AWG Group Limited (formerly Anglian Water plc)
Registered number 2366618

Directors' report and financial statements

For the year ended 31 March 2003

AWG Group Limited (formerly Anglian Water plc)

Directors' report
for the year ended 31 March 2003

The directors have pleasure in presenting their report and the audited consolidated financial statements of AWG Group Limited and subsidiary companies for the year ended 31 March 2003.

Principal activities, business review and future developments
The principal activities of the group during the year were water supply and distribution, waste water collection and treatment, process engineering, construction, commercial, residential and infrastructure development and asset management. The company acted as a holding company and provided guarantees to subsidiary companies.

AWG Group Limited was known as Anglian Water Plc until 30 July 2002 and as Anglian Water Limited until 3 February 2003.

In the regulated business, the priority for AWS will be to continue its focus on outperformance in order to strengthen its position ahead of the forthcoming regulatory review. On the infrastructure management side, AWG will build on its strengths and continue the process of improving the quality and margins of the business it takes on. AWG will also vigorously pursue the disposal programme in order that management's attention can be focused on growing the core business.

Results and dividends
The profit and loss account on page 4 shows the group's results and loss for the year. During the current year, the company paid a dividend of £166.6 million (2002: £125.0 million).

Going concern
After making enquiries, the directors have a reasonable expectation that the group and company 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.

Share capital
Details of AWG Group Limited's share capital are shown in note 25 on page 36.

Directors
The current directors of the company are as follows:
Mr A T Eckford
Mr E M Mannis
Mr R A Pointer
Mr E McEwan

All of the directors served throughout the year except for Mr E McEwan who was appointed on 10 October 2002. Mr C J Mellor also served as a director during the year and resigned on 19 March 2003.

Directors' interests in shares and debentures
None of the directors held shares, either directly or through family interests, in AWG Group Limited at 31 March 2003. Directors' interests in shares in AWG Plc, the ultimate parent company, are shown in that company's accounts, which are available from the company secretary at the registered office.

Charitable donations
During the year the group made a payment of £1.0 million (2002: £1.5 million) to the Anglian Water Trust Fund. The AWG community investment programme, which is predominantly based on employees' participation in community activities during working hours, saw 509 employees joining up for the *"give me five"* matching hours scheme. Five management trainees were seconded to community organisations for three months as part of their development programme.

Employees

Employees are kept informed on matters affecting them and made aware of general financial and economic factors influencing the group. The group operates a systematic approach to employee communication through regular briefings, presentations, electronic mailing and the wide circulation of group magazines.

Share option and bonus schemes are in place to encourage participation in the group's performance.

The group is an equal opportunities employer and applications from disabled persons are fully and fairly considered, having regard to the aptitude and abilities of the applicant. In the event of disability, every effort is made to ensure that employment continues and appropriate training is given. Career development and promotion of disabled people is, as far as possible, identical to that of other employees.

Policy on the payment of creditors

It is the company's policy to provide suppliers of goods and services with a statement of general conditions of contract. This document is available from the company's procurement department. In general, regional purchasing agreements are in place with preferred suppliers and the terms will apply to all transactions. The company abides by the terms of payment. At 31 March 2003, the group had 65 days purchases outstanding (2002: 62 days). At 31 March 2003 the company had no trade creditors (2002: nil).

Auditors

PricewaterhouseCoopers resigned as auditors of the company on 26 March 2003. In accordance with Section 385 of the Companies Act 1985, the board appointed PricewaterhouseCoopers LLP to fill the vacancy on 26 March 2003.

Substantial shareholders

The company is a wholly owned subsidiary of AWG Plc.

Research and development

The group and its subsidiaries have a continuing policy of undertaking market-focused research and development on process plant, biosolids treatment, automatic meter reading and other water and wastewater-related matters.

By order of the board

D Turner

D C Turner
Company secretary
Registered office: Anglian House, Ambury Road, Huntingdon, Cambridgeshire PE29 3NZ
Registered in England and Wales no. 2366618
4 June 2003

Statement of directors' responsibilities for the year ended 31 March 2003

Company law requires the directors to prepare, each financial year, financial statements which give a true and fair view of the state of affairs of the group and of the loss of the group for that period. In preparing those financial statements, the directors are required to:

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

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

AWG Group Limited (formerly Anglian Water plc)

Independent auditors' report to the member of AWG Group Limited

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the cash flow statement, the statement of total recognised gains and losses, the statement of movement in group shareholder's funds and the related notes which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies.

Respective responsibilities of directors and auditors

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

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

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

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group at 31 March 2003 and of the loss and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Birmingham
4 June 2003

AWG Group Limited (formerly Anglian Water plc)
Group profit and loss account
for the year ended 31 March

Notes		2003 Before exceptional items and goodwill amortisation £m	2003 Exceptional items and goodwill amortisation £m	2003 Total £m	2002 Before exceptional items and goodwill amortisation £m	2002 Exceptional items and goodwill amortisation £m	2002 Total £m
	Group turnover:						
2	Turnover: total group and share of joint ventures	1,878.7	-	1,878.7	1,813.1	-	1,813.1
2	Less: share of turnover of joint ventures	(142.8)	-	(142.8)	(108.5)	-	(108.5)
		1,735.9	-	1,735.9	1,704.6	-	1,704.6
	Operating costs before depreciation and amortisation of intangible assets	(1,214.4)	(42.0)	(1,256.4)	(1,192.7)	(146.1)	(1,338.8)
3	Depreciation net of amortisation of grants and contributions	(190.5)	-	(190.5)	(189.4)	(2.4)	(191.8)
	Amortisation of intangible assets	(0.5)	(13.8)	(14.3)	-	(16.5)	(16.5)
	Goodwill impairment	-	(4.4)	(4.4)	-	(30.0)	(30.0)
3	**Group operating costs**	(1,405.4)	(60.2)	(1,465.6)	(1,382.1)	(195.0)	(1,577.1)
5	**Group operating profit**	330.5	(60.2)	270.3	322.5	(195.0)	127.5
	Share of operating profit/(loss) in joint ventures	7.5	(3.6)	3.9	10.7	(16.3)	(5.6)
	Total operating profit: group and share of joint ventures	338.0	(63.8)	274.2	333.2	(211.3)	121.9
4	(Loss)/profit on disposal of businesses	-	(1.2)	(1.2)	-	19.6	19.6
4	Profit on disposal of investment	-	-	-	-	12.0	12.0
2	**Profit on ordinary activities before interest**	338.0	(65.0)	273.0	333.2	(179.7)	153.5
6	Interest payable (net)	(189.7)	(70.0)	(259.7)	(190.4)	-	(190.4)
	Profit/(loss) on ordinary activities before taxation	148.3	(135.0)	13.3	142.8	(179.7)	(36.9)
7	*Tax on profit/(loss) on ordinary activities*	(49.6)	27.5	(22.1)	(11.3)	24.4	13.1
	Profit/(loss) on ordinary activities after taxation	98.7	(107.5)	(8.8)	131.5	(155.3)	(23.8)
	Equity minority interest	(9.5)	-	(9.5)	(8.7)	-	(8.7)
	Profit/(loss) for the financial year	89.2	(107.5)	(18.3)	122.8	(155.3)	(32.5)
8	Dividends	(166.6)	-	(166.6)	(125.0)	-	(125.0)
	Loss transferred to reserves	**(77.4)**	**(107.5)**	**(184.9)**	**(2.2)**	**(155.3)**	**(157.5)**

The adoption of Urgent Issues Task Force Abstract 34 'Pre-contract costs' (note 9) did not give rise to any change in the prior year profit and loss account and therefore no restatement of the prior year comparatives is required.

Exceptional items and goodwill are analysed in note 4.

There was no difference between the profit on ordinary activities before taxation and the loss for the financial year stated above, and their historical cost equivalents.

All the above results relate to continuing operations. The impact of acquisitions in the year was to increase turnover by £12.2 million and reduce the operating profit by £0.7 million. There were no discontinued activities in the year.

AWG Group Limited (formerly Anglian Water plc)
Statement of group total recognised gains and losses for the year ended 31 March

Notes		2003 £m	2002 £m
	Loss for the financial year	(18.3)	(32.5)
	Currency translation differences on foreign currency net investments	(4.2)	7.8
26	Total recognised gains and losses for the year	(22.5)	(24.7)
9	*Prior year adjustment*	(5.1)	
	Total recognised gains and losses since the last annual report and financial statements	(27.6)	

Statement of movement in group shareholder's funds for the year ended 31 March

Notes		2003 £m	2002 £m
	Total recognised gains and losses for the year	(22.5)	(24.7)
8	Dividends paid and proposed	(166.6)	(125.0)
	Goodwill previously eliminated against reserves, now reinstated and written off against profit for the year	3.5	-
25	Issue of shares	-	290.0
	(Decrease)/increase in shareholder's funds	(185.6)	140.3
26	Opening shareholder's funds as previously stated	1,873.9	1,733.6
9	*Prior year adjustment*	(5.1)	(5.1)
26	Opening shareholder's funds as restated	1,868.8	1,728.5
	Closing shareholder's funds	1,683.2	1,868.8

AWG Group Limited (formerly Anglian Water plc)
Group and company balance sheets
at 31 March

Notes		Group 2003 £m	Group 2002 restated £m	Company 2003 £m	Company 2002 £m
	Fixed assets				
12	Intangible assets	258.7	257.1	-	-
13	Tangible assets	4,113.4	4,071.3	0.2	0.3
14	Investments				
	Joint ventures:				
	- Share of gross assets	376.0	330.0	-	-
	- Share of gross liabilities	(366.1)	(313.5)	-	-
22	- Amounts included in provisions	9.4	-	-	-
		19.3	16.5	-	-
	Associates	0.2	0.6	-	-
	Other investments	794.7	25.4	1,669.4	2,623.3
	Total investments	814.2	42.5	1,669.4	2,623.3
		5,186.3	4,370.9	1,669.6	2,623.6
	Current assets				
16	Stock	130.8	136.4	-	-
17	Debtors	640.4	614.0	167.3	48.9
18	Investments	18.8	-	-	-
	Cash at bank and in hand	384.4	220.3	96.8	261.1
		1,174.4	970.7	264.1	310.0
	Creditors: amounts falling due within one year				
19	Short-term borrowings	(60.5)	(396.0)	(14.8)	(97.8)
19	Other creditors	(667.4)	(686.1)	(152.7)	(436.0)
		(727.9)	(1,082.1)	(167.5)	(533.8)
	Net current assets/(liabilities)	446.5	(111.4)	96.6	(223.8)
	Total assets less current liabilities	5,632.8	4,259.5	1,766.2	2,399.8
	Creditors: amounts falling due after more than one year				
20	Loans and other borrowings	(3,574.8)	(2,078.4)	-	(1,366.7)
21	Other creditors	(97.5)	(98.1)	-	-
		(3,672.3)	(2,176.5)	-	(1,366.7)
22	***Provisions for liabilities and charges***	(165.1)	(105.0)	-	-
	Net assets	1,795.4	1,978.0	1,766.2	1,033.1
	Capital and reserves				
25	Called up share capital	423.0	423.0	423.0	423.0
26	Share premium account	102.3	102.3	102.3	102.3
26	Capital redemption reserve	227.6	227.6	227.6	227.6
26	Profit and loss account	930.3	1,115.9	1,013.3	280.2
	Total shareholders' funds	1,683.2	1,868.8	1,766.2	1,033.1
	Equity minority interest	112.2	109.2	-	-
	Capital employed	1,795.4	1,978.0	1,766.2	1,033.1

The prior year comparatives for the group have been restated in respect of the adoption of Urgent Issues Task Force Abstract 34 'Pre-contract costs' (note 9).

The notes on pages 11 to 42 form part of these financial statements.

The financial statements were approved by the board of directors on 4 June 2003 and signed on its behalf by:

E. McEwan
Director

E.M. Mannis
Group finance director

AWG Group Limited (formerly Anglian Water plc)
Notes to the group cash flow statement continued

Notes		2003 £m	2002 £m
a	**Net cash inflow from operating activities**	416.2	469.7
	Dividends received from joint ventures	4.0	-
	Returns on investments and servicing of finance		
	Interest received	25.4	17.6
	Interest paid	(181.5)	(173.5)
	Interest element of finance lease rental payments	(11.4)	(13.7)
	Cash flows treated as finance costs under FRS4	(23.8)	-
	Dividends received from trade investments	0.2	0.7
	Dividends paid to minority interests	(4.1)	(4.0)
	Net cash outflow for returns on investments and servicing of finance	(195.2)	(172.9)
	Taxation		
	Corporation tax (paid)/received	(3.7)	11.5
	Capital expenditure and financial investment		
	Purchase of intangible fixed assets	(14.1)	(1.2)
	Purchase of tangible fixed assets	(311.7)	(377.6)
	Grants and contributions received	16.8	18.9
	Sales of tangible fixed assets	33.1	37.7
	Net cash outflow for capital expenditure and financial investment	(275.9)	(322.2)
	Acquisitions and disposals		
	Payments to acquire trade investments and joint ventures	(796.5)	(6.9)
b	Payments to acquire subsidiary undertakings (net of cash and overdrafts acquired)	(15.2)	-
c	Receipts from sales of businesses (net of cash and overdrafts disposed of)	3.3	19.6
	Receipts from sales of fixed asset investments	21.0	5.2
	Cash paid in respect of acquisitions made in previous years	-	(0.8)
	Net cash (outflow)/inflow for acquisitions and disposals	(787.4)	17.1
	Equity dividends paid	(156.4)	(145.0)
	Net cash outflow before management of liquid resources and financing	(998.4)	(141.8)
	Management of liquid resources		
d	*(Increase)/decrease in short-term deposits and investments*	*(97.6)*	*63.4*
	Financing		
	Issue of ordinary share capital	-	290.0
e	Increase in loans	2,302.2	635.1
e	Repayments of amounts borrowed	(1,073.3)	(799.6)
e	Capital element of finance lease rental payments	(34.4)	(35.1)
	Net cash inflow from financing	1,194.5	90.4
d	**Increase in cash**	98.5	12.0

AWG Group Limited (formerly Anglian Water plc)
Notes to the group cash flow statement continued

(a) **Reconciliation of operating profit to net cash inflow from operating activities**

	2003 £m	2002 £m
Operating profit	270.3	127.5
Dividends received from trade investments	(0.2)	(0.7)
Depreciation (net of amortisation of deferred grants and contributions)	190.5	191.8
Amortisation and impairment of intangible assets	18.7	46.5
Profit on disposal of fixed assets	(0.5)	-
Impairment of trade investments	3.3	3.8
Net movements on provisions	(1.2)	(1.9)
	480.9	367.0
Decrease in working capital:		
Stock	7.2	32.0
Debtors	(40.3)	34.6
Creditors	(31.6)	36.1
	(64.7)	102.7
Net cash inflow from operating activities	416.2	469.7

The group cash flow statement for the year ended 31 March 2003 includes net cash outflows of £66.7 million (2002: £10.7 million) in respect of current year exceptional charges and £46.0 million (2002: £4.3 million) in respect of the settlement of prior year exceptional charges.

(b) **Acquisition of subsidiary undertakings**

	2003 £m	2002 £m
Net assets acquired:		
Tangible fixed assets	2.8	-
Stock and work in progress	2.9	-
Debtors	6.6	-
Cash at bank and in hand	0.1	-
Overdrafts	(3.6)	-
Other short-term creditors	(8.7)	-
Loans and other borrowings	(0.1)	-
Net assets acquired	-	-
Goodwill arising on acquisition	15.1	-
Net consideration	15.1	-
Satisfied by:		
Cash (including costs)	11.7	-
Deferred consideration	3.4	-
	15.1	-
Net cash outflow in respect of the acquisition of subsidiary undertakings		
Total cash paid	11.7	-
- cash at bank and in hand of acquired subsidiary undertakings	(0.1)	-
- overdrafts of acquired subsidiary undertakings	3.6	-
Net outflow of cash in respect of the acquisition of subsidiary undertakings	15.2	-

AWG Group Limited (formerly Anglian Water plc)
Notes to the group cash flow statement continued

(c) **Disposal of businesses**	**2003 £m**	**2002 £m**
Net assets disposed of:		
Tangible fixed assets	0.1	-
Fixed asset investments	0.1	-
Stock	1.3	-
Debtors	3.4	-
Cash at bank and in hand	1.0	2.4
Creditors	(3.8)	-
	2.1	2.4
Unamortised goodwill	0.2	-
Goodwill previously written off, now reinstated (note 26)	3.5	-
(Loss)/profit on disposal (note 4)	(1.2)	19.6
Total consideration	4.6	22.0
Analysis of the net cash inflow in respect of the disposal of businesses:		
Consideration received upon completion	4.6	22.0
Accrued consideration, not yet received	*(0.3)*	-
Cash at bank of disposed businesses	(1.0)	(2.4)
Net cash inflow in respect of the disposal of businesses	3.3	19.6

During the year the group disposed of three businesses being Fields and Towers (Communications) Limited, Kaldnes Miljoteknologi A/S and Morrison Repairline.

(d) **Analysis of net debt**	**31 March 2002 £m**	**Cash flows £m**	**Acquisitions and disposals £m**	**Non-cash movements £m**	**Currency translation movements £m**	**31 March 2003 £m**
Cash at bank and in hand	105.0	85.3	-	-	-	190.3
Bank overdrafts	(16.4)	13.2	-	-	-	(3.2)
	88.6	98.5	-	-	-	187.1
Deposits and investments	115.3	97.6	-	-	-	212.9
Debt due within one year	(379.6)	359.2	-	(37.3)	0.4	(57.3)
Debt due after one year	(2,078.4)	(1,529.9)	(0.1)	1.6	32.0	(3,574.8)
	(2,254.1)	(974.6)	(0.1)	(35.7)	32.4	(3,232.1)

Non-cash movements comprise amortisation of discounts and expenses relating to debt issues, issues of loan notes as deferred consideration, new finance leases entered into, indexation of loan stock and transfers between categories of debt. Management of liquid resources shown in the cash flow statement is comprised of *movements in short-term deposits, which have maturity dates of up to one year.*

Included within cash flow and investments above are £194.1 million (2002: £115.3 million) of short-term deposits which are included in cash in the balance sheet.

At 31 March 2003, £88.7 million of the group's cash at bank and in hand and £88.2 million of the deposits and investments were held in the Anglian Water Services Holdings Limited group. In order for these amounts to be made available to the rest of the group, Anglian Water Services Limited must satisfy certain covenants which were put in place on 30 July 2002, following the group's financial restructuring, prior to declaring dividends. A further £10.5 million (2002: £nil) of the group's deposits and investments are held as collateral for outstanding loan notes. In addition, £18.6 million (2002: £18.8 million) of the group's deposits are held by Rutland Insurance Limited in order to maintain its required solvency ratio.

Notes to the group cash flow statement continued

(e) **Movement in group net debt**

	2003 £m	2002 £m
At beginning of year	(2,254.1)	(2,388.5)
Net increase in cash	98.5	12.0
Increase/(decrease) in short-term bank deposits and investments	97.6	(63.4)
Loans assumed within subsidiary undertakings	(0.1)	-
Loan notes issued	(2.5)	(4.4)
Increase in loans	(2,302.2)	(635.1)
Finance costs capitalised under FRS 4	23.8	-
Repayment of amounts borrowed	1,073.3	799.6
New finance leases	(7.5)	-
Indexation of loan stock	(21.3)	(3.3)
Amortisation of discount and expenses relating to debt issues	(4.4)	(0.4)
Currency translation difference	32.4	(5.7)
Capital element of finance lease rental payments	34.4	35.1
At end of year	**(3,232.1)**	**(2,254.1)**

AWG Group Limited (formerly Anglian Water plc)
Notes to the financial statements

1 Accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year with the exception of the policy for pre-contract costs, which is explained in note 9.

a) **Basis of accounting**
The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards and in accordance with the Companies Act 1985, except as disclosed in note 1 (i).

b) **Basis of consolidation**
The group financial statements comprise a consolidation of the financial statements of the company and all of its subsidiaries at 31 March. The results of companies acquired or disposed of are consolidated from the effective date of the acquisition or to the effective date of disposal. The treatment of a company as an associated undertaking has regard to the group's holding of at least 20 per cent of the equity capital, representation on its board of directors and participation in policy making, including dividend policy. The group's share of the profits or losses of these companies is included in the profit and loss account and the investments are included in the balance sheet at the group's share of the net assets of the companies. An entity is treated as a joint venture if the group jointly controls that entity together with one or more other venturers under a contractual arrangement. The group's share of turnover, operating profit and interest in joint ventures has been reported on the face of the profit and loss account and the group's share of gross assets and liabilities has been reported on the balance sheet. Intra-group sales and profit are eliminated fully on consolidation.

c) **Goodwill**
On the acquisition of a subsidiary undertaking, fair values are attributed to the net identifiable assets or liabilities acquired. Goodwill represents the difference between the fair value of the purchase consideration and the fair value of the net assets acquired. Fair values are assessed in accordance with FRS 7 "Fair Values in Acquisition Accounting". Goodwill arising on acquisitions prior to 31 March 1998 was set off directly against reserves and has not been reinstated on implementation of FRS 10 "Goodwill and Intangible Assets". Positive goodwill arising on acquisitions since this date is capitalised in the financial statements as an intangible asset and amortised on a straight line basis over its useful economic life. On disposal of a subsidiary any goodwill arising on acquisition that was previously written off to reserves, or that has not been amortised through the profit and loss account is taken into account in determining the profit or loss on disposal.

d) **Associates and joint ventures**
The group's share of turnover and profit and loss of associates and joint ventures is included in the consolidated profit and loss account. The group's share of their net assets is included in the consolidated balance sheet. These amounts are taken from the latest audited financial statements of the undertakings concerned or from coterminous management accounts if the balance sheet date in those audited financial statements is greater than three months from the balance sheet date of the relevant group financial statements.

e) **Unincorporated joint ventures**
The group share of turnover and profit/loss of unincorporated joint ventures is included in arriving at operating profit and its share of individual assets and liabilities is included, where appropriate, in the consolidated balance sheet.

f) **Profit take policy**

i. *Construction*
Profits on short-term contracts are included in the financial statements upon substantial completion of those contracts. Profits on long-term contracts are included in the financial statements when the outcome of a contract can be assessed with reasonable certainty and are determined by reference to an internal valuation of measured work carried out less related costs of production. Provision is made in full for foreseeable losses.

ii. *Property development*
Profit is included in the financial statements in connection with property developments when a legally binding contract for the sale of the development has been entered into and legal completion has taken place before the year end. When legally binding contracts exist, profits on the construction and refurbishment elements of the development are determined on the same basis as for construction. Other profits arising from developments are included in the financial statements only when legal completion of the sale of development has been effected.

iii. *Claims*
In establishing turnover and profit, credit is taken for claims only when agreed by the client. Having credited such claims to the profit and loss account, provision is made whenever ultimate payment seems doubtful.

1 Accounting policies (continued)

g) Turnover

Turnover represents the income receivable (excluding value added tax) in the ordinary course of business for goods and services provided and, in respect of contract work in progress, the value of work carried out.
Income includes an estimation of the amount of main water and wastewater charges unbilled at the year end. The accrual is estimated using a defined methodology based upon weighted average water consumption by tariff, which is calculated based upon historical billing information.

h) Tangible fixed assets and depreciation

Tangible fixed assets comprise:
Infrastructure assets (being mains and sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines and sea outfalls) comprise a network of systems. Investment expenditure on assets relating to increases in capacity or enhancements of the network and on maintaining the operating capability of the network in accordance with defined standards of service is treated as an addition and included at cost after deducting grants and contributions. The depreciation charge for infrastructure assets is the estimated level of annual expenditure required to maintain the operating capability of the network which is based on the group's independently certified asset management plan.

Other assets (including properties, over ground plant and equipment) are included at cost less accumulated depreciation. Cost includes own work capitalised which represents the direct cost of materials, labour and applicable overheads. Freehold land is not depreciated. Depreciation of other assets is calculated at rates expected to write off cost less the estimated residual value of the relevant assets over their estimated useful economic lives, which are principally as follows:

Operational structures - dams and reservoirs	100-300 years
Operational structures - other	40-80 years
Buildings	30-60 years
Fixed plant	20-40 years
Vehicles, mobile plant and computers	3-10 years

Assets in the course of construction are not depreciated until they are commissioned.

Interest costs are not capitalised into the cost of fixed assets.

i) Grants and contributions

Grants and contributions on capital expenditure, other than those relating to infrastructure assets, are credited to a deferral account within creditors and are credited to the profit and loss account evenly over the expected useful life of the relevant asset, in accordance with the provisions of the Companies Act 1985. Grants and contributions to capital expenditure on infrastructure assets are deducted from the costs of these assets. This policy is not in accordance with the provisions of Schedule 4 of the Companies Act 1985 but has been adopted in order to show a true and fair view as, in the opinion of the directors, while a provision is made for depreciation of infrastructure assets, these assets have no determinable finite economic life and hence no basis exists on which to recognise such contributions as deferred income. The financial effect of this departure is disclosed in note 13. Revenue grants and contributions are credited to the profit and loss account in the year to which they apply.

j) Leased assets

Where assets are financed by leasing arrangements which transfer substantially all the risks and rewards of ownership of an asset to the lessee (finance leases), the assets are treated as if they had been purchased and the corresponding capital cost is shown as an obligation to the lessor. Leasing payments are treated as consisting of a capital element and finance costs, the capital element reducing the obligation to the lessor, and the finance costs being written off to the profit and loss account over the primary period of the lease. The assets are depreciated over the shorter of their estimated useful economic lives and the lease period. All other leases are regarded as operating leases. Rental costs arising under operating leases are expensed over the term of the lease.

Equipment leased to customers under operating leases is capitalised in accordance with 1 (h) above. Operating lease income is accounted for on a straight line basis with any rental increases recognised during the period to which they relate.

k) Investments

Investments held as fixed assets are stated at cost less any provision for impairment.

1 Accounting policies (continued)

l) **Stocks and work in progress**
Stocks are stated at cost less any provision necessary to recognise damage and obsolescence. Work in progress, with the exception of long-term contract work in progress, is valued at the lower of cost and net realisable value. Cost includes labour, materials, transport and attributable overheads. Net realisable value is the estimated proceeds from the sale of stock less all further costs to be incurred.

m) **Long-term contracts**
Amounts recoverable on long-term contracts are stated at cost plus attributable profits less provision for any known or anticipated losses and payments on account and are included in debtors. Payments on account in excess of amounts recoverable on long-term contracts are included in creditors.

n) **Pension costs**
Contributions to the group's defined benefit pension schemes are charged to the profit and loss account so as to spread the regular cost of pensions over the average service lives of employees, in accordance with the advice of an independent qualified actuary. Actuarial surpluses and deficits are amortised, where appropriate, over the average remaining service lives of employees. The cost of defined contribution schemes is charged to the profit and loss account in the year in respect of which the contributions become payable.

o) **Research and development**
Research and development expenditure is charged to the profit and loss account in the year in which it is incurred.

p) **Foreign currencies**
Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract. Assets and liabilities denominated in foreign currencies, including the group's interest in the underlying net assets of overseas subsidiary and associated undertakings, are translated into sterling at the financial year end exchange rates. Profits and losses of overseas subsidiaries and associates are translated into sterling at average rates of exchange during the year. Gains or losses arising on the translation of the net assets of overseas subsidiaries and associates are taken to reserves, together with exchange differences arising on related foreign currency hedge instruments to the extent these offset. Other exchange differences are taken to the profit and loss account.

q) **Deferred taxation**
Deferred taxation is provided on timing differences, arising from the different treatment for accounts and taxation purposes of events and transactions recognised in the financial statements of the current and previous years. Deferred taxation is calculated at the rates at which it is estimated that taxation will arise. The deferred taxation balances are discounted using the post tax yields to maturity that could be obtained at the balance sheet date on government bonds with maturity dates similar to those of the deferred taxation assets and liabilities. For assets with a life in excess of 30 years, the 30 year bond rate has been used as no other quoted rates are available.

Deferred taxation is not provided in respect of timing differences arising from the sale or revaluation of fixed assets unless, by the balance sheet date, a binding commitment to sell the asset has been entered into, and it is unlikely that any gain will be rolled over.

Deferred taxation assets are recognised to the extent that it is regarded as more likely than not that there will be suitable taxable profits against which the deferred tax asset can be recovered in future periods.

Calculation of deferred tax on infrastructure assets:
Infrastructure assets have an effectively unlimited life and a notional depreciation charge, the infrastructure renewal charge, is applied to the network (see note 1(h) tangible fixed assets and depreciation).

For the purposes of estimating the deferred tax liability in relation to infrastructure assets, the useful life over which the underlying differences reverse is estimated by deflating the current cost based infrastructure renewals charge to an appropriate deemed historic cost based depreciation charge.

r) **Financial instruments**
Derivative instruments are used for hedging purposes in line with the group's risk management policy and no trading in financial instruments is undertaken. Loans and other borrowings are recorded using the contracted rates implicit in the financial instruments used to hedge the group's exposure to fluctuations in currency and interest rates. Similarly, interest is charged to the profit and loss account based on the contracted interest rates. Issue costs are amortised at a constant rate over the life of the underlying instrument.

1 Accounting policies (continued)

s) **Pre-contract costs**

The group has adopted Urgent Issues Task Force Abstract 34 'Pre-contract costs' (UITF 34) for the first time this year.

In previous periods pre-contract costs incurred in bidding for and securing contracts to supply products or services were carried forward on the balance sheet as an asset but fully provided for until such time as the group became preferred bidder, at which point the provision was released. However, UITF 34 does not permit the recognition of an asset until such time as award of the contract becomes virtually certain. Hence the group's policy is now to write off such pre-contract costs as an expense. Prior period amounts have been restated in accordance with the group's new accounting policy (note 9).

t) **Provisions**

Provisions of a long-term nature are discounted to reflect the time value of money in the estimated period over which the provision will be utilised. The rate of discount varies according to the nature of the underlying provision and further details are given in note 22. The unwinding of the discount on those provisions (other than deferred tax) is included within net interest payable.

AWG Group Limited (formerly Anglian Water plc)
Notes to the financial statements continued

2 Segmental analysis

Segmental analysis by class of business 2003

2003	Turnover £m	Profit before interest, exceptional items and goodwill amortisation £m	Exceptional items (a) £m	Goodwill amortisation £m	Profit before interest £m	Net operating assets (b) £m
UK water and wastewater	726.8	287.4	(18.0)	-	269.4	3,524.7
Utility Services	278.6	10.2	(0.9)	(2.5)	6.8	101.7
Government Services	119.9	10.0	(5.5)	(3.0)	1.5	83.4
Project Management Services	391.8	0.6	(0.9)	(5.2)	(5.5)	63.8
Developments and Commercial Services	177.1	(2.0)	(1.5)	-	(3.5)	159.9
International Services	209.5	26.2	(8.5)	(3.1)	14.6	393.5
Other (c)	46.1	7.2	(15.9)	-	(8.7)	811.8
Less: intersegmental trading (d)	(71.1)	(1.6)	-	-	(1.6)	-
	1,878.7	338.0	51.2	13.8	273.0	5,141.8
Total						
- Group	1,735.9				269.1	
- Joint ventures (e)	142.8				3.9	

Segmental analysis by class of business 2002

	Turnover £m	Profit before interest, exceptional items and goodwill amortisation £m	Exceptional items (a) £m	Goodwill amortisation £m	Profit before interest £m	Net operating assets (b) restated £m
UK water and wastewater	724.4	305.4	(25.3)	-	280.1	3,508.4
Utility Services	227.3	12.1	-	(2.7)	9.4	86.1
Government Services	71.2	6.5	-	(3.3)	3.2	62.6
Project Management Services	353.8	(6.7)	-	(5.8)	(12.5)	39.5
Developments and Commercial Services	219.5	38.4	(100.4)	(1.5)	(63.5)	263.5
International Services	212.6	15.2	(9.4)	(2.9)	2.9	402.5
Other (c)	57.7	(35.7)	(28.1)	(0.3)	(64.1)	(45.8)
Less: intersegmental trading (d)	(53.4)	(2.0)	-	-	(2.0)	-
	1,813.1	333.2	(163.2)	(16.5)	153.5	4,316.8
Total						
- Group	1,704.6				159.1	
- Joint ventures (e)	108.5				(5.6)	

Segmental analysis by geographical origin

	Turnover		Profit before interest		Net operating assets (b)	
	2003 £m	2002 £m	2003 £m	2002 £m	2003 £m	2002 restated £m
United Kingdom	1,703.8	1,639.4	250.0	144.2	4,748.2	3,888.6
Europe	96.3	102.1	4.5	2.1	108.7	124.5
Rest of world	78.6	71.6	18.5	7.2	284.4	303.7
	1,878.7	1,813.1	273.0	153.5	5,141.3	4,316.8

2 Segmental analysis (continued)

Segmental analysis by geographical destination

	Turnover	
	2003 £m	2002 £m
United Kingdom	1,704.2	1,639.8
Europe	89.4	89.5
Rest of world	85.1	83.8
	1,878.7	1,813.1

(a) An analysis of exceptional items is shown in note 4.

(b) Net operating assets are shown before the deduction of net debt, dividends payable, corporation tax and deferred tax of £3,346.4 million (2002: £2,338.8 million).

(c) The other segment comprises Powermarque, AWG Rail and head office costs.

(d) All intersegmental trading originates from the United Kingdom.

(e) The joint venture results are within the Developments and Commercial Services, Government Services and International Services segments and are stated after exceptional items of £3.6 million (2002: £16.3 million). Group share of joint venture net assets at 31 March 2003 was £9.9 million (2002: £16.5 million).

3 Group operating costs

	2003			2002		
	Before exceptional items and goodwill amortisation £m	Exceptional items and goodwill amortisation £m	Total £m	Before exceptional items and goodwill amortisation restated £m	Exceptional items and goodwill amortisation £m	Total restated £m
Operating costs excluding depreciation, amortisation and impairment of goodwill:						
Raw materials and consumables	165.2	-	165.2	239.8	-	239.8
Other external charges	756.6	34.0	790.6	774.6	107.9	882.5
Staff costs (note 10)	328.6	8.0	336.6	275.8	8.2	284.0
Change in stocks of finished goods and work in progress	8.1	-	8.1	(63.3)	30.0	(33.3)
Own work capitalised	(44.9)	-	(44.9)	(35.0)	-	(35.0)
Dividends receivable from investments	(0.2)	-	(0.2)	(0.7)	-	(0.7)
Contribution to Anglian Water Trust fund	1.0	-	1.0	1.5	-	1.5
Total operating costs (excluding depreciation and intangible asset amortisation)	1,214.4	42.0	1,256.4	1,192.7	146.1	1,338.8
Depreciation of tangible assets	197.1	-	197.1	195.4	2.4	197.8
Amortisation of deferred grants and contributions	(6.6)	-	(6.6)	(6.0)	-	(6.0)
Depreciation net of amortisation of grants and contributions	190.5	-	190.5	189.4	2.4	191.8
Amortisation of intangible assets	0.5	13.8	14.3	-	16.5	16.5
Impairment of goodwill	-	4.4	4.4	-	30.0	30.0
Group operating costs	1,405.4	60.2	1,465.6	1,382.1	195.0	1,577.1

Staff costs for the year ended 31 March 2003 includes £32.3 million (2002: £32.1 million) of costs that have been capitalised as 'own work capitalised'. In the 2002 financial statements (in notes 3 and 10), staff costs were disclosed net of amounts capitalised. The directors believe the current year disclosure to be more appropriate.

4. Exceptional items and goodwill amortisation	2003 £m	2002 £m
Refinancing project costs	18.6	45.6
Restructuring and other costs	16.7	11.7
Asset impairments	11.1	44.7
Powermarque losses	-	20.7
Goodwill amortisation	13.8	16.5
Goodwill impairment	-	30.0
Provision against loan to fellow subsidiary	-	25.8
Charged against operating profit	60.2	195.0
Joint venture impairments	3.6	-
Joint venture losses	-	16.3
Loss/(profit) on disposal of businesses	1.2	(19.6)
Profit on disposal of investment	-	(12.0)
Charged against profit before interest	65.0	179.7
Interest and finance charges	38.0	-
Coupon enhancement	32.0	-
Exceptional interest charge	70.0	-
Total exceptionals and goodwill amortisation before tax	135.0	179.7
Tax credit thereon	(27.5)	(24.4)
Total exceptionals and goodwill amortisation	107.5	155.3

The tax credit above is further explained in note 7.

The refinancing project costs of £18.6 million (2002: £45.6 million) principally comprise legal and advisors' fees and banking costs incurred in respect of the ringfencing and refinancing of the regulated water business.

Restructuring and other costs of £16.7 million include £8.5 million of redundancy costs arising from the restructuring of certain businesses, and other restructuring costs. Also included in these costs are Morrison litigation costs and bid defence costs. Restructuring costs of £11.7 million in 2002 principally comprised redundancy and associated early retirement pension obligations in the UK water and wastewater business and International Services division.

The asset impairments of £11.1 million include £3.3 million impairment of fixed asset investments, £4.4 million impairment of goodwill and £3.4 million of other asset impairments. The goodwill impairment of £4.4 million relates to an acquisition made in the year. The asset impairments in 2002 of £44.7 million comprised a £30.0 million impairment of tangible assets, together with certain property write downs arising from external valuations performed and other asset write downs in the year totalling £10.9 million, £3.8 million in respect of the impairment of the Aguas Argentinas trade investment. The goodwill impairment charge in 2002 related to the acquisition of Morrison plc in September 2000.

The Powermarque losses in 2002 of £20.7 million principally comprised fixed asset write downs and bad debt provisions. Of this amount, £9.7 million arose in respect of the prior year.

The provision costs in 2002 of £25.8 million relate to a provision made against a loan due from Morrison Merlin Great Northern Limited, a fellow subsidiary of AWG Plc.

The joint venture impairment of £3.6 million in 2003 relates to two joint venture investments.

The joint venture losses in 2002 of £16.3 million related to the group's share of the write down of the development property held by Morrison Merlin Great Northern Limited following an external valuation performed by an independent firm of chartered surveyors during the year. This occurred prior to the group acquiring the other shares in this company from its joint venture partners.

The profit on disposal of investment in 2002 of £12.0 million relates to the disposal of the group's investment in Morrison Merlin Great Northern Limited during the year to AWG Plc.

The loss on sale of businesses of £1.2 million relates to the sale of three small businesses (see cash flow note c) and is after including £3.5 million of goodwill written off to reserves in previous years.

4 **Exceptional items and goodwill amortisation (continued)**

The exceptional interest charge of £70.0 million includes £38.0 million which relates to the debt transfer and termination costs arising from the refinancing project referred to above and also the coupon enhancement and other related costs incurred on the transfer of debt of £32.0 million (note 23).

5 ***Operating profit***

	2003 £m	2002 £m
Operating profit is stated after charging/(crediting):		
Hire of plant and machinery	33.8	33.0
Other operating lease costs	8.3	8.6
Rentals receivable under operating leases	(17.2)	(15.6)
Research and development expenditure	1.9	2.3
Fees paid to the auditors:		
- for audit work (including £nil (2002: £ nil) in respect of the company)	0.7	0.8
- for other work (all in the United Kingdom)	2.1	2.9
Fees paid to other accounting firms for other work	1.3	1.7

Fees paid to the auditors for other work are primarily in respect of advisory services relating to the proposals to ringfence and subsequently refinance the regulated business.

6 **Interest payable (net)**

	2003 Before exceptional items £m	2003 Exceptional items £m	2003 Total £m	2002 Total £m
Bank loans and overdrafts	6.6	-	6.6	6.9
Other loans including financing expenses, indexation of loan stock, debt transfer and termination costs	212.2	38.0	250.2	177.3
Interest payable on loan from parent undertaking	1.2	-	1.2	-
Finance leases	10.4	-	10.4	17.4
Unwinding of discount on coupon enhancement provision (note 22)	0.7	-	0.7	-
Unwinding of discount on unfunded pension obligations (note 22)	2.4	-	2.4	2.0
Creation of coupon enhancement provision (note 22)	-	32.0	32.0	-
	233.5	70.0	303.5	203.6
Interest receivable on loan to parent undertaking	(24.7)	-	(24.7)	-
Other interest receivable	(27.2)	-	(27.2)	(16.7)
Group interest payable (net)	*181.6*	*70.0*	*251.6*	*186.9*
Share of joint venture interest payable (net)	8.1	-	8.1	3.5
Total interest payable (net)	189.7	70.0	259.7	190.4

The exceptional interest charge of £70.0 million is explained in note 4.

AWG Group Limited (formerly Anglian Water plc)
Notes to the financial statements continued

7 **Taxation**

	2003 £m	2002 £m
The tax charge/(credit) for the year comprised:		
UK tax – current year charge	28.1	10.2
UK tax – adjustments in respect of prior years	(13.5)	(26.9)
Overseas tax	7.5	3.6
Tax on loss on ordinary activities	22.1	(13.1)
Analysed as:		
- before exceptional items	49.6	11.3
- exceptional items	(27.5)	(24.4)
Tax charge/(credit) on loss on ordinary activities	22.1	(13.1)
Tax charge/(credit) on loss on ordinary activities comprises:		
UK Corporation tax at 30 per cent (2002: 30 per cent)	14.5	(0.4)
Adjustments in respect of prior years	(19.2)	(24.9)
Overseas taxation	5.5	3.6
Total current tax	0.8	(21.7)
Deferred tax (note 23)		
Charge for timing differences arising in year	7.7	33.6
Impact of discounting on deferred tax liability	(8.3)	(10.4)
Impacts of decrease/(increase) in discount rates	15.7	(15.8)
Adjustments in respect of prior years	4.7	(2.0)
Total deferred tax	19.8	5.4
Total group taxation	20.6	(16.3)
Share of joint ventures taxation	1.5	3.2
Tax on loss on ordinary activities	22.1	(13.1)

Based on capital investment plans for the current AWS regulatory period, the group expects to continue to be able to claim tax relief on capital expenditure in excess of depreciation for the remainder of the regulatory period.

The post tax yield to maturity on UK government bonds is used to discount the gross deferred tax liability of the group. Movements in the discount rates gave rise to a charge of £15.7 million (2002: credit of £15.8 million) in the year. If all UK gilt rates moved by 0.25 per cent, the tax charge would move by between £10.0 million and £15.0 million.

Adjustments in respect of prior years arise from the agreement of prior year tax computations.

Factors affecting tax charge/(credit) for the year (including exceptional items)
The tax assessed for the year is lower than the standard rate of corporation tax in the UK (30 per cent). The differences are explained below:

	2003 £m	2002 £m
Profit/(loss) on ordinary activities before taxation	13.3	(36.9)
Profit/(loss) on ordinary activities at the standard UK rate of tax (30 per cent)	4.0	(11.1)
Effects of:		
Items not deductible for tax purposes	19.7	34.2
Accounting for depreciation not eligible for tax purposes	0.2	3.0
Capital allowances for the year in excess of depreciation	(4.2)	(23.1)
Short-term timing differences	(1.4)	(5.5)
Adjustments to tax charge in respect of previous periods	(19.2)	(24.9)
Losses which cannot be relieved in the year	3.5	10.1
Lower tax rates on overseas earnings	(0.3)	(1.2)
Share of joint ventures taxation	(1.5)	(3.2)
Current tax charge/(credit) for the year	0.8	(21.7)

8 **Dividends**

	2003 £m	2002 £m
Dividends paid and dividends proposed	166.6	125.0

All the above dividends relate to ordinary shares.

9 **Prior year adjustment**

Urgent Issues Task Force Abstract 34 – 'Pre-contract costs'

Urgent Issues Task Force Abstract 34 'Pre-contract costs' (UITF 34) has been adopted for the first time by the group in this annual report.

In previous periods pre-contract costs incurred in bidding for and securing contracts to supply products or services were carried forward on the balance sheet as an asset but fully provided for until such time as the group became preferred bidder, at which point the provision was released. However, UITF 34 does not permit the recognition of an asset until such time as award of the contract becomes virtually certain. Hence the group's policy is now to write off such pre-contract costs as an expense. Prior period amounts have been restated in accordance with the group's new accounting policy.

The effect of the implementation of UITF 34 on reported results is as follows:

	2003 £m	2002 £m
Joint venture share of operating profit	0.2	-
Increase in profit for the year	0.2	-
Deferred contract costs (included in share of joint venture gross assets)	(3.4)	(3.6)
Work in progress	(0.7)	(0.7)
Other debtors	(0.4)	(0.4)
Accruals	(0.4)	(0.4)
Decrease in net assets	(4.9)	(5.1)

The impact of UITF 34 on goodwill arising in respect of recent acquisitions has been evaluated and is not material. Accordingly no adjustment has been made to goodwill.

10 **Employee information**

	2003			2002		
	Before Exceptional items £m	Exceptional items (note 4) £m	Total £m	Before exceptional items restated £m	Exceptional items (note 4) £m	Total restated £m
Staff costs:						
Wages and salaries	283.5	5.7	289.2	236.8	6.1	242.9
Social security costs	28.0	0.7	28.7	25.6	0.6	26.2
Pension costs (note 27)	17.1	1.6	18.7	13.4	1.5	14.9
	328.6	8.0	336.6	275.8	8.2	284.0

Staff costs for the year ended 31 March 2003 includes £32.3 million (2002: £32.1 million) of costs that have been capitalised as 'own work capitalised'. In the 2002 financial statements (in notes 3 and 10), staff costs were disclosed net of amounts capitalised. The directors believe the current year disclosure to be more appropriate.

Pension costs are stated after crediting £1.6 million (2002: £6.6 million) in respect of the amortisation of an actuarial surplus in the main UK pension scheme.

10 Employee information (continued)

Average number of full time equivalent persons employed:	2003	2002
UK water and wastewater	3,588	3,705
Utility Services	2,478	2,359
Government Services	1,108	935
Project Management Services	1,648	1,510
Developments and Commercial Services	223	283
International Services	3,319	3,422
Other	330	172
	12,694	12,386

The numbers above include 3,006 full time equivalent persons employed outside the UK (2002: 3,132). All of the directors are also directors of AWG Plc (E McEwan was appointed as a director of AWG Group Limited on 10 October, nine days after his appointment as a director of AWG Plc) and their interests in the shares of that company are disclosed in the annual report and the accounts of AWG Plc. The annual report and accounts of AWG Plc contains details of the directors emoluments in respect of their services to the group.

11 Profit of parent company

AWG Group Limited has not presented its own profit and loss account as permitted by Section 230 of the Companies Act 1985. Profit for the financial year dealt with in the financial statements of the parent company is £899.7 million (2002: £211.1 million loss).

12 *Intangible fixed assets*

	Goodwill £m	*Licences* £m	*Total* £m
The group			
Cost			
At 1 April 2002	312.1	-	312.1
Exchange adjustments	(9.4)	-	(9.4)
Additions	-	14.1	14.1
Arising from acquisitions in the year (note 15)	15.1	-	15.1
Disposals	(0.2)	-	(0.2)
At 31 March 2003	**317.6**	**14.1**	**331.7**
Amortisation			
At 1 April 2002	55.0	-	55.0
Exchange adjustments	(0.7)	-	(0.7)
Charge for the year	13.8	0.5	14.3
Impairments (note 4)	4.4	-	4.4
At 31 March 2003	**72.5**	**0.5**	**73.0**
Net book value			
At 31 March 2003	***245.1***	***13.6***	***258.7***
At 31 March 2002	257.1	-	257.1

Intangible assets mainly comprise goodwill arising on acquisitions of subsidiaries and premiums paid to acquire unincorporated businesses. Goodwill is amortised over 20 years, being the directors' best estimate of its useful economic life.

A further £53.5 million of goodwill (2002: £57.0 million) arising on acquisitions prior to 31 March 1998 has been eliminated directly against reserves in prior years.

The intangible asset addition in the year of £14.1 million is a payment made to acquire the licence for the bulk *supply of water to the Chinese city of Taizhou. The payment is being amortised over the 20 year period of the* licence agreement.

There are no intangible assets in the company.

13 Tangible fixed assets

	Land and buildings £m	Infrastructure assets £m	Operational structures £m	Vehicles plant and equipment £m	Total £m
The group					
Cost					
At 1 April 2002	96.8	1,993.2	2,438.8	1,253.9	5,782.7
Exchange adjustments	(1.4)	17.0	(48.4)	(12.6)	(45.4)
Additions	3.0	99.7	59.2	162.1	324.0
Disposals	(9.7)	(5.4)	(5.0)	(62.8)	(82.9)
At 31 March 2003	**88.7**	**2,104.5**	**2,444.6**	**1,340.6**	**5,978.4**
Grants and contributions					
At 1 April 2002	-	153.0	-	-	153.0
Additions	-	9.5	-	-	9.5
At 31 March 2003	**-**	**162.5**	**-**	**-**	**162.5**
Depreciation					
At 1 April 2002	33.4	336.8	641.5	546.7	1,558.4
Exchange adjustments	(0.2)	5.4	(12.6)	0.2	(7.2)
Charge for the year	3.9	27.9	31.1	134.2	197.1
Disposals	(1.0)	(5.1)	(2.9)	(36.8)	(45.8)
At 31 March 2003	**36.1**	**365.0**	**657.1**	**644.3**	**1,702.5**
Net book value					
At 31 March 2003	**52.6**	**1,577.0**	**1,787.5**	**696.3**	**4,113.4**
At 31 March 2002	63.4	1,503.4	1,797.3	707.2	4,071.3

Tangible fixed assets of the group at 31 March 2003 include £247.7 million of assets in the course of construction (2002: £233.7 million) and also include land of £19.9 million (2002: £20.2 million), which is not subject to depreciation. The group's interests in land and buildings are almost entirely freehold.

The net book value of the group's tangible fixed assets held under finance leases at 31 March 2003 is £168.4 million (2002: £193.9 million). Depreciation charged on assets held under finance leases during the year ended 31 March 2003 amounted to £23.9 million (2002: £30.9 million).

Included within the amounts shown above for vehicles, plant and equipment are assets held as lessor for use in operating leases with a cost of £60.6 million (2002: £107.9 million) and accumulated depreciation of £28.8 million (2002: £41.2 million).

The company	**£m**
Cost	
At 1 April 2002 and at 31 March 2003	**0.3**
Depreciation	
At 1 April 2002	-
Charge for the year	0.1
At 31 March 2003	**0.1**
Net book value	
At 31 March 2003	**0.2**
At 31 March 2002	0.3

13 **Tangible fixed assets (continued)**

Capital commitments

The group has a substantial long-term investment programme, which includes expenditure to meet regulatory requirements, shortfalls in performance and condition and to provide for new demand and growth. The commitments shown below reflect only the value of orders placed at 31 March 2003.

Amounts contracted for but not provided for in the financial statements at 31 March 2003 are £68.4 million (2002: £81.9 million).

There are no such commitments in the company.

14 **Investments**

The group	**Joint ventures restated £m**	**Associated undertakings £m**	**Other £m**	**Total restated £m**
Shares, loans and deposits				
At cost or amount under equity method of accounting				
At 1 April 2002 as previously stated	20.1	0.6	29.2	49.9
Prior year adjustment (note 9)	(3.6)	-	-	(3.6)
At 1 April 2002 as restated	16.5	0.6	29.2	46.3
Additions	4.7	-	791.9	796.6
Loss for the year	(5.9)	(0.4)	-	(6.3)
Transfer to provisions	9.4	-	-	9.4
Disposals	(1.8)	-	(19.3)	(21.1)
At 31 March 2003	**22.9**	**0.2**	**801.8**	**824.9**
Provision for impairment				
At 1 April 2002	-	-	3.8	3.8
Charge in the year	3.6	-	3.3	6.9
At 31 March 2003	**3.6**	-	**7.1**	**10.7**
Net book value				
At 31 March 2003	**19.3**	**0.2**	**794.7**	**814.2**
As 31 March 2002	16.5	0.6	25.4	42.5

Principal associated undertakings

Set out below is an analysis of the group's principal associated undertakings at 31 March 2003.

	Country of incorporation	**Activity**	**Class of share**	**Proportion of shares held**	**Accounting year end**
All Asia Anglian Water Corporation	Philippines	Water and wastewater services	Ordinary 1 Philippine Peso	40%	31 December
Strathclyde Business Park (Developments) Limited	Scotland	Development of land and buildings	Ordinary £1	31%	28 February

These undertakings principally operate in their country of incorporation and are held by subsidiaries of AWG Plc.

14 Investments (continued)

Joint Ventures

Set out below is an analysis of the group's principal joint ventures at 31 March 2003.

Undertaking	Country of incorporation	Activity	Proportion of shares held note (ii)
Morrison Property Solutions (Birmingham Childrens Hospital) Limited (i)	England	Development of land and buildings	50%
Morrison Edison Investments Limited	Scotland	Development of land and buildings	50%
Northwood Residential Limited	Ireland	Residential properties	40%
MPA Utilities Pte Limited	Singapore	Holding company	50% (iii)
Anhui Hezhou-Anglian Water Co. Limited (i)	China	Provision of water services	95% (iv) (v)
Morrison Serviceteam Limited	England	Maintenance and repair services	50%

These undertakings principally operate in their country of incorporation, and are held by subsidiaries of AWG Plc.

(i) The accounting year end for all the above undertakings is 31 March, with the exception of Morrison Property Solutions (Birmingham Childrens Hospital) Limited and Anhui Hezhou-Anglian Water Co. Limited which have an accounting year end of 31 December.

(ii) Unless otherwise stated the class of shares held are ordinary shares of £1 each.

(iii) The class of shares held are ordinary shares of 1 Singapore Dollar each.

(iv) The class of shares held are ordinary shares of 1 Renminbi each.

(v) Anhui Hezhou-Anglian Water Co. Limited is not considered to be a subsidiary undertaking as the group does not have significant control of the entity.

Other Investments

Other investments include a £791.0 million loan to the company's parent AWG Plc to fund the return of capital to that company's shareholders as part of the refinancing project, a 4.35 per cent investment in Aguas Argentinas, a consortium, which operates the water and wastewater system in Buenos Aires, Argentina and a 4.64 per cent investment in Rockingham Motor Speedway. The investment in Rockingham Motor Speedway has been fully provided for in the year and the investment in Aguas Argentinas of £3.8 million was fully provided against in 2002. Other investment disposals include a USD 25 million deposit which was converted to cash during the year. The net book value at 31 March 2003 included £793.6 million of loans and £1.1 million of shares.

14 Investments (continued)

The company	Other Investments £m	Subsidiary Undertakings Cost £m	Subsidiary Undertakings Provisions £m	Total £m
Shares				
At 1 April 2002	-	1,159.2	(14.4)	1,144.8
Additions	-	60.1	-	60.1
Disposals	-	(860.0)	-	(860.0)
At 31 March 2003	-	359.3	(14.4)	344.9
Loans				
At 1 April 2002	-	1,741.5	(281.1)	1,460.4
Additions	-	983.0	-	983.0
Repaid during the year	-	(1,109.3)	-	(1,109.3)
Exchange movement	-	3.0	-	3.0
Charge for the year	-	-	(12.7)	(12.7)
At 31 March 2003	-	1,618.2	(293.8)	1,324.4
Other Investments				
At 1 April 2002	18.1	-	-	18.1
Additions	0.1	-	-	0.1
Disposals	(18.1)	-	-	(18.1)
At 31 March 2003	0.1	-	-	0.1
Total				
At 31 March 2003	0.1	1,977.5	(308.2)	1,669.4
At 31 March 2002	18.1	2,900.7	(295.5)	2,623.3

The principal subsidiary undertakings of the group are listed in note 30.

15 Acquisitions

All acquisitions during the year have been accounted for using the acquisition method of accounting.

During the year the group acquired the entire issued share capital of MB Rail Limited (9 April 2002), Cleveland Geosurveys Limited (1 July 2002) and Power Services HVDE Limited (6 August 2002). In addition repairs and maintenance contracts were acquired for Birmingham City Council and four London Boroughs (27 March 2003). These acquisitions were for a total consideration of £15.1 million.

The combined provisional fair value table for these acquisitions is set out below:

	Book value prior to acquisition £m	Fair value adjustments £m	Provisional fair values £m
Tangible fixed assets	3.1	(0.3)	2.8
Stock and work in progress	3.9	(1.0)	2.9
Debtors	8.6	(2.0)	6.6
Cash at bank and in hand	0.1	-	0.1
Overdrafts	(3.6)	-	(3.6)
Other short-term creditors	(8.7)	-	(8.7)
Loans and other borrowings	(0.1)	-	(0.1)
Net assets acquired	3.3	(3.3)	-
Total consideration (paid in cash)			11.2
Deferred consideration			3.4
Costs			0.5
Total consideration			15.1
Goodwill arising on acquisition			15.1

The fair value adjustments relate to the restatement of fixed assets, stock and work in progress and debtors to their estimated realisable value.

15 **Acquisitions (continued)**

Acquisitions in previous years

There were no changes to the provisional fair values detailed in the 2002 financial statements.

16 **Stock**

	Group		Company	
	2003	2002 restated	2003	2002
	£m	£m	£m	£m
Raw materials and consumables	7.3	7.7	-	-
Work in progress	123.5	128.7	-	-
	130.8	136.4	-	-

Work in progress includes long-term contract balances of £268.9 million (2002: £238.0 million) less applicable payments on account of £254.3 million (2002: £219.1 million).

The current replacement value of stock does not materially exceed the historical costs stated above.

17 **Debtors**

	Group		Company	
	2003	2002 restated	2003	2002
	£m	£m	£m	£m
Amount falling due within one year:				
Trade debtors	167.6	160.7	-	-
Amounts recoverable on contracts	71.2	86.0	-	-
Amounts owed by joint ventures and associates	77.1	84.0	-	-
Amounts owed by group undertakings	81.3	38.9	141.2	48.3
Other debtors	61.9	42.6	18.7	-
Prepayments and accrued income	110.9	142.7	-	0.6
	570.0	554.9	159.9	48.9
Amounts falling due after more than one year:				
Trade debtors	0.4	2.3	-	-
Amounts recoverable on contracts	0.8	4.3	-	-
Amounts owed by joint ventures and associates	19.5	28.2	-	-
Prepaid pension contributions	40.2	24.3	-	-
Other debtors	9.5	-	-	-
Deferred tax (note 23)	-	-	7.4	-
	70.4	59.1	7.4	-
	640.4	614.0	167.3	48.9

18 **Current asset investments**

	Group		Company	
	2003	2002	2003	2002
	£m	£m	£m	£m
Money market investments	18.8	-	-	-

19 **Creditors: amounts falling due within one year**

	Group		Company	
	2003	2002 restated	2003	2002
	£m	£m	£m	£m
Bank overdrafts	3.2	16.4	-	-
Current portion of long-term loans (note 20)	25.0	145.0	14.8	69.7
Bank loans repayable (note 20)	-	214.3	-	28.1
Obligations under finance leases (note 20)	32.3	20.3	-	-
Short-term borrowings	**60.5**	**396.0**	**14.8**	**97.8**
Trade creditors	245.2	279.8	-	-
Payments on account in excess of contract value	14.9	25.3	-	-
Receipts in advance	57.3	44.8	-	-
Amounts due to joint ventures and associates	11.9	12.4	-	-
Amounts owed to group undertakings	7.9	56.7	92.7	398.1
Corporation tax	24.3	14.5	20.9	8.2
Other creditors	77.5	58.1	13.2	0.2
Other taxation and social security	10.7	14.6	-	-
Accruals and deferred income	206.9	174.4	25.9	29.5
Deferred grants and contributions	5.6	-	-	-
Deferred consideration for acquisition	5.2	5.5	-	-
Other creditors	**667.4**	**686.1**	**152.7**	**436.0**

20 **Loans, other borrowings and financial instruments**

	Group		Company	
	2003	2002	2003	2002
	£m	£m	£m	£m
Loans and other borrowings				
£100m 12.375% Fixed 2014 (a), (h)	100.0	100.0	-	100.0
£200m 6.875% Fixed 2023 (a), (h)	196.9	196.8	-	196.8
£200m 6.625% Fixed 2029 (a), (h)	198.5	198.5	-	198.5
£100m 5.5% Index Linked 2008 (a), (c), (h)	149.5	146.8	-	146.8
£150m 4.125% Index Linked 2020 (a), (c), (h)	158.8	156.1	-	156.2
EUR 350m 5.375% Fixed 2009 (h)	229.2	229.2	-	214.6
USD 55m 6.85% Private Placement 2006 (a), (b), (h)	35.8	79.2	-	85.7
£150m 8.25% Fixed 2006 (h)	149.6	149.5	-	149.5
USD 25m 7.07% Private Placement 2009 (a), (h)	16.0	17.6	-	17.6
USD 4m 7.21% Private Placement 2006 (b), (h)	2.2	3.2	-	3.2
USD 40m 6.57% Private Placement 2005 (h)	28.3	28.3	-	-
USD 35m 6.65% Private Placement 2006 (h)	24.8	24.8	-	-
USD 100m 7.01% Private Placement 2008 (b), (h)	70.7	86.9	-	-
USD 23m 7.13% Private Placement 2009 (h)	16.3	16.3	-	-
USD 195m 7.23% Private Placement 2011 (b), (h)	137.8	152.1	-	-
USD 400m LIBOR plus 0.4% 2007 (h)	252.4	-	-	-
EUR 115m EURIBOR plus 2.8%2010/2037 (g), (h)	73.1	-	-	-
£246m 6.293% Fixed 2030 (h)	243.3	-	-	-
£275m 7.882% Fixed 2012/2037 (g), (h)	271.9	-	-	-
£180m LIBOR plus 1.25% 2009/2014 (d), (g), (h)	178.3	-	-	-
£100m LIBOR plus 2.8% 2010/2037 (d), (g), (h)	98.9	-	-	-
£50m LIBOR plus 1.2% 2007/2012 (d), (g), (h)	49.5	-	-	-
£250m 5.837% Fixed 2022 (h)	246.1	-	-	-
£200m 3.07% Index Linked 2032 (c), (h)	200.0	-	-	-
£60m 3.07% Index Linked 2032 (c), (h)	60.0	-	-	-
£75m 3.666% Index Linked 2024 (c), (h)	75.6	-	-	-
Finance Leases (h)	195.8	216.5	-	-
European Investment Bank 5.28%-11.5% 2002-2007	-	175.9	-	-
£325m Index Linked Swaps 2024, 2030 (d), (h)	5.8	-	-	-
USD 25m 7.5% Fixed 2008	-	18.1	-	-
USD 13.5m CFBM plus 0.5% Bank Loan 2008	6.2	8.9	-	-
UF 0.7m 7% Bonds 2021 (c)	10.0	12.2	-	-
UF 1.0m 7% Bonds 2008 (c)	14.6	17.3	-	-
UF 1.5m 5.5% Bonds 2010 (c)	21.1	-	-	-

20 Loans, other borrowings and financial instruments (continued)

UF 2.5m 6% Bonds 2027 (c)	34.6	-	-	-
USD 75m Bank Loan 2002	-	49.6	-	-
USD 183m Revolving Credit Facility	-	118.7	-	-
Yen 977m Loan 2003	-	6.5	-	-
UF 1.8m TAB plus 0.8% 2007 (c)	38.7	31.1	-	-
USD 5m Revolving Credit Facilities 2004	3.2	3.5	-	-
Interest-free Czech Government Loans 2008-2012	2.8	2.9	-	-
THB 301.8m Bank of Asia 2004	4.5	4.7	-	-
CNY 19.2m Industrial & Commercial Bank of China 2005	1.1	-	-	-
CNY 115.2m Industrial & Commercial Bank of China 2012	8.8	-	-	-
Hartlepool Water Loan Notes LIBOR minus 1% 2002	-	1.8	-	1.8
USD 166m Private Placements, 6.54% 2008, 6.84% 2013	-	98.5	-	98.5
USD 40m Bank Loan 2002	-	28.1	-	28.1
Morrison Loan Notes LIBID minus 0.5% 2007	10.5	62.9	10.5	62.9
Revolving Multi-Currency Credit Facilities	1.0	6.4	-	-
Other loan notes LIBOR minus 1%	9.8	8.4	4.3	-
Other loans (e)	0.1	0.7	-	4.3
Total loans and other borrowings	3,632.1	2,458.0	14.8	1,464.5
Less amounts included in creditors falling due within one year excluding bank overdrafts (note 19)	(57.3)	(379.6)	(14.8)	(97.8)
Loans and other borrowings falling due after more than one year	**3,574.8**	**2,078.4**	**-**	**1,366.7**

a) Coupons on these instruments were increased to the levels shown from 30 July 2002 following their transfer from AWG Group Limited to Anglian Water Services Financing Plc as part of the group's refinancing project.

b) Nominal values of these instruments were decreased to the levels shown on 30 July 2002 due to partial redemption as part of the group's refinancing project.

c) The value of the capital and interest elements of the Index Linked Loan Stock, instruments denominated in Unidades de Fomento (UF) and Index Linked Swaps (see d below) are linked to movements in the Retail Price Index or its Chilean equivalent. The increase in the capital value during the year of £21.3 million (2002: £3.3 million) has been taken to the profit and loss account as part of interest payable.

d) £150 million Index Linked Swaps 2024 and £175 million Index Linked Swaps 2030 hedge three floating rate instruments as indicated. The capital value of these swaps is therefore included in loans and other borrowings as shown.

e) The unspecified loans and borrowings are at fixed rates of interest. At 31 March 2002, these loans and other borrowings included £0.5 million secured on the revenues of a subsidiary undertaking.

f) Of the above total, £2,763.1 million (2002: £1,204.7 million) is repayable wholly after five years. £168.9 million (2002: £558.2 million) is repayable by instalments, some of which fall due after more than five years. Of these instalments, £120.6million (2002: £418.6 million) actually falls due after more than five years.

g) Legal maturity of these instruments is the second of the two years quoted. Coupons 'step-up' in the first of the years quoted and descriptions reflect coupons prior to that date.

h) Under a security agreement dated 30 July 2002 between Anglian Water Services Financing Plc (AWSF), Anglian Water Services Limited (AWS), Anglian Water Services Overseas Holdings Limited (AWSOH), Anglian Water Services Holdings Limited (AWSH) and Deutsche Trustee Company Limited a fixed and floating charge was created over the assets of Anglian Water Services Limited to the limited extent permissible under the Water Industry Act 1991. In addition there is a fixed charge over the issued share capital of AWS, AWSOH and AWSF.

At 31 March 2003 this charge applies to £3,447.6 million (2002: £nil) of the group debt listed above.

20 **Loans, other borrowings and financial instruments (continued)**

Maturity analysis of financial liabilities	**Group**		**Company**	
	2003	**2002**	**2003**	**2002**
	£m	**£m**	**£m**	**£m**
Less than one year	76.6	406.6	14.8	97.8
Between one and two years	80.5	73.1	-	0.7
Between two and five years	632.4	472.7	-	245.8
After five years	2,895.5	1,544.6	-	1,120.2
	3,685.0	2,497.0	14.8	1,464.5

The group analysis is net of issue costs totalling £30.0 million (2002: £7.2 million).

Included above are amounts due under finance leases of £32.3 million (2002: £20.3 million) payable within one year, £25.7 million (2002: £23.9 million) payable between one to two years, £76.2 million (2002: £62.3 million) payable between two and five years and £61.6 million (2002: £110.0 million) payable after five years.

In addition to loans, other borrowings and finance leases the above analysis includes other financial liabilities (including overdrafts, provisions, long term creditors and long-term accruals) totalling £52.9 million (2002: £39.0 million), of which £19.3 million (2002: £27.0 million) falls due in less than one year.

Borrowing facilities	**2003**	**2002**
	£m	**£m**
The group has the following unused committed borrowing facilities:		
Expiring within one year	283.0	70.0
Expiring between one and two years	-	-
Expiring between two and five years	350.0	100.0
	633.0	170.0

Financial risk

The groups policies on management of financial risk are set out below;

Management of financial risk

Major financial risks faced by the group include funding, interest rate, contractual, country and currency risks.

The board of AWG regularly reviews these risks and has approved written policies covering treasury strategy and the use of financial instruments to manage risks. The last review was in May 2003 and treasury matters are reported to the board each month.

The group aims to fund its operations primarily through public bond markets, private placements, bank facilities and finance leases. Surplus cash is invested in short-term cash securities.

The group also enters into derivative transactions (principally currency and interest rate swaps and foreign exchange contracts) to manage the interest rate and currency risks arising from the group's operations and its sources of finance. It is, and has been throughout the period under review, the group's policy to hold derivatives for risk management purposes only.

The group manages its country risk by focusing its activities into geographical sectors and placing area management in these locations; principally the UK, Ireland, Czech Republic, Chile, China and Thailand.

The group's governance structure includes strict limits on authority to enter into contractual commitments. The progress of contracts is closely monitored at a local level, with regular management input as part of the formalised contract review process.

20 Loans, other borrowings and financial instruments (continued)

Control of group treasury

Group financing, including debt, interest costs and foreign exchange, is substantially directed by a central treasury team reporting to the group finance director. Treasury policy continues to be focused on the efficient and effective management of cash and financial resources within the group. The group treasury function actively seeks opportunities to:

- secure funds and invest temporary surplus cash to best advantage at minimal financial risk,
- actively protect the group's foreign exchange and interest rate exposures,
- maintain an excellent reputation with providers of finance and rating agencies,
- improve cash management techniques and systems throughout the group.

The board of AWG, through the Treasury Advisory Group, which includes executive and non-executive directors, regularly reviews treasury policy, organisation and reporting to ensure continued effectiveness and relevance.

Liquidity

The group's objective is to maintain flexibility, diversification and continuity of funding through access to different markets and debt instruments. At the year end the group held cash, deposits and current asset investments of £403.2 million (2002: £220.3 million) and had undrawn committed multi-currency facilities of £633.0 million (2002: £170.0 million). These resources are maintained to ensure liquidity and the continuation of the investment programme of the group. The maturity profile of the group's borrowings is set out above.

Borrowing covenants

With the exception of asset-based funding in AWS and some overseas business, all group borrowings are raised or guaranteed by AWG plc, AWG Group Limited and, in certain instances, its subsidiary companies. The group treasury function monitors compliance against all financial obligations and it is group policy to manage its businesses so as to ensure operation within covenanted restrictions.

Interest rates

The group's policy, as agreed by the board, is to achieve an optimum mix of funding at indexed, fixed and floating rates of interest, including the use of interest rate swaps, to manage the group's exposure to interest rate fluctuations.

At the year-end taking into account interest rate swaps, 30.1 per cent (2002: 13.4 per cent) of the group's borrowings were indexed to inflation, 68.5 per cent (2002: 71.7 per cent) were at fixed rates and 1.3 per cent (2002: 14.8 per cent) were at floating rates.

28.3 per cent of the AWS group's gross borrowings at 31 March 2003 were indexed to inflation, with a further 71.5 per cent at fixed rates and 0.2 per cent at floating rates.

20 Loans, other borrowings and financial instruments (continued)

Foreign currency

The group has currency exposures resulting from overseas investments and purchases and sales in foreign currencies. The group uses a range of instruments to hedge such exposures. All hedges are undertaken for commercial reasons with the objective of minimising the impact of exchange rate fluctuations on net assets and profits.

The group's foreign exchange exposure management policy, as agreed by the board, is to hedge material transactional exposures against the reporting currency by means of forward foreign exchange contracts.

Net assets are held in a number of currencies and translated at prevailing year end exchange rates. The resulting exposures are monitored and, at certain thresholds, are hedged by currency borrowings, cross currency swaps, options or forward exchange contracts. The group's continued investments in the Czech Republic and Chile have been hedged in accordance with this policy.

Unrecognised gains and losses on hedges

	2003 Gains £m	2003 Losses £m	2003 Net £m	2002 Net £m
Unrecognised at 1 April	22.4	(8.2)	14.2	(23.1)
Reversal of items unrecognised at 1 April	(22.4)	4.4	(18.0)	-
Recognised during the year	(6.4)	3.8	(2.6)	0.6
Arising during the year	20.0	(61.8)	(41.8)	36.7
Unrecognised at 31 March	13.6	(61.8)	(48.2)	14.2

Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised. The total net unrecognised loss of £48.2 million (2002: £14.2 million net gain) principally represents the opportunity cost of protecting the group's interest charge against movements in interest rates at a time when interest rates were higher than at 31 March 2003.

Of the unrecognised gains and losses at 31 March 2003, a net loss of £3.3 million (2002: £2.0 million) is expected to be included in the profit and loss account for the year ended 31 March 2004 and the balance in future years.

At 31 March 2003 and 31 March 2002, gains and losses on forward exchange contracts taken out as hedges of sales and purchase transactions were not material.

20 Loans, other borrowings and financial instruments (continued)

Fair value of financial assets and financial liabilities

	2003		2002	
	Book value	Fair value	Book value restated	Fair value restated
	£m	£m	£m	£m
Current asset investments	18.8	18.8	-	-
Cash at bank and in hand	384.4	384.4	220.3	220.3
Short-term borrowings	(60.5)	(60.5)	(394.6)	(397.5)
Long-term borrowings	(3,553.7)	(3,922.7)	(2,084.2)	(2,188.0)
Currency and interest rate swaps and forward exchange contracts	(21.1)	(50.6)	4.4	(8.3)
Net debt	(3,232.1)	(3,630.6)	(2,254.1)	(2,373.5)
Fixed asset investments	794.1	1,016.0	25.4	25.4
Long-term debtors excluding prepaid pension obligations (note 17)	30.2	30.2	34.8	34.8
Provisions excluding deferred tax , unfunded pension obligations and joint venture net liabilities (note 22)	(39.6)	(39.6)	(9.1)	(9.1)
Long-term trade creditors, accruals and deferred income (note 21)	(10.1)	(10.1)	(12.0)	(12.0)
	(2,457.5)	(2,634.1)	(2,215.0)	(2,334.4)

In accordance with the group's accounting policy, loans and other borrowings are recorded using the contracted rates implicit in the financial instruments used to hedge the group's exposure to fluctuations in currency and interest rates. Similarly, interest is charged to the profit and loss account based on the contracted interest rates. The book values assigned to derivative instruments are separately analysed from the book vale of the underlying loans in the table above.

The estimated fair values of quoted loans and other borrowings are based on period end mid-market quoted prices. The fair value of derivative financial instruments is determined by calculating (with reference to market exchange and interest rates at 31 March) the net gain or loss that would have arisen if these contracts had been terminated at 31 March. Fair values of other loans and borrowings are estimated by discounting cash flows at prevailing rates. The fair value of the group's cash, long-term debtors, provisions, long-term creditors and accruals has been estimated as not materially different from book value.

Short-term debtors and creditors have been excluded from the financial instruments disclosures.

20 Loans, other borrowings and financial instruments (continued)

Currency and interest rate analysis of net financial assets/(liabilities) at 31 March 2003

	Total £m	Index linked £m	Floating rate £m	Fixed rate £m	Interest free £m	Fixed rate: Weighted average interest rate	Fixed rate: Weighted average years to maturity
Sterling	(3,486.5)	(976.4)	(21.5)	(2,488.5)	(0.1)	6.9%	12.1
US Dollar	(3.2)	-	(3.2)	-	-		
Chilean Peso	(125.2)	(119.0)	(6.2)	-	-		
Other currencies	(20.4)	-	(17.6)	-	(2.8)		
Total borrowings	**(3,635.3)**	**(1,095.4)**	**(48.5)**	**(2,488.5)**	**(2.9)**		
Sterling	376.2	-	376.2	-	-		
US Dollar	0.1	-	-	-	0.1		
Chilean Peso	3.7	-	3.7	-	-		
Other currencies	23.2	-	23.2	-	-		
Cash, deposits and current asset investments	**403.2**	-	**403.1**	-	**0.1**		
Net debt	**(3,232.1)**	**(1,095.4)**	**354.6**	**(2,488.5)**	**(2.8)**		
Fixed asset investments	794.1	-	791.0	2.6	0.5	11.0%	20.5
Long-term debtors	30.2	-	0.8	10.1	19.3	10.3%	15.2
Provisions	(39.6)	-	-	-	(39.6)		
Other financial liabilities	(10.1)	-	-	-	(10.1)		
Net financial liabilities	**(2,457.5)**	**(1,095.4)**	**1,146.4**	**(2,475.8)**	**(32.7)**		

Currency and interest rate analysis of net financial assets/(liabilities) at 31 March 2002

	Total £m	Index linked £m	Floating rate £m	Fixed rate £m	Interest free £m	Fixed rate: Weighted average interest rate	Fixed rate: Weighted Average Years to Maturity
Sterling	(2,135.6)	(303.0)	(104.1)	(1,728.5)	-	7.9%	12.6
US Dollar	(52.4)	-	(31.6)	(20.8)	-	9.6%	4.5
Chilean Peso	(231.3)	(29.5)	(177.2)	(24.6)	-		
Other currencies	(55.1)	-	(52.2)	-	(2.9)	7.6%	3.9
Total borrowings	**(2,474.4)**	**(332.5)**	**(365.1)**	**(1,773.9)**	**(2.9)**		
Sterling	66.4	-	66.4	-	-		
US Dollar	115.3	-	115.3	-	-		
Chilean Peso	14.1	-	14.1	-	-		
Other currencies	24.5	-	24.5	-	-		
Cash, deposits and current asset investments	**220.3**	-	**220.3**	-	-		
Net debt	**(2,254.1)**	**(332.5)**	**(144.8)**	**(1,773.9)**	**(2.9)**		
Fixed asset investments	25.4	-	-	20.2	5.2	8.0%	8.9
Long-term debtors	34.8	-	0.8	7.3	26.7	10.6%	20.4
Provisions	(9.1)	-	-	-	(9.1)		
Other financial liabilities	(12.0)	-	-	-	(12.0)		
Net financial liabilities	**(2,215.0)**	**(332.5)**	**(144.0)**	**(1,746.4)**	**7.9**		

Prior year comparatives have been restated to comply with current year classifications.

20 Loans, other borrowings and financial instruments (continued)

The above tables reflect the net position after hedging arrangements. Fixed rate loans are those for which the interest rate was fixed for more than 12 months at the year end. Floating rate cash, investments and long-term debtors earn interest based on LIBID for the relevant currency. Floating rate borrowings incur interest based on LIBOR.

21 Other creditors falling due after more than one year

	Group		Company	
	2003	**2002**	**2003**	**2002**
	£m	**£m**	**£m**	**£m**
Trade creditors	10.1	8.7	-	-
Accruals and deferred income	-	3.3	-	-
Deferred grants and contributions	87.4	86.1	-	-
	97.5	98.1	-	-

22 Provisions for liabilities and charges

	Deferred tax £m	Unfunded pension obligations £m	Restructuring costs £m	Contract and other provisions £m	Joint venture net liabilities £m	Coupon enhancement provision £m	Total £m
The group							
At 1 April 2002	70.2	25.7	1.4	7.7	-	-	105.0
Charge for the year	19.8	-	11.2	1.1	-	32.0	64.1
Transfer from investments	-	-	-	-	9.4	-	9.4
Unwinding of discount (note 6)	-	2.4	-	-	-	0.7	3.1
Utilised in the year	-	(2.0)	(10.8)	(2.4)	-	(3.2)	(18.4)
Re-classified in the year	-	-	-	1.9	-	-	1.9
At 31 March 2003	**90.0**	**26.1**	**1.8**	**8.3**	**9.4**	**29.5**	**165.1**

The deferred tax provision is analysed in note 23 and the effect of discounting on deferred tax is shown in note 7.

The provision for pension obligations relates to the cost of unfunded pension enhancements. These pension payments are expected to be made over several future accounting periods. The provision is determined using actuarial assumptions based on those used for the valuation of the group's pension scheme and has been discounted at a rate of 9 per cent.

The provision for restructuring costs charged in the year relates to redundancy and other costs arising on the redundancy programme announced in the year and will be utilised in the forthcoming year.

The contract and other provisions relate to potential warranty and certification costs and other exposures in the International business, which are expected to crystallise over a period of approximately three years. The £1.9 million reclassified in the year relates to amounts previously disclosed as accruals which are more appropriately shown as provisions.

The transfer from investments of £9.4 million in respect of joint venture liabilities represents the group's share of year end joint venture net liabilities. Movements in the group's share of joint venture assets/liabilities are disclosed in note 14.

A provision of £32.0 million for coupon enhancement and other related costs incurred on the transfer of debt to Anglian Water Services Financing Plc was required as part of the refinancing project. This provision will be utilised over the next 26 years and has been discounted at 6.1 per cent.

23 Deferred taxation

The total tax charge or credit in the current year and future years will include discounted deferred taxation. Consequently, changes in the medium and long-term interest rates used to discount deferred taxation assets and liabilities will affect the amount of deferred taxation charged or credited in the profit and loss account.

In addition, an Advance Corporation Tax asset is offset against deferred tax liabilities; this could not be recognised if changes in the tax legislation were introduced which restricted the ability of companies to use Advance Corporation Tax. In this event, an additional tax charge in the profit and loss account would arise of £72.6 million.

	Group £m	Company £m
At 1 April 2002	70.2	-
Deferred tax charged to the profit and loss account (note 7)	19.8	(7.4)
At 31 March 2003	90.0	(7.4)

	2003 £m	2002 £m	2003 £m	2002 £m
Accelerated capital allowances	728.7	713.8	-	-
Short-term timing differences	(20.9)	(17.7)	(7.4)	-
Surplus ACT asset	(149.8)	(149.8)	-	-
Undiscounted provision for deferred tax	558.0	546.3	(7.4)	-
Discount	(468.0)	(476.1)	-	-
Discounted provision for deferred tax	90.0	70.2	(7.4)	-

The following are deferred tax assets that are not recognised in the accounts:

Tax losses carried forward	(35.9)	(33.8)
Deferred tax in Czech companies	(7.2)	(10.7)
	(43.1)	(44.5)

The tax losses carried forward relate to losses which are not eligible for group relief. As they exist in companies where future profits are uncertain and no deferred tax liabilities exist, no asset has been recognised.

The deferred tax asset in the Czech companies relates to timing differences arising from fair value adjustments made to fixed assets on acquisitions. As taxable profits are expected to be minimal in the foreseeable future and no deferred liabilities exist, no asset has been recognised.

24 Commitments under operating leases

At 31 March 2003 the group had commitments to make payments during the next 12 months under non-cancellable operating leases which expire as follows:

	2003		2002	
	Land and Buildings £m	Other £m	Land and Buildings £m	Other £m
The group				
Within one year	0.4	1.1	0.4	0.8
Between one and five years	5.5	8.1	1.8	6.5
After five years	4.8	-	8.4	-
	10.7	9.2	10.6	7.3

The company had no such commitments.

25 Share capital

Authorised	Company and Group 2003 £m	Company and Group 2002 £m
503.4 million ordinary shares of 47 1/7 pence each	237.3	237.3
300.0 million B shares of 100 pence each	300.0	300.0
34,845.7 million redeemable shares of 0.1 pence each	34.8	34.8
	572.1	572.1

Allotted, issued and fully paid		
282.0 million (2002 - 282.0 million) ordinary shares of 47 1/7 pence each	133.0	133.0
290.0 million (2002 – 290.0 million) B shares of 100 pence each	290.0	290.0
	423.0	423.0

26 Movement in share capital, reserves and shareholder's funds

	Ordinary share capital £m	'B' Redeemable shares £m	Total share capital £m	Share premium account £m	Capital redemption reserve £m	Profit and loss account £m	Total reserves £m	Total shareholder's funds £m
The group								
At 1 April 2002	*133.0*	*290.0*	*423.0*	*102.3*	*227.6*	*1,121.0*	*1,450.9*	*1,873.9*
Prior year adjustment	-	-	-	-	-	(5.1)	(5.1)	(5.1)
As restated	133.0	290.0	423.0	102.3	227.6	1,115.9	1,445.8	1,868.8
Goodwill written back on disposal	-	-	-	-	-	3.5	3.5	3.5
Total recognised gains and losses relating to the year	-	-	-	-	-	(22.5)	(22.5)	(22.5)
Dividends paid and proposed	-	-	-	-	-	(166.6)	(166.6)	(166.6)
At 31 March 2003	**133.0**	**290.0**	**423.0**	**102.3**	**227.6**	**930.3**	**1,260.2**	**1,683.2**

	Ordinary share capital £m	'B' Redeemable shares £m	Total share capital £m	Share premium account £m	Capital redemption reserve £m	Profit and loss account £m	Total reserves £m	Total shareholder's funds £m
The company								
At 1 April 2002	133.0	290.0	423.0	102.3	227.6	280.2	610.1	1,033.1
Total recognised gains and losses relating to the year	-	-	-	-	-	899.7	899.7	899.7
Dividends paid and proposed	-	-	-	-	-	(166.6)	(166.6)	(166.6)
At 31 March 2003	**133.0**	**290.0**	**423.0**	**102.3**	**227.6**	**1,013.3**	**1,343.2**	**1,766.2**

27 Pension commitments

Pension arrangements for the majority of the group's UK employees are of the defined benefit type, through the AWG Pension Scheme ("AWGPS") (previously Anglian Water Pension Scheme) and the Morrison Pension & Life Assurance Plan ("Morrison Plan"). In addition, a number of defined contribution schemes operate in both the UK and overseas, and contributions to these schemes in the year amounted to £1.5 million (2002: £1.3 million). The group's actuaries are Hewitt Bacon and Woodrow.

The administration and investment of the pension funds are maintained separately from the finances of the group. The accounting pension costs have been based on the most recent actuarial valuations. Details of the most recent actuarial valuations of the pension schemes are summarised below:

Scheme	**AWGPS**	**Morrison Plan**
Date of most recent valuation update	31 March 2002	31 March 2002
Actuarial method	projected unit	projected unit
Main assumptions:		
Excess of investment returns over:		
- general salary increases	1.9%	3.0%
- annual increases in pensions	3.8%	2.5% to 4.5%
Results:		
Market value of assets	£518.1 million	£56.4 million
Funding level	109%	90%
Due date of next full actuarial valuation	31 March 2005	31 March 2005

The net pension cost for the year ended 31 March 2003 was £16.8 million (2002: £12.4 million) which included contributions of £0.1 million (2002: £0.1 million) for overseas schemes and £4.4 million (2002: £3.8 million) for other defined benefit schemes. The net pension costs includes a credit of £1.6 million (2002: £6.6 million) in respect of the amortisation of actuarial surpluses. At 31 March 2003 there was a prepayment in respect of pensions of £40.2 million (2002: £24.3 million).

In November 2000 the Accounting Standards Board issued FRS 17 'Retirement Benefits'. The group is making use of the transitional arrangements regarding the adoption of FRS 17. These disclosures are included below as if FRS 17 had been applied from 1 April 2002.

The valuation used for the FRS 17 disclosures has been based on the most recent actuarial valuations, which for both the AWG Pension Scheme and the Morrison Pension and Life Assurance Plan was 31 March 2002, updated by independent actuaries to take account of the requirements of FRS 17 in order to assess the liabilities of the schemes at 31 March 2003. The company is contributing 17.3 per cent of pensionable pay plus £6.3 million per annum to the AWG Pension Scheme and 13.2 per cent of pensionable pay to the Morrison Pension and Life Assurance Plan. The group also manages an unfunded pensioner arrangement (note 22), which has been valued by independent actuaries to take account of the requirements of FRS 17 as at 31 March 2003. In addition, the group operates a number of other defined benefit and defined contribution schemes both in the UK and overseas. The assets and liabilities of these arrangements are not material to the group financial statements and have been excluded from the following disclosures.

The liabilities of the schemes have been valued using the projected unit method and using the following assumptions

	2003	**2002**
	% pa	% pa
Discount rate	5.4	6.0
Inflation rate	2.6	2.8
Increase to deferred benefits during deferment	2.6	2.8
Increases to inflation related pensions in payment	2.7	2.9
Salary increases	4.6	4.8

AWG Group Limited (formerly Anglian Water plc)
Notes to the financial statements continued

27 Pension commitments (continued)

The long-term expected rate of return and the assets in the scheme are:

	2003	2003 AWGPS	2003 Morrison Plan	2003 Unfunded pensions	2003 Total	2002	2002 Total
	Expected rate of return % pa	**Fair value of scheme assets £ m**	**Fair value of scheme assets £ m**	**Fair value of scheme assets £ m**	**Fair value of scheme assets £ m**	**Expected rate of return % pa**	**Fair value of scheme assets £ m**
Equities	7.6	293.9	37.1	n/a	331.0	8.0	451.6
Corporate bonds	4.9	22.8	3.9	n/a	26.7	6.0	31.3
Gilts	4.6	65.3	3.9	n/a	69.2	5.0	69.8
Property	6.6	13.0	-	n/a	13.0	8.0	16.7
Other	4.0	23.3	2.6	n/a	25.9	4.0	14.7
Total Assets		***418.3***	***47.5***	-	***465.8***		***584.1***
Fair value of scheme liabilities		(623.6)	(109.7)	(37.6)	(770.9)		(655.4)
Deficit in the scheme		(205.3)	(62.2)	(37.6)	(305.1)		(71.3)
Related deferred tax asset		61.6	18.7	11.3	91.6		16.4
Net pension deficit		**(143.7)**	**(43.5)**	**(26.3)**	**(213.5)**		**(54.9)**

If these amounts had been recognised in the financial statements, the group's net assets and the profit and loss reserve at 31 March 2003 would be as follows:

Net assets	2003	2002 restated
	£m	**£m**
Net assets	1,795.4	1,978.0
Exclude existing post tax net pension liability and prepayment (under SSAP 24)	(9.9)	1.4
	1,785.5	1,979.4
FRS 17 pension liability net of deferred tax asset	(213.5)	(54.9)
Net assets including FRS 17 pension liability	1,572.0	1,924.5

Profit and loss reserve	2003	2002 restated
	£m	**£m**
Profit and loss reserve	930.3	1,115.9
Exclude existing net pension liability and prepayment (under SSAP 24)	(9.9)	1.4
	920.4	1,117.3
FRS 17 pension liability	(213.5)	(54.9)
Profit and loss reserve including FRS 17 pension liability	706.9	1,062.4

The group pension expense for its defined benefit schemes, in accordance with FRS 17 would have been as set out below:

	2003 AWGPS	2003 Morrison Plan	2003 Unfunded Pensions	2003 Total
Profit and loss account	**£m**	**£m**	**£m**	**£m**
Current service cost	17.8	8.3	-	26.1
Past service cost	-	-	-	-
Gain on settlements and curtailments	-	-	-	-
Charge to operating profit	**17.8**	**8.3**	-	**26.1**
Expected return on pension scheme assets	40.5	4.5	-	45.0
Interest on pension scheme liabilities	(32.6)	(5.0)	-	(37.6)
Amount credited to other finance income	**7.9**	**(0.5)**	-	**7.4**
Profit on ordinary activities before taxation	**9.9**	**8.8**	-	**18.7**

27 Pension commitments (continued)

Statement of total recognised gains and losses				
Actual return on pension scheme assets less expected return	(166.4)	(17.8)	-	(184.2)
Experience gains and losses arising on the scheme liabilities	-	-	0.9	0.9
Changes in assumptions underlying the present value of the scheme liabilities	(41.7)	(18.9)	(1.8)	(62.4)
Loss recognised	**(208.1)**	**(36.7)**	**(0.9)**	**(245.7)**

Movement in scheme deficit	**2003 AWGPS £m**	**2003 Morrison Plan £m**	**2003 Unfunded Pensions £m**	**2003 Total £m**
Deficit at 1 April 2002	(12.8)	(21.8)	(36.7)	(71.3)
Current service costs	(17.8)	(8.3)	-	(26.1)
Contributions	25.5	5.1	-	30.6
Past service costs	-	-	-	-
Settlements and curtailments	-	-	-	-
Businesses acquired	-	-	-	-
Net interest	7.9	(0.5)	-	7.4
Actuarial loss	(208.1)	(36.7)	(0.9)	(245.7)
Deficit at 31 March 2003	**(205.3)**	**(62.2)**	**(37.6)**	**(305.1)**

Details of experience gains and losses for 2003	**2003 AWGPS £m**	**2003 Morrison Plan £m**	**2003 Unfunded Pensions £m**	**2003 Total £m**
Difference between expected and actual returns on scheme assets				
Amount	(166.4)	(17.8)	-	(184.2)
Percentage of scheme assets	39.8%	37.5%	-	39.5%
Experience gains and losses on scheme liabilities				
Amount	-	-	0.9	0.9
Percentage of present value of scheme liabilities	-	-	2.4%	0.1%
Amount in group statement of total recognised gains				
Amount	(208.1)	(36.7)	(0.9)	(245.7)
Percentage of present value of scheme liabilities	33.4%	33.5%	2.4%	31.9%

28 Contingent liabilities

Group

The group has entered into a number of performance bonding and guarantee arrangements in the normal course of business. Provision is made for any amounts that the directors consider may become payable under such arrangements. The group has also guaranteed obligations of joint ventures and associates totalling £84.6 million (2002: £80.0 million) including obligations of Aguas Argentinas (in which the group has a 4.35 per cent investment) amounting to £15.4 million (2002: £14.5 million).

Company

During the year, the company entered into cross guarantee agreements relating to a credit facility for the Infrastructure Management Business and to certain group companies' accounts at Barclays Bank Plc. Net indebtedness under each of these arrangements at 31 March 2003 was £nil.

29 Related party transactions

The group's related party transactions requiring disclosure in the financial statements in accordance with FRS8 'Related Party Transactions' are summarised below:

	2003 £m	2002 £m
Sales to associates on normal trading terms	-	1.8
Sales to joint ventures on normal trading terms	124.9	115.6
Amounts owed by joint ventures and associates falling due within one year	77.1	84.0
Amounts owed by joint ventures and associates falling due after more than one year	19.5	28.2
Amounts owed to joint ventures and associates falling due within one year	11.9	12.4

30 Principal group companies

The principal subsidiary undertakings at 31 March 2003 are shown below:

	Country of Incorporation	Activities
Group and Other		
Rutland Insurance Limited (1)	Guernsey	Provision of insurance to group companies
AWG Rail Services Limited	England	Permanent way rail contracting
Powermarque Limited	England	Transport leasing and fleet maintenance
UK water and wastewater services		
Anglian Water Services Limited (2)	England	Water and wastewater undertaker, regulated principally by the Water Industry Act 1991
Anglian Water Services Financing Plc	England	Financing company
Anglian Water Services Holdings Limited (1)	England	Holding company
Anglian Water Services Overseas Holdings Limited	Cayman Islands	Holding company
Utility Services		
Alpheus Environmental Limited	England	Wastewater treatment
Anglian Water Direct Limited	England	Home service products
Power Services HVDE Limited	England	Utility contracting
Government Services		
AWG Project Investments Limited	Scotland	Bidding for and managing PFI projects
AWG Facilities Services Limited (formerly Morrison Government Services Limited)	Scotland	Property maintenance and repair work
Maintenance and Property Care Limited (formerly Morrison Property Care Limited)	Scotland	Property maintenance and repair work
MVM Central Land Charges Company Limited	England	Provision of computerised land charge search services
MVM Consultants Plc	England	Sale of computer software and associated services
MVM Pickwick Limited	England	Provision of computer services
MVM Infrastructure Management Solutions Limited (formerly Geodesys Limited)	England	Asset and management services
Project Management Services		
AWG Construction Services Limited (formerly Morrison Construction Limited) (3)	Scotland	Building and civil engineering and utility contracting
Developments & Commercial Services		
AWG Property Solutions Limited (formerly Ambury Estates)	England	Corporate property management
Ambury Developments Limited	England	Corporate property management
AWG Developments Limited (formerly Morrison Development Partnership Limited)	Scotland	Construction and the development of land and buildings
AWG Residential Limited (formerly Morrison Homes Limited)	Scotland	Development of residential estates

30 Principal group companies (continued)

	Country of Incorporation	Activities
International Services		
Anglian Water International Limited	England	International water and wastewater business development services, holding company
Anglian Water International Holdings Limited (1)	England	Holding company
Anglian Water Overseas Holdings Limited	England	Holding company
PURAC AB	Sweden	Contracting for water and wastewater treatment processes
PURAC GmbH	Germany	Contracting for water and wastewater treatment processes
PURAC Pacific PTY Limited	Australia	Management and operation of wastewater projects
PURAC Limited	England	Contracting for water and wastewater treatment processes
PURAC-Anglian Water Treatment System (Beijing) Co Ltd (4)	China	Contracting for water and wastewater treatment processes
Severomoravské Vodovody A Kanalizace Ostrava a.s. (4)	Czech Republic	Water and wastewater treatment
Vodovody A Kanalizace Jizni Cechy a.s. (4)	Czech Republic	Water and wastewater treatment
Vodovody A Kanalizace Beroun a.s. (4)	Czech Republic	Water and wastewater treatment
Anglian Water International (NZ) Limited	New Zealand	Management and operation of wastewater projects
Anglian Water (Ireland) Limited	Ireland	Management and operation of leakage reduction and wastewater projects
Zickert Miljö A/S	Denmark	Contracting in wastewater treatment processes
Anglian Water Thailand	Thailand	Management and operation of leakage reduction
Empresa de Obras Sanitarias De Valparaiso S.A. (ESVAL) (4)	Chile	Water and wastewater treatment
Anglian Water International Holdings Limited y Compania Limitada (4)	Chile	Holding company
Morrison International Limited	Scotland	Building and civil engineering contracting
Morrison International Developments Limited	Scotland	Property development
Celtic Anglian Water Limited	Ireland	Water and wastewater treatment

(1) These companies are owned directly by AWG Group Ltd.

(2) Including Anglian Water Services trading as Hartlepool Water Limited.

(3) AWG Construction Services Limited's activities are split between the Utility Services, Project Management Services and Government Services divisions.

(4) These companies have a year end date of 31 December to comply with local requirements.

The group also owns a number of smaller and non-trading companies. All subsidiaries are 100 per cent owned by the group or the company with the exception of Maintenance and Property Care Limited which is 66.7 per cent owned, Severomoravské Vodovody A Kanalizace Ostrava a.s. which is 54.3 per cent owned, Vodovody A Kanalizace Jizní Cechy a.s. which is 95.2 per cent owned, Celtic Anglian Water Limited which is 50.0 per cent owned and Vodovody A Kanalizace Beroun a.s. which is 58.3 per cent owned. Also, the group owns 49.8 per cent of and exerts dominant influence over Empresa de Obras Sanitarias de Valparaiso S.A.

The voting rights in respect of each subsidiary are in the same proportion as the shares held. Those companies shown as incorporated in England are registered in England and Wales. All companies operate principally in their country of incorporation, except for Anglian Water International Limited and the PURAC Companies.

30 Principal group companies (continued)

All subsidiaries have a year end of 31 March with the exception of those companies shown in note (4) above.

All subsidiary undertakings disclosed above are included within the group consolidated financial statements.

31 Ultimate and immediate parent company

The company's ultimate and immediate parent company is AWG Plc, a company registered in England and Wales. Copies of the financial statements of AWG Plc may be obtained from the Company Secretary, Anglian House, Ambury Road, Huntingdon, Cambridgeshire PE29 3NZ.

The smallest and largest group of undertakings of which the company is a member is the group of companies headed by AWG Plc.