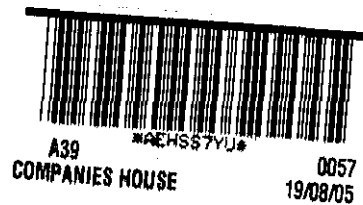


**AWG Group Limited**  
**Registered number 2366618**

**Directors' report and financial statements**

**For the year ended 31 March 2005**



# **AWG Group Limited**

## **Directors' report for the year ended 31 March 2005**

The directors present their report and the audited consolidated financial statements of AWG Group Limited and subsidiary companies for the year ended 31 March 2005.

### **Principal activities, business review and future developments**

The principal activities of the group during the year were water supply and distribution, wastewater collection and treatment, building and maintaining infrastructure in the utility, social housing, highways and property markets. The company acted as a holding company and provided guarantees to subsidiary companies.

Following the completion of the regulatory review in December 2004, the group is preparing to meet the challenging targets set by Ofwat. The group will continue to improve the operating performance of Morrison Plc.

### **Results and dividends**

The profit and loss account on page 5 shows the group's results and loss for the year. During the current year, the company paid a dividend of £48.0 million (2004: £351.6 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 42.

### **Directors**

The current directors of the company are as follows:

Peter Hickson  
Jonson Cox  
Scott Longhurst

All of the directors served throughout the year except Scott Longhurst who was appointed on 3 November 2004. Jeffrey Hume served as a director between 16 August 2004 and 3 November 2004. Euan McEwan, Elliott Mannis and Roy Pointer also served as directors during the year and resigned on 14 April 2004, 30 June 2004 and 26 April 2005 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 2005. 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. Jeffrey Hume who resigned, as director on 3 November 2004 had no share interests in AWG Plc.

### **Charitable donations**

During the year the group made a payment of £1.0 million (2004: £1.0 million) to the Anglian Water Trust Fund, and gave £240,000 (2004: £180,000) to various community causes.

### **Political donations**

There were no political donations (2004: £nil).

### **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 intranets are also widely used as a source of information.

The group values the views of its employees and consults with them and their representatives on a regular basis about matters which may affect them. The group has an Ethics Policy, which informs all employees of the

## **AWG Group Limited**

### **Directors' report** (continued)

#### **Employees** (continued)

group's approach to a range of ethical issues. Procedures are in place to deal with allegations of misconduct, harassment, bullying and other inappropriate behaviour.

The group continues to invest in the development of its employees with more than £3.5 million being devoted to skills and basic management development and leadership. Morrison Construction Services Limited, Purac Limited and Morrison Utility Services have achieved Investors in People status.

A Sharesave Scheme and a Sharebuy Plan are in place to encourage participation in the group's performance.

The group values diversity within its workforce and has put in place processes to ensure that it is an equal opportunities employer. All job applications, including 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 the 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 2005, the group had 48 days purchases outstanding (2004: 43 days). At 31 March 2005, the company had no trade creditors (2004: £nil).

#### **Auditors**

Under section 386 of the Companies Act 1985, the company has an elective resolution in place to dispense with the need to appoint auditors annually. PricewaterhouseCoopers LLP will continue to act as auditors of the company.

#### **Substantial shareholders**

The company was a wholly owned subsidiary of AWG Plc until 28 June 2005 when it was transferred to AWG (UK) Holdings Limited.

#### **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.

## **AWG Group Limited**

### **Directors' report** (continued)

#### **Statement of directors' responsibilities for the year ended 31 March 2005**

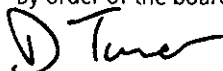
Company law requires the Directors to prepare, each financial year, financial statements which give a true and fair view of the state of affairs of the company and the group, and of the profit or loss of the group for that period. In preparing those financial statements, the Directors are required to:

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

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

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

9 August 2005

# AWG Group Limited

## Independent auditors' report to the members of AWG Group Limited

We have audited the financial statements which comprise the group profit and loss account, the statement of group total recognised gains and losses, the statement of movement in group shareholders' funds, the group and company balance sheets, the group cash flow statement, 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.

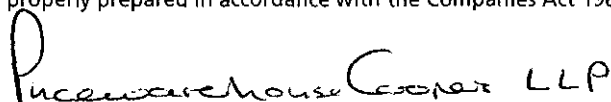
### Basis of audit opinion

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 2005 and of the profit 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  
9 August 2005

# AWG Group Limited

## Group profit and loss account for the year ended 31 March

Notes	2005 £m	2004 £m
<b>2 Turnover</b>		
Total continuing group and share of joint ventures	1,794.1	1,799.7
Less: share of turnover of joint ventures	(104.0)	(127.0)
Continuing operations	1,690.1	1,672.7
Discontinued operations	-	85.9
<b>Group turnover</b>	<b>1,690.1</b>	<b>1,758.6</b>
Operating costs before exceptional operating items and goodwill amortisation	(1,345.8)	(1,412.8)
<b>4 Exceptional operating items</b>	-	(21.6)
Goodwill amortisation	(12.0)	(13.5)
<b>3 Group operating costs</b>	<b>(1,357.8)</b>	<b>(1,447.9)</b>
<b>5 Group operating profit</b>	<b>332.3</b>	<b>310.7</b>
Share of operating profit in joint ventures and associates	10.6	8.0
Total operating profit: group and share of joint ventures and associates before exceptional operating items and goodwill amortisation	354.9	353.8
Exceptional operating items	-	(21.6)
Goodwill amortisation	(12.0)	(13.5)
Continuing operations	342.9	301.7
Discontinued operations	-	17.0
<b>Total operating profit</b>	<b>342.9</b>	<b>318.7</b>
<b>4 Loss on disposal and closure of businesses (net):</b>		
Continuing operations	(6.0)	(33.2)
Discontinued operations	-	(88.3)
	(6.0)	(121.5)
<b>2 Profit on ordinary activities before interest</b>	<b>336.9</b>	<b>197.2</b>
<b>6 Interest payable (net)</b>	<b>(206.6)</b>	<b>(217.1)</b>
Profit before tax, exceptional items and goodwill amortisation	148.3	136.7
Exceptional items	(6.0)	(143.1)
Goodwill amortisation	(12.0)	(13.5)
<b>Profit/(loss) on ordinary activities before taxation</b>	<b>130.3</b>	<b>(19.9)</b>
<b>7 Tax on profit/(loss) on ordinary activities</b>	<b>(33.0)</b>	<b>(7.8)</b>
<b>Profit/(loss) on ordinary activities after taxation</b>	<b>97.3</b>	<b>(27.7)</b>
Equity minority interest	(0.5)	(6.2)
<b>Profit/(loss) for the financial year</b>	<b>96.8</b>	<b>(33.9)</b>
<b>8 Dividends</b>	<b>(48.0)</b>	<b>(351.6)</b>
<b>Retained profit/(deficit)</b>	<b>48.8</b>	<b>(385.5)</b>

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

The impact of acquisitions on continuing operations was negligible.

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

Notes		<b>2005</b>	<b>2004</b>
		<b>£m</b>	<b>£m</b>
	Profit/(loss) attributable to group shareholders	96.8	(33.9)
	Currency translation differences on foreign currency net investments	(0.7)	(0.1)
25	<b>Total recognised gains and losses since the last annual report and financial statements</b>	<b>96.1</b>	<b>(34.0)</b>

**Statement of movement in group shareholders' funds**  
**for the year ended 31 March**

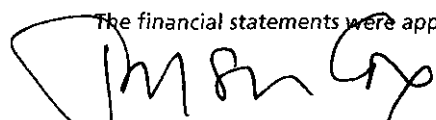
Notes		<b>2005</b>	<b>2004</b>
		<b>£m</b>	<b>£m</b>
	<i>Total recognised gains and losses for the year</i>	96.1	(34.0)
8	Dividends paid and proposed	(48.0)	(351.6)
	Goodwill previously eliminated against reserves	-	15.6
	Decrease in shareholders' funds	48.1	(370.0)
25	Opening shareholders' funds	1,313.2	1,683.2
	<b>Closing shareholders' funds</b>	<b>1,361.3</b>	<b>1,313.2</b>

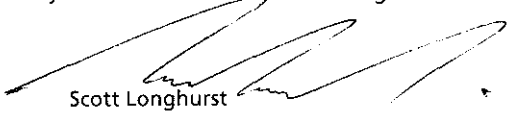
**AWG Group Limited**  
**Group and company balance sheets**  
**at 31 March**

Notes	Group		Company		
	2005	2004 (restated)	2005	2004	
	£m	£m	£m	£m	
	<b>Fixed assets</b>				
11	Intangible assets	165.6	206.1	-	-
12	Tangible assets	3,936.3	3,829.3	2.1	2.6
13	Investments				
	Joint ventures:				
	- Share of gross assets	185.6	278.5	-	-
	- Share of gross liabilities	(183.5)	(276.8)	-	-
20	- Amounts included in provisions	13.8	13.1	-	-
		15.9	14.8	-	-
	Associates	5.2	0.1	-	-
	Other investments	794.6	794.7	1,362.9	1,365.0
	Total investments	815.7	809.6	1,362.9	1,365.0
		4,917.6	4,845.0	1,365.0	1,367.6
	<b>Current assets</b>				
15	Stock	78.5	106.2	-	-
16	Debtors	500.4	513.9	51.3	27.4
17	Investments	114.9	-	19.1	-
	Cash at bank and in hand (including short-term deposits)	985.3	756.5	95.6	193.6
		1,679.1	1,376.6	166.0	221.0
	<b>Creditors: amounts falling due within one year</b>				
18	Short-term borrowings	(106.0)	(45.9)	(13.9)	(11.8)
18	Other creditors	(598.2)	(692.8)	(75.5)	(148.4)
		(704.2)	(738.7)	(89.4)	(160.2)
	Net current assets	974.9	637.9	76.6	60.8
	Total assets less current liabilities	5,892.5	5,482.9	1,441.6	1,428.4
	<b>Creditors: amounts falling due after more than one year</b>				
19	Loans and other borrowings	(4,243.0)	(3,900.1)	(157.1)	(184.5)
20	Other creditors	(98.7)	(93.6)	-	-
		(4,341.7)	(3,993.7)	(157.1)	(184.5)
21	<b>Provisions for liabilities and charges</b>	(186.8)	(173.8)	(4.3)	(4.5)
	<b>Net assets</b>	1,364.0	1,315.4	1280.2	1,239.4
	<b>Capital and reserves</b>				
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	608.4	560.3	527.3	486.5
	<b>Total shareholders' funds</b>	1,361.3	1,313.2	1,280.2	1,239.4
	Equity minority interest	2.7	2.2	-	-
	<b>Capital employed</b>	1,364.0	1,315.4	1,280.2	1,239.4

The notes on pages 12 to 50 form part of these financial statements.

The financial statements were approved by the board of Directors on 9 August 2005 and signed on its behalf by:

  
 Johnson Cox  
 Director

  
 Scott Longhurst  
 Director



# AWG Group Limited

## Group cash flow statement

### for the year ended 31 March

Notes	2005 £m	2004 £m
(a) <b>Net cash inflow from operating activities</b>	528.2	591.9
<b>Dividends received from joint ventures</b>	0.9	3.4
<b>Returns on investments and servicing of finance</b>		
Interest received	34.6	23.0
Interest paid	(185.0)	(178.0)
Interest element of finance lease rental payments	(8.7)	(9.8)
Cash flows treated as finance costs under FRS4	(0.4)	(1.4)
Dividends paid to minority interests	-	(4.1)
<b>Net cash outflow for returns on investments and servicing of finance</b>	(159.5)	(170.3)
<b>Taxation</b>		
Taxation received	(14.8)	(14.0)
<b>Capital expenditure and financial investment</b>		
Purchase of tangible fixed assets	(301.1)	(307.3)
Purchase of intangible fixed assets	(0.2)	-
Grants and contributions received	26.9	18.6
Disposal of tangible fixed assets	4.7	16.3
<b>Net cash outflow for capital expenditure and financial investment</b>	(269.7)	(272.4)
<b>Acquisitions and disposals</b>		
Payments to acquire trade investments, associates and joint ventures	(0.3)	(1.5)
(b) Payments to acquire subsidiary undertakings (net of cash and overdrafts acquired)	(0.1)	-
(c) Receipts from sales of businesses (net of cash and overdrafts disposed of)	18.3	88.2
Cash paid in respect of costs previously accrued on prior year disposals	(2.8)	-
Receipts from sales of fixed asset investments	0.2	1.3
<b>Net cash inflow for acquisitions and disposals</b>	15.3	88.0
<b>Equity dividends paid</b>	(121.0)	(288.8)
<b>Net cash inflow before management of liquid resources and financing</b>	(20.6)	(62.2)
<b>Management of liquid resources</b>		
(d) Increase in short-term deposits and investments	(393.4)	(327.2)
<b>Financing</b>		
(e) Increase in loans	401.6	464.1
(e) Repayments of amounts borrowed	(15.4)	(19.3)
(e) Capital element of finance lease rental payments	(20.6)	(27.5)
<b>Net cash inflow from financing</b>	365.6	417.3
(d) <b>(Decrease)/increase in cash</b>	(48.4)	27.9

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 £(5.1) million (2004: £(5.7) million), £(0.1) million (2004: £(7.9) million) and £(0.3) million (2004: £(10.3) million) respectively.

# AWG Group Limited

## Notes to the group cash flow statement

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

	2005 £m	2004 £m
Operating profit	332.3	310.7
Depreciation (net of amortisation of deferred grants and contributions)	176.8	179.5
Amortisation of intangible assets	12.5	14.2
Profit on disposal of fixed assets	(0.9)	(1.0)
Net movements on provisions	(8.5)	4.6
Closure costs	-	(2.0)
Net movement in prepaid pension contributions	(28.2)	(14.6)
	<u>484.0</u>	<u>491.4</u>
Decrease/(increase) in working capital:		
Stock	24.9	(10.5)
Debtors	25.3	101.5
Creditors	(6.0)	9.5
	<u>44.2</u>	<u>100.5</u>
<b>Net cash inflow from operating activities</b>	<u>528.2</u>	<u>591.9</u>

Other than in relation to acquisitions and disposals the group cash flow statement for the year ended 31 March 2005 includes net cash outflows of £nil (2004: £16.8 million) in respect of current year exceptional charges and £10.3 million (2004: £8.7 million) in respect of the settlement of prior year exceptional charges.

(b) **Acquisition of subsidiary undertakings**

	2005 £m	2004 £m
Net assets acquired:		
Stock and work in progress	4.0	-
Other short-term creditors	(1.0)	-
Accruals	(0.1)	-
Loans and other borrowings	(2.7)	-
Net assets	<u>0.2</u>	<u>-</u>
Share of assets acquired	50%	-
Group share of net assets acquired	0.1	-
Net consideration	<u>0.1</u>	<u>-</u>
Satisfied by:		
Cash	0.1	-
	<u>0.1</u>	<u>-</u>
<b>Net cash outflow in respect of the acquisition of subsidiary undertakings</b>		
Total cash paid	0.1	-
Net outflow of cash in respect of the acquisition of subsidiary undertakings	<u>0.1</u>	<u>-</u>

On 12 May 2004 the group acquired the remaining 50 per cent stake in Rossorry Developments Limited for cash consideration of £0.1 million.

# AWG Group Limited

## Notes to the group cash flow statement continued

(c) Disposal of businesses	2005 £m	2004 £m
Net assets disposed of:		
Tangible fixed assets	1.3	392.9
Stock	7.8	5.4
Debtors	2.4	42.4
Cash at bank and in hand	0.6	36.7
Creditors	(6.8)	(47.6)
Provisions	0.1	-
Loans and other borrowings	-	(149.4)
Intercompany loan	-	(34.1)
	5.4	246.3
Minority interest	-	(113.4)
Unamortised goodwill (note 11)	17.6	39.0
Goodwill previously eliminated against reserves, now reinstated	-	9.5
Group's share of net assets disposed of	23.0	181.4
Less consideration received on completion (see below)	(19.5)	(103.0)
Disposal costs (including £0.6 million accrued, 2004: £4.2 million accrued)	1.2	15.5
Loss on disposal (all continuing, 2004: £88.3 million discontinued, £5.6 million continuing)	4.7	93.9
Analysis of the net cash inflow in respect of the disposal of businesses:		
Consideration received upon completion	19.5	103.0
Disposal costs	(0.6)	(11.3)
Accrued consideration, not yet received	-	(0.9)
Net consideration received in cash	18.9	90.8
Repayment of intercompany loan	-	34.1
Cash at bank of disposed businesses	(0.6)	(36.7)
Net cash inflow in respect of the disposal of businesses	18.3	88.2

Further details of disposals are given in note 14.

(d) Analysis of net debt	1 April 2004 £m	Cash flows £m	Acquisitions and disposals £m	Non-cash movements £m	Currency translation movements £m	31 March 2005 £m
Cash at bank and in hand	216.4	(49.7)	-	-	-	166.7
Bank overdrafts	(1.4)	1.3	-	-	-	(0.1)
	215.0	(48.4)	-	-	-	166.6
Deposits and investments	540.1	393.4	-	-	-	933.5
Debt due within one year	(44.5)	33.8	(2.7)	(92.5)	-	(105.9)
Debt due after one year	(3,900.1)	(399.0)	-	56.0	0.1	(4,243.0)
	(3,189.5)	(20.2)	(2.7)	(36.5)	0.1	(3,248.8)

Non-cash movements comprise amortisation of discounts and expenses relating to debt issues, issues of loan notes as deferred consideration, indexation of loan stock, subsidiaries deconsolidated due to severe long-term restrictions 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 deposits and investments above are £818.6 million (2004: £540.1 million) of short-term deposits maturing within three months, which are included in cash at bank and in hand amounting to £985.3 million (2004: £756.5 million) in the balance sheet.

# AWG Group Limited

## Notes to the group cash flow statement continued

(d) **Analysis of net debt (continued)**

At 31 March 2005, £67.4 million (2004: £203.5 million) of the group's cash at bank and in hand and £676.6 million (2004: £269.0 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 £9.5 million (2004: £10.1 million) of the group's deposits and investments are held as collateral for outstanding loan notes. In addition, £24.1 million (2004: £23.4 million) of the group's deposits are held by Rutland Insurance Limited (the group's insurance captive) in order to maintain its required solvency ratio.

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

	<b>2005</b>	<b>2004</b>
	<b>£m</b>	<b>£m</b>
At beginning of year	(3,189.5)	(3,232.1)
Net (decrease)/increase in cash	(48.4)	27.9
Increase in short-term bank deposits and investments	393.4	327.2
Increase in loans	(401.6)	(464.1)
Repayment of amounts borrowed	15.4	19.3
Capital element of finance lease rental payments	20.6	27.5
Finance costs capitalised under FRS 4	0.4	1.4
Loans disposed with subsidiary	-	149.4
Loans assumed within subsidiary undertakings	(2.7)	-
Indexation of loan stock	(38.0)	(32.2)
Loan notes issued	(0.4)	(2.2)
Amortisation of discount and expenses relating to debt issues	(4.8)	(2.3)
Subsidiary deconsolidated due to severe long-term restrictions	6.7	-
Currency translation difference	0.1	(9.3)
At end of year	<b>(3,248.8)</b>	<b>(3,189.5)</b>

# 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(i) below.

#### 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, except where severe long-term restrictions hinder the control of the assets, or management of the subsidiary or where the interest in the subsidiary undertaking is held exclusively with a view to subsequent resale. The results of companies acquired or disposed of are consolidated from the effective date of the acquisition or to the effective date of disposal. The treatment of a company as an associated undertaking has regard to the group's holding of at least 20 per cent of the equity capital, representation on its board of Directors and participation in policy making, including dividend policy. The group's share of the profits or losses of these companies is included in the profit and loss account and the investments are included in the balance sheet at the group's share of the net assets of the companies. An entity is treated as a joint venture if the group jointly controls that entity together with one or more other venturers under a contractual arrangement. The group's share of turnover, operating profit and interest in joint ventures has been reported on the face of the profit and loss account and the group's share of gross assets and liabilities has been reported on the balance sheet. Intra-group sales and profit are eliminated fully on consolidation.

#### c) **Goodwill**

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

#### d) **Associates and joint ventures**

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

#### e) **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 development has been effected.

# AWG Group Limited

## Notes to the financial statements (continued)

### iii. *Claims*

In establishing turnover and profit, credit is taken for claims only when negotiations are at an advanced stage and the outcome is substantially agreed by the client. Having released such claims in the profit and loss account, provision is made whenever ultimate payment seems doubtful.

### iv. *Insurance claims and other recoveries*

Where some of the forecast expenditure on a contract is expected to be reimbursed by another party (such as an insurance company) the reimbursement is recognised only when receipt of the amount is virtually certain.

## f) **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.

Turnover of development properties and private finance initiative projects which are not held for the long-term is recorded when a sale is completed in accordance with the profit recognition criteria in 1 (e) 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.

Turnover of Anglian Water 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 reduces turnover by approximately £1.0 million).

## g) **Intangible fixed assets and amortisation**

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.

## h) **Tangible fixed assets and depreciation**

Tangible fixed assets comprise:

### i. *Infrastructure assets*

Infrastructure assets comprise a network of systems consisting of mains and sewers, impounding and pumped raw water storage reservoirs, sludge pipelines and sea outfalls. Investment expenditure on infrastructure 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 recorded at cost along with related 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.

### ii. *Other assets*

Other assets comprise land and buildings, operational assets (comprising sites used for water and wastewater treatment, pumping or storage where not classed as infrastructure) and vehicles, plant and equipment, and are included at cost less accumulated depreciation. Cost includes own work capitalised comprising the direct cost of materials, labour and applicable overheads. Interest costs are not capitalised.

A number of changes have been made to the assets included in each asset class. Opening balances by asset class have been restated to reflect the changes, but there is no impact on the total recorded net book value of tangible fixed assets. Further details are disclosed in note 12.

# AWG Group Limited

## Notes to the financial statements (continued)

Freehold land is not depreciated nor are assets in the course of construction until commissioned. 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 assets	30-80 years
Buildings	30-60 years
Fixed plant	12-40 years
Vehicles, mobile plant and equipment	3-10 years

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

i) **Grants and contributions**

Grants and contributions for capital expenditure include government grants, infrastructure charges, sewer adoption fees and other contributions from third parties. Other than those relating to infrastructure assets, they 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 for 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. In particular, commuted lump sums received in advance for water and sewer requisitions are credited to a deferral account within creditors and are released to the profit and loss account in proportion to the year to which they apply.

j) **Leased assets**

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

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

k) **Investments**

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

l) **Stock and work in progress**

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

m) **Long-term contracts**

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

n) **Pension costs**

Contributions to the group's defined benefit pension schemes are charged to the profit and loss account so as to spread the regular cost of pensions over the average service lives of employees, in accordance with the advice of an independent qualified actuary. Actuarial surpluses and deficits are amortised, where appropriate, over the average remaining service lives of employees. The cost of defined contribution schemes is charged to the profit and loss account in the year in respect of which the contributions become payable. The notes to the accounts disclose the effect of the transitional provisions of FRS 17 "Retirement Benefits".

# AWG Group Limited

## Notes to the financial statements (continued)

o) **Research and development**

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

p) **Foreign currencies**

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

q) **Deferred taxation**

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

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

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

*Calculation of deferred tax on infrastructure assets:*

Infrastructure assets effectively have an unlimited life and a notional depreciation charge, the infrastructure renewal charge, is applied to the network (note 1(h) tangible fixed assets and depreciation). For the purposes of estimating the deferred tax liability in relation to infrastructure assets, the useful life over which the underlying differences reverse is estimated by deflating the current cost based infrastructure renewals charge to an appropriate deemed historic cost based depreciation charge.

r) **Financial instruments**

Derivative instruments are used for hedging purposes in line with the group's risk management policy and no trading in financial instruments is undertaken. Loans and other borrowings are recorded using the contracted rates implicit in the financial instruments used to hedge the group's exposure to fluctuations in currency 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.

Interest rate swaps are used to hedge the group's exposure to movements in interest rates. The interest payable or receivable on such swaps is accrued in the same way as interest arising on deposits or borrowings. Interest rate swaps are not revalued to fair value prior to maturity.

Currency swaps are used to hedge foreign currency investments. The future currency exchange within such contracts is revalued to the rate of exchange at the balance sheet date and any unrealised gain or loss is matched with that underlying asset or liability in reserves. The interest coupon on such swaps is accrued in the same way as that on borrowings and deposits.

s) **Provisions**

Provisions are recognised when the group has a present obligation for a past event, for which it is probable that a transfer of economic benefits will be required and a reliable estimate can be made of the amount of the obligation.

Provisions of a long-term nature are discounted, where material, in relation to the estimated period over which the provision will be utilised. The rate of discount reflects the time value of money and the risks associated with the liability. Pension provisions are assessed in accordance with SSAP24 "Accounting for Pension Costs", for both funded and unfunded obligations. The unwinding of the discount on those provisions (other than deferred tax) is included within net interest payable.



# **AWG Group Limited**

## **Notes to the financial statements** (continued)

- t) **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.
- u) **Closure 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.
- v) **Redundancy costs**  
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 raised a valid expectation with, and announced the main features of the programme to, affected employees or their representatives.
- w) **Onerous lease costs**  
Provision is made for the expected future costs of property and other leases to the extent that these costs are not expected to be of future benefit to the business, net of any recoveries from sub leases.
- x) **Self insurance**  
Some subsidiary companies self insure the risks where it is commercially prudent to do so. Provision is made in respect of notified claims to the extent that it is probable that a cash settlement will arise. In addition provision is made in the group's captive insurance company, Rutland Insurance Limited, for the expected cost of claims incurred but not reported. The provision is determined from an actuarial assessment based on past experience.
- y) **Bad and doubtful debts**  
In Anglian Water the bad debt provision is calculated by applying expected recovery rates, based on actual historical cash collection performance, to the aged debt profile. In the remaining subsidiary companies specific provisions are made for those debts on which recovery is regarded as doubtful.
- z) **Employee benefit trusts**  
Employee benefit trusts have been established which result in the cost of delivering shares in the group to employees, under the terms of the relevant share option or Save As You Earn scheme, being charged to the profit and loss account on a straight line basis over the remaining period of the relevant scheme. This charge is determined by amortising the difference between the option price payable by the employee and the market value of the shares at the date of grant over the expected life of the option or scheme. Accordingly, if share options are granted at market value or at an allowable discount through a Save As You Earn Scheme, no charge arises in the profit and loss account.

# AWG Group Limited

## Notes to the financial statements (continued)

### 2 Segmental analysis

#### Segmental analysis by class of business 2005

	Turnover £m	Total operating profit/(loss) before exceptional items and goodwill amortisation £m	Exceptional operating items (a) £m	Goodwill amortisation £m	Total operating profit/(loss) £m	Loss on disposal and closure of businesses (a) £m	Profit/ (loss) before interest £m	Net operating assets/ (liabilities) (b) £m
<b>Continuing operations</b>								
Anglian Water	796.8	339.3	-	-	339.3	-	339.3	3,703.0
Support Services	576.6	16.4	-	(6.0)	10.4	(7.3)	3.1	115.9
Construction Services	320.3	2.0	-	(5.2)	(3.2)	-	(3.2)	59.2
Project Investments	21.3	10.2	-	(0.8)	9.4	-	9.4	5.0
Morrison Centre and intra-Morrison trading	(7.8)	(6.8)	-	-	(6.8)	-	(6.8)	9.9
Morrison (f)	910.4	21.8	-	(12.0)	9.8	(7.3)	2.5	190.0
AWG Property (h)	81.4	(1.4)	-	-	(1.4)	-	(1.4)	98.1
International Services	16.7	0.2	-	-	0.2	1.3	1.5	(8.9)
Other (c)	0.1	(4.1)	-	-	(4.1)	-	(4.1)	750.4
Less: intersegmental trading (d)	(11.3)	(0.9)	-	-	(0.9)	-	(0.9)	-
	<b>1,794.1</b>	<b>354.9</b>	<b>-</b>	<b>(12.0)</b>	<b>342.9</b>	<b>(6.0)</b>	<b>336.9</b>	<b>4,732.6</b>
Total								
- Group	1,690.1	344.3	-	(12.0)	332.3	(6.0)	326.3	
- Joint ventures and associates (e)	104.0	10.6	-	-	10.6	-	10.6	

#### Segmental analysis by class of business 2004 (reanalysed)

	Turnover £m	Total operating profit/(loss) before exceptional items and goodwill amortisation £m	Exceptional operating items (a) £m	Goodwill amortisation £m	Total operating profit/(loss) £m	Loss on disposal and closure of businesses (a) £m	Profit/ (loss) before interest £m	Net operating assets/ (liabilities) (b) £m
<b>Continuing operations</b>								
Anglian Water	766.6	318.9	-	-	318.9	-	318.9	3,610.5
Support Services	506.6	12.2	-	(6.2)	6.0	(0.9)	5.1	152.0
Construction Services	337.8	(7.3)	(2.5)	(5.2)	(15.0)	-	(15.0)	56.8
Project Investments	28.3	12.2	-	(0.8)	11.4	-	11.4	13.6
Morrison Centre and intra-Morrison trading	(8.3)	-	-	-	-	-	-	-
Morrison (f)	864.4	17.1	(2.5)	(12.2)	2.4	(0.9)	1.5	222.4
AWG Property (h)	140.1	4.2	(10.0)	-	(5.8)	-	(5.8)	88.0
International Services (g)	26.4	(5.5)	(7.7)	-	(13.2)	(22.5)	(35.7)	5.6
Other (c)	25.3	1.5	(1.4)	-	0.1	(9.8)	(9.7)	753.7
Less: intersegmental trading (d)	(23.1)	(0.7)	-	-	(0.7)	-	(0.7)	-
	<b>1,799.7</b>	<b>335.5</b>	<b>(21.6)</b>	<b>(12.2)</b>	<b>301.7</b>	<b>(33.2)</b>	<b>268.5</b>	<b>4,680.2</b>
<b>Discontinued operations</b>								
	85.9	18.3	-	(1.3)	17.0	(88.3)	(71.3)	-
	<b>1,885.6</b>	<b>353.8</b>	<b>(21.6)</b>	<b>(13.5)</b>	<b>318.7</b>	<b>(121.5)</b>	<b>197.2</b>	<b>4,680.2</b>
Total								
- Group	1,758.6	345.8	(21.6)	(13.5)	310.7	(120.5)	190.2	
- Joint ventures and associates (e)	127.0	8.0	-	-	8.0	(1.0)	7.0	

# 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)	
	2005	2004	2005	2004	2005	2004
	£m	£m	£m	£m	£m	£m
United Kingdom	1,757.9	1,753.0	337.5	259.9	4,698.2	4,652.2
Europe	21.7	82.5	0.5	(24.8)	39.9	9.7
Rest of world	14.5	50.1	(1.1)	(37.9)	(5.5)	(4.8)
	1,794.1	1,885.6	336.9	197.2	4,732.6	4,657.1

#### Segmental analysis by geographical destination

	Turnover	
	2005	2004
	£m	£m
United Kingdom	1,756.0	1,752.9
Europe	21.7	78.2
Rest of world	16.4	54.5
	1,794.1	1,885.6

- (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 £3,369.8 million (2004: £3,346.4 million).
- (c) The other segment comprises AWG Rail and central costs (2004: also included Powermarque up to date of disposal).
- (d) All intersegmental trading originates from the United Kingdom.
- (e) The joint venture results are within AWG Property, Support Services and Project Investments segments and are stated after exceptional items of £nil (2004: £1.0 million). The group share of joint venture net assets at 31 March 2005 was £2.1 million (2004: £1.7 million).
- (f) The Infrastructure Management Business has been renamed Morrison. The divisions within Morrison have been reorganised from 1 April 2004 as follows:
- (i) The former Government Services division, together with the former Utility Services division (including Celtic Anglian Water Limited, and Purac Limited as noted below) have been included in the new Support Services division and comparatives altered accordingly.
  - (ii) Purac Limited has been transferred from Construction Services into Support Services. The comparative amounts have been adjusted accordingly and the effect of this was to reduce turnover in Construction by £48.0 million and increase the loss before interest and net operating assets by £1.1 million and £3.7 million respectively.
  - (iii) The results of Construction Services and Morrison Centre are stated after recharging bid costs of £1.0 million (2004: £0.9 million) and £0.5 million (2004: £nil) respectively to the Project Investments segment.
  - (iv) Project Investments, previously part of the Government Services division, is now a separate division and comparative amounts have been amended accordingly.
  - (v) Celtic Anglian Water Limited has been transferred from International Services into the Support Services division of Morrison. Accordingly, the comparative turnover, profit before interest and net operating assets of Support Services have been increased by £5.6 million, £1.2 million and £2.7 million respectively.
- (g) The comparative amounts for International Services have been split between continuing and discontinued operations. The comparative amounts for International Services continuing operations have been reduced to reflect the inclusion of Celtic Anglian Water Limited in Support Services as noted above.
- (h) Developments and Commercial Services has been renamed AWG Property.

# AWG Group Limited

## Notes to the financial statements (continued)

### 3 Group operating costs

	2005				
	Continuing operations £m	Discontinued operations £m	Total before exceptional operating items and goodwill amortisation £m	Exceptional operating items and goodwill amortisation £m	Total £m
Operating costs excluding depreciation, amortisation and impairment of goodwill:					
Raw materials and consumables	110.4	-	110.4	-	110.4
Other external charges	780.2	-	780.2	-	780.2
Staff costs (note 9)	347.4	-	347.4	-	347.4
Change in stocks of finished goods and work in progress	(27.7)	-	(27.7)	-	(27.7)
Own work capitalised	(42.8)	-	(42.8)	-	(42.8)
Contribution to Anglian Water Trust Fund	1.0	-	1.0	-	1.0
Total operating costs (excluding depreciation and intangible asset amortisation)	1,168.5	-	1,168.5	-	1,168.5
Depreciation of tangible assets	182.3	-	182.3	-	182.3
Amortisation of deferred grants and contributions	(5.5)	-	(5.5)	-	(5.5)
Depreciation net of amortisation of grants and contributions	176.8	-	176.8	-	176.8
Amortisation of intangible assets	0.5	-	0.5	12.0	12.5
Group operating costs	1,345.8	-	1,345.8	12.0	1,357.8

	2004				
	Continuing operations £m	Discontinued operations £m	Total before exceptional operating items and goodwill amortisation £m	Exceptional operating items and goodwill amortisation £m	Total £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

# AWG Group Limited

## Notes to the financial statements (continued)

### 3. Group operating costs (continued)

Staff costs for the year ended 31 March 2005 includes £39.9 million (2004: £30.3 million) of costs that have been capitalised as 'own work capitalised' and redundancy costs relating to Anglian Water Services Ltd of £11.4 million (2004: £4.6 million).

Of the exceptional operating items and goodwill amortisation in 2004, £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.

Included within other external charges is a fine of £0.1 million imposed by the Health and Safety Executive following two incidents, including, a fatality in 2001 during the construction of the Tay wastewater treatment plant.

Legal costs in respect of the litigation of the former directors and shareholders of Morrison amounted to £2.5 million (2004: £1.4 million included in exceptional operating costs).

### 4. Exceptional items

	2005 £m	2004 £m
Restructuring and other costs	-	1.4
Asset impairments	-	17.7
Contract rectification costs	-	2.5
Charged against group operating profit	-	21.6
Loss on disposal and closure of businesses (net):		
- Profits on disposals and closures of businesses (continuing)	(8.4)	-
- Losses on disposals and closures of businesses (continuing)	14.4	33.2
- Losses on disposals of businesses (discontinued)	-	88.3
	6.0	121.5
Charged against profit before interest	6.0	143.1
Tax credit thereon	(0.7)	(4.2)
Total exceptional items	5.3	138.9

The net loss on disposal of businesses in 2005 of £6.0 million relates to profits and losses on business closures and disposals of £8.4 million and £14.4 million respectively. These are explained as follows:

MVM, a non-core software development business within Morrison Support Services, was sold for proceeds of £12.9 million in cash. This gave rise to an exceptional charge of £7.3 million including the write off of unamortised goodwill of £17.6 million.

In 2005 AWG continued to divest its international businesses which gave rise to an overall exceptional gain of £1.3 million. This can be analysed as a net £0.8 million gain relating to business closures and disposals in China and a net £0.5 million gain relating to other business closures and disposals.

Within China there were further provisions relating to losses on business closures yet to be concluded of £5.0 million and an exceptional credit of £5.8 million predominantly associated with a release of prior year provisions on exiting another interest in China, following the disposal of the water treatment works in Taizhou in May 2005.

During the year businesses in New Zealand and South Africa were disposed of for total consideration of £6.0 million giving rise to an exceptional profit of £2.6 million. This was offset by a £2.1 million provision relating to losses on business closures on which contracts for sale are awaiting either exchange of contracts or completion.

# AWG Group Limited

## Notes to the financial statements (continued)

### 4. Exceptional items (continued)

The exceptional items charged in 2004 were as follows:

Restructuring and other costs of £1.4 million in 2004 related to expenditure on bid defence.

The impairment of £17.7 million in 2004 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.

Contract rectification costs of £2.5 million in 2004 are in respect of adjudication of a claim in relation to Rockingham Motor Speedway.

The loss on disposal and closure of continuing businesses of £33.2 million in 2004 related to 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 impairments of £1.0 million), and other termination costs of £5.1 million (including closure costs of AWG Rail of £4.2 million).

The loss on disposal of discontinued businesses of £88.3 million in 2004 related 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.

### 5 Operating profit

	2005 £m	2004 £m
Operating profit is stated after charging/(crediting):		
Profit on disposal of fixed assets	(0.9)	(1.0)
Hire of plant and machinery	35.0	29.2
Other operating lease costs	5.0	11.1
Rentals receivable under operating leases	-	(6.8)
Research and development expenditure	1.3	1.7
Fees paid to the auditors:		
- for statutory audit services (principal auditors only)	0.6	0.6
- for regulatory audit services	0.1	0.1
- total audit services	0.7	0.7
- for other assurance services	0.5	1.2
Total fees paid to the auditors	1.2	1.9
Fees paid to other accounting firms for other work	6.0	2.8

Fees paid to the auditors for other assurance services are primarily in respect of preparatory work for the adoption of International Financial Reporting Standards and a review of the business plans for the Ofwat regulatory submission. In 2004 fees paid to 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 £1.2 million (2004: £0.9 million) for internal audit work, £3.8 million (2004: £1.5 million) for legal advice and £1.0 million (2004: £0.4 million) for tax and other advice.

#### The company

There were no fees for audit services borne by the company (2004: £nil).

# AWG Group Limited

## Notes to the financial statements (continued)

6	<b>Interest payable (net)</b>	<b>2005</b>	<b>2004</b>
		<b>£m</b>	<b>£m</b>
	Bank loans and overdrafts	0.7	-
	Other loans including financing expenses and indexation of loan stock	274.5	264.8
	Finance leases	8.4	10.3
	Unwind of discount on provisions for liabilities and charges (note 21)	3.2	2.8
		<u>286.8</u>	<u>277.9</u>
	Interest receivable on loan to parent undertaking	(53.7)	(44.9)
	Interest receivable	(35.5)	(24.9)
	Group interest payable (net)	<u>197.6</u>	<u>208.1</u>
	Share of joint venture and associates interest payable (net)	9.0	9.0
	<b>Total interest payable (net)</b>	<u>206.6</u>	<u>217.1</u>
7	<b>Taxation</b>	<b>2005</b>	<b>2004</b>
		<b>£m</b>	<b>£m</b>
	<b>Analysis of charge/(credit) in the year</b>		
	UK Corporation tax - current year	19.6	16.8
	- prior year	(5.2)	(2.1)
	<b>Total UK tax - group</b>	<u>14.4</u>	<u>14.7</u>
	Overseas taxation - all current year	2.1	2.0
	<b>Total current tax - group</b>	<u>16.5</u>	<u>16.7</u>
	Share of joint venture and associates taxation (all UK current year)	1.5	1.1
	<b>Total current tax (credit)/charge</b>	<u>18.0</u>	<u>17.8</u>
	<b>Deferred tax (note 22)</b>		
	Charge for timing differences arising in year - UK	26.7	18.8
	- overseas	-	(2.0)
	Impact of discounting on deferred tax liability	(9.3)	(23.3)
	Impact of decrease/(increase) in discount rates	2.0	(3.5)
	Adjustments in respect of prior years	(4.4)	-
	<b>Total deferred tax charge/(credit)</b>	<u>15.0</u>	<u>(10.0)</u>
	<b>Total tax charge/(credit)</b>	<u>33.0</u>	<u>7.8</u>
	<b>Analysed as:</b>		
	- before exceptional items	33.7	12.0
	- exceptional items (note 4)	(0.7)	(4.2)
	<b>Total tax charge/(credit)</b>	<u>33.0</u>	<u>7.8</u>

The post tax yield to maturity on UK government bonds is used to discount the gross deferred tax liability of the group. Movements in the discount rates gave rise to a charge of £2.0 million (2004: credit of £3.5 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 open tax computations.

Due to a change in tax legislation, and based upon capital investment plans for Anglian Water for the current regulatory period, the group expects to be able to claim tax relief on capital expenditure in-line with depreciation for the current regulatory period. This will lead to higher future tax payments compared to previous years.

# AWG Group Limited

## Notes to the financial statements (continued)

### 7 Taxation (continued)

#### 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:

	2005 £m	2004 £m
Profit/(loss) on ordinary activities before taxation	130.3	(19.9)
Tax on profit/(loss) on ordinary activities at the standard UK rate of tax (30 per cent)	39.1	(6.0)
Adjusted for the effects of:		
Items not deductible for tax purposes	7.3	43.0
Accounting for depreciation not eligible for tax purposes	0.7	0.4
Capital allowances for the year in excess of depreciation	(11.1)	(18.7)
Short-term timing differences	(15.8)	0.7
Adjustments to tax charge in respect of previous periods	(5.2)	(2.1)
Losses which cannot be relieved in the year	0.9	1.8
Higher/(lower) tax rates on overseas earnings	2.1	(1.3)
Current tax (credit)/charge for the year	18.0	17.8

### 8 Dividends

	2005 £m	2004 £m
Dividends paid and proposed	48.0	351.6

All dividends relate to ordinary shares

### 9 Employee information

	2005 £m	2004 £m
Staff costs:		
Wages and salaries	298.8	305.4
Social security costs	25.5	28.4
Pension costs (note 26)	23.1	19.5
	347.4	353.3

Pension costs are stated after crediting £1.4 million (2004: £1.4 million) in respect of the amortisation of an actuarial surplus in the main UK pension scheme.

Staff costs for the year ended 31 March 2005 includes £39.9 million (2004: £30.3 million) of costs that have been capitalised as 'own work capitalised' and redundancy costs relating to Anglian Water Services Ltd of £11.4 million (£6.2 million of wages and salaries and £5.2 million of pension costs) wholly relating to a reorganisation undertaken by the business (2004: £4.6 million).



# AWG Group Limited

## Notes to the financial statements (continued)

### 9 Employee information (continued)

Average number of full time equivalent persons employed:	2005	2004 (reanalysed)
Anglian Water	3,376	3,492
Support Services	5,200	5,513
Construction Services	1,505	1,680
Project Investments	20	23
Morrison Centre	22	-
AWG Property	103	146
International Services	262	1,631
Other	12	261
	10,500	12,746

The numbers above include 332 full time equivalent persons employed outside the UK (2004: 1,588).

Employee information has been reanalysed for the year ended 31 March 2004 due to a reorganisation of the business segments within the group.

#### Directors' emoluments

All of the directors are also directors of AWG Plc and their interest 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 contain details of the directors emoluments in respect of their services to the group. The emoluments of the directors of AWG Group Limited are borne by the parent company AWG Plc and no recharge is made 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. The profit for the financial year dealt with in the financial statements of the parent company is £88.8 million (2004: loss of £175.2 million).

# AWG Group Limited

## Notes to the financial statements (continued)

11 Intangible fixed assets	Goodwill £m	Licences £m	Total £m
<b>The group</b>			
<b>Cost</b>			
At 1 April 2004	273.4	12.1	285.5
Additions	-	0.1	0.1
Disposals of subsidiary undertakings	(23.4)	-	(23.4)
Subsidiary deconsolidated due to severe long-term restrictions	-	(12.1)	(12.1)
<b>At 31 March 2005</b>	<b>250.0</b>	<b>0.1</b>	<b>250.1</b>
<b>Amortisation</b>			
At 1 April 2004	78.3	1.1	79.4
Charge for the year	12.0	0.5	12.5
Disposals of subsidiary undertakings	(5.8)	-	(5.8)
Subsidiary deconsolidated due to severe long-term restrictions	-	(1.6)	(1.6)
<b>At 31 March 2005</b>	<b>84.5</b>	<b>-</b>	<b>84.5</b>
<b>Net book value</b>			
<b>At 31 March 2005</b>	<b>165.5</b>	<b>0.1</b>	<b>165.6</b>
At 31 March 2004	195.1	11.0	206.1

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.

During the year the disposal of MVM resulted in £17.6 million of unamortised goodwill being eliminated as part of the loss on disposal of businesses (see note 4).

A further £37.9 million (2004: £37.9 million) of goodwill arising on acquisitions prior to 31 March 1998 has been eliminated directly against reserves in prior years.

The subsidiary deconsolidated due to severe long-term restrictions relates to Taizhou-Anglian Water Company Limited on which a conditional contract for sale was exchanged on 17 September 2004. The company was held at a fixed amount within associated undertakings with effect from 31 December 2004 (see note 13).

### 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 assets £m	Vehicles, plant and equipment £m	Assets under construction £m	Total £m
<b>The group</b>						
<b>Cost</b>						
At 1 April 2004	67.2	2,145.4	2,315.6	1,307.0	-	5,835.2
Reclassifications	(32.9)	37.3	394.0	(613.8)	215.4	-
Adjustments	-	64.1	-	-	-	64.1
As restated at 1 April 2004	34.3	2,246.8	2,709.6	693.2	215.4	5,899.3
Additions	0.1	-	-	10.1	292.8	303.0
Transfers on commissioning	1.5	89.3	188.9	33.2	(312.9)	-
Disposals	-	-	(0.3)	(8.8)	-	(9.1)
Disposals of subsidiary undertakings	-	-	-	(11.5)	-	(11.5)
<b>At 31 March 2005</b>	<b>35.9</b>	<b>2,336.1</b>	<b>2,898.2</b>	<b>716.2</b>	<b>195.3</b>	<b>6,181.7</b>
<b>Grants and contributions</b>						
At 1 April 2004	-	172.5	-	-	-	172.5
Reclassifications	-	(0.2)	-	-	0.2	-
Adjustments	-	(5.7)	-	-	-	(5.7)
As restated at 1 April 2004	-	166.6	-	-	0.2	166.8
Additions	-	10.3	-	-	1.3	11.6
<b>At 31 March 2005</b>	<b>-</b>	<b>176.9</b>	<b>-</b>	<b>-</b>	<b>1.5</b>	<b>178.4</b>
<b>Depreciation</b>						
At 1 April 2004	31.5	387.3	742.6	672.0	-	1,833.4
Reclassifications	(27.0)	0.2	205.9	(179.1)	-	-
Adjustments	-	69.8	-	-	-	69.8
As restated at 1 April 2004	4.5	457.3	948.5	492.9	-	1,903.2
Charge for the year	0.5	27.0	94.3	60.5	-	182.3
Disposals	-	-	(0.2)	(8.1)	-	(8.3)
Disposals of subsidiary undertakings	-	-	-	(10.2)	-	(10.2)
<b>At 31 March 2005</b>	<b>5.0</b>	<b>484.3</b>	<b>1,042.6</b>	<b>535.1</b>	<b>-</b>	<b>2,067.0</b>
<b>Net book value</b>						
<b>At 31 March 2005</b>	<b>30.9</b>	<b>1,674.9</b>	<b>1,855.6</b>	<b>181.1</b>	<b>193.8</b>	<b>3,936.3</b>
As previously stated at 31 March 2004	35.7	1,585.6	1,573.0	635.0	-	3,829.3
Restated at 31 March 2004	29.8	1,622.9	1,761.1	200.3	215.2	3,829.3

Tangible fixed assets at 1 April 2004 have been reviewed and reclassified to reflect more appropriately the operations of the business. Principal reclassifications comprise the incorporation of specialised operational buildings and integral plant, previously within land and buildings and vehicles, plant and equipment, to operational assets, reflecting the fact that they are an integral part of the asset. Assets in the course of construction at that date previously dealt with in a footnote have now been presented separately.

Adjustments principally comprise the grossing up of infrastructure assets cost and depreciation at 1 April 2004. This relates to expenditure on maintaining the operating capability of infrastructure assets previously charged to the profit and loss account but not reflected in the prior year adjustment on the implementation of FRS12 "Provisions, contingent liabilities and assets" for the year ended 31 March 1999, along with minor reclassifications between cost, grants and contributions and depreciation.

As a result of the reclassifications and adjustments outlined above, the net book value of tangible fixed assets at 1 April 2004 remains unchanged.

# AWG Group Limited

## Notes to the financial statements (continued)

### 12 Tangible fixed assets (continued)

Tangible fixed assets at 31 March 2005 include land of £17.0 million (2004: £16.4 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 2005 is £130.4 million (2004: £147.9 million). Depreciation charged on assets held under finance leases during the year ended 31 March 2005 amounted to £14.2 million (2004: £15.3 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 £nil (2004: £0.4 million) and accumulated depreciation of £nil (2004: £0.4 million).

	<b>Vehicles, plant and equipment</b>
	<b>£m</b>
<b>The company</b>	
<b>Cost</b>	
At 1 April 2004	2.8
Additions	0.3
At 31 March 2005	<u>3.1</u>
<b>Depreciation</b>	
At 1 April 2004	0.2
Charge for the year	0.8
At 31 March 2005	<u>1.0</u>
<b>Net book value</b>	
<b>At 31 March 2005</b>	<u><b>2.1</b></u>
At 31 March 2004	<u>2.6</u>

### Capital commitments

The group has a substantial long-term investment programme, which includes expenditure to meet regulatory requirements, shortfalls in performance and condition and to provide for new demand and growth. The commitments shown below reflect only the value of orders placed at 31 March 2005.

Amounts contracted for but not provided for in the financial statements at 31 March 2005 are £72.8 million (2004: £80.0 million).

### The company

There are no such commitments in the company.

# AWG Group Limited

## Notes to the financial statements (continued)

13 Investments	Joint ventures £m	Associated undertakings £m	Other £m	Total £m
<b>The group</b>				
<b>Shares, loans and deposits</b>				
<b>At cost or amount under equity method of accounting</b>				
At 1 April 2004	19.4	0.1	801.8	821.3
Additions	-	0.2	0.2	0.4
Subsidiary deconsolidated due to severe long-term restrictions	-	4.1	-	4.1
(Loss)/profit for the year	(2.0)	0.8	-	(1.2)
Disposals	2.4	-	(0.3)	2.1
Transfer to provisions	0.7	-	-	0.7
<b>At 31 March 2005</b>	<b>20.5</b>	<b>5.2</b>	<b>801.7</b>	<b>827.4</b>
<b>Provision for impairment</b>				
<b>At 1 April 2004 and 31 March 2005</b>	<b>4.6</b>	<b>-</b>	<b>7.1</b>	<b>11.7</b>
<b>Net book value</b>				
<b>At 31 March 2005</b>	<b>15.9</b>	<b>5.2</b>	<b>794.6</b>	<b>815.7</b>
As restated at 31 March 2004	14.8	0.1	794.7	809.6

### Joint ventures

The loss for the year of joint ventures is stated after operating profits of £9.4 million (2004: £8.0 million) less interest payable of £8.6 million (2004: £9.0 million), tax charge of £1.5 million (2004: £1.1 million) and dividends of £0.6 million (2004: £3.4 million). The transfer of £0.7 million to provisions represents the amount of net liabilities arising in the year originally offset against the aggregate amount of joint venture net assets (note 1(d)).

Set out below is an analysis of the group's principal joint ventures at 31 March 2005.

Undertaking	Country of incorporation	Activity	Proportion of shares held note (ii)
<b>Property Developments</b>			
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%
Ocean Point Developments	Scotland	Property development	50%
<b>Private Finance Initiative Projects</b>			
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%
<b>Facilities Management</b>			
Morrison Cleanaway Limited	England	Maintenance and repair services	50%

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

- (i) The accounting year end for all the above undertakings is 31 March.
- (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.

# AWG Group Limited

## Notes to the financial statements (continued)

### 13 Investments (continued)

#### Principal associated undertakings

Set out below is an analysis of the group's principal associated undertakings at 31 March 2005.

	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
Taizhou-Anglian Water Company Limited	China	Water treatment works	Registered capital interest	94%	31 December

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

The subsidiary deconsolidated due to severe long-term restrictions within associated undertakings of £4.1 million is in respect of Taizhou-Anglian Water Company Limited which was consolidated in previous years. On 17 September 2004 a conditional contract was exchanged for the sale of the company to Jiangsu Taizhou Water Company. The conditions in the contract were not resolved until 10 May 2005 (see note 30), nevertheless the purchaser took over the effective management and control of the company after the expected completion date in October 2004 and the group determined that it should be deconsolidated with effect from 31 December 2004. From that date it was held at a fixed amount within associated undertakings.

#### 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 4.25 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 2005 included £793.9 million (2004: £793.9 million) of loans and £0.7 million (2004: £0.8 million) of shares.

**AWG Group Limited**  
**Notes to the financial statements** (continued)

13 **Investments (continued)**

	Other Investments £m	Subsidiary Undertakings		Total £m
		Cost £m	Provisions £m	
<b>The company</b>				
<b>Shares</b>				
At 1 April 2004	-	361.4	(14.4)	347.0
Reclassification	-	-	(29.1)	(29.1)
Additions	-	-	(17.0)	(17.0)
Disposals	-	(0.1)	-	(0.1)
<b>At 31 March 2005</b>	-	<b>361.3</b>	<b>(60.5)</b>	<b>300.8</b>
<b>Loans</b>				
At 1 April 2004	-	1,169.8	(152.1)	1,017.7
Reclassification	-	-	29.1	29.1
Additions	-	30.7	-	30.7
Repaid during the year	-	(9.9)	-	(9.9)
Loans forgiven during the year	-	(109.5)	104.0	(5.5)
<b>At 31 March 2005</b>	-	<b>1,081.1</b>	<b>(19.0)</b>	<b>1,062.1</b>
<b>Other Investments</b>				
At 1 April 2004	0.3	-	-	0.3
Disposals	(0.3)	-	-	(0.3)
<b>At 31 March 2005</b>	-	-	-	-
<b>Total</b>				
<b>At 31 March 2005</b>	-	<b>1,442.4</b>	<b>(79.5)</b>	<b>1,362.9</b>
At 31 March 2004	0.3	1,531.2	(166.5)	1,365.0

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 current and preceding year the group disposed of its interests in the ordinary share capital of the following subsidiary undertakings:

Name of subsidiary	Investment held	2005	2004	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	12 November 2003
SmVAK	54.3%	-	7.6	26 February 2004
VAK JC	95.2%	-	(0.1)	18 December 2003
VAK Beroun	58.7%	-	1.2	18 December 2003
Purac AB	100.0%	-	(0.5)	19 December 2003
Discontinued operations		-	17.0	
Powermarque	100.0%	-	1.4	19 December 2003
MVM Group	100.0%	0.8	2.1	11 February 2004
AWI New Zealand	100.0%	0.1	0.4	9 July 2004
Purac Czech	100.0%	-	-	24 May 2004
AWI Nordic	100.0%	-	-	7 April 2004
		0.9	20.9	

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

### 15 Stock

	Group		Company	
	2005	2004 (restated)	2005	2004
	£m	£m	£m	£m
Raw materials and consumables	8.8	8.6	-	-
Work in progress	69.7	97.6	-	-
	78.5	106.2	-	-

Work in progress includes long-term contract balances of £212.2 million (2004: £307.2 million) less applicable payments on account of £203.9 million (2004: £293.0 million).

The current replacement value of stock does not materially differ from the historical cost amounts stated above.

The comparative amount of work in progress has been reduced by £29.8 million to restate contract income not yet billed as accrued income (see note 16).



**AWG Group Limited**  
**Notes to the financial statements** (continued)

16	Debtors	Group		Company	
		2005	2004 (restated)	2005	2004
		£m	£m	£m	£m
Amount falling due within one year:					
	Trade debtors	131.3	139.9	-	-
	Amounts recoverable on contracts	67.5	64.3	-	-
	Amounts owed by joint ventures and associates	67.2	86.1	-	-
	Amounts owed by group undertakings	5.6	10.5	44.1	19.5
	Other debtors	35.2	40.6	2.4	2.1
	<i>Prepayments and accrued income</i>	102.7	100.9	-	-
		<b>409.5</b>	<b>442.3</b>	<b>46.5</b>	<b>21.6</b>
Amounts falling due after more than one year:					
	Amounts recoverable on contracts	-	1.8	-	-
	Amounts owed by joint ventures and associates	4.3	11.1	-	-
	Amounts owed by group undertakings	3.2	2.3	-	-
	Prepaid pension contributions	83.0	55.7	-	-
	Other debtors	0.4	0.7	-	-
	Deferred tax	-	-	4.8	5.8
		<b>90.9</b>	<b>71.6</b>	<b>4.8</b>	<b>5.8</b>
		<b>500.4</b>	<b>513.9</b>	<b>51.3</b>	<b>27.4</b>

Prepayments and accrued income as at 31 March 2005 includes water and wastewater income not yet billed of £37.5 million (2004: £51.2 million) and service contract income not yet billed of £32.5 million (2004: £29.8 million). Previously this contract income had been included in work-in-progress. Comparative figures have been restated accordingly.

17	Current asset investments	Group		Company	
		2005	2004	2005	2004
		£m	£m	£m	£m
	Money market investments	114.9	-	19.1	-

Money market investments above represent cash on deposit with maturity dates in excess of three months from the balance sheet date. In addition to the amounts above the group has deposits and investments with maturity dates of less than three months from the balance sheet date of £818.6 million (2004: £540.1 million) which are included in cash at bank and in hand in the balance sheet.

# AWG Group Limited

## Notes to the financial statements (continued)

18	Creditors: amounts falling due within one year	Group		Company	
		2005 £m	2004 £m	2005 £m	2004 £m
	Bank overdrafts	0.1	1.4	-	-
	Current portion of long-term loans (note 19)	82.6	23.9	13.9	11.8
	Obligations under finance leases (note 19)	23.3	20.6	-	-
	<b>Short-term borrowings</b>	<b>106.0</b>	<b>45.9</b>	<b>13.9</b>	<b>11.8</b>
	Trade creditors	209.6	218.5	-	-
	Payments on account in excess of contract value	12.5	20.2	-	-
	Receipts in advance	77.9	54.6	-	-
	<i>Amounts due to joint ventures and associates</i>	8.6	28.2	-	-
	Amounts owed to group undertakings	5.5	83.6	47.0	108.9
	Corporation tax	23.5	22.3	20.1	14.4
	Other creditors	64.6	49.5	6.9	7.1
	Other taxation and social security	8.1	7.9	0.5	-
	Accruals	180.7	202.1	1.0	18.0
	Deferred grants and contributions	7.2	5.9	-	-
	<b>Other creditors</b>	<b>598.2</b>	<b>692.8</b>	<b>75.5</b>	<b>148.4</b>

Receipts in advance include £52.6 million (2004: £49.6 million) relating to amounts received from customers for water and sewerage charges in respect of the following year.

# AWG Group Limited

## Notes to the financial statements (continued)

19	Loans, other borrowings and financial instruments	Group		Company	
		2005 £m	2004 £m	2005 £m	2004 £m
	<b>Loans and other borrowings</b>				
	£100m 12.375% Fixed 2014 (f)	100.0	100.0	-	-
	£200m 6.875% Fixed 2023 (f)	197.2	197.0	-	-
	£200m 6.625% Fixed 2029 (f)	198.6	198.6	-	-
	£100m 5.5% Index Linked 2008 (a), (f)	158.4	153.6	-	-
	£150m 4.125% Index Linked 2020 (a), (f)	168.5	163.5	-	-
	EUR 350m 5.375% Fixed 2009 (f)	229.2	229.2	-	-
	USD 55m 6.85% Private Placement 2006 (f)	35.8	35.8	-	-
	£150m 8.25% Fixed 2006 (f)	149.8	149.7	-	-
	USD 25m 7.07% Private Placement 2009 (f)	13.3	16.0	-	-
	USD 2m 7.21% Private Placement 2006 (f)	1.0	1.6	-	-
	USD 40m 6.57% Private Placement 2005 (f)	28.4	28.4	-	-
	USD 35m 6.62% Private Placement 2006 (f)	24.8	24.8	-	-
	USD 100m 7.01% Private Placement 2008 (f)	70.8	70.8	-	-
	USD 23m 7.13% Private Placement 2009 (f)	16.3	16.3	-	-
	USD 195m 7.23% Private Placement 2011 (f)	138.0	137.9	-	-
	EUR 650m 4.625% Fixed 2013 (b), (f)	452.2	452.1	-	-
	USD 400m LIBOR plus 0.4% 2007 (f)	253.5	252.9	-	-
	EUR 115m EURIBOR plus 2.8% 2010/2037 (e), (f)	73.7	73.2	-	-
	£246m 6.293% Fixed 2030 (f)	243.5	243.4	-	-
	£275m 7.882% Fixed 2012/2037 (e), (f)	272.4	272.0	-	-
	£180m LIBOR plus 1.25% 2009/2014 (b), (e), (f)	179.5	178.4	-	-
	£100m LIBOR plus 2.8% 2010/2037 (b), (e), (f)	99.6	98.9	-	-
	£50m LIBOR plus 1.2% 2007/2012 (b), (e), (f)	49.9	49.6	-	-
	£250m 5.837% Fixed 2022 (f)	246.5	246.3	-	-
	£200m 3.07% Index Linked 2032 (a), (f)	212.3	205.9	-	-
	£60m 3.07% Index Linked 2032 (a), (f)	63.7	61.8	-	-
	£75m 3.666% Index Linked 2024 (a), (f)	80.2	77.8	-	-
	Finance Leases (f)	142.5	163.1	-	-
	£150m Index Linked Swap 2024 (b), (f)	11.7	6.7	-	-
	£175m Index Linked Swap 2030 (b), (f)	13.6	7.8	-	-
	£258m Index Linked Swap 2013 (b), (f)	10.9	3.8	-	-
	£250m 5.25% 2015 (f)	249.7	-	-	-
	£150m 5.5% 2017/2040 (f)	148.3	-	-	-
	USD 5m Revolving Credit Facilities 2005	-	2.7	-	-
	THB 301.8m Bank of Asia 2005	1.1	4.1	-	-
	CNY 19.2m Industrial & Commercial Bank of China 2005	-	0.6	-	-
	CNY 115.2m Industrial & Commercial Bank of China 2012	-	7.2	-	-
	£3.3m Bank Loan	3.3	-	3.3	-
	Morrison Loan Notes LIBID minus 0.5% 2007	9.5	10.1	9.5	10.1
	Revolving Multi-Currency Credit Facilities	-	1.0	-	-
	Other loan notes LIBOR minus 1.0%	1.1	1.9	1.1	1.7
	Amounts owed to group undertakings	-	-	157.1	184.5
	Other loans (c)	0.1	0.1	-	-
	<b>Total loans and other borrowings</b>	<b>4,348.9</b>	<b>3,944.6</b>	<b>171.0</b>	<b>196.3</b>
	Less amounts included in creditors falling due within one year excluding bank overdrafts (note 18)	(105.9)	(44.5)	(13.9)	(11.8)
	<b>Loans and other borrowings falling due after more than one year</b>	<b>4,243.0</b>	<b>3,900.1</b>	<b>157.1</b>	<b>184.5</b>

# AWG Group Limited

## Notes to the financial statements (continued)

### 19 Loans, other borrowings and financial instruments (continued)

- a) The value of the capital and interest elements of the Index Linked Loan Stock and Index Linked Swaps (see below) are linked to movements in the Retail Price Index. The increase in the capital value during the year of £38.0 million (2004: £32.2 million) has been taken to the profit and loss account as part of interest payable.
- b) 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.
- c) The unspecified loans and borrowings are at floating rates of interest.
- d) Of the above total, £2,980.5 million (2004: £2,721.6 million) is repayable wholly after five years. £68.1 million (2004: £84.8 million) is repayable by instalments, £60.1 million (2004: £64.8 million) of which fall due after more than five years.
- e) Legal maturity of these instruments is the second of the two years quoted. Coupons 'step-up' is in the first of the years quoted.
- f) 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 AWS 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 2005 this charge applies to £4,328.0 million (2004: £3,907.8 million) of the group debt listed above.

#### Maturity analysis of financial liabilities

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Less than one year	150.3	93.5	13.9	11.8
Between one and two years	204.1	98.8	3.5	4.5
Between two and five years	1,002.4	723.6	158.0	184.5
After five years	3,058.4	3,104.0	-	-
	<b>4,415.2</b>	<b>4,019.9</b>	<b>175.4</b>	<b>200.8</b>

The group analysis is net of issue costs totalling £24.6 million (2004: £29.1 million). The amortisation of issue costs is included in financing expenses within the interest charge (see note 6).

Included above are amounts due under finance leases of £23.3 million (2004: £20.6 million) payable within one year, £25.5 million (2004: £23.7 million) payable between one and two years, £33.7 million (2004: £56.6 million) payable between two and five years and £60.0 million (2004: £62.2 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 £66.3 million (2004: £75.3 million), of which £44.4 million (2004: £49.0 million) falls due in less than one year. Company only figures include £4.3 million (2004: £4.5 million), £3.5 million (2004: £4.5 million) of which falls due in one to two years and £0.8 million (2004: £nil) in two to five years.

#### Borrowing facilities

	AWS Limited		Group	
	2005 £m	2004 £m	2005 £m	2004 £m
The group has the following unused committed borrowing facilities:				
Expiring within one year	333.0	304.0	333.0	304.0
Expiring between one and two years	-	225.0	-	350.0
Expiring between two and five years	-	-	125.0	-
Expiring in more than five years	225.0	-	225.0	-
	<b>558.0</b>	<b>529.0</b>	<b>683.0</b>	<b>654.0</b>

The amounts shown under AWS Limited are subject to the security agreement dated 30 July 2002 as disclosed in note (f) above.

# AWG Group Limited

## Notes to the financial statements (continued)

### 19 Loans, other borrowings and financial instruments (continued)

#### Financial risk

The group's 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 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'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.

#### Control of group treasury

Group financing, including debt, interest costs and foreign exchange, is substantially managed 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 central treasury function actively:

- Secures funds and invests temporary surplus cash to best advantage at minimal risk
- Protects the group's foreign exchange and interest rate exposures
- Maintains an excellent reputation with providers of finance and rating agencies
- Monitors compliance with the group's financial covenants (both on an actual and forecast basis)
- Promotes improvement of cash management techniques, systems and controls throughout the group.

AWG's board, through the Treasury Advisory Group, regularly reviews treasury policy, organisation and reporting to ensure continued effectiveness and relevance.

#### Liquidity

The group's objective is to maintain flexibility and continuity of funding through access to different markets and debt instruments. At 31 March 2005 the group held cash, deposits and current asset investments of £1,101.5 million (2004: £755.4 million) and had undrawn committed multi-currency facilities of £683.0 million (2004: 654.0 million). These resources are maintained to ensure liquidity and the continuation of the group's investment programme. The maturity profile of the group's borrowings is set out above.

#### Borrowing covenants

The financing within Anglian Water is asset based with security provided to investors under a common terms agreement. All other group borrowings are raised or guaranteed by AWG Plc, AWG Group Limited and, in certain instances, subsidiary companies. The central treasury function is responsible for monitoring ongoing compliance with the group's financial covenants.

# AWG Group Limited

## Notes to the financial statements (continued)

### 19 Loans, other borrowings and financial instruments (continued)

#### Interest rates

The group's policy, as agreed by the board, is to achieve an efficient mix of funding at fixed rates of interest, floating rates of interest and rates indexed to retail prices. This mix also reflects utilisation of interest rate swaps so as to manage the group's net exposure to interest rate and retail price variations. The composition of the group's total borrowings at the year-end was 29.9 per cent (2004: 32.1 per cent) indexed to inflation, 57.7 per cent (2004: 62.3 per cent) at fixed rates and 12.4 per cent (2004: 5.6 per cent) at floating rates.

The increase in floating rate borrowings above reflects the issuance by Anglian Water (in the second half of the year) of two new bonds totalling £398.0 million, together with related interest rate swaps. The £398.0 million raised comprises a £249.7 million 5.25 per cent 2015 class A bond and a £148.3 million 5.5 per cent 2017/2040 class B bond. In addition, Anglian Water raised a further £402.0 million (before issue costs) index-linked debt in April 2005. These transactions followed the acceptance of the AMP4 final determination, taking the opportunity to pre-finance capital expenditure and debt repayment.

#### Foreign currency

The group has currency exposures resulting from overseas investments and foreign currency purchases and sales. 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, profits and anticipated disposal proceeds. 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, forward foreign exchange contracts or foreign exchange options.

#### Off balance sheet financing

In accordance with current accounting standards, assets and liabilities in certain joint venture investments within Morrison and AWG Property 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. Morrison Project Investments, part of Morrison, has equity investments in seven projects, six of which are joint ventures and one is a trade investment. The group's share of the debt within these investments was £79.9 million at 31 March 2005 (2004: £114.7 million). AWG Property's share of the debt within its joint venture companies at 31 March 2005 is £96.6 million (2004: £125.9 million). In April 2005, AWG Property completed the disposal of its investment in Broadway Plaza, following which the group's share of debt within AWG Property joint venture companies was £71.6 million. As at 31 March 2005 the group had guaranteed debt obligations of joint ventures and associates totalling £43.1 million (2004: £54.7 million). After the sale of Broadway Plaza, the guaranteed debt obligations of joint ventures and associates totals £36.4 million.

#### Currency exposures

The group has no material unhedged monetary assets or liabilities denominated in a currency different from the local currency of the particular operation.

The group has also entered into derivative transactions to hedge all significant investments denominated in currencies other than Sterling.

# AWG Group Limited

## Notes to the financial statements (continued)

### 19 Loans, other borrowings and financial instruments (continued)

#### Unrecognised gains and losses on hedges

	2005			2004		
	Gains £m	Losses £m	Net £m	Gains £m	Losses £m	Net £m
Unrecognised at 1 April	31.9	(66.3)	(34.4)	13.6	(61.8)	(48.2)
Reversal of items unrecognised at 1 April	(12.0)	16.4	4.4	(0.2)	18.5	18.3
Recognised during the year	(6.1)	3.3	(2.8)	(0.1)	-	(0.1)
Arising during the year	5.0	(57.4)	(52.4)	18.6	(23.0)	(4.4)
Unrecognised at 31 March	18.8	(104.0)	(85.2)	31.9	(66.3)	(34.4)

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 £85.3 million (2004: £34.4 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 2005.

Of the unrecognised gains and losses at 31 March 2005, a net loss of £2.6 million (2004: £3.2 million) is expected to be included in the profit and loss account for the year ended 31 March 2006 and the balance in future years. At 31 March 2005 and 31 March 2004, gains and losses on forward exchange contracts taken out as hedges of sales and purchase transactions were not material.

#### Fair value of financial assets and financial liabilities

	2005		2004	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Current asset investments	114.9	114.9	-	-
Cash at bank and in hand (including short-term deposits)	985.3	985.3	756.5	756.5
Short-term borrowings	(91.6)	(93.3)	(45.4)	(45.9)
Long-term borrowings	(4,141.9)	(4,480.3)	(3,759.4)	(4,094.7)
Currency and interest rate swaps and forward exchange contracts	(115.5)	(200.6)	(141.2)	(171.9)
Net debt	(3,248.8)	(3,674.0)	(3,189.5)	(3,556.0)
Fixed asset investments	794.6	794.6	794.7	794.7
Long-term debtors excluding prepaid pension obligations (note 16)	7.9	7.9	15.9	15.9
Provisions excluding deferred tax, unfunded pension obligations and joint venture net liabilities (note 21)	(51.2)	(51.2)	(54.2)	(54.2)
Long-term trade creditors, accruals and deferred income (note 20)	(0.3)	(0.3)	(3.6)	(3.6)
	(2,497.8)	(2,923.0)	(2,436.7)	(2,803.2)

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 realisable value that would have arisen if these contracts had terminated at 31 March. Fair values of other loans and borrowings are estimated by reference to market prices where these are available. 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.

# 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 2005

	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	(4,347.7)	(1,300.6)	(537.7)	(2,509.4)	-	6.9%	10.8
Other currencies	(1.3)	-	(1.3)	-	-		
<b>Total borrowings</b>	<b>(4,349.0)</b>	<b>(1,300.6)</b>	<b>(539.0)</b>	<b>(2,509.4)</b>	-		
Sterling	1,086.9	-	1,086.9	-	-		
Other currencies	13.3	-	13.3	-	-		
Cash, deposits and current asset investments	1,100.2	-	1,100.2	-	-		
<b>Net debt</b>	<b>(3,248.8)</b>	<b>(1,300.6)</b>	<b>561.2</b>	<b>(2,509.4)</b>	-		
Fixed asset investments	794.6	-	793.9	-	0.7		
Long-term debtors	7.9	-	-	2.6	5.3	13.6%	21.8
Provisions	(51.2)	-	-	-	(51.2)		
Other financial liabilities	(0.3)	-	-	-	(0.3)		
<b>Net financial liabilities</b>	<b>(2,497.8)</b>	<b>(1,300.6)</b>	<b>1,355.1</b>	<b>(2,506.8)</b>	<b>(45.5)</b>		

#### 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)	-	-		
Other currencies	(13.5)	-	(13.5)	-	-		
<b>Total borrowings</b>	<b>(3,946.0)</b>	<b>(1,265.9)</b>	<b>(223.4)</b>	<b>(2,456.7)</b>	-		
Sterling	748.0	-	748.0	-	-		
Other currencies	8.5	-	8.5	-	-		
Cash, deposits and current asset investments	756.5	-	756.5	-	-		
<b>Net debt</b>	<b>(3,189.5)</b>	<b>(1,265.9)</b>	<b>533.1</b>	<b>(2,456.7)</b>	-		
Fixed asset investments	794.7	-	793.9	-	0.8		
Long-term debtors	15.9	-	1.8	5.8	8.3	12.8%	23.6
Provisions	(54.2)	-	-	-	(54.2)		
Other financial liabilities	(3.6)	-	-	-	(3.6)		
<b>Net financial liabilities</b>	<b>(2,436.7)</b>	<b>(1,265.9)</b>	<b>1,328.8</b>	<b>(2,450.9)</b>	<b>(48.7)</b>		

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.



# AWG Group Limited

## Notes to the financial statements (continued)

### 20 Other creditors falling due after more than one year

	Group		Company	
	2005	2004	2005	2004
	£m	£m	£m	£m
Trade creditors	0.3	3.6	-	-
Deferred grants and contributions	98.4	90.0	-	-
	98.7	93.6	-	-

### 21 Provisions for liabilities and charges

	Deferred tax £m	Unfunded pension obligations £m	Onerous lease £m	Business closures and disposals £m	Contract and other £m	Joint venture net liabilities £m	Coupon enhancement £m	Total £m
<b>The group</b>								
At 1 April 2004	80.0	26.5	-	17.9	10.8	13.1	25.5	173.8
Reanalysed	-	-	1.0	(1.0)	-	-	-	-
Charge for the year	15.0	-	3.7	4.4	7.5	-	-	30.6
Transfer from investments	-	-	-	-	-	0.7	-	0.7
Disposed with subsidiary	0.1	-	-	-	-	-	-	0.1
Unwinding of discount (note 6)	-	2.4	0.3	-	-	-	0.5	3.2
Utilised in the year	-	(2.2)	(0.4)	(9.3)	(5.3)	-	(4.4)	(21.6)
<b>At 31 March 2005</b>	<b>95.1</b>	<b>26.7</b>	<b>4.6</b>	<b>12.0</b>	<b>13.0</b>	<b>13.8</b>	<b>21.6</b>	<b>186.8</b>

The deferred tax provision is analysed in note 22 and the effect of discounting on deferred tax is shown in note 7.

The provision for unfunded pension obligations relates to the cost of enhancements to the pension entitlements of former employees, over and above their entitlements in the group's pension schemes. The majority of these employees ceased their employment following redundancy programmes principally between four and 16 years ago. These pension enhancements are payable until the death of the employees (or their dependants), and payments are expected to be made over approximately 27 years. The provision is determined using actuarial assumptions based on those used for the valuation of the group's pension scheme and has been discounted.

The onerous lease provision relates to the cost of leasehold properties not occupied by the group including two properties which were vacated following recent business closures and disposals. The £1.0 million reanalysed represents an onerous lease provision previously provided for on disposal of a business but not separately analysed. These provisions are discounted and are expected to be utilised over the next 18 years.

Business closure and disposal provisions were established at 31 March 2004 and relate to exit costs, principally in the International division, which are expected to crystallise over a period of approximately two years.

The contract and other provisions comprise potential warranty and certification costs of £9.1 million, which are expected to crystallise over a period of approximately three years and £3.9 million in respect of insurance claims against the group incurred but not reported, which are expected to be utilised over a period of approximately 10 years. This provision has been made following an actuarial assessment of the obligation taking account of past claims experience.

The provision for joint venture liabilities represents the aggregate amount of net liabilities in joint ventures at the balance sheet date. The amounts have been transferred from investments in order to separate the gross amounts of investments with net liabilities from those with net assets as prescribed in the accounting policy note 1(d). Movements in the group's share of joint venture assets and liabilities are disclosed in note 13.

The coupon enhancement provision of £21.6 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 in 2002. The provision relates to several instruments with varying maturity dates. It is expected to be utilised at varying amounts over the next 24 years and has been discounted.

# AWG Group Limited

## Notes to the financial statements

### 21 Provisions for liabilities and charges (continued)

#### The company

	Business closures and disposals	Other	Total
At 1 April 2004	4.5	-	4.5
Charge for the year	0.2	0.8	1.0
Utilised in the year	(1.2)	-	(1.2)
At 31 March 2005	3.5	0.8	4.3

### 22 Deferred taxation

The total tax charge or credit in the current year includes discounted deferred taxation. Consequently, changes in the medium 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 Advanced 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 £69.1 million.

	Group £m	Company £m
At 1 April 2004	80.0	(5.8)
Deferred tax charged to the profit and loss account (note 7)	15.0	1.0
Disposal of subsidiary	0.1	-
<b>At 31 March 2005</b>	<b>95.1</b>	<b>(4.8)</b>

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Accelerated capital allowances	742.6	742.2	-	-
Short-term timing differences	(6.4)	(21.9)	(4.8)	(5.8)
Surplus ACT asset	(149.8)	(149.8)	-	-
Undiscounted provision for deferred tax	586.4	570.5	(4.8)	(5.8)
Discount	(491.3)	(490.5)	-	-
Discounted provision for deferred tax	95.1	80.0	(4.8)	(5.8)

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

Tax losses carried forward	(2.4)	(10.6)
	(2.4)	(10.6)

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.

# AWG Group Limited

## Notes to the financial statements (continued)

### 23 Commitments under operating leases

At 31 March 2005 the group had commitments to make payments during the next 12 months under non-cancellable operating leases which expire as follows:

	2005		2004	
	Land and Buildings £m	Other £m	Land and Buildings £m	Other £m
<b>The group</b>				
Within one year	0.6	2.2	0.8	3.2
Between one and five years	1.2	11.2	0.9	9.6
After five years	4.2	1.2	4.4	1.9
	<b>6.0</b>	<b>14.6</b>	<b>6.1</b>	<b>14.7</b>

#### The company

The company had no such commitments.

### 24 Share capital

	Company and Group 2005 £m	Company and Group 2004 £m
	<b>Authorised</b>	
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
	<b>572.1</b>	<b>572.1</b>
<b>Allotted, issued and fully paid</b>		
280.0 million ordinary shares of 47 1/7 pence each	133.0	133.0
290.0 million B shares of 100 pence each	290.0	290.0
	<b>423.0</b>	<b>423.0</b>

### 25 Movement in share capital, reserves and shareholders' funds

	Ordinary share capital £m	B Shares £m	Share premium account £m	Capital redemption reserve £m	Profit and loss account £m	Total shareholders' funds £m
<b>The group</b>						
At 1 April 2004	133.0	290.0	102.3	227.6	560.3	1,313.2
Total recognised gains and losses relating to the year	-	-	-	-	96.1	96.1
Dividends paid and proposed on equity shares	-	-	-	-	(48.0)	(48.0)
<b>At 31 March 2005</b>	<b>133.0</b>	<b>290.0</b>	<b>102.3</b>	<b>227.6</b>	<b>608.4</b>	<b>1,361.3</b>
<b>The company</b>						
At 1 April 2004	133.0	290.0	102.3	227.6	486.5	1,239.4
Total recognised gains and losses relating to the year	-	-	-	-	88.8	88.8
Dividends paid and proposed on equity shares	-	-	-	-	(48.0)	(48.0)
<b>At 31 March 2005</b>	<b>133.0</b>	<b>290.0</b>	<b>102.3</b>	<b>227.6</b>	<b>527.3</b>	<b>1,280.2</b>

# 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 Morrison Pension and Life Assurance Plan (MPLAP) (formerly AWG Infrastructure Management Pension Scheme (AWGIMPS)), the AWG Pensions and Life Assurance Plan (AWGPLAP) and various other smaller arrangements. The group's actuaries are Aon Consulting.

The majority of defined benefit arrangements are closed to new members, who are eligible instead for entry to the group's defined contribution schemes. For closed schemes, under the projected unit method, the current service cost will increase as the members of the scheme approach retirement. A number of defined contribution schemes operate both in the UK and overseas, and contributions to these schemes in the year amounted to £4.3 million (2004: £3.4 million).

The administration and investment of the pension funds are maintained separately from the finances of the group. The accounting for pension costs has been undertaken in accordance with SSAP 24, based on the most recent actuarial valuations. Details of the most recent actuarial valuations of the pension schemes are summarised below. The valuation as at 31 March 2005 is as yet unavailable from the group's actuaries and hence the most recent valuation used for the AWGPS and MPLAP schemes is 31 March 2002.

Scheme	AWGPS	MPLAP	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 2005 was £18.8 million (2004: £15.3 million) which included contributions of £nil (2004: £0.1 million) for overseas schemes and £2.4 million (2004: £2.2 million) for other defined benefit schemes. The net pension costs includes a credit of £1.4 million (2004: £1.4 million) in respect of the amortisation of actuarial surpluses. At 31 March 2005 there was a prepayment in respect of pensions of £83.0 million (2004: £55.7 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 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 2005. The group is contributing 20.1 per cent of pensionable pay plus £9.2 million per annum before indexation to the AWGPS and 13.2 per cent of pensionable pay to MPLAP and 20.3 per cent of pensionable pay to AWGPLAP. The contributions to MPLAP include 1.4 per cent of pensionable pay to fund the shortfall in the Scheme over the average future working lifetimes of employees. The group also manages an unfunded pension arrangement (note 21), which has been valued by independent actuaries to take account of the requirements of FRS17 as at 31 March 2005. In addition, the group operates a number of other defined benefit schemes in the UK. The assets and liabilities of these arrangements are not material to the group in the context of SSAP 24, or have been acquired in the current year, and were therefore excluded from the following disclosures in previous years. In the current year these schemes have been included in aggregate as "Other Schemes" in the FRS 17 disclosures for completeness.

# AWG Group Limited

## Notes to the financial statements (continued)

### 26 Pension commitments (Continued)

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

	2005 % p.a.	2004 % p.a.	2003 % p.a.
Discount rate	5.4	5.5	5.4
Inflation rate	2.8	2.9	2.6
Increase to deferred benefits during deferment	2.8	2.9	2.6
Increases to inflation related pensions in payment	2.8	2.9	2.7
General salary increases	3.8	4.4	4.6

The long-term expected rate of return and the assets in the scheme at 31 March 2005 are:

	AWGPS	MPLAP	AWGPLAP	Unfunded Pensions	Other Schemes	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	Fair value of scheme assets £m	
Equities	7.7	376.1	63.6	17.5	N/A	28.7	485.9
Corporate bonds	5.1	37.0	6.0	1.1	N/A	5.1	49.2
Gilts	4.7	132.1	6.1	3.3	N/A	2.8	144.3
Property	6.7	16.0	-	-	N/A	1.3	17.3
Other	4.8	41.5	0.5	0.3	N/A	1.2	43.5
Total assets		602.7	76.2	22.2	N/A	39.1	740.2
Fair value of scheme liabilities		(710.9)	(110.2)	(33.7)	(40.2)	(48.4)	(943.4)
Deficit in the scheme		(108.2)	(34.0)	(11.5)	(40.2)	(9.3)	(203.2)
Related deferred tax asset		32.5	10.2	3.4	12.1	2.8	61.0
Net pension liability		(75.7)	(23.8)	(8.1)	(28.1)	(6.5)	(142.2)

The Other Scheme arrangements comprise AWG Executive Pension Scheme, Morrison Contracted-out Pension and Life Assurance Plan, Purac Limited Pension & Life Assurance Scheme, Water Companies Pension Scheme – Hartlepool Water Plc Section, Funded Unapproved Retirement Benefits Schemes provided in respect of certain directors, Unfunded Unapproved Retirement Benefits Schemes provided in respect of certain directors and the group's share of two Local Government Pension Schemes in Havering and Gateshead.

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

	AWGPS	MPLAP	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)

# 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 2003 were:

	AWGPS	MPLAP	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 deferred tax attributable to pension scheme deficits is not discounted because the related deficits are themselves determined on a discounted basis. If the above net pensions liabilities had been recognised in the financial statements, the group's net assets and the profit and loss reserve at 31 March 2005 would be as follows:

	2005 £m	2004 £m
<b>Net assets</b>		
Net assets	1,364.0	1,315.4
Exclude existing post tax net pension liability and prepayment (under SSAP 24)	(39.5)	(20.4)
	1,324.5	1,295.0
FRS 17 pension liability net of deferred tax	(142.2)	(166.6)
Net assets including FRS 17 pension liability	1,182.3	1,128.4
<b>Profit and loss reserve</b>		
Profit and loss reserve	608.4	560.3
Exclude existing net pension liability and prepayment (under SSAP 24)	(39.5)	(20.4)
	568.9	539.9
FRS 17 pension liability net of deferred tax	(142.2)	(166.6)
Profit and loss reserve including FRS 17 pension liability	426.7	373.3

# AWG Group Limited

## Notes to the financial statements (continued)

### 26 Pension commitments (continued)

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

	AWGPS £m	MPLAP £m	AWGPLAP £m	Unfunded Pensions £m	Other Schemes £m	Total £m
<b>2005</b>						
<b>Profit and loss account</b>						
Current service cost	(16.7)	(6.2)	(3.7)	-	(2.0)	(28.6)
Past service cost	(2.4)	-	-	-	-	(2.4)
Gains on settlements and curtailments	-	-	-	-	0.5	0.5
Charge to operating profit	(19.1)	(6.2)	(3.7)	-	(1.5)	(30.5)
Expected return on pension scheme assets	37.1	4.9	1.3	-	2.4	45.7
Interest on pension scheme liabilities	(37.2)	(5.8)	(1.7)	(2.1)	(2.3)	(49.1)
Amount (charged)/credited to other finance income	(0.1)	(0.9)	(0.4)	(2.1)	0.1	(3.4)
Profit on ordinary activities before taxation	(19.2)	(7.1)	(4.1)	(2.1)	(1.4)	(33.9)

	AWGPS £m	MPLAP £m	AWGPLAP £m	Unfunded Pensions £m	Total £m
<b>2004</b>					
<b>Profit and loss account</b>					
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)
Profit on ordinary activities before taxation	(26.5)	(9.4)	(13.5)	(2.0)	(51.4)

	AWGPS £m	MPLAP £m	AWGPLAP £m	Unfunded Pensions £m	Other Schemes £m	Total £m
<b>2005</b>						
<b>Statement of total recognised gains and losses</b>						
Actual return on pension scheme assets less expected return	9.8	2.3	0.6	-	1.4	14.1
Experience gains and losses arising on the scheme liabilities	8.5	2.8	(0.4)	-	(11.8)	(0.9)
Changes in assumptions underlying the present value of the scheme liabilities	6.9	0.1	1.6	(0.6)	0.2	8.2
Gain/(loss) recognised	25.2	5.2	1.8	(0.6)	(10.2)	21.4

	AWGPS £m	MPLAP £m	AWGPLAP £m	Unfunded Pensions £m	Total £m
<b>2004</b>					
<b>Statement of total recognised gains and losses</b>					
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

# AWG Group Limited

## Notes to the financial statements (continued)

### 26 Pension commitments (continued)

	AWGPS £m	MPLAP £m	AWGPLAP £m	Unfunded Pensions £m	Other Schemes £m	Total £m
<b>2005</b>						
<b>Movement in scheme deficit</b>						
Deficit at 1 April 2004	(150.8)	(36.0)	(11.4)	(39.7)	-	(237.9)
Current service costs	(16.7)	(6.2)	(3.7)	-	(2.0)	(28.6)
Contributions	36.6	3.9	2.2	2.2	2.3	47.2
Past service costs	(2.4)	-	-	-	-	(2.4)
Settlements and curtailments	-	-	-	-	0.5	0.5
Net interest	(0.1)	(0.9)	(0.4)	(2.1)	0.1	(3.4)
Actuarial gain / (loss)	25.2	5.2	1.8	(0.6)	(10.2)	21.4
Deficit at 31 March 2005	(108.2)	(34.0)	(11.5)	(40.2)	(9.3)	(203.2)

The actuarial gain/(loss) for the Other Schemes includes the aggregate deficits of these schemes not previously reported.

	AWGPS £m	MPLAP £m	AWGPLAP £m	Unfunded Pensions £m	Total £m
<b>2004</b>					
<b>Movement in scheme deficit</b>					
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)

	AWGPS	MPLAP	AWGPLAP	Unfunded Pensions	Other Schemes	Total
<b>2005</b>						
<b>Details of experience gains and losses</b>						
<b>Difference between expected and actual returns on scheme assets</b>						
Amount (£m)	9.8	2.3	0.6	-	1.4	14.1
Percentage of scheme assets	1.6%	3.0%	2.7%	-	3.6%	1.9%
<b>Experience gains and losses on scheme liabilities</b>						
Amount (£m)	8.5	2.8	(0.4)	-	(11.8)	(0.9)
Percentage of present value of scheme liabilities	1.2%	2.5%	(1.2)%	-	(24.4)%	(0.1)%
<b>Amount in group statement of total recognised gains and losses</b>						
Amount (£m)	25.2	5.2	1.8	(0.6)	(10.2)	21.4
Percentage of present value of scheme liabilities	3.5%	4.7%	5.3%	(1.5)%	(21.1)%	2.3%



# AWG Group Limited

## Notes to the financial statements (continued)

### 26 Pension commitments (continued)

2004	AWGPS	MPLAP	AWGPLAP	Unfunded Pensions	Total
<b>Details of experience gains and losses</b>					
<b>Difference between expected and actual returns on scheme assets</b>					
Amount (£m)	78.7	12.7	2.9	-	94.3
Percentage of scheme assets	14.7%	19.1%	16.2%	-	15.2%
<b>Experience gains and losses on scheme liabilities</b>					
Amount (£m)	-	9.7	(0.9)	-	8.8
Percentage of present value of scheme liabilities	-	9.5%	(3.1)%	-	1.0%
<b>Amount in group statement of total recognised gains and losses</b>					
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	MPLAP	Unfunded Pensions	Total
<b>Details of experience gains and losses</b>				
<b>Difference between expected and actual returns on scheme assets</b>				
Amount (£m)	(166.4)	(17.8)	-	(184.2)
Percentage of scheme assets	(39.8)%	(37.5)%	-	(39.5)%
<b>Experience gains and losses on scheme liabilities</b>				
Amount (£m)	-	-	0.9	0.9
Percentage of present value of scheme liabilities	-	-	2.4%	0.1%
<b>Amount in group statement of total recognised gains and losses</b>				
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

#### 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 £43.1 million (2004: £54.7 million) including obligations of Aguas Argentinas (in which the group has a 4.25 per cent investment) amounting to £5.0 million (2004: £10.6 million).

#### The company

The company is a party to cross guarantee agreements relating to a credit facility for the non-regulated businesses and to certain group companies' accounts at Barclays Bank Plc. Net indebtedness under each of these arrangements at 31 March 2005 was £nil (2004: £nil).

### 28 Related party transactions

The group's related party transactions requiring disclosure in the financial statements in accordance with FRS 8 "Related Party Transactions" are summarised below:

	2005 £m	2004 £m
Sales to joint ventures on normal trading terms	12.1	46.9
Amounts owed by joint ventures and associates falling due within one year	72.3	91.1
Amounts owed by joint ventures and associates falling due after more than one year	4.3	11.1
Amounts owed to joint ventures and associates falling due within one year	8.6	28.2

# AWG Group Limited

## Notes to the financial statements (continued)

29

### Principal group companies

The principal subsidiary undertakings at 31 March 2005 are shown below. A full list of the group's subsidiaries, joint ventures and associates will be delivered to the registrar with the next annual return.

	Country of Incorporation	Activities
<b>Group and Other</b>		
Rutland Insurance Limited	Guernsey	Provision of insurance to group companies
<b>Anglian Water</b>		
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
<b>Morrison</b>		
Alpheus Environmental Limited	England	Wastewater treatment
Morrison Project Investments Limited	Scotland	Bidding for and managing PFI projects
Anglian Water Direct Limited	England	Home service products
Morrison Highway Maintenance Limited	England	Highway maintenance
Morrison Construction Services Limited	Scotland	Building and civil engineering
Morrison Facilities Services Limited	Scotland	Property maintenance and repair work
Maintenance and Property Care Limited	Scotland	Property maintenance and repair work
PURAC Limited	England	Contracting for water and wastewater treatment processes
Anglian Water (Ireland) Limited	Ireland	Management and operation of leakage reduction and wastewater projects
Celtic Anglian Water Limited	Ireland	Water and wastewater treatment
Morrison Utility Services Limited	England	Utility contracting
<b>AWG Property</b>		
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
<b>International Services</b>		
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
AW PTY Limited	Australia	Design, build and operation of wastewater projects
PURAC-Anglian Water Treatment System (Beijing) Co Limited (3)	China	Contracting for water and wastewater treatment processes
Anglian Water Thailand	Thailand	Management and operation of leakage reduction
Byquin SA (formerly Anglian Water International Holdings Limited y Compania Limitada) (3)	Chile	Holding company
Morrison International Limited	Scotland	Building and civil engineering contracting
Morrison International Developments Limited	Scotland	Property development

- (1) These companies are owned directly by AWG Group Ltd.
- (2) Including Anglian Water Services trading as Hartlepool Water Limited.
- (3) 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 shown above.

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

### 30 Acquisitions

On 12 May 2004 the group acquired the remaining 50 per cent stake in Rossorry Developments Limited for cash consideration of £0.1 million. Acquisition accounting has been applied and the impact is set out in note (b) to the cash flow statement.

### 31 Subsequent events

On 20 April 2005 Anglian Water Services Financing Plc raised £402.0 million, before debt issue costs, through the issue of Indexation class A unwrapped bonds due 2035.

On 10 May 2005 the group completed the sale of Taizhou-Anglian Water Company Limited and received cash proceeds of £5.7 million.

### 32 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.