

AWG Group Limited
Registered number 2366618

Directors' report and financial statements

For the year ended 31 March 2004



AWG Group Limited

Directors' report for the year ended 31 March 2004

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 2004.

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, building and maintaining infrastructure in the utility, urban regeneration, social housing, property and highways markets. The company acted as a holding company and provided guarantees to subsidiary companies.

The principle focus for the current year is the regulatory review, which will be completed in December 2004. The group's immediate objective is to continue to seek a satisfactory determination and prepare the group to meet the challenge. The group will continue to strengthen its management team and improve the operating performance in the IMB.

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 £351.6 million (2003 £166.6 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 24 on page 40.

Directors

The current directors of the company are as follows:

Peter Hickson
Jonson Cox
Roy Pointer

All of the directors served throughout the year except for Peter Hickson and Jonson Cox who were appointed on 28 October 2003 and 15 January 2004 respectively. Tony Eckford, Euan McEwan and Elliott Mannis also served as directors during the year and resigned on 26 September 2003, 14 April 2004 and 30 June 2004 respectively.

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 2004. 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 (2003: £1.0 million) to the Anglian Water Trust Fund, and gave £180,000 to various community causes.

Employees

Employees are kept informed of changes in the business and general financial and economic factors influencing the group. This is done through a systematic approach to employee communication through regular briefings, presentations, electronic mailings and the wide circulation of the group magazine. The group's intranet is also widely used as a source of information.

The group has introduced an Ethics Policy, which informs all employees of the group's approach to a range of ethical issues. 'Whistle-blowing' procedures are in place to deal with allegations of harassment, bullying and other inappropriate behaviour. The group continues to invest in the development of its employees with more

AWG Group Limited

than £1.0 million being devoted to skills and basic management development and leadership. AWG Construction Services Limited, Purac Limited and AWG Utility Services have achieved Investors in People status.

A Sharesave Scheme is in place to encourage participation in the group's performance.

The group is an equal opportunities employer and job applications from disabled persons are fully and fairly considered, having regard to the aptitudes 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 AWG's policy to provide suppliers of goods and services with a statement of general conditions of contract. This document is available from each of the company's divisions. 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 2004, the group had 43 days purchases outstanding (2003: 65 days). At 31 March 2004, the company had no trade creditors (2003: nil).

Auditors

PricewaterhouseCoopers LLP has indicated its willingness to continue in office and a resolution proposing its reappointment will be put to the AGM.


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 and other water and wastewater-related matters.

By order of the board



D C Turner

Company secretary

Registered office: Anglian House, Ambury Road, Huntingdon, Cambridgeshire PE29 3NZ

Registered in England and Wales no. 2366618

15 July 2004

Statement of directors' responsibilities for the year ended 31 March 2004

Company law requires the Directors to prepare, each financial year, financial statements that give a true and fair view of the state of affairs of the company and 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 that 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. The Directors are responsible for the maintenance and integrity of the AWG website. Information published on the website is accessible in many countries with different legal requirements relating to the preparation and dissemination of financial statements, which results in uncertainty regarding legal requirements.

AWG Group Limited

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 2004 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
Chartered Accountants and Registered Auditors
Birmingham
15 July 2004

AWG Group Limited

Group profit and loss account

for the year ended 31 March

		2004			2003		
		Before exceptional items and goodwill amortisation £m	Exceptional items and goodwill amortisation £m	Total £m	Before exceptional items and goodwill amortisation £m	Exceptional items and goodwill amortisation £m	Total £m
Notes							
	Group turnover:						
2	Total continuing group and share of joint ventures	1,799.7	-	1,799.7	1,759.1	-	1,759.1
	Less: share of turnover of joint ventures	(127.0)	-	(127.0)	(142.8)	-	(142.8)
	Continuing operations	1,672.7	-	1,672.7	1,616.3	-	1,616.3
2	Discontinued operations	85.9	-	85.9	119.6	-	119.6
		1,758.6	-	1,758.6	1,735.9	-	1,735.9
	Operating costs before depreciation and amortisation of intangible assets	(1,232.6)	(21.6)	(1,254.2)	(1,214.4)	(42.0)	(1,256.4)
3	Depreciation net of amortisation of grants and contributions	(179.5)	-	(179.5)	(190.5)	-	(190.5)
	Amortisation of intangible assets	(0.7)	(13.5)	(14.2)	(0.5)	(13.8)	(14.3)
	Goodwill impairment	-	-	-	-	(4.4)	(4.4)
3	Group operating costs	(1,412.8)	(35.1)	(1,447.9)	(1,405.4)	(60.2)	(1,465.6)
	Continuing operations	327.5	(33.8)	293.7	299.2	(57.1)	242.1
2	Discontinued operations	18.3	(1.3)	17.0	31.3	(3.1)	28.2
5	Group operating profit	345.8	(35.1)	310.7	330.5	(60.2)	270.3
	Share of operating profit/(loss) in joint ventures	8.0	-	8.0	7.5	(3.6)	3.9
	Total operating profit: group and share of joint ventures	353.8	(35.1)	318.7	338.0	(63.8)	274.2
	Loss on disposal and closure of businesses						
	Continuing operations	-	(33.2)	(33.2)	-	(1.2)	(1.2)
4	Discontinued operations	-	(88.3)	(88.3)	-	-	-
		-	(121.5)	(121.5)	-	(1.2)	(1.2)
2	Profit on ordinary activities before interest	353.8	(156.6)	197.2	338.0	(65.0)	273.0
6	Interest payable (net)	(217.1)	-	(217.1)	(189.7)	(70.0)	(259.7)
	Profit/(loss) on ordinary activities before taxation	136.7	(156.6)	(19.9)	148.3	(135.0)	13.3
7	Tax on profit/(loss) on ordinary activities	(12.0)	4.2	(7.8)	(49.6)	27.5	(22.1)
	Profit/(loss) on ordinary activities after taxation	124.7	(152.4)	(27.7)	98.7	(107.5)	(8.8)
	Equity minority interest	(6.2)	-	(6.2)	(9.5)	-	(9.5)
	Profit/(loss) for the financial year	118.5	(152.4)	(33.9)	89.2	(107.5)	(18.3)
8	Dividends	(351.6)	-	(351.6)	(166.6)	-	(166.6)
	Loss transferred to reserves	(233.1)	(152.4)	(385.5)	(77.4)	(107.5)	(184.9)

Exceptional items and goodwill are analysed in note 4.

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

AWG Group Limited
Statement of group total recognised gains and losses
for the year ended 31 March

Notes		2004	2003
		£m	£m
	Loss for the financial year	(33.9)	(18.3)
	Currency translation differences on foreign currency net investments	(0.1)	(4.2)
25	Total recognised gains and losses since the last annual report and financial statements	(34.0)	(22.5)

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

Notes		2004	2003
		£m	£m
	Total recognised gains and losses for the year	(34.0)	(22.5)
8	Dividends paid and proposed	(351.6)	(166.6)
	Goodwill previously eliminated against reserves, now reinstated and written off against profit for the year	15.6	3.5
	(Decrease)/increase in shareholder's funds	(370.0)	(185.6)
25	Opening shareholder's funds	1,683.2	1,868.8
	Closing shareholder's funds	1,313.2	1,683.2

AWG Group Limited

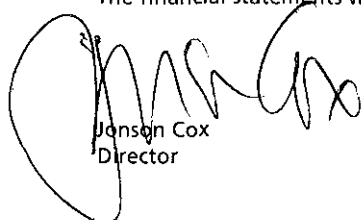
Group and company balance sheets

at 31 March

Notes	Group		Company		
	2004 £m	2003 £m	2004 £m	2003 £m	
	Fixed assets				
11	Intangible assets	206.1	258.7	-	-
12	Tangible assets	3,829.3	4,113.4	2.6	0.2
13	Investments				
	Joint ventures:				
	- Share of gross assets	278.5	376.0	-	-
	- Share of gross liabilities	(276.8)	(366.1)	-	-
21	- Amounts included in provisions	13.1	9.4	-	-
		14.8	19.3	-	-
	Associates	0.1	0.2	-	-
	Other investments	794.7	794.7	1,365.0	1,669.4
	Total investments	809.6	814.2	1,365.0	1,669.4
		4,845.0	5,186.3	1,367.6	1,669.6
	Current assets				
15	Stock	136.0	130.8	-	-
16	Debtors	484.1	640.4	27.4	167.3
17	Investments	-	18.8	-	-
	Cash at bank and in hand	756.5	384.4	193.6	96.8
		1,376.6	1,174.4	221.0	264.1
	Creditors: amounts falling due within one year				
18	Short-term borrowings	(45.9)	(60.5)	(11.8)	(14.8)
18	Other creditors	(692.8)	(667.4)	(148.4)	(152.7)
		(738.7)	(727.9)	(160.2)	(167.5)
	Net current assets/(liabilities)	637.9	446.5	60.8	96.6
	Total assets less current liabilities	5,482.9	5,632.8	1,428.4	1,766.2
	Creditors: amounts falling due after more than one year				
19	Loans and other borrowings	(3,900.1)	(3,574.8)	(184.5)	-
20	Other creditors	(93.6)	(97.5)	-	-
		(3,993.7)	(3,672.3)	(184.5)	-
21	Provisions for liabilities and charges	(173.8)	(165.1)	(4.5)	-
	Net assets	1,315.4	1,795.4	1,239.4	1,766.2
	Capital and reserves				
24	Called up share capital	423.0	423.0	423.0	423.0
25	Share premium account	102.3	102.3	102.3	102.3
25	Capital redemption reserve	227.6	227.6	227.6	227.6
25	Profit and loss account	560.3	930.3	486.5	1,013.3
	Total shareholders' funds	1,313.2	1,683.2	1,239.4	1,766.2
	Equity minority interest	2.2	112.2	-	-
	Capital employed	1,315.4	1,795.4	1,239.4	1,766.2

The notes on pages 11 to 47 form part of these financial statements.

The financial statements were approved by the board of directors on 15 July 2004 and signed on its behalf by:


 Jonson Cox
 Director

AWG Group Limited

Notes to the group cash flow statement continued

Notes		2004 £m	2003 £m
a	Net cash inflow from operating activities	591.9	416.2
	Dividends received from joint ventures	3.4	4.0
	Returns on investments and servicing of finance		
	Interest received	23.0	25.4
	Interest paid	(178.0)	(181.5)
	Interest element of finance lease rental payments	(9.8)	(11.4)
	Cash flows treated as finance costs under FRS4	(1.4)	(23.8)
	Dividends received from trade investments	-	0.2
	Dividends paid to minority interests	(4.1)	(4.1)
	Net cash outflow for returns on investments and servicing of finance	(170.3)	(195.2)
	Taxation		
	Corporation tax (paid)/received	(14.0)	(3.7)
	Capital expenditure and financial investment		
	Purchase of intangible fixed assets	-	(14.1)
	Purchase of tangible fixed assets	(307.3)	(311.7)
	Grants and contributions received	18.6	16.8
	Sales of tangible fixed assets	16.3	33.1
	Net cash outflow for capital expenditure and financial investment	(272.4)	(275.9)
	Acquisitions and disposals		
	Payments to acquire trade investments and joint ventures	(1.5)	(796.5)
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)	88.2	3.3
	Receipts from sales of fixed asset investments	1.3	21.0
	Net cash (outflow)/inflow for acquisitions and disposals	88.0	(787.4)
	Equity dividends paid	(288.8)	(156.4)
	Net cash outflow before management of liquid resources and financing	(62.2)	(998.4)
	Management of liquid resources		
d	(Increase)/decrease in short-term deposits and investments	(327.2)	(97.6)
	Financing		
e	Increase in loans	464.1	2,302.2
e	Repayments of amounts borrowed	(19.3)	(1,073.3)
e	Capital element of finance lease rental payments	(27.5)	(34.4)
	Net cash inflow from financing	417.3	1,194.5
d	Increase in cash	27.9	98.5

Included within net cash inflow from operating activities, net cash outflow for returns on investments and servicing of finance and net cash outflow for capital expenditure and financial investment are amounts in relation to disposed subsidiaries of £(5.7) million, £(7.9) million and £(10.3) million respectively.

AWG Group Limited

Notes to the group cash flow statement continued

(a) Reconciliation of operating profit to net cash inflow from operating activities	2004	2003
	£m	£m
Operating profit	310.7	270.3
Dividends received from trade investments	-	(0.2)
Depreciation (net of amortisation of deferred grants and contributions)	179.5	190.5
Amortisation and impairment of intangible assets	14.2	18.7
Profit on disposal of fixed assets	(1.0)	(0.5)
Impairment of trade investments	-	3.3
Net movements on provisions	4.6	(1.2)
Closure costs charged after operating profit	(2.0)	-
	506.0	480.9
Decrease in working capital:		
Stock	(10.5)	7.2
Debtors	101.5	(40.3)
Creditors	(5.1)	(31.6)
	85.9	(64.7)
Net cash inflow from operating activities	591.9	416.2

The group cash flow statement for the year ended 31 March 2004 includes net cash outflows of £16.8 million (2003: £66.7 million) in respect of current year exceptional charges and £8.7 million (2003: £46.0 million) in respect of the settlement of prior year exceptional charges.

(b) Acquisition of subsidiary undertakings	2004	2003
	£m	£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

Notes to the group cash flow statement continued

(c) Disposal of businesses	2004 £m	2003 £m
Net assets disposed of:		
Tangible fixed assets	392.9	0.1
Fixed asset investments	-	0.1
Stock	5.4	1.3
Debtors	42.4	3.4
Cash at bank and in hand	36.7	1.0
Creditors	(47.6)	(3.8)
Loans and other borrowings	(149.4)	-
Intercompany loan	(34.1)	-
	<u>246.3</u>	<u>2.1</u>
Minority interest	(113.4)	-
Unamortised goodwill (note 11)	39.0	0.2
Goodwill previously written off, now reinstated	9.5	3.5
Group's share of net assets disposed of	<u>181.4</u>	<u>5.8</u>
Less consideration received on completion (see below)	(103.0)	(4.6)
Disposal costs (including £4.2 million accrued)	15.5	-
Loss on disposal (£88.3 million discontinued, £5.6 million continuing)	<u>93.9</u>	<u>1.2</u>
Analysis of the net cash inflow in respect of the disposal of businesses:		
Consideration received upon completion	103.0	4.6
Disposal costs	(11.3)	-
Accrued consideration, not yet received	(0.9)	(0.3)
Net consideration received in cash	<u>90.8</u>	<u>4.3</u>
Part repayment of intercompany loan	34.1	-
Cash at bank of disposed businesses	(36.7)	(1.0)
Net cash inflow in respect of the disposal of businesses	<u>88.2</u>	<u>3.3</u>

Further details of disposals are given in note 14.

(d) Analysis of net debt	Currency					
	1 April 2003 £m	Cash flows £m	Disposals £m	Non-cash movements £m	translation movements £m	31 March 2004 £m
Cash at bank and in hand	190.3	26.1	-	-	-	216.4
Bank overdrafts	(3.2)	1.8	-	-	-	(1.4)
	<u>187.1</u>	<u>27.9</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>215.0</u>
Deposits and investments	212.9	327.2	-	-	-	540.1
Debt due within one year	(57.3)	33.3	10.9	(30.8)	(0.6)	(44.5)
Debt due after one year	(3,574.8)	(449.2)	138.5	(5.9)	(8.7)	(3,900.1)
	<u>(3,232.1)</u>	<u>(60.8)</u>	<u>149.4</u>	<u>(36.7)</u>	<u>(9.3)</u>	<u>(3,189.5)</u>

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, indexation of Retail Price Index (RPI) swaps 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 £540.1 million (2003: £194.1 million) of short-term deposits which are included in cash in the balance sheet.

At 31 March 2004, £203.5 million (2003: £88.7 million) of the group's cash at bank and in hand and £269.0 million (2003: £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 £10.1 million (2003: £10.5 million) of the group's deposits and investments are held as collateral for outstanding loan notes. In addition, £23.4 million (2003: £18.6 million) of the group's deposits are held by Rutland Insurance Limited in order to maintain its required solvency ratio.

AWG Group Limited

Notes to the group cash flow statement continued

(e) Movement in group net debt	2004	2003
	£m	£m
At beginning of year	(3,232.1)	(2,254.1)
Net increase in cash	27.9	98.5
Increase/(decrease) in short-term bank deposits and investments	327.2	97.6
Increase in loans	(464.1)	(2,302.2)
Repayment of amounts borrowed	19.3	1,073.3
Capital element of finance lease rental payments	27.5	34.4
Finance costs capitalised under FRS 4	1.4	23.8
Loans disposed with subsidiary	149.4	-
Loans assumed within subsidiary undertakings	-	(0.1)
Indexation of loan stock and RPI swaps	(32.2)	(21.3)
Loan notes issued	(2.2)	(2.5)
Amortisation of discount and expenses relating to debt issues	(2.3)	(4.4)
New finance leases	-	(7.5)
Currency translation difference	(9.3)	32.4
At end of year	(3,189.5)	(3,232.1)

AWG Group Limited

Notes to the financial statements

1 Accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the current and preceding year.

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 (j).

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 and operating profit of 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. To the extent that joint ventures and associates have net liabilities, the aggregate amount is added back to the amount of investments, and transferred to provisions.

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 recognition 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 the 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.

AWG Group Limited

Notes to the financial statements 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 when it can be estimated reliably. The group has implemented Application Note G of FRS 5 during the year; the effect is not material to the financial statements.

Turnover of development and private finance initiative properties is recorded when a sale is completed in accordance with the profit recognition criteria in note 1 (f) above. Turnover includes sales of directly held work in progress and interests in special purpose subsidiaries and joint ventures if the substance of the transaction is the sale of the underlying property.

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. The calculation is sensitive to estimated consumption for domestic customers (a fall of 1 cubic metre in average annual consumption will reduce turnover by approximately £1.0 million).

h) Intangible fixed assets, amortisation and impairment

Intangible fixed assets comprise goodwill arising on acquisition of subsidiaries, premiums paid to acquire unincorporated businesses and payments to acquire licences to operate plant, mainly in overseas locations.

Goodwill is generally amortised over 20 years, being the directors' best estimate of its useful economic life or the life of the contract if less than 20 years. At the end of each full year after an acquisition and following the occurrence of an impairment trigger in any year, the carrying amount of goodwill is assessed for impairment by comparing it with the higher of net present value of future cash flows and the expected net realisable value. Should the carrying amount exceed the higher of these two measures, an impairment charge arises in the profit and loss account in the year.

Licences are amortised over the period of the licence agreement, currently 20 years.

Licences are assessed for impairment in accordance with FRS 11 Impairment of Fixed Assets and Goodwill, if an appropriate trigger arises.

i) Tangible fixed assets, depreciation and impairment

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.

Fixed assets are assessed for impairment in accordance with FRS 11 Impairment of Fixed Assets and Goodwill, if an appropriate trigger arises.

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 on a straight line basis over their estimated useful economic lives, which are principally as follows:

Operational structures	30-80 years
Buildings	30-60 years
Fixed plant	12-40 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.

AWG Group Limited

Notes to the financial statements continued

j) **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 released 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, which requires grants and contributions to be shown as deferred income, 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 12. Revenue grants and contributions are credited to the profit and loss account in the year to which they apply.

k) **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 note 1 (i) above. Operating lease income is accounted for on a straight line basis with any rental increases recognised during the period to which they relate.

l) **Investments**

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

m) **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.

n) **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.

o) **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. The notes to the accounts disclose the effect of the transitional provisions of FRS 17 Retirement Benefits.

p) **Research and development**

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

q) **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.

AWG Group Limited

Notes to the financial statements continued

r) **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 (note 1(i) 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.

s) **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 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.

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 21. The unwinding of the discount on those provisions (other than deferred tax) is included within net interest payable.

u) **Bid and pre-contract costs**

Bid and pre-contract costs are written off as an expense until such time as the award of a contract becomes virtually certain.

v) **Closure and redundancy costs**

Once irrevocable decisions have been made to close an operation, provisions are made to reflect the extent to which obligations, including redundancy costs, have been incurred that are not expected to be covered by future profits of the operation. Provisions include only the direct costs of termination and any operating losses up to the date of the termination, after taking account of the aggregate profit, if any, to be recognised from the future profits of the operation. Redundancy costs are charged to the profit and loss account in the period in which the group both becomes irrevocably committed to incurring the costs and has announced the main features of the programme to affected employees or their representatives.

AWG Group Limited

Notes to the financial statements continued

2 Segmental analysis

Segmental analysis by class of business 2004

	Turnover £m	Total operating profit/(loss) before 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	766.6	318.9	-	-	318.9	3,610.5
Utility Services	280.1	8.2	-	(2.5)	5.7	91.1
Government Services	219.8	14.8	(0.9)	(4.5)	9.4	75.5
Construction Services	385.8	(7.1)	(2.5)	(5.2)	(14.8)	53.1
Total Infrastructure Management	885.7	15.9	(3.4)	(12.2)	0.3	219.7
Developments and Commercial Services	140.5	4.2	(10.0)	-	(5.8)	88.0
International Services	117.9	14.0	(118.5)	(1.3)	(105.8)	8.3
Other (c)	33.3	1.5	(11.2)	-	(9.7)	753.7
Less: intersegmental trading (d)	(58.4)	(0.7)	-	-	(0.7)	-
	1,885.6	353.8	(143.1)	(13.5)	197.2	4,680.2
Total						
- Group	1,758.6	345.8	(142.1)	(13.5)	190.2	
- Joint ventures (e)	127.0	8.0	(1.0)	-	7.0	

Segmental analysis by class of business 2003

	Turnover £m	Total operating profit/(loss) before 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
Construction Services	391.8	0.6	(0.9)	(5.2)	(5.5)	63.8
Total Infrastructure Management	790.3	20.8	(7.3)	(10.7)	2.8	248.9
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)	814.8
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	330.5	(47.6)	(13.8)	269.1	
- Joint ventures (e)	142.8	7.5	(3.6)	-	3.9	

AWG Group Limited

Notes to the financial statements continued

2 Segmental analysis (continued)

Segmental analysis by geographical origin

	Turnover		Profit/(loss) before interest		Net operating assets/ (liabilities) (b)	
	2004 £m	2003 £m	2004 £m	2003 £m	2004 £m	2003 £m
United Kingdom	1,753.0	1,703.8	259.9	250.0	4,652.2	4,748.2
Europe	82.5	96.3	(24.8)	4.5	9.7	108.7
Rest of world	50.1	78.6	(37.9)	18.5	(4.8)	284.4
	<u>1,885.6</u>	<u>1,878.7</u>	<u>197.2</u>	<u>273.0</u>	<u>4,657.1</u>	<u>5,141.3</u>

Segmental analysis by geographical destination

	Turnover	
	2004 £m	2003 £m
United Kingdom	1,752.9	1,704.2
Europe	78.2	89.4
Rest of world	54.5	85.1
	<u>1,885.6</u>	<u>1,878.7</u>

- (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 (2003: £3,346.4 million).
- (c) The other segment comprises Powermarque up to date of disposal, 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 £1.0 million (2003: £3.6 million). Group share of joint venture net assets at 31 March 2003 was £1.7 million (2003: £9.9 million).

AWG Group Limited

Notes to the financial statements continued

2 Segmental analysis (continued)

Discontinued operations

The group has changed its geographical nature and focus and has sold both the major water and wastewater operations in Chile and the Czech Republic and also its process engineering business in Sweden. It is selling or closing most of the remaining International businesses such that it is now an almost wholly UK based group. Although decisions, including detailed plans, were made to sell or close almost all the remaining international businesses during the year, these actions are still in progress and accordingly, the results of operations not yet sold are included in continuing operations. The analyses presented above include the following amounts in respect of operations discontinued during the year:

	Sales to third parties (f) £m	Total operating profit/(loss) before exceptional items and goodwill amortisation £m	Exceptional items £m	Goodwill amortisation £m	Profit/ (loss) before interest £m
2004					
International segment:					
Chile businesses (Rest of world)	26.3	10.1	(46.8)	(1.3)	(38.0)
Czech businesses (Europe)	50.0	8.7	(27.2)	-	(18.5)
Purac AB (Europe)	9.6	(0.5)	(14.3)	-	(14.8)
Total Europe	59.6	8.2	(41.5)	-	(33.3)
Total discontinued operations	85.9	18.3	(88.3)	(1.3)	(71.3)
2003					
International segment:					
Chile businesses (Rest of world)	46.8	20.6	-	(3.1)	17.5
Czech businesses (Europe)	59.0	13.0	-	-	13.0
Purac AB (Europe)	13.8	(2.3)	-	-	(2.3)
Total Europe	72.8	10.7	-	-	10.7
Total discontinued operations	119.6	31.3	-	(3.1)	28.2

(f) Sales to third parties by geographical destination and geographical origin are entirely within the area of operation of the individual business as shown above.

AWG Group Limited

Notes to the financial statements continued

3 Group operating costs

2004	Continuing operations £m	Discontinued operations £m	Total before		Total £m
			exceptional items and goodwill amortisation £m	Exceptional items and goodwill amortisation £m	
Operating costs excluding depreciation, amortisation and impairment of goodwill:					
Raw materials and consumables	115.4	10.7	126.1	-	126.1
Other external charges	775.4	33.0	808.4	21.6	830.0
Staff costs (note 9)	337.1	16.2	353.3	-	353.3
Change in stocks of finished goods and work in progress	(14.2)	-	(14.2)	-	(14.2)
Own work capitalised	(42.0)	-	(42.0)	-	(42.0)
Contribution to Anglian Water Trust fund	1.0	-	1.0	-	1.0
Total operating costs (excluding depreciation and intangible asset amortisation)	1,172.7	59.9	1,232.6	21.6	1,254.2
Depreciation of tangible assets	177.7	7.7	185.4	-	185.4
Amortisation of deferred grants and contributions	(5.9)	-	(5.9)	-	(5.9)
Depreciation net of amortisation of grants and contributions	171.8	7.7	179.5	-	179.5
Amortisation of intangible assets	0.7	-	0.7	13.5	14.2
Group operating costs	1,345.2	67.6	1,412.8	35.1	1,447.9

Staff costs for the year ended 31 March 2004 includes £30.3 million (2003: £32.3 million) of costs that have been capitalised as 'own work capitalised'.

Of the exceptional items and goodwill amortisation above, £nil and £1.3 million respectively relate to discontinued operations. Further details of the businesses classified as discontinued above can be found in note 14.

3 Group operating costs

2003	Continuing operations £m	Discontinued operations £m	Total before		Total £m
			exceptional items and goodwill amortisation £m	Exceptional items and goodwill amortisation £m	
Operating costs excluding depreciation, amortisation and impairment of goodwill:					
Raw materials and consumables	152.2	13.0	165.2	-	165.2
Other external charges	715.8	40.8	756.6	34.0	790.6
Staff costs (note 9)	308.6	20.0	328.6	8.0	336.6
Change in stocks of finished goods and work in progress	8.1	-	8.1	-	8.1
Own work capitalised	(44.9)	-	(44.9)	-	(44.9)
Dividends receivable from investments	(0.2)	-	(0.2)	-	(0.2)
Contribution to Anglian Water Trust fund	1.0	-	1.0	-	1.0
Total operating costs (excluding depreciation and intangible asset amortisation)	1,140.6	73.8	1,214.4	42.0	1,256.4
Depreciation of tangible assets	182.6	14.5	197.1	-	197.1
Amortisation of deferred grants and contributions	(6.6)	-	(6.6)	-	(6.6)
Depreciation net of amortisation of grants and contributions	176.0	14.5	190.5	-	190.5
Amortisation of intangible assets	0.5	-	0.5	13.8	14.3
Impairment of goodwill	-	-	-	4.4	4.4
Group operating costs	1,317.1	88.3	1,405.4	60.2	1,465.6

Of the exceptional items and goodwill amortisation above, £nil and £3.1 million respectively relate to discontinued operations.

AWG Group Limited

Notes to the financial statements continued

4. Exceptional items and goodwill amortisation	2004 £m	2003 £m
Restructuring and other costs	1.4	16.7
Asset impairments	17.7	11.1
Contract rectification costs	2.5	
Refinancing project costs	-	18.6
Goodwill amortisation	13.5	13.8
Charged against operating profit	35.1	60.2
Joint venture impairments	-	3.6
Loss on disposal and closure of businesses:		
- Continuing	33.2	1.2
- Discontinued	88.3	-
	121.5	1.2
 Charged against profit before interest	 156.6	 65.0
 Interest and finance charges	 -	 38.0
Coupon enhancement	-	32.0
Exceptional interest charge	-	70.0
 Total exceptional items and goodwill amortisation before tax	 156.6	 135.0
Tax credit thereon	(4.2)	(27.5)
Total exceptional items and goodwill amortisation	152.4	107.5

The tax credit above is further explained in note 7.

Restructuring and other costs of £1.4 million relate to expenditure on bid defence. Restructuring and other costs of £16.7 million in 2003 were principally redundancy and restructuring costs, and also included bid defence.

The asset impairment provision of £17.7 million comprises £10.0 million in respect of development properties held in current assets and £7.7 million for current assets in the International business relating to the continuing businesses in Thailand, South Africa and Russia which have been written down to expected net realisable value. The impairment of £11.1 million in 2003 included £3.3 million for impairment of fixed asset investments, £4.4 million impairment of goodwill and £3.4 million of other asset impairment.

Contract rectification costs of £2.5 million are in respect of adjudication of a claim in relation to Rockingham Motor Speedway.

The refinancing project costs of £18.6 million in 2003 related to the ring-fencing and refinancing of the regulated water business.

The loss on disposal and closure of continuing businesses of £33.2 million comprises the loss on disposal of Powermarque of £5.6 million, provision for loss on closure of International businesses of £22.5 million (including goodwill previously eliminated against reserves of £6.1 million, disposal costs of £5.2 million and joint venture closure costs of £1.0 million), and other closure costs of £5.1 million (including closure costs of AWG Rail of £4.2 million). The loss on disposal and closure of £1.2 million in 2003 relates to the sale of three small businesses in that year.

The loss on disposal of discontinued businesses of £88.3 million relates to the International segment and is stated after deducting unamortised goodwill of £39.0 million, goodwill previously eliminated against reserves of £9.5 million and disposal costs of £10.6 million.

The exceptional interest charge in 2003 of £70.0 million related to the ring-fencing and refinancing of the regulated water business.

AWG Group Limited

Notes to the financial statements continued

5	Operating profit	2004	2003
		£m	£m
	Operating profit is stated after charging/(crediting):		
	Hire of plant and machinery	29.2	33.8
	Other operating lease costs	11.1	8.3
	Rentals receivable under operating leases	(6.8)	(17.2)
	Research and development expenditure	1.7	1.9
	Fees paid to the auditors:		
	- for statutory audit services (principal auditors only)	0.6	0.7
	- for regulatory audit services	0.1	0.1
	- total audit services	0.7	0.8
	- for other assurance services	1.2	2.0
	Total fees paid to the auditors	1.9	2.8
	Fees paid to other accounting firms for other work	2.8	1.3

Fees paid to the auditors for other assurance services are primarily in respect of working capital reviews and other bid defence related work.

Fees paid to other accounting firms for other work comprise £0.9 million (2003: £0.5 million) for internal audit work, £1.5 million (2003: £0.5 million) for legal advice and £0.4 million (2003: £0.3 million) for tax and other advice.

6	Interest payable (net)	2004	2003
		£m	£m
	Bank loans and overdrafts	-	6.6
	Other loans including financing expenses and indexation of loan stock	264.8	212.2
	Interest payable on loan from parent undertaking	-	1.2
	Finance leases	10.3	10.4
	Unwinding of discount on coupon enhancement provision (note 21)	0.4	0.7
	Unwinding of discount on unfunded pension obligations (note 21)	2.4	2.4
	Debt transfer and termination costs	-	38.0
	Creation of coupon enhancement provision	-	32.0
		277.9	303.5
	Interest receivable on loan to parent undertaking	(44.9)	(24.7)
	Other interest receivable	(24.9)	(27.2)
	Group interest payable (net)	208.1	251.6
	Share of joint venture interest payable (net)	9.0	8.1
	Total interest payable (net)	217.1	259.7

AWG Group Limited

Notes to the financial statements continued

7 Taxation	2004 £m	2003 £m
The tax charge/(credit) for the year comprised:		
UK tax – current year charge	9.9	28.1
UK tax – adjustments in respect of prior years	(2.1)	(13.5)
Overseas tax	-	7.5
Tax on loss on ordinary activities	7.8	22.1
Analysed as:		
- before exceptional items	12.0	49.6
- exceptional items	(4.2)	(27.5)
Tax charge/(credit) on loss on ordinary activities	7.8	22.1
Tax charge/(credit) on loss on ordinary activities comprises:		
UK Corporation tax at 30 per cent (2003: 30 per cent)	16.8	14.5
Adjustments in respect of prior years	(2.1)	(19.2)
Overseas taxation	2.0	5.5
Total current tax	16.7	0.8
Deferred tax (note 22)		
Charge for timing differences arising in year	16.8	7.7
Impact of discounting on deferred tax liability	(23.3)	(8.3)
Impact of decrease/(increase) in discount rates	(3.5)	15.7
Adjustments in respect of prior years	-	4.7
Total deferred tax	(10.0)	19.8
Total group taxation	6.7	20.6
Share of joint venture taxation	1.1	1.5
Tax on loss on ordinary activities	7.8	22.1

Based on capital investment plans for Anglian Water Services Limited for the current 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 credit of £3.5 million (2003: charge of £15.7 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.

AWG Group Limited

Notes to the financial statements continued

7 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:

	2004 £m	2003 £m
(Loss)/profit on ordinary activities before taxation	(19.9)	13.3
Tax on (loss)/profit on ordinary activities at the standard UK rate of tax (30 per cent)	(6.0)	4.0
Effects of:		
Items not deductible for tax purposes	43.0	19.7
Accounting for depreciation not eligible for tax purposes	0.4	0.2
Capital allowances for the year in excess of depreciation	(18.7)	(4.2)
Short-term timing differences	0.7	(1.4)
Adjustments to tax charge in respect of previous periods	(2.1)	(19.2)
Losses which cannot be relieved in the year	1.8	3.5
Lower tax rates on overseas earnings	(1.3)	(0.3)
Share of joint venture taxation	(1.1)	(1.5)
Current tax charge/(credit) for the year	16.7	0.8

8 Dividends

	2004 £m	2003 £m
Dividends paid and proposed	351.6	166.6

All the above dividends relate to ordinary shares.

9 Employee information

	2004	2003	2003	2003
	Total	Before	Exceptional	Total
	£m	exceptional	items	£m
	£m	items	£m	£m
Staff costs:				
Wages and salaries	305.4	283.5	5.7	289.2
Social security costs	28.4	28.0	0.7	28.7
Pension costs (note 27)	19.5	17.1	1.6	18.7
	353.3	328.6	8.0	336.6

Pension costs are stated after crediting £1.4 million (2003: £1.6 million) in respect of the amortisation of an actuarial surplus in the main UK pension scheme.

AWG Group Limited

Notes to the financial statements continued

9 Employee information (continued)

Average number of full time equivalent persons employed:	2004	2003
UK water and wastewater	3,492	3,588
Utility Services	2,494	2,478
Government Services	2,713	1,108
Project Management Services	1,971	1,648
Developments and Commercial Services	146	223
International Services	1,669	3,319
Other	261	330
	12,746	12,694

The numbers above include 1,588 full time equivalent persons employed outside the UK (2003: 3,006). All of the directors are also directors 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.

Directors' emoluments

All of the directors of AWG Group Limited are also directors of the parent company AWG Plc. The emoluments of the directors' of AWG Group Limited are borne by the parent company AWG Plc and can be seen in the statutory accounts of that company. No recharge is made for their services to AWG Group Limited.

10 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. Loss for the financial year dealt with in the financial statements of the parent company is £175.2 million (2003: profit of £899.7 million).

AWG Group Limited

Notes to the financial statements continued

11 Intangible fixed assets	Goodwill £m	Licences £m	Total £m
The group			
Cost			
At 1 April 2003	317.6	14.1	331.7
Exchange adjustments	3.3	(2.0)	1.3
Adjustments to provisional goodwill	(0.3)	-	(0.3)
Disposals of subsidiary undertakings	(47.2)	-	(47.2)
At 31 March 2004	273.4	12.1	285.5
Amortisation			
At 1 April 2003	72.5	0.5	73.0
Exchange adjustments	0.5	(0.1)	0.4
Charge for the year	13.5	0.7	14.2
Disposals of subsidiary undertakings	(8.2)	-	(8.2)
At 31 March 2004	78.3	1.1	79.4
Net book value			
At 31 March 2004	195.1	11.0	206.1
At 31 March 2003	245.1	13.6	258.7

Intangible assets principally 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.

The adjustments to provisional goodwill of £0.3 million relates to deferred consideration and fair value adjustments for the acquisition (27 March 2003) of the repair and maintenance contracts for Birmingham City Council and four London Boroughs.

A further £37.9 million of goodwill (2003: £53.5 million) arising on acquisitions prior to 31 March 1998 has been eliminated directly against reserves in prior years. The movement in the year of £15.6 million represents goodwill previously eliminated against reserves, now reinstated and written off against profit for the year in respect of disposals and closures of businesses.

The company

There are no intangible assets in the company.

AWG Group Limited

Notes to the financial statements continued

12 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 2003	88.7	2,104.5	2,444.6	1,340.6	5,978.4
Exchange adjustments	0.7	(8.4)	15.7	7.2	15.2
Additions	0.7	96.3	93.0	116.1	306.1
Disposals	(0.4)	(5.3)	(2.2)	(27.0)	(34.9)
Disposals of subsidiary undertakings	(22.5)	(41.7)	(235.5)	(129.9)	(429.6)
At 31 March 2004	67.2	2,145.4	2,315.6	1,307.0	5,835.2
Grants and contributions					
At 1 April 2003	-	162.5	-	-	162.5
Additions	-	10.0	-	-	10.0
At 31 March 2004	-	172.5	-	-	172.5
Depreciation					
At 1 April 2003	36.1	365.0	657.1	644.3	1,702.5
Exchange adjustments	0.1	(2.8)	4.7	(0.2)	1.8
Charge for the year	3.0	28.3	90.0	64.1	185.4
Disposals	(0.1)	(1.5)	(2.1)	(15.9)	(19.6)
Disposals of subsidiary undertakings	(7.6)	(1.7)	(7.1)	(20.3)	(36.7)
At 31 March 2004	31.5	387.3	742.6	672.0	1,833.4
Net book value					
At 31 March 2004	35.7	1,585.6	1,573.0	635.0	3,829.3
At 31 March 2003	52.6	1,577.0	1,787.5	696.3	4,113.4

Tangible fixed assets of the group at 31 March 2004 include £216.5 million of assets in the course of construction (2003: £247.7 million) and also include land of £16.4 million (2003: £19.9 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 2004 is £147.9 million (2003: £168.4 million). Depreciation charged on assets held under finance leases during the year ended 31 March 2004 amounted to £15.3 million (2003: £23.9 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 £0.4 million (2003: £60.6 million) and accumulated depreciation of £0.4 million (2003: £28.8 million). The movement during the year related to the disposal of the group's vehicle leasing subsidiary Powermarque Limited.

	£m
The company	
Cost	
At 1 April 2003 and	0.3
Additions	2.5
At 31 March 2004	2.8
Depreciation	
At 1 April 2003	0.1
Charge for the year	0.1
At 31 March 2004	0.2
Net book value	
At 31 March 2004	2.6
At 31 March 2003	0.2

AWG Group Limited

Notes to the financial statements continued

12 Tangible fixed assets (continued)

Capital commitments

The group

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 2004.

Amounts contracted for but not provided for in the financial statements at 31 March 2004 are £80.0 million (2003: £68.4 million).

The company

There are no such commitments in the company.

13 Investments

	Joint ventures £m	Associated undertakings £m	Other £m	Total £m
The group				
Shares, loans and deposits				
At cost or amount under equity method of accounting				
At 1 April 2003	22.9	0.2	801.8	824.9
Additions	1.1	-	0.4	1.5
Loss for the year	(5.5)	-	-	(5.5)
Transfer to provisions	(2.8)	(0.1)	(0.4)	(3.3)
Disposals	3.7	-	-	3.7
At 31 March 2004	19.4	0.1	801.8	821.3
Provision for impairment				
At 1 April 2003	3.6	-	7.1	10.7
Charge in the year	1.0	-	-	1.0
At 31 March 2004	4.6	-	7.1	11.7
Net book value				
At 31 March 2004	14.8	0.1	794.7	809.6
As 31 March 2003	19.3	0.2	794.7	814.2

The loss for the year of joint ventures comprises operating profits of £8.0 million (2003: £7.5 million) less interest payable of £9.0 million (2003: £8.1 million), tax charge of £1.1 million (2003: £1.5 million) and dividends of £3.4 million (2003: £4.0 million).

Principal associated undertakings

Set out below is an analysis of the group's principal associated undertaking at 31 March 2004.

	Country of incorporation	Activity	Class of share	Proportion of shares held	Accounting year end
Strathclyde Business Park (Developments) Limited	Scotland	Development of land and buildings	Ordinary £1	31%	28 February

This undertaking principally operates in its country of incorporation and is held by a subsidiary of AWG Group Limited.

AWG Group Limited

Notes to the financial statements continued

13 Investments (continued)

Joint Ventures

Set out below is an analysis of the group's principal joint ventures at 31 March 2004.

Undertaking	Country of incorporation	Activity	Proportion of shares held note (ii)
Property Developments			
Morrison Property Solutions (Birmingham Childrens Hospital) Limited (i)	England	Development of land and buildings	50%
Gainsborough AWG Limited	England	Development of land and buildings	50%
Northwood Residential Limited (iii)	Ireland	Development of residential properties	40%
AWG Outlets (Rathdowney) Limited (iii)	Ireland	Development of land and buildings	50%
Private Finance Initiative Projects			
Catchment Moray Limited	Scotland	Financing and operation of wastewater treatment plant	33%
Alpha Schools (West Lothian) Limited	Scotland	Financing and facilities management of school premises	50%
Morrison Edison Investments Limited	Scotland	Development of land and buildings	50%
Facilities Management			
AWG Cleanaway Limited (formerly 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 Group Limited.

- (i) The accounting year end for all the above undertakings is 31 March, with the exception of Morrison Property Solutions (Birmingham Childrens Hospital) Limited which has 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 is one Euro each.

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 was fully provided for in 2003 and the investment in Aguas Argentinas of £3.8 million was fully provided for in 2002. The net book value at 31 March 2003 included £793.9 million of loans and £0.8 million of shares.

AWG Group Limited

Notes to the financial statements continued

13 Investments (continued)

	Other	Subsidiary Undertakings		Total £m
	Investments £m	Cost £m	Provisions £m	
The company				
Shares				
At 1 April 2003	-	359.3	(14.4)	344.9
Additions	-	2.1	-	2.1
At 31 March 2004	-	361.4	(14.4)	347.0
Loans				
At 1 April 2003	-	1,618.2	(293.8)	1,324.4
Additions	-	159.4	-	159.4
Repaid during the year	-	(231.0)	-	(231.0)
Loans forgiven during the year	-	(376.7)	213.9	(162.8)
Exchange movement	-	(0.1)	-	(0.1)
Charge for the year	-	-	(72.2)	(72.2)
At 31 March 2004	-	1,169.8	(152.1)	1,017.7
Other Investments				
At 1 April 2003	0.1	-	-	0.1
Additions	0.2	-	-	0.2
At 31 March 2004	0.3	-	-	0.3
Total				
At 31 March 2004	0.3	1,531.2	(166.5)	1,365.0
At 31 March 2003	0.1	1,977.5	(308.2)	1,669.4

The principal subsidiary undertakings of the group are listed in note 29.

AWG Group Limited

Notes to the financial statements continued

14 Disposal of subsidiary undertakings

During the year the group disposed of its interests in the ordinary share capital of the following subsidiary undertakings:

Name of subsidiary	Investment held	2004	2003	Date of disposal
		Profit/(loss) before interest, exceptional items and goodwill amortisation up to date of disposal £m	Profit/(loss) before interest, exceptional items and goodwill amortisation £m	
ESVAL	49.8%	8.8	17.5	12 November 2003
SmVAK	54.3%	7.6	11.3	26 February 2004
VAK JC	95.2%	(0.1)	1.3	18 December 2003
VAK Beroun	58.7%	1.2	0.4	18 December 2003
Purac AB	100.0%	(0.5)	(2.3)	19 December 2003
Discontinued operations		17.0	28.2	
Powermarque Limited	100.0%	1.4	3.6	19 December 2003
Morrison Merlin Limited	100.0%	-	-	30 May 2003
		18.4	31.8	

Details of the net assets disposed of and the related sale proceeds are disclosed in note (c) to the cash flow statement.

The group disposed of its entire share holding in all of the above entities with the exception of Morrison Merlin Limited, where the group has retained a 50 per cent holding. Morrison Merlin Limited is now treated as a joint venture (see note 13).

15 Stock

	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
Raw materials and consumables	8.6	7.3	-	-
Work in progress	127.4	123.5	-	-
	136.0	130.8	-	-

Work in progress includes long-term contract balances of £307.2 million (2003: £268.9 million) less applicable payments on account of £293.0 million (2003: £254.3 million).

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

AWG Group Limited

Notes to the financial statements continued

16 Debtors

	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
Amount falling due within one year:				
Trade debtors	139.9	167.6	-	-
Amounts recoverable on contracts	64.3	71.2	-	-
Amounts owed by joint ventures and associates	86.1	77.1	-	-
Amounts owed by group undertakings	10.5	81.3	19.5	141.2
Other debtors	40.6	61.9	2.1	18.7
Prepayments and accrued income	71.1	110.9	-	-
	412.5	570.0	21.6	159.9
Amounts falling due after more than one year:				
Trade debtors	-	0.4	-	-
Amounts recoverable on contracts	1.8	0.8	-	-
Amounts owed by joint ventures and associates	11.1	19.5	-	-
Amounts owed by group undertakings	2.3	-	-	-
Prepaid pension contributions	55.7	40.2	-	-
Other debtors	0.7	9.5	-	-
Deferred tax (note 22)	-	-	5.8	7.4
	71.6	70.4	5.8	7.4
	484.1	640.4	27.4	167.3

Prepayments and accrued income as at 31 March 2004 includes water and wastewater income not yet billed of £51.2 million (2003: £78.9 million).

17 Current asset investments

	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
Money market investments	-	18.8	-	-

AWG Group Limited

Notes to the financial statements continued

18	Creditors: amounts falling due within one year	Group		Company	
		2004 £m	2003 £m	2004 £m	2003 £m
	Bank overdrafts	1.4	3.2	-	-
	Current portion of long-term loans (note 19)	23.9	25.0	11.8	14.8
	Obligations under finance leases (note 19)	20.6	32.3	-	-
	Short-term borrowings	45.9	60.5	11.8	14.8
	Trade creditors	218.5	245.2	-	-
	Payments on account in excess of contract value	20.2	14.9	-	-
	Receipts in advance	54.6	57.3	-	-
	Amounts due to joint ventures and associates	28.2	11.9	-	-
	Amounts owed to group undertakings	83.6	7.9	108.9	92.7
	Corporation tax	22.3	24.3	14.4	20.9
	Other creditors	49.5	77.5	7.1	13.2
	Other taxation and social security	7.9	10.7	-	-
	Accruals and deferred income	202.1	206.9	18.0	25.9
	Deferred grants and contributions	5.9	5.6	-	-
	Deferred consideration for acquisition	-	5.2	-	-
	Other creditors	692.8	667.4	148.4	152.7

Receipts in advance include £49.6 million (2003: £52.5 million) relating to amounts received from customers for water and sewerage charges in respect of the following year.

19	Loans, other borrowings and financial instruments	Group		Company	
		2004 £m	2003 £m	2004 £m	2003 £m
	Loans and other borrowings				
	£100m 12.375% Fixed 2014 (a), (h)	100.0	100.0	-	-
	£200m 6.875% Fixed 2023 (a), (h)	197.0	196.9	-	-
	£200m 6.625% Fixed 2029 (a), (h)	198.6	198.5	-	-
	£100m 5.5% Index Linked 2008 (a), (c), (h)	153.6	149.5	-	-
	£150m 4.125% Index Linked 2020 (a), (c), (h)	163.5	158.8	-	-
	EUR 350m 5.375% Fixed 2009 (h)	229.2	229.2	-	-
	USD 55m 6.85% Private Placement 2006 (a), (b), (h)	35.8	35.8	-	-
	£150m 8.25% Fixed 2006 (h)	149.7	149.6	-	-
	USD 25m 7.07% Private Placement 2009 (a), (h)	16.0	16.0	-	-
	USD 4m 7.21% Private Placement 2006 (b), (h)	1.6	2.2	-	-
	USD 40m 6.57% Private Placement 2005 (h)	28.4	28.3	-	-
	USD 35m 6.65% Private Placement 2006 (h)	24.8	24.8	-	-
	USD 100m 7.01% Private Placement 2008 (b), (h)	70.8	70.7	-	-
	USD 23m 7.13% Private Placement 2009 (h)	16.3	16.3	-	-
	USD 195m 7.23% Private Placement 2011 (b), (h)	137.9	137.8	-	-
	EUR 650m 4.625% Fixed 2013	452.1	-	-	-
	USD 400m LIBOR plus 0.4% 2007 (h)	252.9	252.4	-	-
	EUR 115m EURIBOR plus 2.8% 2010/2037 (g), (h)	73.2	73.1	-	-
	£246m 6.293% Fixed 2030 (h)	243.4	243.3	-	-
	£275m 7.882% Fixed 2012/2037 (g), (h)	272.0	271.9	-	-
	£180m LIBOR plus 1.25% 2009/2014 (d), (g), (h)	178.4	178.3	-	-
	£100m LIBOR plus 2.8% 2010/2037 (d), (g), (h)	98.9	98.9	-	-
	£50m LIBOR plus 1.2% 2007/2012 (d), (g), (h)	49.6	49.5	-	-
	£250m 5.837% Fixed 2022 (h)	246.3	246.1	-	-
	£200m 3.07% Index Linked 2032 (c), (h)	205.9	200.0	-	-
	£60m 3.07% Index Linked 2032 (c), (h)	61.8	60.0	-	-
	£75m 3.666% Index Linked 2024 (c), (h)	77.8	75.6	-	-
	Finance Leases (h)	163.1	195.8	-	-
	£150m Index Linked Swap 2024 (d), (h)	6.7	2.6	-	-
	£175m Index Linked Swap 2030 (d), (h)	7.8	3.2	-	-
	£258m Index Linked Swap 2013 (d)	3.8	-	-	-
	USD 13.5m CFBM plus 0.5% Bank Loan 2008	-	6.2	-	-
	UF 0.7m 7% Bonds 2021 (c)	-	10.0	-	-

AWG Group Limited

Notes to the financial statements continued

19 Loans, other borrowings and financial instruments (continued)				
UF 1.0m 7% Bonds 2008 (c)	-	14.6	-	-
UF 1.5m 5.5% Bonds 2010 (c)	-	21.1	-	-
UF 2.5m 6% Bonds 2027 (c)	-	34.6	-	-
UF 1.8m TAB plus 0.8% 2007 (c)	-	38.7	-	-
USD 5m Revolving Credit Facilities 2004	2.7	3.2	-	-
Interest-free Czech Government Loans 2008-2012	-	2.8	-	-
THB 301.8m Bank of Asia 2005	4.1	4.5	-	-
CNY 19.2m Industrial & Commercial Bank of China 2005	0.6	1.1	-	-
CNY 115.2m Industrial & Commercial Bank of China 2012	7.2	8.8	-	-
Morrison Loan Notes LIBID minus 0.5% 2007	10.1	10.5	10.1	10.5
Revolving Multi-Currency Credit Facilities	1.0	1.0	-	-
Other loan notes LIBOR minus 1%	1.9	9.8	1.7	4.3
Amounts owed to group undertakings	-	-	184.5	-
Other loans (e)	0.1	0.1	-	-
Total loans and other borrowings	3,944.6	3,632.1	196.3	14.8
Less amounts included in creditors falling due within one year	(44.5)	(57.3)	(11.8)	(14.8)
Loans and other borrowings falling due after more than one year	3,900.1	3,574.8	184.5	-

- 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 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 Unidad 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 £32.2 million (2003: £21.3 million) has been taken to the profit and loss account as part of interest payable.
- d) Index Linked Swaps hedge the instruments (or element thereof) 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.
- f) Of the above total, £2,721.6 million (2003: £2,763.1 million) is repayable wholly after five years. £84.8 million (2003: £168.9 million) is repayable by instalments, £64.8 million (2003: £120.6 million) of which fall due after more than five years.
- g) Legal maturity of these instruments is the second of the two years quoted. Coupons 'step-up' is in the first of the years quoted.
- 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 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 2004 this charge applies to £3,907.8 million (2003: £3,447.6 million) of the group debt listed above.

AWG Group Limited

Notes to the financial statements continued

19 Loans, other borrowings and financial instruments (continued)

Maturity analysis of financial liabilities

	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
Less than one year	93.5	76.6	11.8	14.8
Between one and two years	98.8	80.5	-	-
Between two and five years	723.6	632.4	-	-
After five years	3,104.0	2,895.5	-	-
	4,019.9	3,685.0	11.8	14.8

The group analysis is net of issue costs totalling £29.1 million (2003: £30.0 million).

Included above are amounts due under finance leases of £20.6 million (2003: £32.3 million) payable within one year, £23.7 million (2003: £25.7 million) payable between one to two years, £56.6 million (2003: £76.2 million) payable between two and five years and £62.2 million (2003: £61.6 million) payable after five years.

In addition to loans, other borrowings and finance leases the above analysis includes other financial liabilities (including overdrafts, redeemable shares, provisions, long-term creditors and long-term accruals) totalling £75.3 million (2003: £63.3 million), of which £49.0 million (2003: £29.7 million) falls due in less than one year. Company only figures include £16.1 million (2003: £10.4 million) all of which falls due in less than one year.

Borrowing facilities

	2004 £m	2003 £m
The group has the following unused committed borrowing facilities:		
Expiring within one year	304.0	283.0
Expiring between one and two years	350.0	-
Expiring between two and five years	-	350.0
	654.0	633.0

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.

AWG Group Limited

Notes to the financial statements continued

19 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 £756.5 million (2003: £403.2 million) and had undrawn committed multi-currency facilities of £654.0 million (2003: £633.0 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, 32.1 per cent (2003: 30.1 per cent) of the group's borrowings were indexed to inflation, 62.3 per cent (2003: 68.5 per cent) were at fixed rates and 5.6 per cent (2003: 1.3 per cent) were at floating rates.

32.4 per cent (2003: 28.3 per cent) of the AWS group's gross borrowings at 31 March 2004 were indexed to inflation, with a further 62.6 per cent (2003: 71.5 per cent) at fixed rates and 5.0 per cent (2003: 0.2 per cent) at floating rates.

AWG Group Limited

Notes to the financial statements continued

19 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.

Off balance sheet financing

In accordance with current accounting standards, assets and liabilities within certain joint venture investments in the Government Services and Property divisions are not included on the group's balance sheet. This is because the joint ventures are accounted for on an equity basis and are not consolidated.

AWG Project Investments, part of the Government Services division, has an equity investment in nine projects, seven of which are joint ventures and two are trade investments. The group's share of the debt within its joint venture companies is £114.7 million at 31 March 2004.

AWG Property's (formerly Development and Commercial Services) share of the debt within its joint venture companies at 31 March 2004 is £125.9 million.

The group has guaranteed obligations of joint ventures and associates totalling £54.7 million (2003: £84.6 million).

Unrecognised gains and losses on hedges

	2004			2003		
	Gains £m	Losses £m	Net £m	Gains £m	Losses £m	Net £m
Unrecognised at 1 April	13.6	(61.8)	(48.2)	22.4	(8.2)	14.2
Reversal of items unrecognised at 1 April	(0.2)	18.5	18.3	(22.4)	4.4	(18.0)
Recognised during the year	(0.1)	-	(0.1)	(6.4)	3.8	(2.6)
Arising during the year	18.6	(23.0)	(4.4)	20.0	(61.8)	(41.8)
Unrecognised at 31 March	31.9	(66.3)	(34.4)	13.6	(61.8)	(48.2)

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 £34.4 million (2003: £48.2 million) 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 2004.

Of the unrecognised gains and losses at 31 March 2004, a net gain of £3.2 million (2003: net loss of £3.3 million) is expected to be included in the profit and loss account for the year ended 31 March 2005 and the balance in future years. At 31 March 2004 and 31 March 2003, gains and losses on forward exchange contracts taken out as hedges of sales and purchase transactions were not material.

AWG Group Limited

Notes to the financial statements continued

19 Loans, other borrowings and financial instruments (continued)

Fair value of financial assets and financial liabilities

	2004		2003	
	Book value	Fair value	Book value	Fair value
	£m	£m	£m	£m
Current asset investments	-	-	18.8	18.8
Cash at bank and in hand	755.4	755.4	395.4	395.4
Short-term borrowings	(45.4)	(45.9)	(60.5)	(60.5)
Long-term borrowings	(3,759.4)	(4,094.7)	(3,553.7)	(3,922.7)
Currency and interest rate swaps and forward exchange contracts	(141.2)	(171.9)	(21.1)	(50.6)
Net debt	(3,190.6)	(3,557.1)	(3,221.1)	(3,619.6)
Fixed asset investments	3.3	3.3	3.1	3.1
Long-term debtors excluding prepaid pension obligations (note 16)	13.6	13.6	30.2	30.2
Provisions excluding deferred tax, unfunded pension obligations and joint venture net liabilities (note 21)	(54.2)	(54.2)	(40.2)	(40.2)
Long-term trade creditors, accruals and deferred income (note 20)	(3.6)	(3.6)	(10.1)	(10.1)
Redeemable shares (non-equity) (note 24)	(16.1)	(16.1)	(9.8)	(9.8)
	(3,247.6)	(3,614.1)	(3,247.9)	(3,646.4)

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 value 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, fixed asset investments, long-term debtors, provisions, redeemable shares, 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.

AWG Group Limited

Notes to the financial statements continued

19 Loans, other borrowings and financial instruments (continued)

Currency and interest rate analysis of net financial assets/(liabilities) at 31 March 2004

	Total £m	Index linked £m	Floating rate £m	Fixed rate £m	Interest free £m	Fixed rate	
						Weighted average interest rate	Weighted average years to maturity
Sterling	(3,929.8)	(1,265.9)	(207.2)	(2,456.7)	-	6.9%	11.2
US Dollar	(2.7)	-	(2.7)	-	-		
Chilean Peso	-	-	-	-	-		
Other currencies	(13.5)	-	(13.5)	-	-		
Total borrowings	(3,946.0)	(1,265.9)	(223.4)	(2,456.7)	-		
Sterling	746.9	-	746.9	-	-		
US Dollar	-	-	-	-	-		
Chilean Peso	-	-	-	-	-		
Other currencies	8.5	-	8.5	-	-		
Cash, deposits and current asset investments	755.4	-	755.4	-	-		
Net debt	(3,190.6)	(1,265.9)	532.0	(2,456.7)	-		
Fixed asset investments	3.3	-	2.9	-	0.4		
Long-term debtors	13.6	-	1.8	5.8	6.0	12.8%	23.6
Provisions	(54.2)	-	-	-	(54.2)		
Other financial liabilities	(3.6)	-	-	-	(3.6)		
Redeemable shares (non-equity)	(16.1)	-	-	-	(16.1)		
Net financial liabilities	(3,247.6)	(1,265.9)	536.7	(2,450.9)	(67.5)		

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	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)		

AWG Group Limited

Notes to the financial statements continued

19 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.

20 Other creditors falling due after more than one year

	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
Trade creditors	3.6	10.1	-	-
Deferred grants and contributions	90.0	87.4	-	-
	93.6	97.5	-	-

21 Provisions for liabilities and charges

	Deferred tax £m	Unfunded pension obligations £m	Restructuring costs £m	Business closures and disposals £m	Contract and other £m	Joint venture net liabilities £m	Coupon enhancement provision £m	Total £m
The group								
At 1 April 2003	90.0	26.1	1.8	-	8.3	9.4	29.5	165.1
Charge/(credit) for the year	(10.0)	-	(0.6)	17.9	7.3	-	-	14.6
Transfer from investments	-	-	-	-	-	3.7	-	3.7
Unwinding of discount (note 6)	-	2.4	-	-	-	-	0.4	2.8
Utilised in the year	-	(2.0)	(1.2)	-	(4.8)	-	(4.4)	(12.4)
At 31 March 2004	80.0	26.5	-	17.9	10.8	13.1	25.5	173.8

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 nine per cent.

The restructuring provision related to redundancy and other costs arising from the redundancy programme announced in the previous year, which has been utilised in the year.

Business closure and disposal provisions relate to cost of closure and disposals mainly in the international business which are expected to crystallise over a period of approximately one year.

The contract and other provisions comprise potential warranty and certification costs of £6.3 million which are expected to crystallise over a period of approximately three years and £4.5 million in respect of insurance claims against the group incurred but not reported.

The provision for joint venture liabilities represents the aggregate amount of net liabilities at the balance sheet date. Movements in the group's share of joint venture assets and liabilities are disclosed in note 13.

The coupon enhancement provision of £25.5 million relates to coupon enhancement and other related costs incurred on the transfer of debt from AWG Group Limited to Anglian Water Services Financing Plc at the end of the refinancing exercise. The provision is expected to be utilised over the next 25 years and has been discounted at 6.1 per cent which represents the adjusted credit risk of additional coupon payments following the transfer of debt from AWG Group Limited.

	Business closures and disposals £m
The company	
At 1 April 2003	-
Charge for the year	4.5
At 31 March 2004	4.5

AWG Group Limited

Notes to the financial statements continued

22 Deferred taxation

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

The group's deferred tax liability is stated net of Advance Corporation Tax (ACT) recoverable. If changes in the tax legislation were introduced which restricted the ability of companies to use ACT, this asset may no longer be recoverable and in this event an additional charge would arise in the profit and loss account of £66.4 million.

	Group £m	Company £m
At 1 April 2003	90.0	(7.4)
Deferred tax (credited)/charged to the profit and loss account (note 7)	(10.0)	1.6
At 31 March 2004	80.0	(5.8)

	Group		Company	
	2004	2003	2004	2003
	£m	£m	£m	£m
Accelerated capital allowances	742.2	728.7	-	-
Short-term timing differences	(21.9)	(20.9)	(5.8)	(7.4)
Surplus ACT asset	(149.8)	(149.8)	-	-
Undiscounted provision for deferred tax	570.5	558.0	(5.8)	(7.4)
Discount	(490.5)	(468.0)	-	-
Discounted provision for deferred tax	80.0	90.0	(5.8)	(7.4)

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

Tax losses carried forward	(10.6)	(35.9)
Deferred tax in Czech companies	-	(7.2)
	(10.6)	(43.1)

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.

23 Commitments under operating leases

At 31 March 2004 the group had commitments to make payments during the next 12 months under non-cancellable operating leases which expire as follows:

	2004		2003	
	Land and Buildings	Other	Land and Buildings	Other
	£m	£m	£m	£m
The group				
Within one year	0.8	3.2	0.4	1.1
Between one and five years	0.9	9.6	5.5	8.1
After five years	4.4	1.9	4.8	-
	6.1	14.7	10.7	9.2

The company

The company had no such commitments.

AWG Group Limited

Notes to the financial statements continued

24 Share capital

Authorised	Company and Group	Company and Group
	2004	2003
	£m	£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 (2003 - 282.0 million) ordinary shares of 47 1/7 pence each	133.0	133.0
290.0 million (2003 - 290.0 million) B shares of 100 pence each	290.0	290.0
	423.0	423.0

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

	Ordinary share capital £m	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 2003	133.0	290.0	423.0	102.3	227.6	930.3	1,260.2	1,683.2
Goodwill written back on disposal	-	-	-	-	-	15.6	15.6	15.6
Total recognised gains and losses relating to the year	-	-	-	-	-	(34.0)	(34.0)	(34.0)
Dividends paid and proposed	-	-	-	-	-	(351.6)	(351.6)	(351.6)
At 31 March 2004	133.0	290.0	423.0	102.3	227.6	560.3	890.2	1,313.2

	Ordinary share capital £m	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 2003	133.0	290.0	423.0	102.3	227.6	1,013.3	1,343.2	1,766.2
Total recognised gains and losses relating to the year	-	-	-	-	-	(175.2)	(175.2)	(175.2)
Dividends paid and proposed	-	-	-	-	-	(351.6)	(351.6)	(351.6)
At 31 March 2004	133.0	290.0	423.0	102.3	227.6	486.5	816.4	1,239.4

AWG Group Limited

Notes to the financial statements continued

26 Pension commitments

Pension arrangements for the majority of the group's UK employees are of the funded defined benefit type, principally through the AWG Pension Scheme ("AWGPS") the AWG (Infrastructure Management) Pension Scheme ("AWGIMPS") (formerly Morrison Pension & Life Assurance Plan) and the AWG Pensions & Life Assurance Plan ("AWGPLAP"). The group's actuaries are AON Consulting.

The defined benefit arrangements are closed to new members, who are eligible instead for entry to the group's defined contribution schemes. A number of defined contribution schemes operate both in the UK and overseas, and contributions to these schemes in the year amounted to £3.4 million (2003: £1.5 million).

The administration and investment of the pension funds are maintained separately from the finances of the group. The accounting pension costs have been prepared under SSAP 24 Accounting for Pension Costs, based on the most recent full actuarial valuations. Details of the most recent full actuarial valuations of the pension schemes are summarised below.

Scheme	AWGPS	AWGIMPS	AWGPLAP
Date of most recent valuation update	31 March 2002	31 March 2002	31 March 2003
Actuarial method	Projected unit	Projected unit	Projected unit (10 year control period)
Main assumptions:			
Excess of investment returns over:			
- general salary increases	1.9% p.a.	3.0% p.a.	3.5% p.a.
- annual increases in pensions	3.8% p.a.	2.5% to 4.5% p.a.	5.0% p.a.
Results:			
Market value of assets	£518.1 million	£56.4 million	£11.3 million
Funding level	109%	90%	76%
Due date of next full actuarial valuation	31 March 2005	31 March 2005	31 March 2006

The net pension cost for the year ended 31 March 2004 was £15.3 million (2003: £16.8 million) which included contributions of £0.1 million (2003: £0.1 million) for overseas schemes and £2.2 million (2003: £4.4 million) for other defined benefit schemes. The net pension costs includes a credit of £1.4 million (2003: £1.6 million) in respect of the amortisation of actuarial surpluses. At 31 March 2004 there was a prepayment in respect of pensions of £55.7 million (2003: £40.2 million).

FRS 17 - Retirement Benefits

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 2001.

The valuation used for the FRS 17 disclosures has been based on the most recent full actuarial valuations (summarised above), 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 2004. The group is contributing 20.1 per cent of pensionable pay plus £9.1 million per annum to the AWGPS, 13.2 per cent of pensionable pay to the AWGIMPS and 18.4 per cent of pensionable pay to the AWGPLAP. The group also manages an unfunded pension arrangement (note 21), which has been valued by independent actuaries to take account of the requirements of FRS 17 as at 31 March 2004. 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:

	2004	2003	2002
	% p.a.	% p.a.	% p.a.
Discount rate	5.5	5.4	6.0
Inflation rate	2.9	2.6	2.8
Increase to deferred benefits during deferment	2.9	2.6	2.8
Increases to inflation related pensions in payment	2.9	2.7	2.9
General salary increases	4.4	4.6	4.8

AWG Group Limited

Notes to the financial statements continued

26 Pension commitments (continued)

The long-term expected rate of return and the assets in the scheme at 31 March 2004 are:

	AWGPS	AWGIMPS	AWGPLAP	Unfunded pensions	Total	
	Expected rate of return % p.a.	Fair value of scheme assets £m	Fair value of scheme assets £m	Fair value of scheme assets £m	Fair value of scheme assets £m	
Equities	7.8	352.7	55.2	14.1	N/A	422.0
Corporate bonds	5.2	23.1	5.3	0.8	N/A	29.2
Gilts	4.8	113.6	5.4	2.7	N/A	121.7
Property	6.8	13.4	-	-	N/A	13.4
Other	4.0	32.4	0.6	0.3	N/A	33.3
Total assets		535.2	66.5	17.9	N/A	619.6
Fair value of scheme liabilities		(686.0)	(102.5)	(29.3)	(39.7)	(857.5)
Deficit in the scheme		(150.8)	(36.0)	(11.4)	(39.7)	(237.9)
Related deferred tax asset		45.2	10.8	3.4	11.9	71.3
Net pension liability		(105.6)	(25.2)	(8.0)	(27.8)	(166.6)

The long-term expected rate of return and the assets in the scheme at 31 March 2003 are:

	AWGPS	AWGIMPS	Unfunded pensions	Total	
	Expected rate of return % p.a.	Fair value of scheme assets £m	Fair value of scheme assets £m	Fair value of scheme assets £m	
Equities	7.6	293.9	37.1	N/A	331.0
Corporate bonds	4.9	22.8	3.9	N/A	26.7
Gilts	4.6	65.3	3.9	N/A	69.2
Property	6.6	13.0	-	N/A	13.0
Other	4.0	23.3	2.6	N/A	25.9
Total assets		418.3	47.5	N/A	465.8
Fair value of scheme liabilities		(623.6)	(109.7)	(37.6)	(770.9)
Deficit in the scheme		(205.3)	(62.2)	(37.6)	(305.1)
Related deferred tax asset		61.6	18.7	11.3	91.6
Net pension liability		(143.7)	(43.5)	(26.3)	(213.5)

The long-term expected rate of return and the assets in the scheme at 31 March 2002 are:

	AWGPS	AWGIMPS	Unfunded pensions	Total	
	Expected rate of return % p.a.	Fair value of scheme assets £m	Fair value of scheme assets £m	Fair value of scheme assets £m	
Equities	8.0	407.0	44.6	N/A	451.6
Corporate bonds	6.0	28.0	3.3	N/A	31.3
Gilts	5.0	63.3	6.5	N/A	69.8
Property	8.0	15.7	1.0	N/A	16.7
Other	4.0	13.7	1.0	N/A	14.7
Total assets		527.7	56.4	N/A	584.1
Fair value of scheme liabilities		(540.5)	(78.2)	(36.7)	(655.4)
Deficit in the scheme		(12.8)	(21.8)	(36.7)	(71.3)
Related deferred tax asset		3.0	5.4	8.0	16.4
Net pension liability		(9.8)	(16.4)	(28.7)	(54.9)

The deferred tax attributable to pension scheme deficits is not discounted because the related deficits are themselves determined on a discounted basis.

AWG Group Limited

Notes to the financial statements continued

26 Pension commitments (continued)

If the above net pension liabilities had been recognised in the financial statements, the group's net assets and the profit and loss reserve at 31 March 2004 would be as follows:

Net assets	2004	2003
	£m	£m
Net assets	1,365.4	1,795.4
Exclude existing post tax net pension prepayment (under SSAP 24)	(20.4)	(9.9)
	<u>1,345.0</u>	<u>1,785.5</u>
FRS 17 pension liability net of deferred tax asset	(166.6)	(213.5)
Net assets including FRS 17 pension liability	<u>1,178.4</u>	<u>1,572.0</u>

Profit and loss reserve	2004	2003
	£m	£m
Profit and loss reserve	610.4	930.3
Exclude existing post tax net pension prepayment (under SSAP 24)	(20.4)	(9.9)
	<u>590.0</u>	<u>920.4</u>
FRS 17 pension liability net of deferred tax	(166.6)	(213.5)
Profit and loss reserve including FRS 17 pension liability	<u>423.4</u>	<u>706.9</u>

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

2004

	AWGPS	AWGIMPS	AWGPLAP	Unfunded Pensions	Total
	£m	£m	£m	£m	£m
Profit and loss account					
Current service cost	(18.1)	(6.7)	(3.4)	-	(28.2)
Past service cost	(3.1)	-	(9.6)	-	(12.7)
Charge to operating profit	(21.2)	(6.7)	(13.0)	-	(40.9)
Expected return on pension scheme assets	28.5	3.4	0.9	-	32.8
Interest on pension scheme liabilities	(33.8)	(6.1)	(1.4)	(2.0)	(43.3)
Amount charged to other finance income	(5.3)	(2.7)	(0.5)	(2.0)	(10.5)
Charge to loss on ordinary activities before	(26.5)	(9.4)	(13.5)	(2.0)	(51.4)

2003

	AWGPS	AWGIMPS	Unfunded Pensions	Total
	£m	£m	£m	£m
Profit and loss account				
Current service cost	(17.8)	(8.3)	-	(26.1)
Past service cost	-	-	-	-
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)	(2.0)	(39.6)
Amount credited/(charged) to other finance income	7.9	(0.5)	(2.0)	5.4
Charge to loss on ordinary activities before taxation	(9.9)	(8.8)	(2.0)	(20.7)

AWG Group Limited

Notes to the financial statements continued

26 Pension commitments (continued)

2004

	AWGGPS	AWGIMPS	AWGPLAP	Unfunded pensions	Total
	£m	£m	£m	£m	£m
Statement of total recognised gains and losses					
Actual return on pension scheme assets less expected return	78.7	12.7	2.9	-	94.3
Experience gains and losses arising on the scheme liabilities	-	9.7	(0.9)	-	8.8
Changes in assumptions underlying the present value of the scheme liabilities	(23.1)	9.0	0.9	(2.2)	(15.4)
Gain/(loss) recognised	55.6	31.4	2.9	(2.2)	87.7

2003

	AWGGPS	AWGIMPS	Unfunded pensions	Total
	£m	£m	£m	£m
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)

2004

	AWGGPS	AWGIMPS	AWGPLAP	Unfunded pensions	Total
	£m	£m	£m	£m	£m
Movement in scheme deficit					
Deficit at 1 April 2003	(205.3)	(62.2)	(3.4)	(37.6)	(308.5)
Current service costs	(18.1)	(6.7)	(3.4)	-	(28.2)
Contributions	25.4	4.2	2.6	2.1	34.3
Past service costs	(3.1)	-	(9.6)	-	(12.7)
Net interest	(5.3)	(2.7)	(0.5)	(2.0)	(10.5)
Actuarial gain/(loss)	55.6	31.4	2.9	(2.2)	87.7
Deficit at 31 March 2004	(150.8)	(36.0)	(11.4)	(39.7)	(237.9)

The past service costs for the AWGPLAP relate to the bulk transfer of assets and liabilities from a non-group pension scheme in November 2003. Prior to the bulk transfer this scheme was excluded from FRS 17 and SSAP 24 disclosures on the grounds of materiality.

2003

	AWGGPS	AWGIMPS	Unfunded pensions	Total
	£m	£m	£m	£m
Movement in scheme deficit				
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	2.0	32.6
Past service costs	-	-	-	-
Net interest	7.9	(0.5)	(2.0)	5.4
Actuarial loss	(208.1)	(36.7)	(0.9)	(245.7)
Deficit at 31 March 2003	(205.3)	(62.2)	(37.6)	(305.1)

AWG Group Limited

Notes to the financial statements continued

26 Pension commitments (continued)

2004

	AWGPS	AWGIMPS	AWGPLAP	Unfunded pensions	Total
Details of experience gains and losses					
Difference between expected and actual returns on scheme assets:					
Amount (£m)	78.7	12.7	2.9	-	94.3
Percentage of scheme assets	14.7 %	19.1%	16.2%	-	15.2%
Experience gains and losses on scheme liabilities:					
Amount (£m)	-	9.7	(0.9)	-	8.8
Percentage of present value of scheme liabilities	-	9.5%	3.1%	-	1.0%
Amount in group statement of total recognised gains and losses:					
Amount (£m)	55.6	31.4	2.9	(2.2)	87.7
Percentage of present value of scheme liabilities	8.1%	30.6%	9.9%	5.5%	10.2%

2003

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

27 Contingent liabilities

The group

The group has entered into a number of performance bonds 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 £54.7 million (2003: £84.6 million) including obligations of Aguas Argentinas (in which the group has a 4.35 per cent investment) amounting to £10.6 million (2003: £15.4 million).

The company

The company is a party to 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 2004 was £nil (2003: £nil).

AWG Group Limited

Notes to the financial statements continued

28 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:

	2004	2003
	£m	£m
Sales to joint ventures on normal trading terms	46.9	124.9
Amounts owed by joint ventures and associates falling due within one year	91.1	77.1
Amounts owed by joint ventures and associates falling due after more than one year	11.1	19.5
Amounts owed to joint ventures and associates falling due within one year	28.2	11.9

29 Principal group companies

The principal subsidiary undertakings at 31 March 2004 are shown below.

	Country of Incorporation	Activities
Group and Other		
Rutland Insurance Limited (1)	Guernsey	Provision of insurance to group companies
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	Scotland	Property maintenance and repair work
Maintenance and Property Care Limited	Scotland	Property maintenance and repair work
AWG Highway Maintenance Limited	England	Highway maintenance
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 Infrastructure Management Solutions Limited	England	Asset and management services
Construction Services		
AWG Construction Services Limited (3)	Scotland	Building and civil engineering and utility contracting
PURAC Limited	England	Contracting for water and wastewater treatment processes
Developments and Commercial Services		
AWG Property Solutions Limited	England	Corporate property management
Ambury Developments Limited	England	Corporate property management
AWG Developments Limited	Scotland	Construction and the development of land and buildings
AWG Residential Limited	Scotland	Development of residential estates
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

AWG Group Limited

Notes to the financial statements continued

29 Principal group companies (continued)

	Country of Incorporation	Activities
PURAC Pacific Pty Limited	Australia	Design, build and operation of wastewater projects
PURAC-Anglian Water Treatment System (Beijing) Co Ltd (4)	China	Contracting for water and wastewater treatment processes
Anglian Water International (NZ) Limited	New Zealand	Design, build and operation of wastewater projects
Anglian Water (Ireland) Limited	Ireland	Management and operation of leakage reduction and wastewater projects
Anglian Water Thailand	Thailand	Management and operation of leakage reduction
Byquin SA (formerly 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, Construction 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 of the subsidiaries listed above 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, and Celtic Anglian Water Limited, which is 50.0 per cent owned.

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.

All subsidiaries have a year end of 31 March with the exception of those companies noted above.

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

30 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.