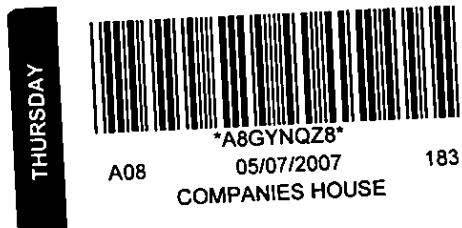


**AWG Group Ltd
(Registered Number 2366618)**

**Annual report and
financial statements**

31 March 2007



AWG Group Limited

Directors' report For the year ended 31 March 2007

The Directors present their report, together with the audited financial statements, for the year ended 31 March 2007

Principal activities

The principal activity of the company is that of a holding company within the group of companies headed by Anglian Water Group Limited. It acts as the main treasurer for the non-regulated businesses, 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 subsidiaries in the group.

Business review

On 23 November 2006 the ultimate parent company of AWG Group Limited, AWG Plc, was acquired by Osprey Acquisitions Limited, as a consequence of which, the ultimate parent company of AWG Group Limited became Anglian Water Group Limited (formerly Osprey Jersey Holdco Limited). Anglian Water Group Limited is itself owned by a consortium of investors consisting of the Canada Pension Plan Investment Board, First State Global Asset Management, Industry Funds Management and 3i Group Plc.

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 receipts, the company had to impair its investment in a subsidiary as detailed in note 9 to the accounts.

At the financial year-end the company's net current assets have decreased by £96.4m. This is due to the dividend paid in the period being funded out of the company's own resource.

Following the actuarial review and the contributions made in the year, the pension deficit of the Morrison Pension and Life Assurance Plan, MPLAP, has reduced to £8.1m from £34.7m at March 2006, pre the related deferred tax assets.

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 Group's Finance 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 2007 the company held cash, deposits and current asset investments of £47.5 million (2006: £129.8 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 2007 (continued)

Financial risk management (continued)

Interest rates

At 31 March 2007, the company had £4.7 million (2006: £5.3 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 2007, the company had two derivative contracts, one was hedging the net asset exposure on a subsidiary's investment in Italy and its fair value at the year-end was £131k. The other was hedging the Group's potential exposure to claims in Argentina and had a fair value of £3k.

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 2007 are set out on page 5. During the year the company has paid a dividend of 77.83p per ordinary share (2006: 21.92p) amounting to £445,200,000 (2006: £125,400,000).

Directors

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

J Cox
P Firth
S R J Longhurst

AWG Group Limited

Directors' report

For the year ended 31 March 2007 (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. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 March 2007 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:



22/6/07

Registered No 2366618

Registered Office
Anglian House
Ambury Road
Huntingdon
Cambridgeshire
PE29 3NZ

Independent auditors' report to the members of AWG Group Limited

We have audited the financial statements of AWG Group Limited for the year ended 31 March 2007 which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 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 also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we 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 2007 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
Chartered Accountants and Registered Auditors
Birmingham

Date 22 June 2007

AWG Group Limited

Profit and loss account For the year ended 31 March 2007

	Notes	31 March 2007	31 March 2006
		£m	£m
Administrative expenses		(3.4)	(8.2)
Other operating income		-	12.0
Amounts written-off investments	9	(64.3)	(40.9)
Operating loss	2	(67.7)	(37.1)
Loss on disposal of investment	23	-	(21.2)
Income from fixed asset investments	3	324.3	106.0
Net interest receivable	5	65.3	66.2
Profit on ordinary activities before taxation		321.9	113.9
Tax on profit on ordinary activities	6	(13.2)	3.2
Profit for the financial year	18	308.7	117.1

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

All of the above results relate to continuing operations

AWG Group Limited

Statement of total recognised gains and losses For the year ended 31 March 2007

	Notes	31 March 2007	31 March 2006
		£m	£m
Profit for the financial year		308.7	117.1
Actuarial gain on pension scheme	15	6.3	
Movement on deferred tax relating to pension deficit	15	(1.9)	
Total gains and losses recognised since last annual report	18	313.1	

AWG Group Limited

Balance sheet As at 31 March 2007

	Notes	31 March 2007	31 March 2006
		£m	£m
Fixed assets			
Investments	9	1,208.2	1,275.4
Current assets			
Debtors	10	63.4	75.4
Investments	11	4.3	5.0
Cash at bank and in hand (including short-term deposits)		43.2	124.8
		110.9	205.2
Creditors (amounts falling due within one year)			
Short-term borrowings	12	(4.7)	(5.3)
Other creditors	12	(60.2)	(57.5)
		(64.9)	(62.8)
Net current assets		46.0	142.4
Total assets less current liabilities		1,254.2	1,417.8
Creditors (amounts falling due after more than one year)			
Loans and other borrowings	13	(153.9)	(165.1)
Provisions for liabilities and charges	14	(10.4)	(12.1)
Net assets excluding pension deficit		1,089.9	1,240.6
Pension deficit	15	(5.7)	(24.3)
Net assets including pension deficit		1,084.2	1,216.3
Capital and reserves			
Called up share capital	17	423.0	423.0
Share premium	18	102.3	102.3
Capital redemption reserve	18	227.6	227.6
Profit and loss reserve	18	331.3	463.4
Total shareholder's funds	19	1,084.2	1,216.3

The notes on pages 8 to 20 form part of these financial statements

The financial statements were approved by the Board of Directors on 22 June 2007 and signed on its behalf by

DIRECTOR



AWG Group Limited

Notes to the financial statements For the year ended 31 March 2007

1. Accounting policies

(1) Basis of accounting

The financial statements are prepared on the going concern basis, under the historical cost convention and in accordance with applicable accounting standards and the Companies Act 1985

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

(2) Cash flow statement

The company is a wholly-owned subsidiary of Osprey Holdco Limited and is included in the consolidated financial statements of Osprey Holdco Limited. Consequently, the company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1

(3) Investments

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

(4) 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. Monetary 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.

(5) 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.

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.

AWG Group Limited

Notes to the financial statements For the year ended 31 March 2007 (continued)

1. Accounting policies (continued)

(6) Pension obligations

For defined benefit schemes, pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and are discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liabilities. The increase in the present value of the liabilities of the group's defined benefit pension schemes expected to arise from employee service in the period is charged to operating profit. The expected return on the schemes' assets and the increase during the year in the present value of the schemes' liabilities arising from the passage of time are included in other finance charges. Actuarial gains and losses are recognised in the statement of total recognised gains and losses.

Pension schemes' surpluses, to the extent that they are considered recoverable, or deficits are recognised in full and presented on the face of the balance sheet, net of the related deferred tax.

The company has no obligations under defined contributions schemes.

(7) 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. Provisions are discounted depending on their nature and the monetary value.

(8) 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.

(9) Taxation

The company's tax charge is based on the profit for the year and tax rates in force at the balance sheet date. Estimation of the tax charge involves an assessment of the potential tax treatment of certain items which will only be resolved once finally agreed with the tax authorities.

(10) Current asset investments

Cash deposits with a maturity of greater than three months are classified as current asset investments within the balance sheet. Cash deposits with a maturity of greater than one day but less than three months are classified as cash at bank and in hand within the balance sheet.

(11) Consolidated financial statements

As a wholly owned subsidiary of Osprey Holdco Limited and in accordance with Section 228 of the Companies Act 1985, the company has not prepared consolidated financial statements. The results of the company and its subsidiaries are consolidated in the financial statements of Osprey Holdco Limited, a company registered in England.

AWG Group Limited

Notes to the financial statements For the year ended 31 March 2007 (continued)

2. Operating loss

	<u>2007</u>	<u>2006</u>
	£m	£m
The operating loss is stated after charging		
Amounts written-off investments	64.3	40.9
Depreciation	-	0.8

The fees for audit services were borne by another group undertaking with no recharge to the company

3. Income from fixed asset investments

	<u>2007</u>	<u>2006</u>
	£m	£m
Dividends from subsidiary undertakings	324.3	106.0

4. 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 (2006 None)

5. Net interest receivable

	<u>2007</u>	<u>2006</u>
	£m	£m
Option amortisation	4.8	4.8
Bank interest receivable	13.8	10.7
Other finance income	0.6	-
Interest receivable on loans to group undertakings	60.8	64.9
Total interest receivable	80.0	80.4
Bank interest payable	(7.7)	(8.7)
Interest payable on loans from group undertakings	(7.0)	(5.5)
Total interest payable	(14.7)	(14.2)
Net interest receivable	65.3	66.2

AWG Group Limited

Notes to the financial statements For the year ended 31 March 2007 (continued)

6. Taxation

	2007	2006
	£m	£m
The tax charge /(credit) for the year comprised:		
UK Corporation tax – current year charge	14.5	7.1
UK Corporation tax – adjustments in respect of prior years	(1.3)	(10.3)
Tax on profit on ordinary activities	13.2	(3.2)
Tax on profit on ordinary activities comprises:		
UK Corporation tax at 30% (2006 30%)	6.7	6.1
Adjustments in respect of prior years	(1.0)	(10.6)
Total current tax charge / (credit)	5.7	(4.5)
Deferred tax (note 7)		
Charge for timing differences arising in the year – UK	7.8	1.0
Adjustments in respect of prior years	(0.3)	0.3
Total deferred tax charge	7.5	1.3
Tax on profit on ordinary activities	13.2	(3.2)

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

Factors affecting tax charge / (credit) 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

	2007	2006
	£m	£m
Profit on ordinary activities before tax	321.9	113.9
Tax on profit on ordinary activities at the standard UK rate (30%)	96.6	34.2
Effects of		
Items not deductible for tax purposes	19.5	16.7
Items not taxable – UK dividends	(94.8)	(31.8)
Recovery of advanced corporation tax	(6.8)	(12.0)
Short term timing differences	(7.8)	(1.0)
Adjustment to the tax charge in respect of prior years	(1.0)	(10.6)
Current tax charge / (credit) for the year	5.7	(4.5)

7. Deferred taxation

	Deferred tax £m
At 1 April 2006	3.5
Deferred tax charged to profit and loss account	(7.8)
Deferred tax credited to the profit and loss account on pension liability movements	6.1
Adjustments in respect of prior years	0.3
At 31 March 2007	2.1

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

AWG Group Limited
Notes to the financial statements
For the year ended 31 March 2007 (continued)

7. Deferred taxation (continued)

	<u>2007</u>	<u>2006</u>
	£m	£m
Short term timing differences	<u>2.1</u>	<u>3.5</u>
Deferred tax relating to pension deficit		
		£m
At 1 April 2006		10.4
Profit and loss charge for the year		(6.1)
Statement of total recognised gains and losses for the year		<u>(1.9)</u>
At 31 March 2007		<u>2.4</u>

The deferred tax asset of £2.4 million (2006 £10.4 million) has been deducted in arriving at the net pension deficit

8. Dividends

	<u>2007</u>	<u>2006</u>
	£m	£m
Dividend paid to Group companies 77.83p per ordinary share (2006 21.92p)	<u>445.2</u>	<u>125.4</u>

9. Investments

	<u>Loans to group undertakings</u>	<u>Shares in subsidiary undertakings</u>	<u>Total</u>
	£m	£m	£m
Cost			
At 1 April 2006	1,033.3	362.5	1,395.8
Additions during the year	40.5	-	40.5
Repaid during the year	(43.4)	-	(43.4)
At 31 March 2007	<u>1,030.4</u>	<u>362.5</u>	<u>1,392.9</u>
Provisions for impairment			
At 1 April 2006	19.0	101.4	120.4
Impairment Charge	14.3	50.0	64.3
At 31 March 2007	<u>33.3</u>	<u>151.4</u>	<u>184.7</u>
Net book value at 31 March 2007	<u>997.1</u>	<u>211.1</u>	<u>1,208.2</u>
Net book value at 31 March 2006	<u>1,014.3</u>	<u>261.1</u>	<u>1,275.4</u>

In the current year an impairment was booked to reflect the permanent diminution in the value of AWG Shelf 11 following their payment of a dividend and resulting reduction in net assets. An impairment has also been booked to reflect the diminution of the value of a subsidiary undertaking following their write-down of one of their investments.

The company undertakes a review of its investments on an annual basis to determine whether the carrying value of the investment needs to be impaired. The review looks at the projected future cash flows for the investment, discounted at the appropriate rate, and compares this to the carrying value. If the future discounted cash flows are lower than the carrying value then an impairment provision is made. For investments where an external valuation is available then this is used to determine whether an impairment is required.

AWG Group Limited

Notes to the financial statements For the year ended 31 March 2007 (continued)

9. Investments (continued)

The principal subsidiary undertakings at 31 March 2007 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
Rutland Insurance Limited (1)	Guernsey	Provision of insurance to group companies
Anglian Water		
Anglian Water Services Limited	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
Property Services		
AWG Property Solutions Limited	England	Corporate property management
Ambury Developments Limited	England	Corporate property management
AWG Property Limited	Scotland	Construction and the development of land and buildings
AWG Residential Limited	Scotland	Development of residential estates

(1) These companies are owned directly by AWG Group Limited

AWG Group Limited

Notes to the financial statements For the year ended 31 March 2007 (continued)

9. Investments (continued)

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. Celtic Anglian Water Limited is a subsidiary undertaking as, in the opinion of the directors, the group exercises control over the company.

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.

All subsidiaries have a year-end of 31 March.

10. Debtors (amounts falling due within one year)

	2007	2006
	<u>£m</u>	<u>£m</u>
Amounts owed by group undertakings	57.9	64.8
Other debtors	3.3	6.5
Prepayments and accrued income	0.1	0.6
Deferred tax (note 6)	2.1	3.5
	<u>63.4</u>	<u>75.4</u>

11. Current asset investments

	2007	2006
	<u>£m</u>	<u>£m</u>
Money market investments	<u>4.3</u>	<u>5.0</u>

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

AWG Group Limited

Notes to the financial statements For the year ended 31 March 2007 (continued)

12. Creditors (amounts falling due within one year)

	2007	2006
	£m	£m
Current portion of long-term loans	4.7	5.3
Short-term borrowings	4.7	5.3
Amounts owed to group undertakings	37.7	45.9
Other creditors	0.9	0.7
Corporation tax	16.1	-
Tax and social security	0.6	0.5
Accruals and deferred income	4.9	10.4
Other creditors	60.2	57.5

13. Loans and other borrowings

	2007	2006
	£m	£m
Loans and other borrowings		
Loan due to subsidiary undertakings	153.9	165.1
Morrison Loan Notes LIBID minus 0.5% 2007	4.4	5.0
Other loan notes LIBOR minus 1%	0.3	0.3
Total loans and other borrowings	158.6	170.4
Less amounts included in creditors falling due within one year (note 12)	(4.7)	(5.3)
Loans and other borrowings falling due after more than one year	153.9	165.1

14. Provisions for liabilities and charges

	Business closures and disposals	Other	Total
	£m	£m	£m
At 1 April 2006	10.4	1.7	12.1
Additional provisions	-	0.2	0.2
Utilised in the year	(0.4)	(0.3)	(0.7)
Released	(1.2)	-	(1.2)
At 31 March 2007	8.8	1.6	10.4

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 year. 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 16 years.

AWG Group Limited

Notes to the financial statements For the year ended 31 March 2007 (continued)

15. Pension commitments

The valuation used for the FRS 17 disclosures for The Morrison Pension and Life Assurance Plan (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 2007. The company has agreed a schedule of contributions with the Trustees of the scheme whereby £15.6 million per annum will be contributed to the scheme commencing in 2007/08.

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

	2007 % pa	2006 % pa
Discount rate	5.3	4.9
Inflation rate	3.1	2.8
Increase to deferred benefits during deferment	3.1	2.8
Increases to inflation related pension payments	3.1	2.8
General salary increase	4.1	3.8

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

	2007 Expected rate of return % pa	2007 Fair value of scheme assets £m	2006 Expected rate of return % pa	2006 Fair value of scheme assets £m
Equities	7.7	94.8	7.3	73.5
Corporate Bonds	5.1	11.6	4.7	9.3
Government Bonds	4.7	11.6	4.3	9.3
Other	5.0	1.0	4.4	4.8
Total Assets		119.0		96.9
Fair value of scheme liabilities		(127.1)		(131.6)
Deficit in the scheme		(8.1)		(34.7)
Related deferred tax asset		2.4		10.4
Net pension liability		(5.7)		(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.

Analysis of the amount credited to other finance income:

	2007 £m	2006 £m
Expected return of scheme assets	(6.9)	-
Interest cost	6.3	-
Amount credited to other finance income	(0.6)	-

The company became the principal employer of the scheme on 31 March 2006 and consequently no charge/credit in the prior year.

AWG Group Limited

Notes to the financial statements For the year ended 31 March 2007 (continued)

15. Pension commitments (continued)

Analysis of the amount recognised in statement of total recognised gains and losses

	<u>2007</u>	<u>2006</u>
	£m	£m
Actual return less expected return on pension scheme assets	0.2	-
Changes in assumptions underlying present value of the scheme liabilities	6.1	-
Amount credited to other finance income	6.3	-

History of experience gains and losses

	<u>2007</u>
Difference between the expected and actual return on scheme assets	
Amount (£m)	2.0
Percentage of scheme assets	0.2%
Experience gains and losses on scheme liabilities	
Amount (£m)	-
Percentage of present value of scheme liabilities	-
Total amount recognised in the statement of total recognised gains and loss	
Amount (£m)	6.3
Percentage of present value of scheme liabilities	5.0%

Reconciliation of pension deficit movement

	<u>2007</u>	<u>2006</u>
	£m	£m
Opening deficit at 1 April	(34.7)	-
Bulk transfer	-	(34.7)
Contributions	19.7	-
Other finance income	0.6	-
Actuarial gain	6.3	-
Closing deficit at 31 March	(8.1)	(34.7)

The deficit above is based on an independent actuarial update of the formal valuation carried out on 1 April 2005, this has shown a decrease in the deficit from £34.7m to £8.1m. There is an agreed contribution schedule with the Trustees of the scheme where the company will contribute £15.6 million into the scheme annually commencing in 2007/08. The closing deficit presented above is before any deferred tax adjustments.

AWG Group Limited

Notes to the financial statements For the year ended 31 March 2007 (continued)

16. Commitments under operating leases

At 31 March 2007, the company had annual commitments under non-cancellable operating leases for land and buildings, expiring as follows

	2007	2006 (restated)
	£m	£m
Within one year	0.2	0.2
Between one and five years	0.1	0.2
After five years	0.1	0.1
At 31 March	<u>0.4</u>	<u>0.5</u>

Prior year operating lease figures have been restated to disclose the actual annual lease commitments. Costs in relation to the lease are borne by another group company with no re-charge to the company.

17. Share capital

	2007	2006
	£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 "A" ordinary shares of 47 1/7 pence each	133.0	133.0
290.0 million "B" ordinary shares of 100 pence each	290.0	290.0
	<u>423.0</u>	<u>423.0</u>

The main difference between the A and B ordinary is that the B shares do not have the right to vote at meetings.

18. Reserves

	Share premium account £m	Capital redemption reserve £m	Profit and loss reserve £m
At 1 April 2006	102.3	227.6	463.4
Profit for the financial year	-	-	308.7
Net actuarial gain on pension scheme	-	-	4.4
Dividends paid	-	-	(445.2)
At 31 March 2007	<u>102.3</u>	<u>227.6</u>	<u>331.3</u>

AWG Group Limited

Notes to the financial statements For the year ended 31 March 2007 (continued)

19. Reconciliation of movement in equity shareholder's funds

	<u>2007</u>	<u>2006</u>
	£m	£m
At 1 April	1,216.3	1,248.9
Total gains and losses relating to the year	313.1	92.8
Dividends paid on equity shares	(445.2)	(125.4)
At 31 March	<u>1,084.2</u>	<u>1,216.3</u>

20. 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 2007 was £nil (2006 £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. £6.7 million has been utilised during the year (2006 £12.0 million), of which £15.3 million had been paid for at the year-end (2006 £5.4 million). As the ACT is expected to be recovered in full over time, no provision has been recognised in respect of this receipt.

21. Related party transactions

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

22. Ultimate parent company and controlling party

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

Osprey Acquisitions Limited is the parent company of the smallest group to consolidate the financial statements of the company.

Osprey Holdco Limited is the parent company of the largest group to consolidate the financial statements of the company, copies of which can be obtained from the Company Secretary, Anglian House, Ambury Road, Huntingdon, Cambridgeshire PE29 3NZ.

The Directors consider Anglian Water Group Limited (formerly Osprey Jersey Holdco Limited), a company registered in Jersey, to be the ultimate parent company. Anglian Water Group Limited is itself owned by a consortium of investors consisting of the Canada Pension Plan Investment Board, First State Global Asset Management, Industry Funds Management and 3i Group Plc.

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Notes to the financial statements For the year ended 31 March 2007 (continued)

23. Disposal

In the prior year, AWG Group Limited disposed of its shares in 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 transaction costs and provisions created.

24. Post balance sheet events

Further to a proposed Corporation tax rate change announced in the recent Budget, deferred tax reversing after 1 April 2008 will be recognised at a rate of 28% as opposed to the existing rate of 30%. This will result in a reduction in the deferred tax asset and a corresponding charge to the profit and loss account. The impact is not expected to be material.

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AWG Group Ltd
(Registered Number 2366618)

**Annual report and
financial statements**

31 March 2007