

Hartlepool Water Limited

**Annual report and financial statements
For the year ended 31 March 2006**

Registered number 3017251

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Hartlepool Water 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 activities of the company comprise the operation of an on-site effluent treatment plant.

Business review

The board consider the results for the year to be satisfactory.

Turnover has increased significantly during the year as a result of increased volumes of effluent through the treatment plant due to increased production on the customer's site. This has led to a corresponding rise in operating expenditure due to additional treatment costs.

The directors expect to maintain the same general level of activity during 2006-07.

Results

The results for the year ended 31 March 2006 are set out in the profit and loss account on page 5.

Dividends

No dividends were paid during the year (2005: £nil).

Directors and their interests

The current directors of the company are as follows:

D J Cooke
K J Ensell
P Trussell

The directors have no interest in the shares of the company.

The interests of the directors who were in office at 31 March 2006 in the shares of AWG Plc and in options over such shares granted under that company's share option schemes are set out below.

Except where marked, all interests in shares throughout this section are in relation to AWG Plc ordinary shares of 19.9 pence each.

Beneficial and family interests in the shares of AWG Plc

	At 1 April 2005	At 31 March 2006
Ordinary shares		
D J Cooke	1,948	1,948
K J Ensell	325	325

Long term incentive plan

Mr D J Cooke had a contingent interest at 31 March 2006 in the shares of AWG Plc, representing the maximum aggregate number of shares to which he would be entitled under the Group's Long Term Incentive Plan:

AWG Plc Long Term Incentive Plan			
	At 1 April 2005	Options granted	Options exercised
D J Cooke	6,766	5,517	-
			At 31 March 2006
			12,283

Hartlepool Water Limited

Directors' report for the year ended 31 March 2006 (continued)

Directors and their interests (continued)

Long term incentive plan (continued)

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. 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.

Sharesave scheme

The directors also have a contingent interest in the shares of AWG Plc under the groups sharesave scheme as follows:

	AWG Plc Sharesave Scheme				
	At 1 April 2005	Options granted	Options lapsed	At 31 March 2006	Weighted average price of option
D J Cooke	1,919	-	-	1,919	£5.01
P Trussell	2,795	-	-	2,795	£3.38

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 dates of grant and the option prices are set out below:

Sharesave Scheme	
Date of grant	Option price
31 January 2003	£3.38
5 February 2004	£4.28
28 January 2005	£7.42

Executive share option scheme

Directors also have a contingent interest in the shares of AWG Plc under the group's Executive Share Option Scheme as follows:

	AWG Plc Executive Share Option Scheme				
	At 1 April 2005	Options granted	Options lapsed	At 31 March 2006	Weighted average price of option
D J Cooke	12,333	-	(12,333)	-	£5.27

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 Plc Sharebuy Scheme

The Directors are entitled to participate in the AWG Sharebuy Plan. Details of the Director's partnership, matching and dividend shares are as follows:

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.

Hartlepool Water Limited

Directors' report for the year ended 31 March 2006 (continued)

Directors and their interests (continued)

AWG Plc Sharebuy Scheme (continued)

	AWG Plc Sharebuy Scheme			
	At 1 April 2005	Partnership Shares bought	Matching Shares	Dividend Shares
D J Cooke	-	61	30	1
P Trussell	-	153	76	5
				At 31 March 2006
				91
				234

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

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

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 judgments 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,



.....
K J Ensell
Director

Anglian House, Ambury Road, Huntingdon, PE29 3NZ
Registered number 3017251
14 December 2006

Hartlepool Water Limited

Independent auditors' report to the members of Hartlepool Water Limited

We have audited the financial statements of Hartlepool Water Limited for the year ended 31 March 2006, which comprise the profit and loss account, the statement of movement in shareholders' funds, 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
Chartered Accountants and Registered Auditors
Birmingham
14 December 2006

Hartlepool Water Limited **Profit and loss account** **for the year ended 31 March 2006**

Notes		2006 £000	2005 £000
2	Turnover	157	116
	Cost of sales	(79)	(57)
	Gross profit	78	59
	Administrative expenses	(1)	(3)
3	Operating profit	77	56
4	Interest receivable	62	55
	Profit on ordinary activities before taxation	139	111
5	Tax on profit on ordinary activities	(42)	(34)
13	Retained profit	97	77

All the above results relate to continuing operations.

The company has no other gains and losses and therefore a statement of total recognised gains and losses has not been prepared.

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.

Hartlepool Water Limited
Statement of movement in shareholders' funds
for the year ended 31 March 2006

	2006 £000	2005 £000
Total recognised gains and losses for the year and increase in shareholders' funds	97	77
Opening shareholders' funds	1,371	1,294
Closing shareholders' funds	1,468	1,371

Hartlepool Water Limited

Balance sheet

as at 31 March 2006

Notes		2006 £000	2005 £000
	Fixed assets		
7	Tangible assets	33	44
	Current assets		
8	Debtors	52	93
	Cash at bank and in hand	1,495	1,293
		<u>1,547</u>	<u>1,386</u>
9	Creditors: amounts falling due within one year	<u>(112)</u>	<u>(56)</u>
	Net current assets	<u>1,435</u>	<u>1,330</u>
	Total assets less current liabilities	<u>1,468</u>	<u>1,374</u>
10	Provisions for liabilities and charges	-	(3)
	Net assets	<u>1,468</u>	<u>1,371</u>
	Capital and reserves		
12	Called up share capital	732	732
13	Share premium account	8	8
13	Profit and loss account	728	631
	Shareholders' funds (all equity)	<u>1,468</u>	<u>1,371</u>

The notes on pages 8 to 12 form part of these financial statements.

The financial statements were approved by the board of directors on 14 December 2006 and signed on its behalf by :



K J Ensell
director

Hartlepool Water Limited

Notes to the accounts for the year ended 31 March 2006

1 Accounting policies

The principal accounting policies are summarised below. All have been applied consistently throughout the year and the preceding year, except as detailed below.

a) Basic accounting principles

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 FRS21, FRS 25 or FRS 28.

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

b) 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 Financial Reporting Standard (FRS) 1 and not presented its own cash flow statement.

c) Turnover

Turnover represents the income receivable (excluding value added tax) in the ordinary course of business for goods and services provided and, in respect of contract work in progress, the value of work carried out.

d) Tangible fixed assets and depreciation

Fixed assets are included at cost less accumulated depreciation. Freehold land is not depreciated. Depreciation of assets is calculated at rates expected to write off cost less the estimated residual value of the relevant assets over their estimated economic lives, which are principally as follows:

Fixed plant	7 years
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Interest costs are not capitalised into the cost of fixed assets.

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

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

Hartlepool Water Limited

Notes to the accounts for the year ended 31 March 2006

(continued)

2. Segmental analysis

All results are derived from a single class of business within the United Kingdom.

3. Operating profit

Operating profit is stated after charging:

Depreciation –own assets

Fees paid to auditors:

- for audit work

2006 £000	2005 £000
11	12
1	1

4. Interest receivable

Investment Income

Interest receivable and similar income

2006 £000	2005 £000
62	55

5. Taxation

The tax charge for the year comprised:

UK tax – current year charge

Tax on profit on ordinary activities

Tax on profit on ordinary activities comprises:

UK Corporation tax at 30 per cent (2005: 30 per cent)

Adjustments in respect of prior periods

Total current tax charge

Deferred tax (note 11)

Adjustments in respect of prior periods

Total deferred tax (credit)/charge

Tax on profit on ordinary activities

2006 £000	2005 £000
42	34
42	34
42	34
3	-
45	34
(3)	-
(3)	-
42	34

Adjustments in respect of prior periods arise from capital allowance disclaimers.

Factors affecting tax charge for the year

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

	2006 £000	2005 £000
Profit on ordinary activities before taxation	139	111
Profit on ordinary activities at the standard UK rate of tax (30 per cent)	42	33
Effects of:		
Items not deductible for tax purposes	-	1
Adjustments in respect of prior periods	3	-
Current tax charge for the year	45	34

Hartlepool Water Limited

Notes to the accounts for the year ended 31 March 2006

(continued)

6. Employee information

No staff were employed by the company during this or the previous year.

Directors remuneration

None of the directors received remuneration from Hartlepool Water Limited for the years ended 31 March 2006 and 31 March 2005.

7. Tangible fixed assets

	Fixed plant £000
Cost	
At 1 April 2005 and 31 March 2006	79
Depreciation	
At 1 April 2005	35
Charge for the year	11
At 31 March 2006	46
Net book value	
At 31 March 2006	33
At 31 March 2005	44

Capital commitments

The liability on contracts for capital expenditure, not provided in these accounts is £nil (2005: £nil)

8. Debtors

	2006 £000	2005 £000
Amount falling due within one year:		
Trade debtors	36	53
Prepayments and accrued income	16	28
Amounts owed by group companies	-	12
	52	93

9. Creditors: amounts falling due within one year

	2006 £000	2005 £000
Corporation tax	79	34
Other creditors	4	11
Accruals and deferred income	29	11
	112	56

Hartlepool Water Limited

Notes to the accounts for the year ended 31 March 2006

(continued)

10. Provisions for liabilities and charges

	Deferred tax £000
At 1 April 2005	3
Amounts credited to profit and loss account	(3)
Charge for the year	-
At 31 March 2006	-

The provision related to deferred tax and is analysed in note 11.

The amounts stated above have not been discounted.

11. Deferred taxation

	2006 £000	2005 £000
At 1 April	3	3
Amounts credited to profit and loss account	(3)	-
At 31 March	-	3

	2006 £000	2005 £000
Accelerated capital allowances	-	3
Undiscounted provision for deferred tax	-	3

There are no unrecognised deferred tax assets.

12. Share capital

	2006 £000	2005 £000
Authorised		
10,000,000 ordinary shares of 10 pence each	1,000	1,000
Allotted, issued and fully paid		
7,320,000 ordinary shares of 10 pence each	732	732

13. Reserves

	Share premium account £000	Profit and loss reserve £000	Total £000
At 1 April 2005	8	631	639
Total recognised gains and losses relating to the year	-	97	97
At 31 March 2006	8	728	736

Hartlepool Water Limited

Notes to the accounts for the year ended 31 March 2006

(continued)

14. Contingent liabilities

The company has a cross guarantee arrangement relating to certain group companies' accounts at Barclays Bank Plc. Net indebtedness under this arrangement at 31 March 2006 was £nil. (2005 £nil).

15. Related party transactions

The company has taken advantage of the exemption relating to 90% subsidiary undertakings under Financial Reporting Standard 8 (FRS 8) not to disclose transactions with entities that are also 90% subsidiary undertakings of AWG Plc.

16. Ultimate parent undertaking

AWG Group Limited is the immediate parent company of Hartlepool Water Limited.

In the opinion of the directors the ultimate parent undertaking and controlling party is AWG Plc, a company registered in England. Copies of the group accounts may be obtained from the company secretary by writing to AWG Plc, Anglian House, Ambury Road, Huntingdon, Cambridgeshire, PE29 3NZ.

17. Post balance sheet event

On 2 October 2006 Osprey Acquisitions Limited announced an offer for the entire share capital of AWG Plc. On 23 November 2006 the offer was declared wholly unconditional, at which point Osprey Acquisitions Limited owned or had acceptances for 77 per cent of the share capital of AWG Plc. AWG Plc subsequently applied to be delisted from the London Stock Exchange and will be converted into a private limited company.