

MWH EUROPE LIMITED

Report and Financial Statements

Year ended 31 December 2004



MWH EUROPE LIMITED

REPORT AND FINANCIAL STATEMENTS 2004

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MWH EUROPE LIMITED

REPORT AND FINANCIAL STATEMENTS 2004

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

K A Farrer
B Howard
M Pishiri
M A Tolaney
R Uhler
R Wankmuller
M Valcamonica (Appointed 12 April 2005)
D Smith (Appointed 12 April 2005)
G P Garrione (Resigned 5 May 2004)

SECRETARY

V Hall-Sturt (Appointed 5 May 2004)
G Collingwood (Resigned 5 May 2004)

REGISTERED OFFICE

Terriers House
201 Amersham Road
High Wycombe
Buckinghamshire
HP13 5AJ

BANKERS

Barclays Bank plc
PO Box 41
High Wycombe
HP11 2BQ

AUDITORS

Deloitte & Touche LLP
St Albans

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 2004.

ACTIVITIES

MWH Europe Limited is the holding company of a group of consultant engineering companies engaged in the areas of water supply, pollution control, waste disposal and environmental management.

REVIEW OF DEVELOPMENTS AND FUTURE PROSPECTS

Group turnover for 2004 was lower than in 2003 as the major AMP3 programmes in the UK approached completion. However, operating profit rose as a result of the increased profitability of these programmes. Further, a very successful outcome on the AMP4 bidding process indicates healthy prospects in the UK looking forwards. Business conditions in continental Europe remained difficult but volume is improving in Italy.

DIVIDENDS

The directors recommend the payment of a first and final dividend for the year ended 31 December 2004 of £8,000,000 which was paid on 26 February 2004 (2003: £11,000,000).

DIRECTORS AND THEIR INTERESTS

The directors who served during the year are listed below and on page 1. No director had any interest in the shares in the company. Their interests in the share capital of the group parent company (split between MWH Inc Global and MWH BV) are as follows:

Director	Number of MWH Global Inc shares		Number of MWH (Holdings) BV shares	
	At 31 December 2004	At 31 December 2003	At 31 December 2004	At 31 December 2003
K A Farrer	-	-	15,858	14,990
G P Garrione	-	-	-	-
B Howard	1,482	301	-	-
M Pishiri	-	-	5,128	4,320
M A Tolaney	137,400	137,400	-	-
R Uhler	71,060	71,460	-	-
R Wankmuller	11,049	9,350	-	-

R Wankmuller, M A Tolaney and R Uhler are also directors of the ultimate parent undertaking, MWH Global Inc. G P Garrione resigned his directorship of MWH Europe Limited on 5 May 2004.

EMPLOYEES

Consultation with the employees occurs at all levels, with the aim of ensuring that their views are taken into account when decisions are made that are likely to affect their interests, and so that all employees are aware of the financial economic performance of their business units and of the company as a whole. Bimonthly meetings are held with employee representatives to discuss sales, financial position and prospects. Opportunity is given at these meetings for senior executives to be questioned about matters that concern employees. In-house magazines and newsletters are distributed monthly to all employees which include articles on the company's performance and plans. We encourage the involvement of all employees in the performance of the company through the employee share scheme.

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the company continues and the appropriate training is arranged. It is the policy of the company that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

DIRECTORS' REPORT (continued)

AUDITORS

A resolution to re-appoint Deloitte & Touche LLP as the Company's auditor will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors

A handwritten signature in black ink, appearing to read 'V Hall-Sturt', with a stylized flourish at the end.

V Hall-Sturt

Secretary

30th January 2006

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and group as at the end of the financial year and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and the group and to 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 the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MWH EUROPE LIMITED

We have audited the financial statements of MWH Europe Limited for the year ended 31 December 2004 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheets and the related notes 1 to 24. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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 United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

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 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 with the company and other members of the group is not disclosed.

We read the directors' report and the other information contained in the annual report for the above year as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 circumstances of the company and the group, 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 affairs of the company and the group as at 31 December 2004 and of the profit for the year ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
St Albans

2) January 2006

PROFIT AND LOSS ACCOUNT

Year ended 31 December 2004

	Note	2004 £'000	2003 £'000
Turnover: group and share of joint ventures	2	113,392	127,188
Less: share of joint venture turnover		(2,318)	(2,725)
GROUP TURNOVER		111,074	124,463
Cost of sales		(59,616)	(58,187)
Gross profit		51,458	66,276
Administrative expenses		(35,615)	(54,841)
GROUP OPERATING PROFIT		15,843	11,435
Share of operating profit in joint ventures		44	356
OPERATING PROFIT	3	15,887	11,791
Interest receivable	5	183	269
Interest payable	5	(1,068)	(953)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		15,002	11,107
Tax on profit on ordinary activities	6	(5,616)	(3,123)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		9,386	7,984
Dividends payable on equity shares	7	(8,000)	(11,000)
RETAINED PROFIT / (LOSS) FOR THE FINANCIAL YEAR		1,386	(3,016)

The results for the year arose entirely from continuing operations.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
Year ended 31 December 2004

	Note	2004 £'000	2003 £'000
Retained profit/(loss) for financial year	18	1,386	(3,016)
Increase on asset revaluation reserve	19	155	242
Exchange movements on retranslation of foreign subsidiaries	18	(61)	(16)
Total recognised gains and losses		<u>1,480</u>	<u>(2,790)</u>

CONSOLIDATED BALANCE SHEET
31 December 2004

	Note	2004 £'000	2004 £'000	2003 £'000	2003 £'000
FIXED ASSETS					
Intangible assets	8		206		277
Tangible assets	9		4,023		4,467
Investments in joint ventures:					
Share of assets		1,507		1,575	
Share of liabilities		(669)		(703)	
	10		838		872
			5,067		5,616
CURRENT ASSETS					
Debtors : Amounts falling due after one year	11		1,338		1,535
Debtors : Amounts falling due within one year	12		50,475		69,459
Cash at bank			5,063		2,755
			56,876		73,749
CREDITORS: amounts falling due within one year	13		(36,391)		(43,079)
NET CURRENT ASSETS			20,485		30,670
TOTAL ASSETS LESS CURRENT LIABILITIES			25,552		36,286
CREDITORS: amounts falling due after more than one year	14		(77)		(12,291)
TOTAL NET ASSETS			25,475		23,995
CAPITAL AND RESERVES					
Called up share capital	17		10,000		10,000
Profit and loss account	18		14,249		12,924
Other reserves	19		1,226		1,071
TOTAL EQUITY SHAREHOLDERS' FUNDS			25,475		23,995

These financial statements were approved by the Board of Directors on **30** January 2006.

Signed on behalf of the Board of Directors

K A Farrer
Director



COMPANY BALANCE SHEET
31 December 2004

	Note	2004 £'000	2003 £'000
FIXED ASSETS			
Investments	10	11,358	11,376
Tangible Assets	9	189	342
		<u>11,547</u>	<u>11,718</u>
CURRENT ASSETS			
Debtors : Amounts falling due after one year	11	376	505
Debtors : Amounts falling due within one year	12	8,647	25,370
Cash at bank		1,666	387
		<u>10,689</u>	<u>26,262</u>
CREDITORS: amounts falling due within one year	13	<u>(13,708)</u>	<u>(7,288)</u>
NET CURRENT (LIABILITIES) / ASSETS		<u>(3,019)</u>	<u>18,974</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		8,528	30,692
CREDITORS: amounts falling due after more than one year	14	<u>-</u>	<u>(12,000)</u>
TOTAL NET ASSETS		<u>8,528</u>	<u>18,692</u>
CAPITAL AND RESERVES			
Called up share capital	17	10,000	10,000
Profit and loss account	18	(1,472)	8,692
TOTAL EQUITY SHAREHOLDERS' FUNDS		<u>8,528</u>	<u>18,692</u>

These financial statements were approved by the Board of Directors on

30

January 2006.

Signed on behalf of the Board of Directors

K A Farrer
Director



NOTES TO THE ACCOUNTS
Year ended 31 December 2004

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable United Kingdom accounting standards. The particular accounting policies adopted are described below.

Basis of consolidation

The consolidated financial statements incorporate the accounts of the Company and all of its subsidiary undertakings (subsidiaries). The financial statements of all subsidiaries are prepared to 31 December annually. The results of subsidiaries acquired are included in the profit and loss account from the date that control passes to the Group. Intra-Group transactions are eliminated fully on consolidation.

The group's share of profits less losses of joint ventures is included in the consolidated profit and loss account and the Group's share of their net assets is included in the consolidated balance sheet.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rate prevailing at the balance sheet date. Transactions during the year are translated at the rate prevailing at the date of transaction. All exchange differences are taken to the profit and loss account. Foreign subsidiaries are translated using the closing rate ruling at the balance sheet date; profit/loss at average rates. Exchange differences arising are recorded as a movement in reserves.

Accounting convention

The financial statements are prepared under the historical cost convention, other than land and buildings which are revalued every year.

Intangible fixed assets

Patents and trademarks are included at cost and are depreciated in equal annual amounts over a period of three years. Provision is made for any impairment.

Tangible fixed assets

Tangible fixed assets are stated at cost or valuation net of any depreciation and any provision for impairment. Depreciation is provided to write down the cost of fixed assets over their estimated useful economic life. The rates of depreciation are as follows:

Freehold buildings	Straight line over 50 years on original building and over 10 years on improvements
Freehold land	Not depreciated
Motor vehicles	Straight line over 4 years
Plant and equipment	Straight line over 3 years

Fixed asset investments

Investments are carried on a historical cost basis subject to adjustments for impairment.

Work in progress

Where it is considered that the outcome of a long term contract can be assessed with reasonable certainty before its conclusion, the attributable profit is calculated as that part of the total profit currently estimated to arise over the duration of the contract that fairly reflects the profit attributable to that part of the work performed at the accounting date. Where losses on contracts are expected, full provision is made for the estimated losses to the end of contracts in question.

NOTES TO THE ACCOUNTS

Year ended 31 December 2004

1. ACCOUNTING POLICIES (CONTINUED)

Deferred taxation

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Leases

Assets held under finance and related lease obligations are capitalised in the balance sheet at cost and are depreciated over their useful lives. The excess of the lease payments over the principal lease obligations is treated as finance charges which are amortised over each lease term on a straight line basis. Rentals paid under operating leases are charged to the profit and loss account as incurred.

Goodwill

Goodwill arising on consolidation represents the excess of the consideration given over the fair value of the identifiable net assets acquired. Goodwill is capitalised on the balance sheet and amortised over its useful life, not exceeding 10 years. Provision is made for any impairment.

Pension costs

The Group provides pensions to its employees through a funded defined benefit pension scheme. The assets of the funded scheme are held independently of the Group by trustees. The amount charged to the profit and loss account is the estimated regular cost of providing the benefits accrued in the year, adjusted to reflect variations from that cost. The regular cost is calculated so as to spread the cost of pensions over the estimated average remaining working life of scheme members. Variations from regular costs are charged or credited to the profit and loss account as a constant percentage of pensionable payroll over the estimated average remaining working life of scheme members. Any difference between amounts charged to the profit and loss account and contributions paid to the schemes is shown as a separately identified liability or asset in the balance sheet. This Scheme was closed to new members in April 2005 and has been replaced by a new defined contribution scheme.

Cash flow statement and related party disclosures

The Group has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard 1. The company is also exempt under the terms of Financial Reporting Standard 8 from disclosing related party transactions with entities that are part of the MWH BV group or investees of the MWH BV group.

NOTES TO THE ACCOUNTS
Year ended 31 December 2004

2. TURNOVER

Turnover represents the value of services rendered during the period, net of value added tax, after eliminating sales between group companies. All turnover for the periods ended 31 December 2004 and 2003 is attributable to the main activity of the company and is split geographically as follows.

	2004 £'000	2003 £'000
United Kingdom	93,213	108,056
Rest of Europe	16,604	11,776
Other	3,575	7,356
	<u>113,392</u>	<u>127,188</u>

3. OPERATING PROFIT

	2004 £'000	2003 £'000
Operating profit for the year is stated after charging/(crediting):		
Amortisation of intangibles	78	63
Depreciation		
Owned assets	670	779
Operating lease charges		
Plant and equipment	1,647	1,207
Other	2,394	944
Auditors' remuneration		
Audit services	160	164
Non audit services	268	215
Foreign exchange gain	(55)	(98)
	<u></u>	<u></u>

As permitted by section 230 of The Companies Act 1985, the profit and loss account of the parent company is not presented as part of these accounts. The loss of the parent company for the financial year was £10,164,000 (2003: £5,178,000 profit).

4. STAFF COSTS AND ANALYSIS

	2004 £'000	2003 £'000
All employees		
Wages and salaries	37,679	42,497
Social security costs	3,121	3,684
Pension contributions	4,061	4,017
	<u>44,861</u>	<u>50,198</u>
Average number of persons employed	No.	No.
Engineering	1,448	1,753
Marketing	11	11
Administration	199	296
	<u>1,658</u>	<u>2,060</u>

NOTES TO THE ACCOUNTS

Year ended 31 December 2004

4. STAFF COSTS AND ANALYSIS (CONTINUED)

	£'000	£'000
Emoluments of the highest paid director	179	143
Defined contribution pension scheme contributions	8	11
	<u>187</u>	<u>154</u>
Directors' remuneration		
Emoluments	179	143
Pension	8	11
Estimated money value of benefits	36	9
	<u>223</u>	<u>163</u>

Retirement benefits are accruing to 1 director under a defined contribution scheme (2003: 1).

5. INTEREST

	2004 £'000	2003 £'000
Receivable		
Bank interest	153	229
Other interest	30	40
	<u>183</u>	<u>269</u>
Payable		
Interest payable on bank loans and overdrafts	220	136
Interest paid to Inland Revenue	-	51
Interest paid to group undertakings	848	766
	<u>1,068</u>	<u>953</u>

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2004 £'000	2003 £'000
United Kingdom corporation tax at 30% (2003 - 30%) based on the profit for the year	5,178	3,307
Overseas taxation	119	45
Adjustments to prior years' tax provisions	454	(28)
	<u>5,751</u>	<u>3,324</u>
Deferred tax		
Timing differences	128	44
Adjustments to the estimated recoverable amounts of deferred tax assets arising in previous periods	(398)	(124)
Adjustments in respect of prior years	135	(121)
	<u>5,616</u>	<u>3,123</u>

NOTES TO THE ACCOUNTS
Year ended 31 December 2004

6. TAX ON PROFIT ON ORDINARY ACTIVITIES (CONTINUED)

FACTORS AFFECTING TAX CHARGE FOR THE CURRENT PERIOD

The tax assessed for the period is higher (2003 lower) than that resulting from applying the standard rate of corporation tax in the UK: 30% (2003: 30%). The differences are explained below:

	2004 £'000	2003 £'000
Profit on ordinary activities before tax	15,002	11,107
Tax at 30% thereon	4,501	3,332
Effects of:		
Expenses not deductible for tax purposes	718	121
Capital allowances in excess of depreciation	(41)	(50)
Utilisation of tax losses	-	56
Movement in short term timing differences	(38)	-
Other deferred tax movements	(29)	28
Overseas tax rates	-	(128)
Rate differences on current tax	-	(7)
UK dividend income	116	-
Joint venture income	70	-
Prior period adjustments	454	(28)
Current tax charge for period	<u>5,751</u>	<u>3,324</u>

FACTORS THAT MAY AFFECT THE FUTURE TAX CHARGE

At 31 December 2003 a deferred tax asset had not been recognised in respect of timing differences relating to accelerated capital allowances and short-term timing differences as the view then was that the asset would not be recovered. The amount of the asset not recognised was £397,749. The asset is now expected to be recoverable and so has been recognised in full at the current anticipated amount.

7. DIVIDENDS

	2004 pence per share	2003 pence per share	2004 £000	2003 £000
First Interim Dividend	-	50	-	5,000
Second Interim Dividend	-	50	-	5,000
Final Dividend	80	10	8,000	1,000
	<u>80</u>	<u>110</u>	<u>8,000</u>	<u>11,000</u>

NOTES TO THE ACCOUNTS Year ended 31 December 2004

8. INTANGIBLE FIXED ASSETS

Group	Goodwill £'000	Other Intangibles £'000	Total £'000
Cost			
At 1 January 2004	357	141	498
Additions	-	7	7
At 31 December 2004	357	148	505
Amortisation			
At 1 January 2004	179	42	221
Charge for the year	36	42	78
At 31 December 2004	215	84	299
Net book value			
At 31 December 2004	142	64	206
At 31 December 2003	178	99	277

Goodwill arose on acquisition of MWH Pardevo SA. Other intangible assets are those acquired by MWH SPA.

9. TANGIBLE FIXED ASSETS

Group	Freehold land and buildings £'000	Plant and equipment £'000	Motor vehicles £'000	Total £'000
Cost or valuation				
At 1 January 2004	3,326	4,196	179	7,701
Exchange difference	(14)	10	31	27
Revaluation	100	-	-	100
Additions	-	152	44	196
Disposals	(132)	(41)	(94)	(267)
At 31 December 2004	3,280	4,317	160	7,757
Depreciation				
At 1 January 2004	100	3,013	121	3,234
Exchange difference	(13)	12	31	30
Revaluation	(55)	-	-	(55)
Charge for the year	66	567	37	670
Disposals	(38)	(30)	(77)	(145)
At 31 December 2004	60	3,562	112	3,734
Net book value				
At 31 December 2004	3,220	755	48	4,023
At 31 December 2003	3,226	1,183	58	4,467

NOTES TO THE ACCOUNTS
Year ended 31 December 2004

9. TANGIBLE FIXED ASSETS (CONTINUED)

Freehold land and buildings includes £1,760,000 of non-depreciated land (2003: £1,760,000).

Assets held under finance leases and capitalised in plant and machinery include:

	2004 £'000	2003 £'000
Cost	10	17
Depreciation	(6)	(12)
Net book value	<u>4</u>	<u>5</u>

The group's freehold property in High Wycombe was revalued at 31 December 2004 on the basis of existing use. The valuation was undertaken in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors by Aitchison Raffety, a firm of independent Chartered Surveyors.

The valuation has been incorporated into the financial statements and the resulting valuation adjustments have been taken to the revaluation reserve. The historical cost of the property included at valuation is as follows:

	Valuation £'000	Cost £'000
Land	1,835	1,372
Building	1,265	799
Accumulated depreciation on buildings	-	(297)
	<u>3,100</u>	<u>1,874</u>

Company	Plant and equipment £'000
Cost	
At 1 January 2004	479
Additions	9
At 31 December 2004	<u>488</u>
Depreciation	
At 1 January 2004	137
Charge for the year	162
At 31 December 2004	<u>299</u>
Net book value	
At 31 December 2004	<u>189</u>
At 31 December 2003	<u>342</u>

NOTES TO THE ACCOUNTS
Year ended 31 December 2004

10. INVESTMENTS

	2004 £'000	2003 £'000
Group		
Joint ventures		
Share of assets	1,507	1,575
Share of liabilities	(669)	(703)
	<u>838</u>	<u>872</u>
Investments at 1 January	872	796
Distributions	(78)	(280)
Share of joint venture profit	44	356
Investments at 31 December	<u>838</u>	<u>872</u>

	Share holding % in ordinary shares	Country of incorporation	Principal activity
Joint ventures			
MWH & I (formerly Montgomery Watson Iannou)	49	Cyprus	Consultant Engineers
Watson Khonji	49	Bahrain	Consultant Engineers
Montgomery Watson Gulf Consult	50	Kuwait	Consultant Engineers
MWH Arabtech-Jardaneh	50	Jordan	Consultant Engineers

	2004 £'000	2003 £'000
Company		
Investments at 1 January	11,376	11,035
Write (down) / up of value of investments	(18)	341
Investments at 31 December	<u>11,358</u>	<u>11,376</u>

NOTES TO THE ACCOUNTS
Year ended 31 December 2004

10. INVESTMENTS (CONTINUED)

Principal Subsidiary Undertakings

Company	Country of incorporation	% of Equity Owned
MWH Programme Management Limited	England	100%
MWH UK Limited	England	100%
MWH (IOM) Limited	Isle of Man	100%
Integrated Zone Management Limited	England	100%
MWH SPA	Italy	100%
MWH SA	Belgium	100%
Pardevo SA	Belgium	100%
MWH India Pvt Limited	India	100%
Montgomery Watson Projects Limited	England	100%
Montgomery Watson (Asia) Limited	Hong Kong	100%
Montgomery Watson Harza EOOD	Bulgaria	100%
Montgomery Watson Environmental Pty Limited	Australia	100%
MWH Romania SRL	Romania	100%
MWH d.o.o	Slovenia	100%

The company owns the shares in MWH UK Limited, Montgomery Watson (Asia) Limited, MWH SPA, MWH SA, MWH India Pvt Limited, MWH Pardevo SA, MWH Programme Management Limited, MWH Romania SRL and MWH d.o.o.

MWH UK Limited owns the shares in Montgomery Watson Projects Limited, MWH (IOM) Limited and Integrated Zone Management Limited. Montgomery Watson Projects Limited and Integrated Zone Management Limited are non-trading companies.

Montgomery Watson (Asia) Limited owns the shares in Montgomery Watson Environmental Pty Limited.

MWH SA owns the shares in Montgomery Watson Harza EOOD. The main activities of all the subsidiaries include acting as consultants in civil engineering concerned with the design and construction of public health facilities, chiefly in the areas of water supply, pollution control, waste disposal and management and protection of the environment.

All companies trade mainly in their country of registration.

11. DEBTORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Company		Group	
	2004	2003	2004	2003
	£'000	£'000	£'000	£'000
Other debtors	376	505	376	505
Amounts owed by group undertakings	-	-	962	1,030
	<u>376</u>	<u>505</u>	<u>1,338</u>	<u>1,535</u>

NOTES TO THE ACCOUNTS Year ended 31 December 2004

12. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Company		Group	
	2004	2003	2004	2003
	£'000	£'000	£'000	£'000
Amounts recoverable on contracts	-	-	31,533	34,396
Trade debtors net of provisions	-	-	14,526	27,569
Amounts owed by group undertakings	59	-	714	2,272
Amounts owed by undertakings in which the company has a participating interest	7,960	24,953	3	1,420
Deferred Taxation	33	-	713	578
Other debtors	595	417	2,027	1,917
Prepayments and accrued income	-	-	959	1,307
	<u>8,647</u>	<u>25,370</u>	<u>50,475</u>	<u>69,459</u>

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Company		Group	
	2004	2003	2004	2003
	£'000	£'000	£'000	£'000
Bank overdrafts (note 15)	-	95	232	95
Trade creditors	72	103	5,189	5,908
Amounts owed to group undertakings	12,293	6,419	12,689	6,344
Amounts owed to undertakings in which the company has a participating interest	680	-	-	1,118
Fees in advance	-	-	5,434	14,391
Obligations under finance lease	-	-	11	-
Other taxes and social security	-	-	1,317	1,887
Corporation taxation	418	28	3,144	1,444
Other creditors	170	643	6,201	9,263
Accruals and deferred income	75	-	2,174	2,629
	<u>13,708</u>	<u>7,288</u>	<u>36,391</u>	<u>43,079</u>

14. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Company		Group	
	2004	2003	2004	2003
	£'000	£'000	£'000	£'000
Amounts owed to undertakings in which the company has a participating interest	-	12,000	-	12,214
Long term creditor	-	-	77	77
	<u>-</u>	<u>12,000</u>	<u>77</u>	<u>12,291</u>

NOTES TO THE ACCOUNTS
Year ended 31 December 2004

15. BORROWINGS

	2004 £'000	2003 £'000
Group		
Due within one year		
Bank overdrafts	232	95

Interest is charged at 6% per annum. The bank loans and overdrafts are secured by letters of credit from the ultimate parent.

16. DEFERRED TAXATION

As at 31 December 2004 and 31 December 2003 no amounts have been provided in respect of deferred taxation liabilities.

MOVEMENT ON DEFERRED TAXATION ASSET BALANCE IN THE PERIOD

	Company		Group	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Opening balance	-	-	578	377
Credit to profit and loss account	33	-	135	201
Closing asset balance	33	-	713	578

ANALYSIS OF PROVIDED DEFERRED TAX BALANCE

	Company		Group	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Capital allowances in excess of depreciation	9	-	382	186
Short term timing differences	-	-	91	135
Losses	-	-	120	70
Intercompany interest deductible in a later period	24	-	24	-
Pension accrual	-	-	96	187
Deferred tax asset	33	-	713	578

NOTES TO THE ACCOUNTS
Year ended 31 December 2004

17. CALLED UP SHARE CAPITAL

	2004	2003
	£'000	£'000
Group and Company		
Authorised		
20,000,000 ordinary shares of £1 each	<u>20,000</u>	<u>20,000</u>
Called up, allotted and fully paid		
10,000,000 ordinary shares of £1 each	<u>10,000</u>	<u>10,000</u>

18. PROFIT AND LOSS ACCOUNT

	Company		Group	
	2004	2003	2004	2003
	£'000	£'000	£'000	£'000
At 1 January	8,692	3,514	12,924	15,956
Exchange movement	-	-	(61)	(16)
Retained (loss)/profit for year	<u>(10,164)</u>	<u>5,178</u>	<u>1,386</u>	<u>(3,016)</u>
At 31 December	<u>(1,472)</u>	<u>8,692</u>	<u>14,249</u>	<u>12,924</u>

19. OTHER RESERVES

Group	Revaluation reserve £'000
At 1 January 2004	1,071
Increase in the year (note 9)	<u>155</u>
At 31 December 2004	<u>1,226</u>

NOTES TO THE ACCOUNTS
Year ended 31 December 2004

20. PENSION SCHEME

SSAP 24 Disclosures

The company operates a defined benefit pension scheme. This scheme was closed to new members in April 2005 and has been replaced by a new defined contribution scheme. The assets of the defined benefit scheme are held separately from those of the company in an independent fund administered by Clerical Medical Investment Group Limited (CMIG). The scheme is subject to triennial actuarial valuations. The last valuation was carried out as at 1 April 2002. The actuarial valuation of CMIG at 1 April 2002 indicated that there was a surplus (i.e. the scheme's assets existing on the effective date fully cover its liabilities as at the date). The result of the valuation is based on:

Method of funding:

Determination of the company contribution rate to fund future service liabilities is calculated as the present value of benefits which will accrue to current active members by reference to years service and projected final earnings, less the present value of expected future contributions. The resulting figure is divided by the present value of members' earnings in that year. In addition, the difference between the value placed on the plan assets for valuation purposes and the present value of all past service benefits, based on projected final earnings for members in service has been considered in calculating the required long term contribution rate.

Assumptions used:

Rate of interest of 7% per annum, allowances for increases in members' earnings of 7% per annum LPI increases of 3.5% per annum and an investment return on the fund (net of expenses) of 9% per annum.

Over the year ending 31 December 2004, the employer paid contributions at 11.4% and 10.5% of pensionable salaries. The employees paid 6% of pensionable salaries. The company contributions made in the year ended amounted to £3,511,000 (2003: £3,466,000).

FRS 17 Disclosures

Financial Reporting Standard 17 - "Retirement Benefits" (FRS 17) comes into effect for accounting periods ending on or after 22 June 2001. Adoption of the new standard is being phased over three years and will be fully implemented in 2005.

The major assumptions used by the actuary in her 31 December 2004, 31 December 2003 and 31 December 2002 reviews were:

	2004	2003	2002
Inflation assumption	2.8%	2.8%	2.3%
Increase for pensions	2.8%	2.8%	2.3%
Salary scale increase pre annum	4.8%	4.8%	5.3%
Statutory Revaluation in deferment	2.8%	2.8%	2.3%
Discount rate for liabilities	5.7%	6.0%	5.4%

NOTES TO THE ACCOUNTS

Year ended 31 December 2004

20. PENSION SCHEME (CONTINUED)

The fair value of the assets at 31 December 2004, 31 December 2003 and 31 December 2002 and the expected rate of return for each category of assets is as follows:

	2004 Expected rate of return	2004 Value of assets £'000	2003 Expected rate of return	2003 Value of assets £'000	2002 Expected rate of return	2002 Value of assets £'000
Group pension contract	5.6%	47,800	5.1%	39,500	5.4%	33,700
Cash and other net assets	4.8%	-	3.8%	200	4.0%	(1,100)
Total fair value of assets		47,800		39,700		32,600
Present value of liabilities		(68,700)		(55,500)		(53,000)
Deficit in scheme		(20,900)		(15,800)		(20,400)

The scheme has a number of purchased annuities in respect of past retirements. These are understood to fully match the associated liabilities and so have been excluded from both the assets and liabilities at each accounting date.

Balance Sheet Note

The deficit at 31 December 2004 was £20.9m being the difference between the fair value of the assets of £47.8m and the then present value of the liabilities on the above assumptions of £68.7m.

The deficit at 31 December 2003 was £15.8m being the difference between the fair value of the assets of £39.7m and the then present value of the liabilities on the above assumptions of £55.5m.

The deficit at 31 December 2002 was £20.4m being the difference between the fair value of the assets of £32.6m and the then present value of the liabilities on the above assumptions of £53.0m.

The individual components of the defined benefit cost that would be included within the profit and loss account:

	As at 31 December 2004 £'000	As at 31 December 2003 £'000
Current service cost	(4,200)	(4,500)
Total operating charge	(4,200)	(4,500)
Expected return of the assets	2,100	1,900
Interest cost	(3,400)	(3,000)
Other finance income	(1,300)	(1,100)

NOTES TO THE ACCOUNTS
Year ended 31 December 2004

20. PENSION SCHEME (CONTINUED)

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

	As at 31 December 2004 £'000	As at 31 December 2003 £'000
Actual return less expected return on assets	1,900	300
Experience gains and losses arising on the scheme liabilities	(100)	(200)
Effects of changes in assumptions underlying the present value of scheme liabilities	(5,100)	6,800
Actuarial (loss)/gain recognised in STRGL	<u>(3,300)</u>	<u>6,900</u>

Analysis of the movement in the scheme deficit during the year:

	As at 31 December 2004 £'000	As at 31 December 2003 £'000
Opening deficit in the scheme	(15,800)	(20,400)
Current service cost	(4,200)	(4,500)
Contributions	3,700	3,300
Finance income	(1,300)	(1,100)
Actuarial gains/(losses)	(3,300)	6,900
Closing deficit in the scheme	<u>(20,900)</u>	<u>(15,800)</u>

History of experience gains and losses:

	2004	2003	2002
Difference between the expected and actual return on scheme assets:			
Amount (£'000)	1,900	300	(100)
Percentage of scheme assets	<u>4.0%</u>	<u>0.8%</u>	<u>(0.2%)</u>
Experience gains and losses on scheme liabilities:			
Amount (£'000)	(100)	(200)	(5,800)
Percentage of the present value of scheme liabilities	<u>0.2%</u>	<u>0.4%</u>	<u>(10.9)%</u>
Total actuarial (loss)/gain in the statement of total recognised gains and losses:			
Amount (£'000)	(3,300)	6,900	(10,100)
Percentage of the present value of scheme liabilities	<u>(4.8)%</u>	<u>12.4%</u>	<u>(19.1)%</u>

NOTES TO THE ACCOUNTS
Year ended 31 December 2004

20. PENSION SCHEME (CONTINUED)

Profit and loss reserve note:

	As at 31 December 2004 £'000	As at 31 December 2003 £'000
Profit and loss reserve excluding pension liability	14,249	12,924
Pension reserve	(20,900)	(15,800)
Profit and loss reserve	<u>(6,651)</u>	<u>(2,876)</u>

The group also operates a number of defined contribution schemes for which the pension cost charge for the year amounted to £550,000 (2003: £551,000).

21. OPERATING LEASE COMMITMENTS

At 31 December the group was committed to making the following payments during the year in respect of operating leases:

	Land and Buildings 2004 £000	Other 2004 £000	Land and Buildings 2003 £000	Other 2003 £000
Lease which expire:				
Within one year	977	451	1	278
Within two to five years	736	510	268	988
After five years	395	2	411	4
	<u>2,108</u>	<u>963</u>	<u>680</u>	<u>1,270</u>

Finance lease commitments are £2,000 (2003:£3,000) over the next year.

22. MOVEMENT IN SHAREHOLDERS' FUNDS

	2004 £000	2003 £000
Group		
Retained profit / (loss) for the financial year	1,386	(3,016)
Other recognised gains and losses	(61)	(16)
	<u>1,325</u>	<u>(3,032)</u>
Asset revaluation	155	242
	<u>1,480</u>	<u>(2,790)</u>
Net additions / (reductions) to shareholders funds	23,995	26,785
Shareholders funds brought forward	<u>25,475</u>	<u>23,995</u>

NOTES TO THE ACCOUNTS

Year ended 31 December 2004

23. CONTINGENT LIABILITIES AND CAPITAL EXPENDITURE

At 31 December 2004, the group had contingent liabilities in respect of normal trading guarantees given to its bankers amounting to £1,533,000 (2003: £2,600,000). The company had no capital expenditure commitments approved but not contracted for as at 31 December 2004 (2003: nil).

24. ULTIMATE PARENT UNDERTAKING

The company's ultimate parent undertaking and controlling entity is MWH Global Inc., a company incorporated in the United States of America. Group accounts are available from 300 North Lake Avenue, Suite 1,200, Pasadena, California, U.S.A., 91101.

The immediate parent undertaking and the smallest group accounts in which its results are consolidated is MWH BV, a company incorporated in the Netherlands.