

MORRISON GOVERNMENT SERVICES LIMITED
REPORT OF THE DIRECTORS
Registered No. 120550

1. The directors submit their report and the audited financial statements for the year ended 31 March 2002.

2. **PRINCIPAL ACTIVITIES**

The company functions as the intermediate holding company for Morrison Service Team Ltd and Morrison Property Care Ltd. The company commenced the active management of these subsidiary and joint venture companies during the year ended 31 March 2002.

3. **REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS**

The trading results for the year are as shown in the profit and loss account on page 5. The directors do not recommend the payment of a dividend (2001: NIL).

The level of business and the year end financial position remain satisfactory and the directors expect that the present level of activity will be sustained for the foreseeable future.

4. **DIRECTORS**

The directors of the company who held office during the year and to date were:

P J Clifton	(Appointed 08.01.02)	J Livingstone	(Resigned 30.06.02)
D W G Harley	(Appointed 08.01.02)	H H Sinclair	
I V Cusden	(Resigned 08.07.02)	A P Gosnold	
J Morrison	(Resigned 14.06.01)	G Morrison	(Resigned 29.05.01)
D Rowbottom	(Resigned 01.05.01)	G S Gould	(Resigned 17.10.01)
C B Morrison	(Resigned 15.03.02)		

In accordance with the company's Articles of Association, none of its directors is required to retire.

5. **DIRECTORS' INTERESTS**

None of the directors who held office during the year had any interest in the shares of the company.

Details of the interests of the directors in the shares of awg plc, the company's ultimate holding company, under terms of its SAYE Schemes were as follows:

	Shares subject to Option Under 2001 SAYE Scheme		Shares subject to Option Under 2002 SAYE Scheme	
	31.03.02 Number	31.03.01 Number	31.03.02 Number	31.03.01 Number
P J Clifton	-	-#	-	-#
I V Cusden	1,034	1,034	1,130	-
A P Gosnold	1,490	1,490	1,103	-
D W G Harley	-	-#	-	-#
J Livingstone	3,605	3,605	-	-
H H Sinclair	2,069	2,069	-	-

as at date of appointment



MORRISON GOVERNMENT SERVICES LIMITED
REPORT OF THE DIRECTORS - 31 MARCH 2002 (Cont'd)

5. **DIRECTORS' INTERESTS (Cont'd)**

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.

The date of grant and the option prices are set out below:

<u>Sharesave Scheme</u>	
<u>Date of Grant</u>	<u>Option Price</u>
14 December 1995	£4.65
12 December 1996	£4.52
10 December 1997	£6.19
9 December 1998	£7.12
13 January 2000	£4.34
31 January 2001	£4.68
6 February 2002	£4.20

Details of the interests of the directors in the shares of awg plc under terms of its Long Term Incentive Share Scheme were as follows:

	<u>Shares Under Long Term Incentive Share Scheme</u>	
	30.03.02	30.03.01
	Number	Number
P J Clifton	11,066	11,066#
I V Cusden	6,394	6,394
A P Gosnold	7,992	7,992
D W G Harley	-	-#
J Livingstone	7,833	7,833
H H Sinclair	5,328	5,328

as at date of appointment

The long-term incentive share scheme is designed to encourage continuing improvement in the awg group's 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 group's performance in terms of total shareholder return but in future years will depend on the awg group's performance in terms of earnings per share. 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.

6. **DIRECTORS' RESPONSIBILITIES**

The directors are required by UK company law to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that year.

The directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 March 2002. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

MORRISON GOVERNMENT SERVICES LIMITED
REPORT OF THE DIRECTORS - 31 MARCH 2002 (Cont'd)

6. DIRECTORS' RESPONSIBILITIES (Cont'd)

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the UK Companies Act. They are also responsible for taking reasonable steps to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

7. EMPLOYEE INVOLVEMENT

Acknowledging the right of our employees to be informed and made aware of matters which affect their work, the company is firmly committed to a policy of communication, consultation and involvement. Arrangements have been established for the provision of information to all employees in the form of periodic company magazines and other regularly documented announcements.

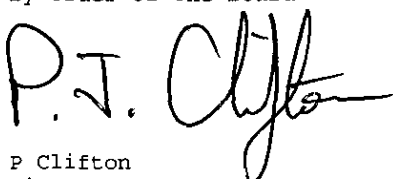
8. DISABLED PERSONS

It is the policy and practice of the company to actively encourage and assist in the employment, training and career development of disabled persons wherever possible. In the event of employees becoming disabled during their employment, the company will make every effort to continue their employment and arrange appropriate training.

9. AUDITORS

In accordance with Section 379A of the Companies Act 1985, the company has passed an elective resolution dispensing with the need to hold annual general meetings or re-appoint its auditors annually. Accordingly our auditors, PricewaterhouseCoopers, will be deemed to be appointed as auditors subsequent to the year end.

By Order of the Board



P Clifton
Director
21 October 2002

Registered in Scotland - No. - 120550
Registered office:

Morrison House
12 Atholl Crescent
Edinburgh
Lothian
EH3 8HA

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
MORRISON GOVERNMENT SERVICES LIMITED**

We have audited the financial statements on pages 5 to 13 which comprise the profit and loss account, balance sheet and notes 1 to 15.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities on pages 2 and 3.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards issued by the Auditing Practices Board.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Directors' report.

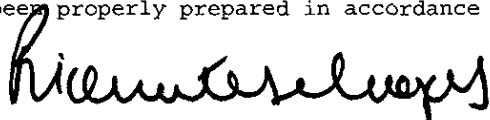
Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 March 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Edinburgh

23 October 2002

MORRISON GOVERNMENT SERVICES LIMITED
PROFIT AND LOSS ACCOUNT
YEAR ENDED 31 MARCH 2002

	<u>Notes</u>	<u>Year to</u> <u>31.3.02</u> £	<u>Year to</u> <u>31.3.01</u> £
TURNOVER	1(b)	1,844,692	-
Administrative expenses		(976,547)	-
		<hr/>	<hr/>
OPERATING PROFIT	2	868,145	-
Interest	5	(28,743)	-
		<hr/>	<hr/>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		839,402	-
Taxation	6	(252,189)	-
		<hr/>	<hr/>
RETAINED PROFIT FOR THE YEAR		587,213	-
		<hr/>	<hr/>
STATEMENT OF RETAINED PROFIT			
Balance at 31 March 2001		-	-
Profit for the year		587,213	-
		<hr/>	<hr/>
Balance at 31 March 2002		587,213	-
		<hr/>	<hr/>

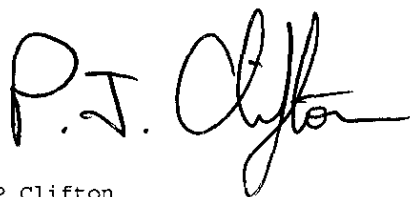
The results are derived from continuing operations.

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

The company has no recognised gains and losses other than the profits and losses above and therefore no separate statement of total recognised gains and losses has been presented.

MORRISON GOVERNMENT SERVICES LIMITED
BALANCE SHEET
31 MARCH 2002

	Notes	<u>31.3.02</u> £	<u>31.3.01</u> £
FIXED ASSETS			
Intangible assets	7	963,000	-
Investments	8	1,167	1,167
		<hr/>	<hr/>
		964,167	1,167
		<hr/>	<hr/>
CURRENT ASSETS			
Debtors (amounts falling due after more than one year £729,568)	9	3,382,018	-
Cash at bank		7,634	-
		<hr/>	<hr/>
		3,389,652	-
		<hr/>	<hr/>
CREDITORS			
Amounts falling due within one year	10	(3,766,604)	(1,165)
		<hr/>	<hr/>
NET CURRENT LIABILITIES		(376,952)	(1,165)
		<hr/>	<hr/>
NET ASSETS		587,215	2
		<hr/>	<hr/>
CAPITAL AND RESERVES			
Share capital	11	2	2
Profit and Loss Account		587,213	-
		<hr/>	<hr/>
EQUITY SHAREHOLDER'S FUNDS	12	587,215	2
		<hr/>	<hr/>



P Clifton
DIRECTOR

The directors approved the financial statements on 21 October 2002.
The notes on pages 7 to 13 form part of these financial statements.

MORRISON GOVERNMENT SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2002

1. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom. The company has adopted FRS18 in the year but this did not require any changes in accounting policy.

During the year, two new accounting standards were introduced and adopted: FRS18 Accounting Policies and FRS19 Deferred Tax. The disclosure requirements of FRS17 Retirement Benefits have been adopted as necessary, however, the standard has not been adopted in full.

A summary of the more important policies, which have been consistently applied, is set out below.

(a) BASIS OF ACCOUNTING

The financial statements are prepared under the historical cost convention. The company is exempt from preparing consolidated accounts since its accounts and those of its subsidiary undertakings are included in the consolidated accounts for awg plc.

(b) TURNOVER

Turnover represents the value of management fees earned from subsidiary and joint venture companies during the year, wholly within the UK, and excludes Value Added Tax.

(c) LEASED ASSETS

Where assets are financed under operating leases, the lease rentals are charged to the profit and loss account as incurred.

(d) INTANGIBLE ASSETS

The amounts held under intangible assets represent goodwill on the purchase of the business of the direct labour organisation from North Lanarkshire Council. Goodwill has been recorded at cost and is amortised over the life of the contract, which is 10 years in this case.

(e) DEFERRED COSTS

The amounts held under deferred costs represent contract start up costs incurred during the set up of the businesses transferring the direct labour organisations from Norwich City Council and North Lanarkshire Council. Deferred costs have been recorded at cost and are amortised over the lives of the respective contracts, which is 10 years in each case.

(f) INVESTMENTS

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

MORRISON GOVERNMENT SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2002 (Cont'd)

(g) PENSION SCHEME ARRANGEMENTS

Pension arrangements for the majority of the company's UK Staff employees are of the defined benefit type through the Morrison Pension and Life Assurance Plan. Details of the Plan appear in the financial statements of awg plc. Contributions payable to the scheme are charged to the profit and loss account in the period to which they relate. The cost of contributions to the group scheme amount to £35,900 being 13% of pensionable salary (2001: Nil). Whilst the scheme is a defined benefit scheme, the company is unable to identify its share of the underlying assets and liabilities of the group scheme. The most recent valuation of the scheme was performed as at 01 January 2000 and was updated by independent actuaries to take account of the requirements of FRS17 in order to assess the liabilities of the scheme at 31 March 2002. This valuation indicated a net pension liability of £16.4 million. It has been agreed with the trustees that contributions to the scheme are to remain at the same level until 31 December 2002 and will then be reviewed.

(h) DEFERRED TAXATION

Deferred taxation is provided on timing differences, arising from the different treatment for accounting and taxation purposes of events and transactions recognised in the financial statements of the current year and previous years. Deferred taxation is calculated at the rate at which it is estimated that tax will arise. Deferred taxation balances are not discounted, as doing so does not have a material impact.

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

Deferred taxation assets are recognised to the extent that 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.

(i) CASHFLOW

The Company is a wholly owned subsidiary of awg plc and the cashflows of the company are included in the consolidated group cashflow statement of awg plc. Consequently, the company is exempt under the terms of Financial Reporting Standard No 1 (Revised 1996) from publishing a cashflow statement.

(j) RELATED PARTY TRANSACTIONS

The Company has taken advantage of an exemption within FRS8 which allows non disclosure of transactions and balances with group companies which are eliminated on consolidation of the ultimate holding company accounts.

MORRISON GOVERNMENT SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2002 (Cont'd)

2. OPERATING PROFIT

	Year to <u>31.3.02</u>	Year to <u>31.3.01</u>
	£	£
Operating profit is stated after charging		
Amortisation of Goodwill	107,000	-
Operating leases:hire of plant and machinery	1,145	-
	<u> </u>	<u> </u>

Auditors' remuneration is paid by and disclosed in the accounts of the immediate parent company.

3. EMPLOYEE INFORMATION

The average number of persons employed by the company, including directors, during the period is as follows:

	Year to <u>31.3.02</u>	Year to <u>31.3.01</u>
	Number	Number
By activity:		
Selling and administration	6	-
	<u> </u>	<u> </u>

The costs incurred in respect of employees were:

	Year to <u>31.3.02</u>	Year to <u>31.3.01</u>
	£	£
Wages and salaries paid or payable	330,169	-
Social security costs incurred	45,442	-
Other pension costs incurred	<u>35,899</u>	<u> </u>
	<u>411,510</u>	<u> </u>

4. DIRECTORS' EMOLUMENTS

Messrs Clifton and Harley are Directors of Anglian Water Facilities Management Holdings (UK) Limited and their emoluments are disclosed in that company's remuneration report.

Mr G Morrison was a director of AWG plc and his emoluments are in that company's financial statements.

The emoluments of Mr I Cusden, Messrs H Sinclair and A Gosnold and Mr G Gould are included in the financial statements of Morrison Utility Services Limited, Morrison Asset Management Limited and Morrison Construction Limited respectively, apart from Mr J Livingstone, as follows.

	Year to <u>31.3.02</u>	Year to <u>31.3.01</u>
	£	£
Aggregate emoluments of directors of the company:		
For management services	<u>102,910</u>	<u> </u>

Details of share options granted to Directors are shown under Directors Interests on pages 1 and 2.

MORRISON GOVERNMENT SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2002 (Cont'd)

5. INTEREST

	Year to 31.3.02 £	Year to 31.3.01 £
Group interest payable	27,915	-
Bank overdraft interest	828	-
	<u>28,743</u>	<u>-</u>

6. TAXATION

	Year to 31.3.02 £	Year to 31.3.01 £
The charge for taxation comprises:		
Corporation tax at 30%-current year	<u>252,189</u>	<u>-</u>

The tax assessed for the year is higher than the standard rate of corporation tax in the UK (30%). The difference is explained below:

Profit on ordinary activities before taxation	<u>839,402</u>
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Profit on ordinary activities multiplied by standard rate in the UK (30%)	251,821
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Effect of: Expenses not deductible for tax purposes	<u>368</u>
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Current tax charge for the year	<u>252,189</u>
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The introduction of FRS 19 (Deferred Taxation) has not led to any provision for deferred taxation at 31 March 2002 (2001 - nil). Consequently, there is no prior year adjustment to account for this change in policy, and prior year comparatives are not restated.

7. INTANGIBLE FIXED ASSETS

<u>Goodwill</u>	£
Cost	
At 1 April 2001	-
Additions at cost	1,070,000
	<u>1,070,000</u>
At 31 March 2002	<u>1,070,000</u>
Amortisation	
At 1 April 2001	-
Charge for the year	107,000
	<u>107,000</u>
At 31 March 2002	<u>107,000</u>
Net Book Value	
At 31 March 2002	<u>963,000</u>
	<u>-</u>
At 31 March 2001	<u>-</u>

MORRISON GOVERNMENT SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2002 (Cont'd)

8. INVESTMENTS

	<u>31.3.02</u>	<u>31.3.01</u>
	£	£
Shares in subsidiary and joint venture companies	1,167	1,167

The company owns 50% of Morrison Service Team Limited and 66.67% of Morrison Property Care Limited.

	Subsidiary Undertakings	Joint Venture	Total
	£	£	£
Shares at cost			
At 1 April 2001 and			
31 March 2002	<u>667</u>	<u>500</u>	<u>1,167</u>

There have been no additions or disposals in the year.

Set out below is an analysis of the company's principal holdings in subsidiary and joint venture companies at 31 March 2002. The main activity of the subsidiary and joint venture companies is to perform contracts for repair and maintenance works with local authorities.

Undertaking	Nature of Undertaking	Country of Incorporation	Activity	Proportion of Shares Held
Morrison Service Team Ltd	Joint Venture	England	Repairs, Maintenance and other works for Norwich City Council	50% of the ordinary 'A' share capital
Morrison Property Care Ltd	Subsidiary	Scotland	Repairs and Maintenance for North Lanarkshire Council	66.67% of the ordinary 'A' share capital

Morrison Service Team Ltd reported the following results for the year:

	<u>31.3.02</u>	<u>31.3.01</u>
	£	£
Profit for the year	437,000	561,000
Capital and reserves	<u>999,000</u>	<u>562,000</u>

MORRISON GOVERNMENT SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2002 (Cont'd)

9.	<u>DEBTORS</u>	<u>31.3.02</u>	<u>31.3.01</u>
		£	£
	Amounts falling due within one year:		
	Trade debtors	800,000	-
	Amounts due by group companies	1,563,124	-
	Deferred costs	99,079	-
	Other debtors	190,247	-
		<hr/>	<hr/>
		2,652,450	-
		<hr/>	<hr/>
	Amounts falling due after more than one year:		
	Deferred costs	729,568	-
		<hr/>	<hr/>

10.	<u>CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR</u>	<u>31.3.02</u>	<u>31.3.01</u>
		£	£
	Trade creditors	10,297	-
	Amounts owed to holding company and fellow subsidiary undertakings	3,387,076	1,165
	Corporation tax	252,189	-
	Accruals and deferred income	117,042	-
		<hr/>	<hr/>
		3,766,604	1,165
		<hr/>	<hr/>

Loans due to the holding company and fellow subsidiary undertakings bear no interest and are repayable on demand.

11.	<u>CALLED-UP SHARE CAPITAL</u>	<u>31.3.02</u>	<u>31.3.01</u>
		£	£
	Authorised		
	1,000 Ordinary shares of £1 each	1,000	1,000
		<hr/>	<hr/>
	Allotted and fully paid		
	2 Ordinary shares of £1 each	2	2
		<hr/>	<hr/>

MORRISON GOVERNMENT SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2002 (Cont'd)

12. RECONCILIATION OF SHAREHOLDERS' FUNDS

	<u>31.3.02</u> £	<u>31.3.01</u> £
Retained profit for the financial year	587,213	-
Opening shareholders' funds	2	2
	<hr/>	<hr/>
Closing shareholders' funds	587,215	2
	<hr/>	<hr/>

13. HOLDING COMPANY

The company's immediate holding company is Morrison Construction Limited, a company registered in Scotland.

The company's ultimate holding company and controlling party is awg plc, a company registered in England.

Copies of the ultimate parent company's consolidated financial statements may be obtained from the Company Secretary, awg plc, Anglian House, Ambury Road, Huntingdon, Cambridgeshire PE29 3NZ.

14. OPERATING LEASE COMMITMENTS

The annual commitment under non-cancellable operating leases was as follows:

	<u>31.3.02</u> Plant and machinery	<u>31.3.01</u> Plant and machinery
Leases expiring:		
Within 1 year	-	-
Between 2 and 5 years	1,145	-
Over 5 years	-	-
	<hr/>	<hr/>
	<u>1,145</u>	<u>-</u>

15. RELATED PARTY TRANSACTIONS

Transactions with the companies' related parties as defined by FRS8 are summarised below.

	31.3.02 £
Sales to joint ventures on normal trading terms	800,000
Amounts due by joint ventures	800,000