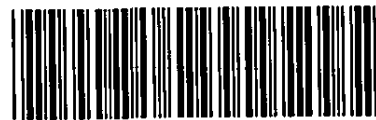


AWG Plc
(Registered number 3936645)

**Annual report and
financial statements**

**For the year ended
31 March 2008**

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Directors' report

For the year ended 31 March 2008

The Directors present their report, together with the audited financial statements, for the year ended 31 March 2008

Principal activities and business review

The principal activity of the company is that of a holding company within the group of companies headed by Anglian Water Group Limited

During the year it received capital repayments on the loan made to a subsidiary undertaking, made dividend payments to its shareholders, and incurred costs relating to Head Office expenses

The Directors expect that the present level of activity will be sustained for the foreseeable future. The Directors of the company have received confirmation that financial support will be given as and when required and accordingly the accounts have been prepared on a going concern basis

Policy and practice on payment of creditors

The company does not have any trade creditors (2007: none) as all supplies are made to subsidiaries of the company, who abide by the agreed terms of payment

Financial risk management

The company does not operate external to the group and therefore its financial risks are governed by Group policies and procedures. These policies and procedures are discussed within the Osprey Holdco Limited consolidated group accounts. The loan is due from direct subsidiary undertaking and therefore the risk of default is considered minimal.

Principal risks and uncertainties

From the perspective of the company, the principal risks and uncertainties are integrated with the principal risks of the group and are not managed separately

Key performance indicators

Given the straightforward nature of the business, the company's Directors are of the opinion that analysis using KPI's is not necessary for an understanding of the development or performance of the business

Results and dividends

The results of the company for the year ended 31 March 2008 are set out on page 5. During the year the company has paid dividends of 98.9p per ordinary share (2007 292.2p) amounting to £144,000,000 (2007 £424,166,000)

Directors' report
For the year ended 31 March 2008 (continued)

Directors

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

P C F Hickson
J Cox
S R J Longhurst
R. Witcomb
G F Bevans
C M Hogg
C Seymour
D K. Fetter (appointed 24 05 2007)
D Latham (appointed 07.02 2008)
A S Liao (appointed 24 05 2007)
C E O'Reilly (appointed 27.11 2007)
M Mehta (appointed 27.11 2007)
P White (appointed 27 11.2007)
C R Koski (resigned 24 05.2007)
D J Moloney (resigned 19.09 2007)
M. J Queen (resigned 12 10 2007)
D Rigney (resigned 24 05.2007)
D R Taylor (resigned 17 09.2007)
S J Vineburg (resigned 24 01 2008)

Directors' report

For the year ended 31 March 2008 (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 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 judgments and estimates have been made in preparing the financial statements for the year ended 31 March 2008 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.

Statement of disclosure of information to auditors

In the case of each of the persons who are Directors at the time when the report is approved under section 234ZA the following applies:

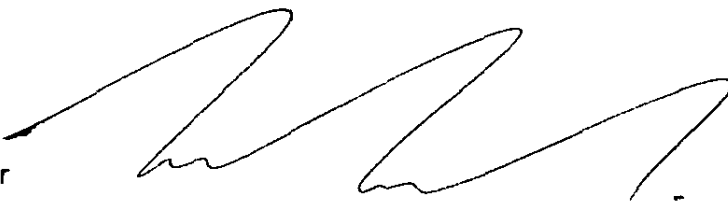
- (a) so far as the Director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- (b) he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Auditors

The company has dispensed with the holding of Annual General Meetings pursuant to the transitional arrangements and saving provisions of the Companies Act 2006. The Auditors, PricewaterhouseCoopers LLP, have indicated their willingness to stay in office and a resolution that they be reappointed will be proposed to the Board.

By Order of the Board

Director



Date: 16 October 2008

Registered No 3936645

Registered Office
Anglian House
Ambury Road
Huntingdon
PE29 3NZ

Independent auditors' report to the members of AWG Plc

We have audited the financial statements of AWG Plc for the year ended 31 March 2008 which comprise the profit and loss account, 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

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 2008 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

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Birmingham

Date 16 October 2008

AWG Plc**Profit and loss account****For the year ended 31 March 2008**

	Notes	2008	2007
		£m	£m
Administrative expenses – normal		(20.6)	(9.8)
Administrative expenses – exceptional		-	(16.2)
Operating loss	2	(20.6)	(26.0)
Net interest receivable	3	32.1	66.8
Profit on ordinary activities before taxation		11.5	40.8
Tax charge on profit on ordinary activities	4	(0.2)	(16.0)
Profit for the financial year	14	11.3	24.8

The company has no recognised gains or losses other than those included in the profit and loss account for the financial year above and therefore no separate statement of total recognised gains and losses has been presented

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 Plc**Balance sheet****As at 31 March 2008**

	Notes	<u>2008</u> £m	<u>2007</u> £m
Fixed assets			
Investments	8	1,408.3	1,553.3
Current assets			
Debtors	9	46.2	58.3
Cash at bank and in hand		1.2	5.4
		<u>47.4</u>	<u>63.7</u>
Creditors (amounts falling due within one year)	10	<u>(55.2)</u>	<u>(87.3)</u>
Net current liabilities		<u>(7.8)</u>	<u>(23.6)</u>
Total assets less current liabilities		<u>1,400.5</u>	<u>1,529.7</u>
Creditors (amounts falling due after more than one year)	11	<u>(795.1)</u>	<u>(791.6)</u>
Net assets		<u>605.4</u>	<u>738.1</u>
Capital and reserves			
Called up share capital	13	29.0	29.0
Share premium account	14	38.9	38.9
Capital redemption reserve	14	17.5	17.5
Profit and loss reserve	14	520.0	652.7
Total shareholder's funds	15	<u>605.4</u>	<u>738.1</u>

The financial statements were approved by the Board of Directors on 16.10.08 and signed on its behalf by

The notes on pages 7 to 15 form part of these financial statements

DIRECTOR



**Notes to the financial statements
For the year ended 31 March 2008**

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, on a consistent basis with the previous year, as stated.

(2) Consolidated financial statements

As a wholly owned subsidiary of Anglian Water Group Limited and in accordance with Section 228A 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 Anglian Water Group Limited, a company registered in Jersey

(3) Cash flow statement

The company is a wholly-owned subsidiary of Anglian Water Group Limited and is included in the consolidated financial statements of Anglian Water Group Limited, which are publicly available. Consequently, the company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 (Revised 1996)

(4) Investments

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

(5) 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

(6) Exceptional costs

The exceptional costs are accounted for in-line with the requirements of FRS 3

Notes to the financial statements

For the year ended 31 March 2008 (continued)

1. Accounting policies (continued)

(7) Going concern

The company has net current liabilities due to amounts due to fellow group undertakings. The Directors have received confirmation from a fellow subsidiary undertaking that it will provide financial support as and when required. Accordingly, the Directors believe that it is appropriate for these accounts to be prepared on a going concern basis.

2. Operating loss - continuing

The operating loss is after charging fees for audit services of £330,000 (2007 £251,000) for the audit of Head Office companies. The element relating to the audit of the company is £5,000 (2007 £5,000).

The exceptional operating costs in the prior year of £16,200,000 related to advisor and other professional fees incurred in relation to the acquisition of the company by Osprey Acquisitions Limited.

3. Net interest receivable

	2008	2007
	£m	£m
Loan interest receivable from fellow group undertakings	94.9	119.7
Bank interest receivable	0.9	0.8
Total interest receivable	95.8	120.5
Loan interest payable to fellow group undertakings	(62.4)	(53.7)
Bank interest payable	(1.3)	-
Total interest payable	(63.7)	(53.7)
Net interest receivable	32.1	66.8

Notes to the financial statements

For the year ended 31 March 2008 (continued)

4. Tax charge on profit on ordinary activities

	2008	2007
	£m	£m
The tax charge for the year comprised:		
UK Corporation tax – current year charge	(3.9)	(16 0)
UK Corporation tax – adjustment in respect of prior years	3.7	-
Tax charge on profit on ordinary activities	(0.2)	(16 0)

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

There is no deferred tax, recognised or otherwise, in the company

Factors affecting tax charge for the year

The tax assessed for the year is lower (2007: higher) than the standard rate of corporation tax in the UK (30%), as shown below:

	2008	2007
	£m	£m
Profit on ordinary activities before tax	11.5	40 8
Tax on profit on ordinary activities at the standard UK rate (30 %)	3.5	12 2
Effects of		
Adjustments to the tax charge in respect of prior periods	(3.7)	-
Items not deductible for tax purposes	0.4	3 8
Current tax charge for the year	0.2	16 0

Factors that may affect future tax charges

The Finance Act 2007 has reduced the corporation tax rate from 30 per cent to 28 per cent with effect from 1 April 2008, there is no effect on the company in this financial year

5. Employee information

There were no employees of the company in this or the prior year

Notes to the financial statements

For the year ended 31 March 2008 (continued)

6. Directors' emoluments

	2008	2007
	£m	£m
Emoluments	2.0	1.9
Pension costs	0.4	0.3
Benefits received under long-term incentive plans	1.6	-
	4.0	2.2

Highest paid director

	2008	2007
	£m	£m
Emoluments	1.2	1.0
Pension costs	0.3	0.3
Benefits received under long-term incentive plans	1.0	-
	2.5	1.3

Retirement benefits are accruing to two Directors (2007 two) under a defined contribution scheme.

7. Dividends

	2008	2007
	£m	£m
Dividend paid to group company 98.9p per ordinary share (2007 292.2p)	144.0	424.2

Notes to the financial statements

For the year ended 31 March 2008 (continued)

8. Investments

	Loans to group undertakings £m	Shares in subsidiary undertakings £m	Total £m
Cost			
As at 1 April 2007	928.3	629.6	1,557.9
Disposal	-	(4.6)	(4.6)
Repayment	(145.0)	-	(145.0)
As at 31 March 2008	783.3	625.0	1,408.3
Provision for impairment			
As at 1 April 2007	-	(4.6)	(4.6)
Disposal	-	4.6	4.6
As at 31 March 2008	-	-	-
Total			
At 31 March 2008	783.3	625.0	1,408.3
At 31 March 2007	928.3	625.0	1,553.3

The loan is interest bearing at a rate of LIBOR + 5% and has a final repayment date of 2015. The borrower can make early repayment, in full or part, of the principal amount at its discretion.

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 Plc**Notes to the financial statements****For the year ended 31 March 2008 (continued)****8. Investments (continued)**

The principal subsidiary undertakings at 31 March 2008 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		
AWG Holdings Limited (1)	Jersey	Holding Company
AWG Central Services Ltd (1)	England	Provision of administrative services to group companies
AWG (UK) Holdings Limited	England	Holding Company
AWG Group Limited	England	Holding Company
Anglian Water Direct Limited	England	Home service products
Celtic Anglian Water Limited	Ireland	Water and wastewater treatment
Rutland Insurance Limited	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	England	Holding company
Anglian Water Services Overseas Holdings Limited	Cayman Islands	Holding company
Morrison		
Morrison Plc	England	Holding company
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 Plc.

Notes to the financial statements

For the year ended 31 March 2008 (continued)

8. 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.

9. Debtors

	2008	2007
	£m	£m
Amounts due from subsidiary undertakings	46.2	58.3

Amounts due from subsidiary undertakings are unsecured and repayable on demand.

10. Creditors (amounts falling due within one year)

	2008	2007
	£m	£m
Amounts due to subsidiary undertakings	54.9	71.3
Corporation tax	0.2	16.0
Other creditors	0.1	-
	55.2	87.3

Amounts due to subsidiary undertakings are unsecured, interest free and repayable on demand.

Notes to the financial statements

For the year ended 31 March 2008 (continued)

11. Creditors (amounts falling due after one year)

	2008	2007
	£m	£m
Loans due to subsidiary undertaking	791.0	791.0
Other external borrowings	4.1	0.6
	<u>795.1</u>	<u>791.6</u>
 Redeemable shares		
Authorised		
1,000,000 million redeemable shares of 0.1 pence each	<u>1,000.0</u>	<u>1,000.0</u>

There are no redeemable shares in issue

Loans due to subsidiary undertakings are repayable in 2052 and have an interest rate of LIBOR plus 2%. Other external borrowings are repayable in 2010 and have a variable rate of interest.

All creditors are unsecured.

12. Commitments under operating leases

At 31 March 2008, the company had annual commitments under non-cancellable operating leases for land and buildings, expiring as follows:

	2008	2007
	£m	£m
Within one year	<u>-</u>	<u>0.1</u>

Costs in relation to the lease are borne by another group company with no re-charge to the company.

13. Called up share capital

	2008	2007
	£m	£m
Authorised.		
2,763.7 million Ordinary shares of 19.9 pence each	<u>550.0</u>	<u>550.0</u>
 Allotted, issued and fully paid		
145.6 million (2007: 145.6 million) Ordinary shares of 19.9 pence each	<u>29.0</u>	<u>29.0</u>

In the previous year the company acquired 785,000 of its own shares with a nominal value of £156,215, the aggregate amount of consideration paid for these shares was £8,723,289 including transaction costs. The acquisition of shares was as part of the return of capital to shareholders. The shares were cancelled after purchase.

Notes to the financial statements

For the year ended 31 March 2008 (continued)

14. Reserves

	Ordinary share capital	Share premium account	Capital redemption reserve	Profit and loss reserve	Total
	£m	£m	£m	£m	£m
At 1 April 2007	29.0	38.9	17.5	652.7	738.1
Profit for the financial year	-	-	-	11.3	11.3
Dividends paid	-	-	-	(144.0)	(144.0)
At 31 March 2008	29.0	38.9	17.5	520.0	605.4

15. Reconciliation of movement in total shareholder's funds

	2008 £m	2007 £m
At 1 April	738.1	1,119.7
Employee share option costs	-	(0.3)
Disposal of investment in own shares	-	0.5
Issue of shares	-	26.3
Share buy-back	-	(8.7)
Profit for the financial year	11.3	24.8
Dividends paid	(144.0)	(424.2)
At 31 March	605.4	738.1

16. Related party transactions

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

17. Ultimate parent company and controlling party

The company's immediate parent undertaking is Osprey Acquisitions Limited, a company registered in England

Osprey Acquisitions Limited is the parent company of the smallest group to prepare consolidated financial statements for the group.

Anglian Water Group Limited is the parent company of the largest group to prepare consolidated financial statements for the group, 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, 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, Colonial First State Global Asset Management, Industry Funds Management and 3i Group Plc who are controlling parties