

AWG Group Ltd
(Registered Number 2366618)

**Directors' report and
financial statements**

31 March 2006



AWG Group Limited

Directors' report For the year ended 31 March 2006

The Directors present their report, together with the audited financial statements, for the year ended 31 March 2006.

Principal activities

The principal activity of the company is that of a holding company for the AWG Plc group. It acts as the main treasurer for the non-regulated business, which involves the financial support by way of loans to its subsidiary undertakings. It also issues guarantees where required to support the trading activities of the group.

As the principal company in the group structure it also receives dividend income from its subsidiaries and pays these to its immediate parent to enable the payment of the external dividend to shareholders by its ultimate payment. Dividends are also paid to its immediate parent to enable it to meet its internal loan obligations.

Business review

During the period the company received income from its subsidiaries in the form of dividends and interest income on the various loans that have been made. As a consequence of one of these dividend payments, the company had to impair its investment in a subsidiary as detailed in note 10 to the accounts.

Also during the year, the company sold some of its indirect subsidiaries to Galliford Try Plc, as detailed in note 24. The loss on disposal was principally due to the costs and provisions that related to the transaction. As part of the disposal the company also became the principal employer of the scheme that most of the employees of the disposed companies were members of. This has resulted in the assumption of the pension liability for this now closed scheme.

At the financial year-end the company's net current assets have increased by £97.1m, this is due to the following:

- Increased cash balance as a consequence of the disposal, which was completed on 31 March 2006
- The reduced corporation tax charge for the year has resulted in lower creditors when compared to the prior year.

Financial risk management

The company's financing, including debt, interest cost, foreign exchange & derivatives is managed within a group framework in respect of AWG's non-regulated businesses and by a treasury team reporting to the AWG Financial Director. Treasury policy is to focus on efficient and effective cash management by:

- Investing surplus cash to the best advantage at minimal risk
- Protect the company's foreign exchange and interest rate exposures
- Upholding the company's reputation with its core financial providers
- Promotes improvement of cash management techniques, systems and controls

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

Liquidity

The company's objective is to maintain flexibility and continuity of funding through access to different markets and debt instruments. At 31 March 2006 the company held cash, deposits and current asset investments of £129.8 million (2005: £114.7 million) and had un-drawn committed multi-currency facility of £125 million. These resources are maintained to ensure liquidity and the continuation of the group's investment programme and working capital requirements.

AWG Group Limited

Directors' report

For the year ended 31 March 2006 (continued)

Financial risk management (continued)

Interest rates

At 31 March 2006, the company had £5.3 million (2005: £13.9 million) of floating rate debt; this is more than offset by the floating rate cash deposits held by the company and hence the company's exposure to interest rate risk is minimal.

Credit risk

The company has implemented a policy that stipulates that all derivatives are placed with financial institutions that have a credit rating of A or better by more than one recognised rating agency. The amount of exposure to a single financial institution is subject to a limit that is periodically reviewed by the Treasury Advisory Group.

At 31 March 2006, the company had two derivative contracts, one was hedging the net asset exposure on a subsidiaries investment in Italy and its fair value at the year-end was £95k. The other was hedging the Group's potential exposure to claims in Argentina and had a fair value of £59k

The company also enters into inter-company transactions with its subsidiaries in the form of loans, though the risk of non-repayment of these loans, due to insolvency of the subsidiary, is considered remote.

Results and dividends

The results of the company for the year ended 31 March 2006 are set out on page 7. The company has paid a dividend of £125,400,000 (2005: £121,000,000).

Directors and Directors' interests

The Directors who served during the year and to the date of this report were:

J Cox
P Firth (appointed 7 October 2005)
S R J Longhurst
P C F Hickson (resigned 22 August 2005)
R A Pointer (resigned 26 April 2005)

The interests of J Cox and S Longhurst, who are also directors of the ultimate parent company AWG Plc, are shown in the annual report of that company.

The interests of P Firth in the shares of AWG Plc and in options over such shares granted under that company's share schemes are set out below.

The following contingent interests were held under the group's Long Term Incentive Plan:

	AWG Plc Long Term Incentive Plan			At 31 March 2006 Number of shares
	At 1 April 2005 Number of shares	Allotted number of shares	Lapsed number of shares	
P Firth	11,199	7,733	-	18,932

The Long Term Incentive Plan is designed to encourage continuing improvement in the AWG Plc performance in terms of shareholder return over the longer term. Under the scheme, each participant is conditionally awarded a number of shares based on a value equating to a percentage of base salary. The proportion of the award to be released to each participant previously depended on the AWG Plc performance in terms of total shareholder return, but in future years will depend on the AWG Plc performance in terms of earnings per share as defined in the scheme rules.

AWG Group Limited

Directors' report

For the year ended 31 March 2006 (continued)

Directors and Directors' interests (continued)

No shares will be released for below median performance. Above the median level there will be a progressive release of shares up to 100 per cent of allocation. The release of shares to participants will be made three years after the initial award. Further details are shown in the AWG Plc annual report and accounts.

Interests in the AWG Plc Sharesave Scheme were as follows:

AWG Plc Sharesave Scheme					
At 1 April 2005 Number of shares	Options granted Number of shares	Options lapsed Number of shares	At 31 March 2006 Number of shares	Weighted average price of options	
P Firth	2,795	980	-	3,775	£4.98

Options granted under the Sharesave Scheme are exercisable within a period of six months after either the third, fifth or seventh anniversary of the date of the savings contract.

Interests in the AWG Plc Executive Share Option Scheme were as follows:

AWG Plc Executive Share Option Scheme					
At 1 April 2005 Number of shares	Options granted Number of shares	Options Lapsed Number Of share	At 31 March 2006 Number of shares	Weighted average price of option	
P Firth	55,081	-	(13,282)	41,799	£5.39

Under the Executive Share Option Scheme, options are granted based on a value equating to a percentage of base salary. The exercise of the options depends on the company's growth in earnings per share (as defined by the scheme rules) relative to inflation. Executive Share Options are exercisable during a period commencing on the third anniversary and ending on the tenth anniversary of the date of the grant.

The 2001 ESOS did not meet its minimum performance conditions in the three-year period to 31 March 2004 or upon retesting following completion of the financial periods ended 31 March 2005 and 2006 and all outstanding options made under this award have therefore lapsed.

AWG Group Limited

Directors' report

For the year ended 31 March 2006 (continued)

Directors and Directors' interests (continued)

Interests in the AWG Sharebuy Plan were as follows:

	AWG Plc Sharebuy Plan				
	At 1 April 2005 Number of shares	Partnership Shares bought Number of Shares	Matching Shares Number of Shares	Dividend Shares Number of Shares	31 March 2006 Number of Shares
P Firth	-	153	76	5	234

The AWG Plc Sharebuy Plan is open to all employees. For every two-partnership shares purchased, AWG Plc also awards one matching share. Participants can also choose to reinvest any dividends earned on shares held in the plan.

No Director has any interest in the shares of group companies, other than those shown above.

None of the Directors had during the year or has a material interest in any contracts of significance to which the company or any other group company is or was a party.

AWG Group Limited

Directors' report

For the year ended 31 March 2006 (continued)

Statement of Directors' responsibilities

Company law requires the Directors to prepare financial statements for each financial period that give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. The Directors are required to prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors confirm that suitable accounting policies have been used and applied consistently except as detailed in note 1, where new accounting standards have been adopted. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 March 2006 and that applicable accounting standards have been followed.

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

So far as each Director is aware, there is no relevant audit information of which the company's auditors are unaware. Relevant information is defined as "information needed by the company's auditors in connection with preparing their report".

Each Director has taken all the steps (such as making enquiries of other Directors and the auditors and any other steps required by the Director's duty to exercise due care, skill and diligence) that he ought to have taken in his duty as a Director in order to make himself aware of any relevant audit information and to establish the company's auditors are aware of that information.

Auditors

Elective resolutions to dispense with the holding of annual general meetings, the laying of accounts before the company in general meeting and the appointment of auditors annually are currently in force.

By Order of the Board

Director:

Date:

12 August 2006

Registered No: 2366618

Registered Office:
Anglian House
Ambury Road
Huntingdon
Cambridgeshire
PE29 3NZ

Independent auditors' report to the member of AWG Group Limited

We have audited the financial statements of AWG Group Limited for the year ended 31 March 2006 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet, and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). 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 report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. We also report to you if, in our opinion, 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 other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2006 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Birmingham

Date: 2 August 2006

AWG Group Limited

Profit and loss account For the year ended 31 March 2006

	Notes	31 March 2006	31 March 2005 (restated)
		£m	£m
Administrative expenses		(8.2)	(3.9)
Other operating income		12.0	0.8
Amounts written-off investments	10	(40.9)	(23.3)
Operating loss	2	(37.1)	(26.4)
Loss on disposal of investment	24	(21.2)	-
Income from shares in group undertakings		106.0	40.1
Net interest receivable	4	66.2	69.8
Profit on ordinary activities before taxation		113.9	83.5
Taxation	5	3.2	(16.0)
Profit for the financial year		117.1	67.5
Dividends	7	(125.4)	(121.0)
Loss for the financial year	19	(8.3)	(53.5)

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

All of the above results relate to continuing operations.

The notes on pages 10 to 21 form part of these financial statements.

AWG Group Limited

Statement of total recognised gains and losses For the year ended 31 March 2006

	31 March 2006	31 March 2005 (restated)
	£m	£m
Profit for the financial year	117.1	67.5
Pension liability (note 16)	(24.3)	-
Total recognised gains and losses relating to the year	92.8	67.5
Prior year adjustment – FRS21	(94.3)	
Total gains and losses recognised since last annual report	(1.5)	

AWG Group Limited

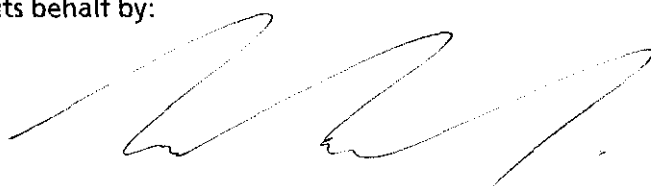
Balance sheet

As at year ended 31 March 2006

	Notes	31 March 2006	31 March 2005 (restated)
		£m	£m
Fixed assets			
Tangible assets	9	-	2.1
Investments	10	1,275.4	1,362.9
		<u>1,275.4</u>	<u>1,365.0</u>
Current assets			
Debtors	11	75.4	20.0
Investments	12	5.0	19.1
Cash at bank and in hand (including short-term deposits)		124.8	95.6
		<u>205.2</u>	<u>134.7</u>
Creditors (amounts falling due within one year)			
Short-term borrowings	13	(5.3)	(13.9)
Other creditors	13	(57.5)	(75.5)
		<u>(62.8)</u>	<u>(89.4)</u>
Net current assets		<u>142.4</u>	<u>45.3</u>
Total assets less current liabilities		<u>1,417.8</u>	<u>1,410.3</u>
Creditors (amounts falling due after more than one year)			
Loans and other borrowings	14	(165.1)	(157.1)
Provisions for liabilities and charges	15	(12.1)	(4.3)
Net assets excluding pension liability		<u>1,240.6</u>	<u>1,248.9</u>
Pension liability	16	(24.3)	-
Net assets including pension liability		<u>1,216.3</u>	<u>1,248.9</u>
Capital and reserves			
Called up share capital	18	423.0	423.0
Share premium	20	102.3	102.3
Capital redemption reserve	20	227.6	227.6
Profit and loss account	19	463.4	496.0
Equity shareholder's funds	20	<u>1,216.3</u>	<u>1,248.9</u>

The notes on pages 10 to 21 form part of these financial statements.

The financial statements were approved by the Board of Directors on 12 August 2006 and signed on its behalf by:



DIRECTOR

AWG Group Limited

Notes to the financial statements For the year ended 31 March 2006

1. Accounting policies

(1) Basis of accounting

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards and the Companies Act 1985.

The company has adopted Financial Reporting Standard (FRS) 21 "Events after the Balance Sheet Date", FRS 25 "Financial Instruments: Disclosure and Presentation" and FRS 28 "Corresponding Amounts" in these accounts. There is no impact on these accounts from adopting FRS 25 or FRS 28.

The prior year accounts have been restated to reflect the change in accounting policy as a result of the introduction of Financial Reporting Standard 21 – "Events after the balance sheet date" (note 8)

The following principal accounting policies and estimation techniques have been applied to the financial statements as stated.

(2) Cash flow statement

As the published consolidated financial statements of the ultimate holding company include a consolidated cash flow statement, the company has taken advantage of the exemption within FRS1 (revised 1996) and not presented its own cash flow statement.

(3) Tangible fixed assets and depreciation

Tangible fixed assets are included at cost less accumulated depreciation. Additions are included at cost.

Tangible fixed assets are depreciated, once they are commissioned, at rates to write-off cost less the estimated residual value evenly over their estimated economic lives, which are principally as follows:

Computer Equipment	4.5 years
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(4) Investments

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

(5) 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 are translated into Sterling at the financial year-end exchange rates. Exchange differences are taken to the profit and loss account.

(6) 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.

AWG Group Limited
Notes to the financial statements
For the year ended 31 March 2006 (continued)

1. Accounting policies (continued)

(6) Deferred taxation (continued)

Deferred tax 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.

(7) Pension obligations

The company is the principal employer for the Morrison Pension and Life Assurance Plan (MPLAP), which is a defined benefit scheme. The scheme is closed to new entrants and future service. The company accounts for its obligation in accordance with FRS 17.

(8) 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 obligations. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability.

(9) Dividends

Dividends payable and receivable are only included in the financial statements in the period that they have been formally and irrevocably agreed, this is usually by reference to the board resolution agreeing the payment of the dividend.

(10) Group financial statements

In accordance with Section 228 of the Companies Act 1985 the company has not prepared group financial statements. The results of the company and its subsidiaries are consolidated in the financial statements of AWG Plc, a company registered in England.

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Notes to the financial statements For the year ended 31 March 2006 (continued)

2. Operating loss

	<u>2006</u>	<u>2005</u>
	£m	£m
The operating loss is stated after charging:		
Depreciation	-	0.8

The fees for audit services were borne by the ultimate parent undertaking.

3. Directors' emoluments and employee information

None of the Directors of the company received any emoluments during the year or the preceding year in respect of their services to the company.

There were no employees of the company during the year (2005: None).

4. Net interest receivable

	<u>2006</u>	<u>2005</u>
	£m	£m
Option amortisation	4.8	4.8
Bank interest receivable	10.7	10.3
Interest receivable on loans to group undertakings	64.9	67.5
Total interest receivable	<u>80.4</u>	<u>82.6</u>
Bank interest payable	(8.7)	(7.6)
Interest payable on loans from group undertakings	(5.5)	(5.2)
Total interest payable	<u>(14.2)</u>	<u>(12.8)</u>
Net interest receivable	<u>66.2</u>	<u>69.8</u>

5. Taxation

	<u>2006</u>	<u>2005</u>
	£m	(restated) £m
The tax (credit) / charge for the year comprised:		
UK Corporation tax – current year charge	7.1	21.0
UK Corporation tax – adjustments in respect of prior years	(10.3)	(4.3)
Tax on profit on ordinary activities	<u>(3.2)</u>	<u>16.0</u>
Tax on profit on ordinary activities comprises:		
UK Corporation tax at 30% (2005: 30%)	6.1	19.3
Adjustments in respect of prior years	(10.6)	(4.3)
Total current tax (credit) / charge	<u>(4.5)</u>	<u>15.0</u>
Deferred tax (note 6)		
Charge for timing differences arising in the year – UK	1.0	1.7
Adjustments in respect of prior years	0.3	(0.7)
Total deferred tax charge	<u>1.3</u>	<u>1.0</u>
Tax on profit on ordinary activities	<u>(3.2)</u>	<u>16.0</u>

AWG Group Limited

Notes to the financial statements For the year ended 31 March 2006 (continued)

5. Taxation (continued)

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

Factors affecting tax (credit) / charge for the year

The tax assessed for the year is lower than the standard rate of Corporation tax in the UK (30%). The differences are explained below:

	2006	2005 (restated)
	£m	£m
Profit on ordinary activities before tax	<u>113.9</u>	<u>83.5</u>
Tax on profit on ordinary activities at the standard UK rate (30%)	34.2	25.1
Effects of:		
Items not deductible for tax purposes	16.7	7.7
Items not taxable – UK dividends	(31.8)	(12.0)
Depreciation for the year in excess of capital allowances	-	0.1
Recovery of advanced corporation tax	(12.0)	-
Short term timing differences	(1.0)	(1.6)
Adjustment to the tax charge in respect of prior years	(10.6)	(4.3)
Current tax (credit) / charge for the year	<u>(4.5)</u>	<u>15.0</u>

6. Deferred taxation

	Deferred tax £m
At 1 April 2005	4.8
Charge for the current year	(1.0)
Adjustments in respect of prior years	(0.3)
At 31 March 2006	<u>3.5</u>

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

	2006	2005
	£m	£m
Short term timing differences	<u>3.5</u>	<u>4.8</u>

7. Dividends

	2006	2005
	£m	£m
Dividend paid	<u>125.4</u>	<u>121.0</u>

AWG Group Limited

Notes to the financial statements For the year ended 31 March 2006 (continued)

8. Prior year adjustment

With the adoption of financial Reporting Standard 21 – Events after the balance sheet date, a prior year adjustment has been made to remove from the profit and loss account those dividends receivable/payable that had not been formally agreed by the board of directors, a corresponding adjustment has also been made to the debtor balance.

The impact of this adjustment is to increase opening net assets at 1 April 2004 by £63.0 million and reduce the prior year retained profit by £94.3 million and closing net assets by £31.3m.

9. Tangible fixed assets

	<u>Computer equipment</u>
	£m
Cost	
At 1 April 2005	3.1
Additions	0.5
Disposals	(3.2)
31 March 2006	<u>0.4</u>
Depreciation	
At 1 April 2005	1.0
Charge for the year	-
Disposals	(0.6)
31 March 2006	<u>0.4</u>
Net book value	
At 31 March 2006	<u>-</u>
At 31 March 2005	<u>2.1</u>

10. Investments

	<u>Loans to group undertakings</u>	<u>Shares in subsidiary undertakings</u>	<u>Total</u>
	£m	£m	£m
Cost			
At 1 April 2005	1,081.1	361.3	1,442.4
Additions (note 23)	2.8	39.2	42.0
Repaid during the year	(50.6)	-	(50.6)
Disposal (note 24)	-	(38.0)	(38.0)
At 31 March 2006	<u>1,033.3</u>	<u>362.5</u>	<u>1,395.8</u>
Provisions for impairment			
At 1 April 2005	19.0	60.5	79.5
Impairment Charge	-	40.9	40.9
At 31 March 2006	<u>19.0</u>	<u>101.4</u>	<u>120.4</u>
Net book value at 31 March 2006	<u>1,014.3</u>	<u>261.1</u>	<u>1,275.4</u>
Net book value at 31 March 2005	<u>1,062.1</u>	<u>300.8</u>	<u>1,362.9</u>

The impairment in the year is to reflect the permanent diminution in the value of AWG Shelf 11; this impairment arose as a consequence of the payment of a dividend in the year.

AWG Group Limited

Notes to the financial statements For the year ended 31 March 2006 (continued)

10. Investments (continued)

The principal subsidiary undertakings at 31 March 2006 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
Group and Other		
Anglian Water Direct Limited (1)	England	Home service products
AWG Shelf 11 (1)	Scotland	Holding company
Celtic Anglian Water Limited	Ireland	Water and wastewater treatment
Morrison Project Investments Limited	Scotland	Managing PFI projects
Rutland Insurance Limited (1)	Guernsey	Provision of insurance to group companies
Anglian Water		
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
Morrison		
Morrison Plc (1)	England	Holding company
Alpheus Environmental Limited	England	Wastewater treatment
Power Services HVDE Limited	England	Utility contracting
Morrison Utility Services Limited	England	Utility contracting
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 processes
Property Services		
AWG Property Solutions Limited	England	Corporate property management
Ambury Developments Limited	England	Corporate property management
AWG Developments Limited	Scotland	Construction and the development of land and buildings
AWG Residential Limited	Scotland	Development of residential estates

AWG Group Limited

Notes to the financial statements For the year ended 31 March 2006 (continued)

10. Investments (continued)

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

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 PURAC Limited.

All subsidiaries have a year-end of 31 March.

11. Debtors (amounts falling due within one year)

	2006	2005 (restated)
	£m	£m
Amounts owed by group undertakings	63.2	12.8
Amounts owed by group undertaking relating to group tax relief	1.6	-
Other debtors	6.5	2.4
Prepayments and accrued income	0.6	-
Deferred tax (note 6)	3.5	4.8
	<u>75.4</u>	<u>20.0</u>

Comparative figures, shown as amounts owed by group undertakings, have been restated in accordance with FRS 21 to exclude dividends receivable from group subsidiaries, which were declared after 31 March 2005 (£31.3million).

12. Current asset investments

	2006	2005
	£m	£m
Money market investments	<u>5.0</u>	<u>19.1</u>

Money market investments above represent cash on deposit with maturity dates in excess of three months from the balance sheet date.

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Notes to the financial statements For the year ended 31 March 2006 (continued)

13. Creditors (amounts falling due within one year)

	2006	2005 (restated)
	£m	£m
Current portion of long-term loans	5.3	13.9
Short-term borrowings	5.3	13.9
Amounts owed to group undertakings	45.9	47.0
Other creditors	0.7	6.9
Corporation tax	-	20.1
Tax and social security	0.5	0.5
Accruals and deferred income	10.4	1.0
Other creditors	57.5	75.5

14. Loans and other borrowings

	2006	2005
	£m	£m
Loans and other borrowings		
Loan due to subsidiary undertakings	165.1	157.1
Morrison Loan Notes LIBID minus 0.5% 2007	5.0	9.5
£3.3m Bank loan	-	3.3
Other loan notes LIBOR minus 1%	0.3	1.1
Total loans and other borrowings	170.4	171.0
Less amounts included in creditors falling due within one year (note 13)	(5.3)	(13.9)
Loans and other borrowings falling due after more than one year	165.1	157.1

15. Provisions for liabilities and charges

	Business closures and disposals	Other	Total
	£m	£m	£m
At 1 April 2005	3.5	0.8	4.3
Charge for the year	8.0	1.2	9.2
Utilised in the year	(1.1)	(0.3)	(1.4)
At 31 March 2006	10.4	1.7	12.1

Business closure and disposal provision relates to exit costs, principally in connection with disposal of AWG Shelf 9 Limited, and its subsidiaries, including Morrison Construction Limited and Morrison Highways Maintenance Limited, which are expected to crystallise over the next two years. This provision is not discounted.

The Other provision principally relates to the cost of leasehold property not occupied by the company. The provision is discounted and expected to be utilised over the next 17 years.

AWG Group Limited

Notes to the financial statements For the year ended 31 March 2006 (continued)

16. Pension commitments

On 31 March 2006, the company became the principal employer for the Morrison Pension and Life Assurance Plan (MPLAP). On the same date, the scheme was closed to future service and all active members transferred to other pension schemes as part of the group's disposal of some of its subsidiaries to Galliford Try, as detailed in note 24. As the scheme was transferred to the company on 31 March 2006, there has been no pension charge in the year, and hence there are no impact on the profit and loss account nor any profit and loss disclosures.

The valuation used for the FRS 17 disclosures for MPLAP has been based on the most recent full actuarial valuation, carried out as at 1 April 2005, updated by independent actuaries to take account of the requirements of FRS17 in order to assess the assets and liabilities of the scheme as at 31 March 2006. The company has agreed a schedule of contributions with the Trustees of the scheme whereby a one-off £3m payment will be contributed to the scheme in 2006/07 followed by £11.7m per annum commencing 2006/07.

The liabilities of the scheme have been valued using the projected unit method and using the assumptions below:

	2006
	<u>% pa</u>
Discount rate	4.9
Inflation rate	2.8
Increase to deferred benefits during deferment.	2.8
Increases to inflation related pension payments	2.8

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

	2006	2006
	Expected	Fair
	rate of	value of
	return	scheme
	% pa	assets
	<u>% pa</u>	<u>£m</u>
Equities	7.3	73.5
Corporate Bonds	4.7	9.3
Government Bonds	4.3	9.3
Other	4.4	4.8
Total Assets		96.9
Fair value of scheme liabilities		(131.6)
Deficit in the scheme		(34.7)
Related deferred tax asset		10.4
Net pension liability		(24.3)

The deferred tax attributable to the pension scheme deficit is not discounted because the related deficit is itself determined on a discounted basis.

AWG Group Limited

Notes to the financial statements For the year ended 31 March 2006 (continued)

16. Pension commitments (continued)

Reconciliation of pension deficit movement

	<u>2006</u>
	£m
Opening deficit at 1 April	-
Bulk transfer	(34.7)
Closing deficit at 31 March	<u>(34.7)</u>

17. Commitments under operating leases

At 31 March 2006, the company had annual commitments under non-cancellable operating leases for land and buildings, expiring as follows:

	<u>2006</u>	<u>2005</u>
	£m	£m
Within one year	0.2	0.2
Between one and five years	0.6	0.6
After five years	1.3	1.5
At 31 March	<u>2.0</u>	<u>2.3</u>

18. Share capital

	<u>2006</u>	<u>2005</u>
	£m	£m
Authorised:		
503.4 million ordinary shares of 47 1/7 pence each	237.3	237.3
279.8 million ordinary shares of 56 pence each	156.7	156.7
300.0 million ordinary shares of 100 pence each	300.0	300.0
34,845.7 million redeemable share of 0.1 pence each	34.8	34.8
	<u>728.8</u>	<u>728.8</u>
Allotted, issued and fully paid:		
282.0 million ordinary shares of 47 1/7 pence each	133.0	133.0
290.0 million ordinary shares of 100 pence each	290.0	290.0
	<u>423.0</u>	<u>423.0</u>

19. Reserves

	Share premium account £m	Capital redemption reserve £m	Profit and loss account £m
At 1 April 2005	102.3	227.6	527.3
Prior year adjustment (note 8)	-	-	(31.3)
At 1 April 2005 restated	102.3	227.6	496.0
Total recognised gains and losses for the period	-	-	92.8
Dividends	-	-	(125.4)
At 31 March 2006	<u>102.3</u>	<u>227.6</u>	<u>463.4</u>

AWG Group Limited

Notes to the financial statements For the year ended 31 March 2006 (continued)

20. Reconciliation of movement in shareholder's funds

	Total shareholder's funds 2006 £m	Total shareholder's funds 2005 £m
At 1 April	1,280.2	1,239.4
Prior year adjustment (note 8)	(31.3)	63.0
At 1 April restated	1,248.9	1,302.4
Total gains and losses relating to the year	92.8	67.5
Dividends paid on equity shares	(125.4)	(121.0)
At 31 March	1,216.3	1,248.9

Comparative figures have been restated in accordance with Financial Reporting Standard 21 to exclude dividends receivable from subsidiary undertakings, which were declared after 31 March 2005.

21. Contingent liabilities

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 2006 was £nil (2005: £nil).

The AWG Plc group has entered into a variety of restructuring and re-financing initiatives over time to optimise the efficiency of its balance sheet and organisation in order to create value for customers and shareholders, some of these initiatives have affected the company. Extensive professional advice has been taken which supports the view that all group restructurings have been correctly treated for accounting and tax purposes and therefore, since any risk here is very low, no provisions for tax liabilities are considered to be necessary.

The company has surrendered ACT to Anglian Water Services Ltd and will receive payment as it is utilised. £12 million has been utilised during the year, of which £5.4 million had been paid for at the year-end. As the ACT is expected to be recovered in full over time, no provision has been recognised in respect of this receipt.

22. Related party transactions

As a wholly owned subsidiary of AWG Plc, advantage has been taken of the exemption granted in FRS 8 not to disclose related party transactions with other members of the group.

23. Acquisitions

On 25 June 2005, as part of a Group re-organisation, AWG Group Ltd acquired all of the issued share capital of Anglian Water Direct Limited for the sum of £1.2m. £1.0m of the consideration was settled during the year and the outstanding amount is included in inter-company payables.

As part of the disposal detailed in note 24 below, AWG Group Ltd subscribed for shares in AWG Shelf 9 Limited totalling £38.0m, to enable AWG Shelf 9 Limited to acquire the entities that were subsequently sold to Galliford Try Plc.

AWG Group Limited

Notes to the financial statements For the year ended 31 March 2006 (continued)

24. Disposal

On 31 March 2006 AWG Group Limited completed its disposal of AWG Shelf 9 Limited and its subsidiaries, Morrison Construction Limited and Morrison Highways Maintenance Limited, to Galliford Try Plc. Total proceeds for the disposal were £38.0m, and the loss on disposal was £21.2m, which was primarily due to the transaction costs and provisions created.

25. Ultimate parent company and controlling party

The company's immediate parent undertaking is AWG (UK) Holding Limited, a company registered in England.

The company's ultimate parent undertaking and controlling party is AWG Plc, a company registered in England, copies of whose group and company accounts may be obtained from the Company Secretary, Anglian House, Ambury Road, Huntingdon, Cambridgeshire, PE29 3NZ.