Russell Tenzer.

Regular re-election of Directors

As disclosed in the Directors' Report, all Directors are subject to re-election every three years as required by the provisions of the Code of Best Practice.

Dialogue with institutional shareholders

The Directors seek to build on a mutual understanding of objectives between the Company and its institutional shareholders by:

- making an annual and interim presentation to institutional investors;
- meeting shareholders to discuss long term issues and obtain feedback; and
- communicating regularly throughout the year.

corporate governance statement continued

Constructive use of Annual General Meeting

The Board seeks to use the Annual General Meeting to communicate with private investors and encourage their participation by:

- inviting shareholders to submit questions in advance; and
- a balanced and understandable assessment of the Group's position and prospects. Further details of the responsibility regarding information that is presented is set out in the Statement of Director's Responsibility.

Internal control

The Board is responsible for reviewing the effectiveness of the Group's system of internal control. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss.

The full Board meets regularly and has a schedule of matters which are required to be brought to it or its duly authorised Committees for decision, aimed at maintaining full and effective control over appropriate strategic, financial, operational and compliance issues. The Board has put in place an organisational structure with clearly defined responsibilities and delegation of authority. The Board constitution clearly sets out those matters for which the Board is required to give its approval.

The Audit Committee continually reviews the need for a dedicated internal audit function. However, at present the Audit Committee has determined that given the size and nature of the Group's operations a separate internal audit function is not required. This decision will be regularly reviewed in the future.

The Board seeks continually to improve the robustness of internal checks and balances within the Group and to implement controls and processes to address areas of potential improvement that come to the attention of the Board.

A process has been put in place to assess the risk within the business and to report and monitor such risk. The Group has an Audit Committee which meets regularly and receives control reports from the external auditors and risk reports from the business. The members of the Audit Committee are Graham Luff (Chairman), Timothy Barker, Russell Tenzer and Philip Aiken, all of whom are Non-executive directors.

Appropriate Audit Committee responsibilities and relationships with Auditors

The Audit Committee meets at least three times a year with the Group's senior financial management and external Auditors to review the interim and annual financial statements, the accounting policies of the Group, its internal financial control procedures and compliance with accounting standards, business risk, legal requirements and the requirements of the UK Listing Authority and London Stock Exchange.

The Audit Committee recognises the importance of ensuring the independence and objectivity of the Company's auditors and reviews the service provided by the auditors, the level of their fees and that element comprising non-audit fees. The Audit Committee also meets independently with the auditors at least once a year.

report of the remuneration committee

Introduction

This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 which introduced new statutory requirements for the disclosure of directors' remuneration. The report also meets the relevant requirements of the Listing Rules of The Financial Services Authority and describes how the Board has applied the principles of good Governance relating to Directors' remuneration. As required by the Regulations, a resolution to approve the report will be proposed at The Annual General Meeting of the Company at which the statements will be approved.

The Regulations require the auditors to report to the Company's shareholders on the "auditable part" of the Directors' remuneration report and to state whether in their opinion that part of the report has been properly prepared in accordance with the Companies Act 1985 as amended by the Regulations. The report has therefore been divided into separate sections for audited and unaudited information.

Unaudited information

Remuneration committee

The Remuneration Committee is composed of the four Non-executive Directors, Philip Aiken (Chairman), Timothy Barker, Graham Luff and Russell Tenzer.

The purpose of the Committee is to consider all aspects of Executive Directors' remuneration and to determine the specific remuneration packages of the Executive Directors including bonus schemes, pensions contributions and other benefits ensuring that the remuneration packages are competitive within the recruitment industry and reflect both Group and personal performance during the year, as well as considering the broader level of remuneration within the Group itself. The Committee meets when required to consider all aspects of Executive Directors' remuneration. Independent external advice on benchmarking Executive Directors' salaries, bonuses and benefits was obtained from New Bridge Street Consultants and Kepler Associates during the year and this independent external advice has been used in setting such remuneration in the year 2002 and will be taken as appropriate in the future.

Statement of remuneration policy
Executive Directors

The Group's policy on Executive Director remuneration is as follows:

Salary

The basic salary of each Director is determined by the Remuneration Committee taking into account the performance of the individual and information from independent sources on the rates of salary for similar jobs in comparable companies.

Annual bonus

Each of the Executive Directors is entitled to participate in an annual executive bonus plan. Under the bonus plan there may be an annual bonus pool for all Executive Directors which can be allocated between them on a discretionary basis by the Remuneration Committee.

Pensions and other benefits

In addition to the basic remuneration payable under the service agreements, each of the Executive Directors is entitled to a pension provision and a range of other benefits, including permanent health insurance, private medical insurance, car allowance and mortgage subsidy. All benefits are subject to annual review.

report of the remuneration committee continued

Share options

Directors and senior employees are incentivised by the grant of share options under an Executive Share Option Scheme. This scheme is administered by the Remuneration Committee and is open to employees and Directors of the Company and its subsidiaries, who are not within two years of their contractual retirement age. The share options are not exercisable until three and five years from their grant and only to the extent that earnings per share targets have been satisfied over a period of three, four and five years.

A savings related share option scheme was launched in March 2001 and is open to all Executive Directors and employees except those based in the United States of America.

Restricted shares arrangement

At the time of the IPO of the Company in July 2000, ordinary shares were made available to certain Directors as detailed on page 24.

Contracts of service

The service contracts for each of the Executive Directors are subject to review annually. These service contracts are terminable by either party giving not less than 12 months written notice at any time and there are no specific provisions relating to any payments for early termination of office.

	Date of Contract
R Walters	19 June 2000
G Daubeney	19 June 2000
I Nash	19 September 2001
T Barker	16 June 2000
R Tenzer	16 June 2000
P Aiken	16 June 2000
G Luff	17 September 2001

None of the Executive Directors currently hold significant non-executive positions and it is expected that the Executive Directors would seek approval from the Board prior to the acceptance of any such positions in companies outside the Group.

Non-executive directors

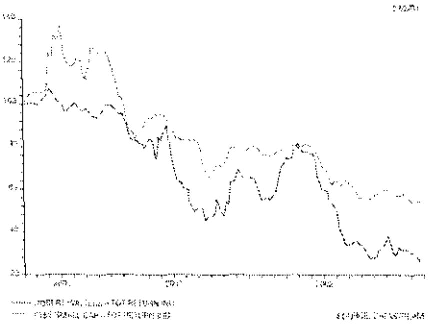
The remuneration of the Non-executive directors is determined by the Board as a whole, based on outside advice and review of current practices in other companies. Their contracts are terminable by either party giving not less than three months' written notice at any time.

Payment to former Directors

Peter Greenslade resigned on 18 September 2001 and was paid £114,285 during the year in respect of his previous service contract.

Performance graph

The following graph shows the Company's performance compared with the performance of the FTSE Small Cap Index measured by total shareholder return ("TSR"). The FTSE Small Cap Index has been selected for this comparison as it is the FTSE sector that Robert Walters plc is classified within.



TSR is calculated by Datastream as the growth or fall in value of a share-holding from the date of initial investment over time, with the assumption that dividends are re-invested to purchase additional shares in the Company.

Audited information

Directors' remuneration, interests and transactions

	2002 £'000	2001 £'000
Aggregate remuneration		
The total amount of Directors' remuneration and other benefits were as follows:		
Emoluments	1,078	1,000
Payment for loss of office	114	–
Group contributions to money purchase schemes	27	28
	1,219	**1,028**
Fees paid to third parties in respect of Directors' services	**24**	**24**

Fees paid to third parties comprise amounts paid to Hazlems Fenton, Chartered Accountants under an agreement to provide the Group with the services of R Tenzer.

	2002 £'000				2001 £'000			
Emoluments	FEES/ BASIC SALARY	BONUS	TAXABLE BENEFITS	TOTAL	FEES/ BASIC SALARY	BONUS	TAXABLE BENEFITS	TOTAL
Executive								
R C Walters	390	–	–	**390**	390	–	–	**390**
G P Daubeney	322	–	2	**324**	322	–	–	**322**
I V Nash	225	–	27	**252**	50	–	5	**55**
P D Greenslade	–	–	–	**–**	129	–	–	**129**
Non-executive								
T G Barker	40	–	–	**40**	33	–	–	**33**
P S Aiken	24	–	–	**24**	24	–	–	**24**
G E Luff	24	–	–	**24**	6	–	–	**6**
R P Tenzer	24	–	–	**24**	24	–	–	**24**
D M Affolter	–	–	–	**–**	17	–	–	**17**
	1,049	**–**	**29**	**1,078**	**995**	**–**	**5**	**1,000**

Annual bonuses are determined by the Remuneration Committee.

There is no arrangement under which any Director has waived or agreed to waive future emoluments, nor has there been any waiver of emoluments during the financial year ended 31 December 2002.

The nature of the taxable benefits comprises mortgage allowance, car allowance and medical aid.

report of the remuneration committee continued

Directors' share options

Aggregate emoluments disclosed above do not include any amounts for the value of options to acquire ordinary shares in the Company granted to or held by the Directors under the Company's Executive Share Option Scheme. Details of the options are as follows:

	OPTIONS GRANTED AT 1 JANUARY 2002 AND 31 DECEMBER 2002	EXERCISE PRICE (PENCE)	NOTE
R C Walters:			
– IPO Options – Basic	2,263,250	170	(a)
– IPO Options – Super	2,263,250	170	(b)
– Executive Options	500,000	82	(d)
	5,026,500		
G P Daubeney:			
– IPO Options – Basic	617,250	170	(a)
– IPO Options – Super	617,250	170	(b)
– Executive Options	100,000	222	(c)
– Executive Options	500,000	82	(d)
	1,834,500		
I V Nash:			
– Executive Options	600,000	82	(d)
	600,000		
	7,461,000		

The above share options are exercisable between:

(a) July 2003 and June 2010
(b) July 2005 and June 2010
(c) October 2003 and September 2010
(d) September 2004 and August 2011

The performance criteria of the Executive options are detailed in note 20.

IPO Options granted under the Executive Share Options Scheme are divided into 'basic' and 'super' options which have different performance targets as detailed in note 20.

The market price of the ordinary shares at 31 December 2002 was 58 pence per share (2001: 120 pence per share) and the range during the year was 47.5 pence to 145 pence per share.

There were no variations to the terms and conditions of the options available to Directors during the year.

Directors' interests in shares

The Directors who held office at 31 December 2002 had the following interests in the ordinary shares of the Company

	31 DECEMBER 2002 NUMBER	31 DECEMBER 2001 NUMBER
R C Walters	560,000	560,000
G P Daubeney	235,881	235,881
I V Nash	–	–
T G Barker	39,411	29,411
P S Aiken	11,176	1,176
G E Luff	10,000	–
R P Tenzer	14,705	14,705

There have been no changes to Directors interests between 31 December 2002 and the date of their report.

In addition to the above shareholdings, ordinary shares were made available to R C Walters (1,760,000 ordinary shares) and G P Daubeney (640,000 ordinary shares) at the time of the IPO of the Company in July 2000, the vesting of which is conditional on each Director remaining in employment with the Group for three years from flotation. The restricted shares are held by a third party trust company and will be transferred by the trust in accordance with the Restricted Shares arrangement.

Pensions

Three Directors were members of money purchase pension schemes during the year. Contributions paid in by the Company in respect of such Directors were as follows:

	2002 £'000	2001 £'000
Name of Director		
R C Walters	15	15
G P Daubeney	6	6
I V Nash	6	2
P D Greenslade	–	5
	27	**28**

Directors' transactions

Russell Tenzer is a partner in Hazlems Fenton, a firm of Chartered Accountants and registered auditors. There were no Directors' transactions during the current year, although during the prior year, Hazlems Fenton provided accounting and advisory services to the Group in the ordinary course of business, for which the Group was invoiced £4,782, exclusive of value added tax.

Approval

This report was approved by the Board of Directors on 12 March 2003 and signed on its behalf by:

Philip Aiken

12 March 2003

statement of director's responsibilities

Accounts, including adoption of going concern basis

UK company law requires the Directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and Group and of the profit or loss of the Group for that year.

After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

In preparing the accounts, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed.

Other matters

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and Group and enable them to ensure that the accounts comply with the Companies Act 1985.

They are also responsible for the system of internal control to safeguard the assets of the Company and Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

independent auditor's report

To the shareholders of Robert Walters plc

We have audited the financial statements of Robert Walters plc for the year ended 31 December 2002 which comprise the Consolidated Profit and Loss Account, the Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Total Recognised Gains and Losses, the Statement of Accounting Policies and the related notes numbered 1 to 27. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the report of the Remuneration Committee that is described as having been audited.

This report is made solely to the Company's shareholders, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

As described in the Statement of Directors' Responsibilities, the Company's Directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. They are also responsible for the preparation of the other information contained in the annual report including the report of the Remuneration Committee. Our responsibility is to audit the financial statements and the part of the report of the Remuneration Committee described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards and the listing rules of the Financial Services Authority.

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

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

We read the report of the Directors and the other information contained in the annual report for the above year as described in the contents section including the unaudited part of the report of the Remuneration Committee and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

independent auditor's report continued

Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the report of the Remuneration Committee described as having been audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, 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 report of the Remuneration Committee described as having been 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 report of the Remuneration Committee described as having been audited.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2002 and of the loss of the Group for the year then ended and the financial statements and part of the report of the Remuneration Committee described as having been audited have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche
Chartered Accountants and Registered Auditors

London
12 March 2003

consolidated profit and loss account

FOR THE YEAR ENDED 31 DECEMBER 2002

		2002			2001		
	Notes	BEFORE EXCEPTIONAL ITEMS £'000	EXCEPTIONAL ITEMS (NOTE 2) £'000	TOTAL £'000	BEFORE EXCEPTIONAL ITEMS £'000	EXCEPTIONAL ITEMS (NOTE 2) £'000	TOTAL £'000
Turnover	**1**						
Continuing operations		**260,321**	–	**260,321**	**253,552**	–	**253,552**
Cost of sales		(204,699)	–	(204,699)	(188,321)	–	(188,321)
Gross profit		**55,622**	–	**55,622**	**65,231**	–	**65,231**
Goodwill		(1,026)	–	(1,026)	(348)	–	(348)
Other administrative expenses		(53,349)	(654)	(54,003)	(57,154)	(1,457)	(58,611)
Administrative expenses		(54,375)	(654)	(55,029)	(57,502)	(1,457)	(58,959)
Operating profit		**1,247**	**(654)**	**593**	**7,729**	**(1,457)**	**6,272**
Interest (net)	**3**	264	–	264	223	–	223
Profit on ordinary activities before taxation	**4**	**1,511**	**(654)**	**857**	**7,952**	**(1,457)**	**6,495**
Tax on profit on ordinary activities	**6**	(1,232)	63	(1,169)	(2,850)	437	(2,413)
Profit (loss) on ordinary activities after taxation		**279**	**(591)**	**(312)**	**5,102**	**(1,020)**	**4,082**
Dividends	**7**	(2,667)	–	(2,667)	(2,496)	–	(2,496)
Retained (loss) profit for the year	**21**	**(2,388)**	**(591)**	**(2,979)**	**2,606**	**(1,020)**	**1,586**
Earnings (loss) per share (pence):	**8**						
Basic		0.3	(0.7)	(0.4)	6.1	(1.2)	4.9
Diluted		0.3	(0.7)	(0.4)	6.1	(1.2)	4.9

consolidated statement of total recognised gains and losses

FOR THE YEAR ENDED 31 DECEMBER 2002

	2002 £'000	2001 £'000
(Loss) profit on ordinary activities after taxation	**(312)**	**4,082**
Foreign currency translation differences	(202)	(42)
Total recognised (losses) gains for the year	**(514)**	**4,040**

consolidated balance sheet

AS AT 31 DECEMBER 2002

	Notes	2002 £'000	2001 £'000
Fixed assets			
Goodwill	10	7,243	9,355
Tangible fixed assets	11	4,394	5,605
Investments	12	–	103
Own shares held	12	2,832	2,425
		14,469	**17,488**
Current assets			
Debtors	14	22,551	34,248
Cash at bank and in hand		19,210	9,035
		41,761	**43,283**
Creditors: amounts falling due within one year	15	(18,526)	(19,741)
Net current assets		**23,235**	**23,542**
Total assets less current liabilities		**37,704**	**41,030**
Provision for liabilities and charges	16	–	(145)
Net assets		**37,704**	**40,885**
Capital and reserves			
Called-up share capital	19	16,931	16,931
Share premium account	21	82,804	82,804
Other reserves	21	(74,034)	(74,034)
Foreign exchange reserves	21	(667)	(465)
Profit and loss account	21	12,670	15,649
Equity shareholders' funds	22	**37,704**	**40,885**

The accounts on pages 29 to 50 were approved by the Board of Directors on 12 March 2003 and signed on its behalf by:

Ian Nash
Group Finance Director

company balance sheet
AS AT 31 DECEMBER 2002

	Notes	2002 £'000	2001 £'000
Fixed assets			
Investments	**12**	92,510	83,391
		92,510	**83,391**
Current assets			
Debtors	**14**	12,336	24,213
Creditors: amounts falling due within one year	**15**	(1,778)	(1,791)
Net current assets		**10,558**	**22,422**
Net assets		**103,068**	**105,813**
Capital and reserves			
Called-up share capital	**19**	16,931	16,931
Share premium account	**21**	82,804	82,804
Profit and loss account	**21**	3,333	6,078
Equity shareholders' funds		**103,068**	**105,813**

The accounts on pages 29 to 50 were approved by the Board of Directors on 12 March 2003 and signed on its behalf by:

Ian Nash
Group Finance Director

consolidated cash flow statement

FOR THE YEAR ENDED 31 DECEMBER 2002

	Notes	2002 £'000	2001 £'000
Net cash inflow from operating activities		**16,416**	**15,024**
Returns on investments and servicing of finance	**23**	264	223
Taxation	**23**	(2,562)	(5,543)
Capital expenditure and financial investment	**23**	(1,327)	(3,788)
Acquisitions and disposals	**23**	–	(4,896)
Equity dividends paid	**23**	(2,680)	(2,132)
Increase (decrease) in cash in the year	**24**	**10,121**	**(1,112)**

statement of accounting policies

FOR THE YEAR ENDED 31 DECEMBER 2002

ACCOUNTING POLICIES

The principal accounting policies of the Group are summarised below and have been applied consistently in all aspects throughout the current year. The requirements of FRS 19, Deferred Taxation, were adopted during the current year and the prior year comparative figures have not been restated as there was no material affect. With the exception of FRS 19, all other accounting policies were applied consistently during the prior year.

a) Basis of accounting

The accounts have been prepared under the historical cost convention and in accordance with applicable UK accounting standards.

b) Basis of consolidation

The Group financial statements consolidate the financial statements of Robert Walters plc and its subsidiary undertakings drawn up to 31 December each year. Acquisitions are accounted for under the acquisition method.

c) Turnover

Turnover comprises the value of services, net of VAT and other sales related taxes, provided by the Group in the normal course of business.

Turnover from the placement of permanent staff is recognised when a candidate accepts a position and a start date is determined. A provision is made for the cancellation of placements prior to or shortly after the commencement of employment based on past experience of this occurring.

Turnover from temporary placements represents the amounts billed for the services of temporary staff including the salary costs of those staff. This is recognised when the services have been provided.

Turnover in respect of outsourcing and consultancy is recognised when the services have been provided.

d) Gross Profit (Net Fee Income)

Gross Profit is the total placement fees of permanent candidates, the margin earned on the placement of contract candidates and advertising income. It also includes the outsourcing and consultancy margin earned by Resource Solutions.

e) Leases

Rentals under operating leases are charged on a straight-line basis over the lease term even if the payments are not made on such a basis.

f) Pensions

The Group currently contributes to the money purchase pension plans of certain individual Directors and employees. Contributions payable in respect of the year are charged to the profit and loss account.

g) Taxation

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

Deferred taxation is recognised in respect of all timing differences that have occurred but not yet reversed at the balance sheet date.

A net deferred tax asset is only recognised when it is considered more likely than not that there will be suitable future taxable profits from which the reversal of the underlying timing differences can be deducted.

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

h) Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date.

The results of overseas operations are translated at the average rates of exchange during the period and their balance sheets at the rates ruling at the balance sheet date. Exchange differences arising on translation of the opening net assets and the results of overseas operations are dealt with through reserves.

i) Goodwill

Goodwill arising on the acquisition of subsidiary undertakings, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight-line basis over the shorter of its useful economic life, or 20 years. Provision is made for any impairments.

Goodwill arising on acquisitions in the year ended 31 December 1997 and earlier periods was written off to reserves in accordance with the accounting standards then in force. On disposal the attributable amount of goodwill previously written off to reserves is included in determining the profit or loss on disposal.

j) Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation as set out in note 11. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset on a straight line basis over its expected useful life, as follows:

- Leasehold improvements: the shorter of estimated useful life and the period of the lease
- Fixtures, fittings and office equipment: 10%
- Computer equipment: 33.3%
- Motor vehicles: 17.5%

k) Investments

Investments are shown at cost less provision for impairment, where appropriate.

Own shares purchased are shown in the Group Balance Sheet at cost, less provision for any permanent diminution in value.

notes to the accounts

31 DECEMBER 2002

1. Segmental information

	2002	2001
	£'000	£'000
i) Turnover:		
UK	190,854	183,551
Continental Europe	10,124	10,139
Asia Pacific	54,834	55,516
Other	4,509	4,346
	260,321	**253,552**
ii) Gross profit:		
UK	27,138	36,219
Continental Europe	5,289	6,071
Asia Pacific	19,777	19,624
Other	3,418	3,317
	55,622	**65,231**
iii) Profit on ordinary activities before interest and tax:		
UK	528	5,131
Continental Europe	(111)	1,225
Asia Pacific	570	1,125
Other	260	248
	1,247	**7,729**
Exceptional item	(654)	(1,457)
Operating profit	**593**	**6,272**
Interest (net)	264	223
Profit on ordinary activities before tax	**857**	**6,495**
iv) Net assets:		
UK	25,757	28,676
Continental Europe	1,507	4,833
Asia Pacific	10,270	7,254
Other	170	122
	37,704	**40,885**

The analysis of turnover by destination is not materially different to the analysis by origin.
The Directors believe there to be only one class of business throughout 2002 and 2001.

2. Exceptional Items

		2002	2001
	Note	£'000	£'000
Office closure costs		551	–
Provision for impairment of investment	**12**	103	–
IT strategy costs		–	1,457
Net exceptional items		**654**	**1,457**

The exceptional costs incurred in the current year were in respect of the closure of a number of unprofitable offices.
The IT strategy costs in 2001 related to consultancy fees incurred in developing a global technology process.

There is an overseas tax credit of £63,000 associated with the closure of offices and a UK tax credit of £437,000 in respect of the IT strategy costs in the prior year.

3. Interest (net)

	2002 £'000	2001 £'000
Interest receivable	264	234
Interest payable	-	(11)
Net interest receivable	**264**	**223**

4. Profit on ordinary activities before taxation

	2002 £'000	2001 £'000
Profit on ordinary activities is stated after charging:		
Auditors' remuneration – Deloitte & Touche (2001: Arthur Andersen)	132	115
– Other firms	22	19
Depreciation of tangible assets – owned	1,806	1,628
Loss on disposal of fixed assets	362	322
Goodwill amortisation and impairment	1,026	348
Operating lease rentals – property	2,793	3,402
– computers and equipment	355	306

Deloitte & Touche were appointed as Auditors to the Company on 1 August 2002. Since that date, amounts payable to Deloitte & Touche and its associates by the Company and its subsidiary undertakings in respect of non-audit services were £35,000 (payments to former auditors prior to 1 August 2002 were £18,000 (2001: £140,000)). Amounts paid in relation to non-audit services includes £20,000 (2001: £20,000) for services provided in the UK in relation to the interim results. Audit remuneration in respect of the Company was £50,000 (2001: £50,000).

5. Staff costs

	2002 NUMBER	2001 NUMBER
The average monthly number of employees of the Group (including Executive Directors) during the year was:		
Group employees	**870**	**969**

	2002 £'000	2001 £'000
Their aggregate remuneration comprised:		
Wages and salaries	31,009	36,448
Social security costs	2,483	3,680
Other pension costs	515	455
	34,007	**40,583**

The Group operates an Inland Revenue approved employee share option scheme and has taken advantage of the exemption given in UITF Abstract 17 "Employee share schemes" from recognising a charge in the profit and loss account for the discount on the options.

notes to the accounts continued

6. Tax on profit on ordinary activities

	2002 £'000	2001 £'000
Current year tax charge:		
Corporation tax – UK	776	2,109
– Overseas	713	1,352
Double tax relief	(99)	(633)
Deferred tax – UK	(10)	(356)
– Overseas	(147)	–
	1,233	**2,472**
Adjustments in respect of prior periods:		
Corporation tax – UK	42	(369)
Corporation tax – Overseas	150	–
Double tax relief	–	64
Deferred tax	(256)	246
	(64)	**(59)**
	1,169	**2,413**

UK corporation tax has been charged at 30% (2001: 30%)

Profit on ordinary activities before tax	857	6,495
Tax at standard UK corporation tax rate of 30%	257	1,949
Effects of:		
Goodwill amortisation not deductible for tax purposes	308	104
Unrelieved foreign losses	317	–
Other expenses not deductible for tax purposes	337	595
Overseas earnings taxed at different rates	171	180
Adjustments to tax charges in previous periods	192	(305)
Current tax charge for the year	**1,582**	**2,523**

The Group's overseas tax rates are generally higher than those in the UK and therefore the future effective tax rate is partially dependant on the geographical balance of Group profits.

7. Equity dividends

	2002 £'000	2001 £'000
Interim dividend paid of 1.05p per share (2001: 1.05p)	889	889
Final dividend proposed of 2.1p (2001: 2.1p)	1,778	1,778
Adjustment in respect of prior year	-	(171)
	2,667	**2,496**

8. (Loss) earnings per share

The calculation of earnings per ordinary share is based on the (loss) profit on ordinary activities after taxation and the weighted average number of ordinary shares of Robert Walters plc.

	2002 £'000	2001 £'000
(Loss) profit on ordinary activities after taxation	**(312)**	**4,082**

	2002 NUMBER OF SHARES	2001 NUMBER OF SHARES
Weighted average number of shares:		
Shares in issue	84,656,927	83,907,876
Own shares held	(1,483,292)	(1,299,016)
For basic earnings per share	**83,168,635**	**82,608,860**
Outstanding share options	1,819,950	365,053
For diluted earnings per share	**84,988,585**	**82,973,913**

Earnings per share have also been presented before exceptional items to highlight the impact of the exceptional items during the year.

9. Company (loss) profit for the year

The Company has elected not to present its own profit and loss account as permitted by Section 230 of the Companies Act 1985. Robert Walters plc reported a loss for the financial year of £76,000 for the year ended 31 December 2002 (2001: profit of £10.0 million).

notes to the accounts continued

10. Goodwill

	£'000
Cost:	
At 1 January 2002	9,703
Reduction in deferred consideration	(1,086)
At 31 December 2002	**8,617**
Amortisation:	
At 1 January 2002	348
Charge for the year	503
Impairment loss on Interim Leaders	523
At 31 December 2002	**1,374**
Net book value:	
At 1 January 2002	9,355
At 31 December 2002	**7,243**

The reduction in deferred consideration relates to the acquisition of Dunhill Management Services Trust in 2001.

11. Tangible fixed assets

Group	LEASEHOLD IMPROVEMENTS £'000	FIXTURES, FITTINGS & OFFICE EQUIPMENT £'000	COMPUTER EQUIPMENT £'000	MOTOR VEHICLES £'000	TOTAL £'000
Cost:					
At 1 January 2002	2,432	2,770	4,370	335	9,907
Additions	–	182	722	16	920
Disposals	(88)	(145)	(2,109)	(37)	(2,379)
Reclassification	–	789	(789)	–	–
Foreign currency translation differences	(19)	(59)	44	23	(11)
At 31 December 2002	**2,325**	**3,537**	**2,238**	**337**	**8,437**
Depreciation:					
At 1 January 2002	342	864	2,934	162	4,302
Charge for the year	325	563	862	56	1,806
Disposals	(61)	(26)	(1,910)	(20)	(2,017)
Reclassification	–	789	(789)	–	–
Foreign currency translation differences	18	(77)	(1)	12	(48)
At 31 December 2002	**624**	**2,113**	**1,096**	**210**	**4,043**
Net book value:					
At 1 January 2002	2,090	1,906	1,436	173	5,605
At 31 December 2002	**1,701**	**1,424**	**1,142**	**127**	**4,394**

notes to the accounts continued

12. Fixed asset investments

Group	OWN SHARES £'000	OTHER £'000	TOTAL £'000
Cost:			
At 1 January 2002	2,425	103	2,528
Additions	407	–	407
At 31 December 2002	**2,832**	**103**	**2,935**
Provision:			
At 1 January 2002	–	–	–
Provision for impairment of investment	–	(103)	(103)
At 31 December 2002	**–**	**(103)**	**(103)**
Net book value:			
At 1 January 2002	2,425	103	2,528
At 31 December 2002	**2,832**	**–**	**2,832**

The own shares are held by an employee benefit trust as a hedge against Employees National Insurance Tax payable on the executive share options, which is dependent on the prevailing share price when an option is exercised.

The Company also has an obligation to make regular contributions to the ESOP to enable it to meet its financing costs. Rights to dividends on shares held by the plan have been waived by the trustees.

Charges of £5,472 (2001: £8,763) have been reflected in the Profit and Loss Account in respect of the scheme.

The number and market value of own shares held at 31 December 2002 was 1,949,016 (2001: 1,299,016) and £1,130,429 (2001: £1,558,819).

Company	SUBSIDIARY UNDERTAKINGS £'000
Cost:	
At 1 January 2002	83,391
Adjustment to cost	9,119
At 31 December 2002	**92,510**

13. Principal Group investments

Details of principal Group investments existing as at 31 December 2002 are as follows:

	PERCENTAGE OF ORDINARY SHARES	PRINCIPAL ACTIVITY	COUNTRY OF INCORPORATION
Subsidiary undertaking			
Robert Walters Pty Limited	100%	Recruitment consultancy	Australia
Resource Solutions Corporation Pty Limited	100%	HR outsourcing services	Australia
Dunhill Management Services Trust	100%	Recruitment consultancy	Australia
Robert Walters SARL	100%	Recruitment consultancy	France
Robert Walters (Hong Kong) Limited	100%	Recruitment consultancy	Hong Kong
Robert Walters Limited	100%	Recruitment consultancy	Ireland
Robert Walters Japan KK	100%	Recruitment consultancy	Japan
Robert Walters Interim Management Services BV	100%	Recruitment consultancy	Netherlands
Robert Walters (Singapore) Pte Limited	100%	Recruitment consultancy	Singapore
Interim Leaders Limited	100%	Senior interim recruitment	United Kingdom
Resource Solutions Limited	100%	HR outsourcing services	United Kingdom
Resource Solutions Services Limited	100%	Payroll bureau	United Kingdom
Robert Walters Operations Limited *	100%	Recruitment consultancy	United Kingdom
Resource Solutions Inc	100%	HR outsourcing services	USA
Robert Walters Associates, Inc.	100%	Recruitment consultancy	USA
Other investments			
Merryck and Co Limited	5%	CEO Business Mentoring	United Kingdom

* Directly held by the Company.

14. Debtors

	GROUP		COMPANY	
	2002	2001	2002	2001
	£'000	£'000	£'000	£'000
Debtors due within one year:				
Trade debtors	18,090	29,313	–	–
Other debtors	1,844	3,129	–	–
Prepayments and accrued income	2,349	1,216	–	–
Amounts due from subsidiaries	–	–	12,336	24,213
	22,283	**33,658**	**12,336**	**24,213**
Debtors due after one year:				
Deferred tax asset (see note 17)	268	–	–	–
Other debtors	–	590	–	–
	22,551	**34,248**	**12,336**	**24,213**

notes to the accounts continued

15. Creditors: amounts falling due within one year

	GROUP		COMPANY	
	2002	2001	2002	2001
	£'000	£'000	£'000	£'000
Trade creditors	4,110	2,923	–	–
Corporation tax	306	1,396	–	–
Other taxation and social security	4,060	6,001	–	–
Other creditors	4,775	4,938	–	–
Accruals	3,497	2,692	–	–
Dividends proposed and payable	1,778	1,791	1,778	1,791
	18,526	**19,741**	**1,778**	**1,791**

16. Provisions for liabilities and charges

	2002	2001
	£'000	£'000
Deferred taxation (see note 17)	–	145
	–	145

17. Deferred Taxation

	2002	2001
Group	£'000	£'000
Provision at 1 January 2002 (see note 16)	(145)	(255)
Current period credit	157	356
Prior period credit (charge)	256	(246)
Asset (provision) at 31 December 2002 (see note 14)	**268**	**(145)**

	2002	2001
Deferred tax asset (provision) as follows:	£'000	£'000
Accelerated capital allowances	132	(124)
Other timing differences	136	(21)
	268	**(145)**

There was no unprovided deferred tax at 31 December 2002 (2001: £nil).

18. Derivatives and other financial instruments

The Group's financial instruments comprise cash and liquid resources and various items, such as trade debtors, trade creditors, etc., that arise directly from its' operations. The main purpose of these financial instruments is to finance the Group's operations. The Group has not entered into derivative transactions and no gains or losses on hedges have been incurred.

As permitted by FRS 13, the Group has excluded short term debtors and creditors in all the disclosures in this note with the exception of currency exposures.

The main risks arising from the Group's financial instruments are foreign currency risk, liquidity risk and interest rate risk.

i) Financial assets

Surplus cash balances are generally invested in short term floating rates (linked to the banks' wholesale deposit rates) to give the Group flexibility in its cash management.

Cash	2002 £'000	2001 £'000
Pounds Sterling	12,152	5,403
Euros	1,166	1,053
Other	136	31
US Dollars	1,176	912
Hong Kong Dollars	402	399
Singapore Dollars	272	407
Japanese Yen	1,155	215
Australian Dollars	2,513	293
New Zealand Dollars	238	322
	19,210	**9,035**

All financial assets, as above, are at floating rate. There is no difference between the fair value and the carrying value of the financial assets.

ii) Currency exposures

The main functional currencies of the Group are Pounds Sterling, Australian Dollars and the Euro. The Group does not have material transactional exposures because in the local entities, revenues and costs are in their functional currencies.

There are no material exposures to monetary assets and monetary liabilities.

The Group has exposure to translation exposure in accounting for overseas operations and its policy is not to hedge against this exposure.

iii) Liquidity risk

The Group's overall objective is to ensure that at all times it is able to meet its financial commitments as and when they fall due. Surplus funds are invested on short term deposit. Short-term flexibility is achieved by overdraft facilities, if appropriate.

iv) Interest rate risk

The Group finances its operations through a mixture of retained earnings and an overdraft facility at floating rate. The Group manages its cash funds through its London Corporate Head Office and does not actively manage its exposure to interest rate fluctuations.

v) Financial liabilities

The Group has a committed overdraft facility of £5.0m at 31 December 2002 (2001: £5.0m) that is renewable within one year.

notes to the accounts continued

19. Called-up share capital

	2002 NUMBER	2001 NUMBER	2002 £'000	2001 £'000
Authorised				
Ordinary shares of 20p each	200,000,000	200,000,000	40,000	40,000
Allotted, called-up and fully paid				
Ordinary shares of 20p each	84,656,927	84,656,927	16,931	16,931

20. Share options

As at 31 December 2002 the following options had been granted and remained outstanding in respect of the Company's ordinary shares of 20p each under the Company's Executive Share Option Scheme:

	SHARE OPTIONS GRANTED	PRICE GRANTED PENCE	EXERCISABLE BETWEEN FROM	TO
IPO Options – Basic	3,484,967	170	July 2003	June 2010
IPO Options – Super	3,484,967	170	July 2005	June 2010
Executive Options	1,737,000	222	October 2003	September 2010
Executive Options	200,000	230	January 2004	December 2011
Executive Options	2,780,000	82	September 2004	August 2011
Executive Options	325,000	85	November 2004	October 2011
Executive Options	15,000	118	March 2005	February 2012
	12,026,934			

Exercise of the Executive Share Options is subject to the achievement of a percentage increase in earnings per share which exceeds the percentage increase in inflation by at least an average of 5% per annum, over a period of three, four or five financial years of the Group. IPO Options granted under the Executive Share Option Scheme are divided into 'basic' and 'super' options, having different performance targets.

Exercise of the IPO Basic Option is subject to the same performance criteria as the Executive Share Options. Exercise of the IPO Super Options is subject to the achievement of an average compound growth in the Company's share price of 8.45%.

On satisfaction of these performance targets, 331/3% of the options vest. Vesting then increases progressively with the Executive and Basic Options fully vesting where earnings per share growth matches the UK retail price index plus an average of 9% pa and the Super Options fully vesting where the average compound growth in the share prices is 24.57% (equivalent to 200% after five years).

21. Reserves

Group	SHARE CAPITAL £'000	SHARE PREMIUM ACCOUNT £'000	OTHER RESERVES £'000	FOREIGN EXCHANGE RESERVE £'000	PROFIT AND LOSS ACCOUNT £'000	TOTAL £'000
Shareholders' funds at 1 January 2002	16,931	82,804	(74,034)	(465)	15,649	40,885
Foreign currency translation differences	–	–	–	(202)	–	(202)
Retained loss for the year	–	–	–	–	(2,979)	(2,979)
Shareholders' funds at 31 December 2002	**16,931**	**82,804**	**(74,034)**	**(667)**	**12,670**	**37,704**

The cumulative amount of goodwill written off against the Group's reserves is £5,682,000 (2001: £5,682,000).

The other reserves of the Group includes a merger reserve of (£83,379,000), a capital reserve of £9,301,000 and a capital contribution reserve of £44,000.

The profit and loss account of the Group represents distributable reserves. All other reserves of the Group are non-distributable.

Company	SHARE CAPITAL £'000	SHARE PREMIUM ACCOUNT £'000	PROFIT AND LOSS ACCOUNT £'000	TOTAL £'000
Shareholders' funds at 1 January 2002	16,931	82,804	6,078	105,813
Retained loss for the year	–	–	(2,745)	(2,745)
Shareholders' funds at 31 December 2002	**16,931**	**82,804**	**3,333**	**103,068**

22. Reconciliation of movements in shareholders' funds

	2002 £'000	2001 £'000
(Loss) profit for the year	**(312)**	**4,082**
Foreign currency translation differences	(202)	(42)
	(514)	4,040
Dividend	(2,667)	(2,496)
New shares issued	–	3,518
Net (deduction) addition to shareholders' funds	**(3,181)**	**5,062**
Opening shareholders' funds	40,885	35,823
Closing shareholders' funds	**37,704**	**40,885**

notes to the accounts continued

23. Analysis of cash flow

	2002 £'000	2001 £'000
Reconciliation of operating profit to net cash flow from operating activities:		
Operating profit	593	6,272
Depreciation charges	1,806	1,628
Goodwill amortisation and impairment	1,026	348
Loss on disposal of tangible fixed assets	362	322
Provision for impairment of investment	103	–
Decrease in debtors	11,697	10,923
Increase (decrease) in creditors	974	(4,159)
Decrease in provision	(145)	(310)
Net cash flow from operating activities	**16,416**	**15,024**
Returns on investments and servicing of finance		
Interest received	264	234
Interest paid	-	(11)
Net cash inflow	**264**	**223**
Taxation		
UK corporation tax paid	(788)	(4,202)
Foreign tax paid	(1,764)	(1,794)
ACT received (net)	–	453
Net cash outflow	**(2,552)**	**(5,543)**
Capital expenditure and financial investment		
Payments to acquire tangible fixed assets	(920)	(3,788)
Payment to acquire own shares	(407)	–
Net cash outflow	**(1,327)**	**(3,788)**
Acquisitions and disposals		
Purchase of subsidiary undertaking	–	(5,085)
Net cash acquired with subsidiary undertaking	–	189
Net cash outflow	**–**	**(4,896)**

24. Analysis and reconciliation of net funds

Analysis of change in net funds:	AT 1 JANUARY 2002 £'000	CASH FLOWS £'000	EXCHANGE MOVEMENT ON CASH £'000	AT 31 DECEMBER 2002 £'000
Cash at bank and in hand	9,035	10,121	54	19,210
Net funds	**9,035**	**10,121**	**54**	**19,210**

	2002 £'000	2001 £'000
Increase (decrease) in cash in the year	**10,121**	**(1,112)**
Foreign currency translation differences	54	334
Movement in net funds	**10,175**	**(778)**
Net funds at 1 January	9,035	9,813
Net funds at 31 December	**19,210**	**9,035**

25. Commitments

The Group has the following minimum annual rentals under operating leases:

	2002 £'000	2001 £'000
Property leases expiry date:		
– within one year	388	155
– between two and five years	706	2,425
– after five years	1,267	1,705
	2,361	**4,285**
Other leases expiry date:		
– within one year	44	173
– between two and five years	385	153
– after five years	–	–
	429	**326**
	2,790	**4,611**

The Company has no operating lease commitments (2001: £nil).

There are no capital commitments for the Group or the Company (2001: £nil).

notes to the accounts continued

26. Related party transactions

There were no related party transactions in the year to 31 December 2002 (2001: £nil) other than those described in the report of the Remuneration Committee on page 25.

27. Contingent liabilities

Each member of the Robert Walters plc Group is party to joint and several guarantees in respect of banking facilities granted to Robert Walters plc.

The Company has issued a parent guarantee to secure banking facilities for its Australian operations

In the normal course of business there are a number of claims against the Group, none of which are considered to be of a significant nature for the Group.