Registered No. 05046791

Wales & West Utilities Limited

Directors' report and financial statements
for the year ended 31 March 2011

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Directors and advisors

Directors

Duncan Whyte (A, R, H)	Chairman
Graham Edwards (H)	Chief Executive Officer
Roderick Gadsby	
Howard Higgins (A, R, H)	
Andreas Kottering (A, R)	
Manoj Mehta (A, R, H)	
Robert Verrion (A)	
Edward Beckley	(Alternate Director to Roderick Gadsby and Howard Higgins)
Simon Ellis	(Alternate Director to Robert Verrion)
Charles Hazelwood	(Alternate to Graham Edwards)
Alan Kadic	(Alternate Director to Robert Verrion and Andreas Kottering)
Frederic Michel-Verdier	(Alternate Director to Manoj Mehta)

(A) Member of the Audit Committee of MGN Gas Networks (UK) Limited
(R) Member of the Remuneration Committee
(H) Member of the Health & Safety Committee

Company secretary and registered office
Christopher John Talbot
Wales & West House, Spooner Close, Celtic Springs, Coedkernew, Newport NP10 8FZ

Independent auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
1 Kingsway, Cardiff CF10 3PW

Principal bankers
Barclays Bank plc
One Churchill Place, London E14 5HP

Report of the directors

The directors have pleasure in presenting the sixth annual report to the shareholders of the Wales & West Utilities Limited group ("the Group"), together with the audited consolidated financial statements for the year ended 31 March 2011 as presented on pages 14 to 43

Principal activities and business review
The Group is principally engaged in the management of gas transportation assets The Group provides gas distribution and meter work services throughout Wales and the South West of England

Results and operating performance
The consolidated loss on ordinary activities before taxation amounted to £122 0m (2010 loss of £95 2m) The consolidated loss attributable to shareholders amounted to £114 6m (2010 £89 7m)

The results of the Group for the year ended 31 March 2011 are set out in the consolidated profit and loss account on page 14

Wales & West Utilities Limited ("the Company") replaced 424 9kms of gas mains, along with the related gas service pipes running from the gas mains to the properties of gas consumers at a cost of £75 3m (2009 429kms at a cost of £74 3m) The work was undertaken either because

(i) mains were identified as requiring replacement under a programme defined by the Health & Safety Executive where all metallic mains within 30 metres of a dwelling are being replaced with plastic alternatives over a period of 30 years,
(ii) because the overall condition of the metallic main warranted replacement or
(iii) because of a request (usually through a local authority as a result of a highways project) to move the gas infrastructure

A further £4 3m (2009 £2 3m) was spent on Local Transmission System replacement projects Under Generally Accepted Accounting Practices in the United Kingdom these costs are charged as an operating cost

In addition, the Company invested £67 2m (2010 £83 1m), against which consumers contributed £10 2m (2010 £12 2m), on expanding and improving the gas distribution network

Financing

Throughout the year the Group continued to have in place the borrowings issued in the prior year

(a) Bonds
Wales & West Utilities Finance plc ("WWUF"), the Company's subsidiary, issued a series of bonds last year, all of which are listed on the London Stock Exchange Details of these issuances are set out below

Nominal value	Coupon	Class	Issue date	Redemption date
£250m	6 25%	A	10 July 2009	2021
£200m	5 125%	A	2 December 2009	2016
£300m	5 75%	A	31 March 2010	2030
£100m	2 496% Index linked	A	31 March 2010	2035
£115m	6 75%*	B	31 March 2010	2018/2036*

* Legal maturity of the bond is 2036, however, the bond can be redeemed at the Group's sole option in 2018 If not redeemed in December 2018, the coupon for the bond increases to 3 month LIBOR + 9 4%

The net proceeds of the issue of these bonds, of £952 4m, were lent last year by WWUF to the Company to repay its existing bank facilities

All of the bonds are unconditionally and irrevocably guaranteed by the Company and its new parent Wales & West Utilities Holdings Limited pursuant to a guarantee and security agreement entered into over the entire property, assets, rights and undertakings of each guarantor, in the case of the Company to the extent permitted by the Gas Act and its Gas Transportation Licence

(b) Term loan
In addition, the Company entered into a £200m term loan on 31 March 2010 maturing in November 2012 The £200m term loan is part of £380m of committed facilities

Business review
The Group's operating performance over the past year has been satisfactory, with all standards of performance being achieved In particular, targets for mains abandoned and replaced were met, as were targets in response to reported possible gas escapes, both in one and two hour time frames The standards for achieving connections quotations and for completing connections activities within agreed timescales were also both met There were 720 (2010 513) complaints in the year The increase in reported complaints can largely be attributed to the introduction of The Gas and Electricity (Consumer Complaint Handling Standards) Regulations, which have widened the definition of a complaint from that previously used

There were four (2010 three) lost time injuries ("LTIs") to direct and contract labour during the year This level of performance continues to place the Group at the forefront of the gas sector and compares favourably with leading world-class organisations One LTI was sustained through direct labour (2010 two) and three through our contract partners (2010 one)

In addition to meeting all operational standards for the year, the Group also continued to work to improve operational efficiency

History and development
The Company is a regulated gas transportation business owning and operating the principal gas distribution network in Wales and the South West of England consisting of some 32,400 kilometres of mains pipeline and a further 2,400 kilometres of Local Transmission Pipeline The Company operates under a Gas Transporter's licence granted by the Gas and Electricity Markets Authority and is responsible for the safety, development, maintenance and daily operation of the gas distribution network which it owns Gas is transported on behalf of approximately 30 gas shippers through the Company's distribution pipelines to around 2 5 million consumers

The Company is a private company Details of the immediate and ultimate parent companies are set out in note 26 to the financial statements

Business environment
The Gas Distribution and Transmission Network in Great Britain comprises the National Transmission System and eight gas distribution networks The National Transmission System is owned and operated by companies within the National Grid plc Group

The Company operates the Wales and South West local distribution zones of one of the gas distribution networks Three other distribution networks are owned by independent operators National Grid retained the remaining four local gas distribution networks Together these companies represent the great majority of the gas distribution network in Great Britain

There are however other independent gas transporters who operate within the principal area of the Company's operation and the Company has contractual arrangements in place with them to ensure the safe passage of gas to their networks

In addition to its gas distribution role, the Company also has obligations under its gas transporter's licence to

- provide 24 hour emergency response to all public reported gas escapes in Wales and South West England, irrespective of the cause (the significant majority of which are unrelated to the Company's distribution network),
- connect gas consumers to the distribution network, unless the consumer chooses to use another party to provide the connection, and
- to provide meters to certain consumers if the consumer's gas supplier has not made alternative arrangements,

and under contractual arrangements with gas suppliers to provide and maintain gas meters for some consumers

Regulatory environment

The gas distribution business of the Company is regulated by the Office of Gas & Electricity Markets (Ofgem) Ofgem operates under the direction and governance of the Gas and Electricity Markets Authority, which makes all major decisions and sets policy priorities for Ofgem The mechanism for regulation of the Company's activities in gas distribution and metering is derived from

- the Gas Act 1986 (as amended),
- the terms of its gas transporter's licence granted under Section 7 of this Act, and
- the Utilities Act 2000

The Company is also regulated by the Health and Safety Executive

As a regulated business the Company is subject to price controls set by Ofgem which define its allowed revenues In January 2008 the Company accepted Ofgem's Final Proposals for the five year price control for the period from 1 April 2008 to 31 March 2013 This control defined allowed revenue in respect of operating expenditure, capital expenditure, replacement expenditure and a return on the Company's investment in the gas infrastructure asset

In October 2010 the Company informed Ofgem of four recording errors relating to its mains replacement programme for the years 2005/6, 2006/7 and 2008/9 that had come to light as a result of the operation of the Company's routine processes The Company informed Ofgem that it had, in aggregate, claimed incorrectly for 1 1kms of mains abandonment in that period, during which the Company had, overall, abandoned approximately 1,220kms of mains The mis-recorded length is therefore approximately 0 1% of the reported mains abandoned during that period On 15 November 2010 Ofgem issued the Company with a formal request for information under the terms of the Gas Act 1986 to which the Company responded Ofgem issued a further request on 6 May 2011 to which the Company has responded Ofgem is presently considering that response but has indicated that it may not reach a decision for up to 9 months The Company has carried out all the abandonment work involved and reviewed its work recording processes

Key performance measures

The Group uses a number of key measures of operational and financial performance to plan and monitor its business activities which are principally focused on the safe and effective operation of the gas network infrastructure asset Measures of operational performance include

- process safety – safety of the gas transportation assets,
- occupational safety & health - injuries, near misses and ill health,
- environment – waste disposal, energy usage and use of natural resources,
- the management of controllable costs in relation to the regulated business,
- the achievement of service levels and the minimisation of complaints,
- achievement of capital and replacement programme targets and cost efficiency, and
- the reliability of the gas distribution network and other customer facing quality of service measures

The directors believe that safety is paramount and, as a fundamental part of this, that all work related injuries and illnesses are preventable Consequently the Group measures the level of injuries, incidents and near misses as a key operational performance indicator In addition, process safety measures have been devised to measure both the 'health' of the assets and their impact on the environment and the communities in which the Group works Contractor performance is measured in the same way as direct employees

Operational reliability is a core measure of the Group's success, and it is fundamental to the Group's relationships with Ofgem and the public Reliability of the gas distribution network is monitored in a number of ways, including the number and duration of interruptions to consumers' gas supplies The Group is required by Ofgem to meet a number of different service targets ("Overall Standards"), including attendance at gas escapes, notifying consumers in advance of planned interruptions and responding to complaints The Company's licence also requires it to meet certain service targets for connections Performance against these standards is reported to senior management every month and is reportable to Ofgem on a quarterly basis Compensation payments are made to consumers under the Gas (Standards of Performance) Regulations 2005, in the regrettable event that certain service standards are not met

Report of the directors (continued)

Key performance measures (continued)

The Company measures service quality to assess the performance of management and staff in serving consumers, including a quarterly survey which is undertaken by an independent market research company, the results of which are published on the Company's website and are reported to Ofgem

All regulatory standards of performance were achieved in the year to 31 March 2011

Key operational performance measures were,

	Target	2010/11	2009/10	2008/9	2007/8
Responding to gas escapes					
1 hour target for uncontrolled escapes	97 0%	**98.5%**	97 6%	97 8%	98 0%
2 hour target for controlled escapes	97 0%	**99 4%**	99 1%	99 2%	99 3%
Standards of performance					
Issuing quotations	90 0%	**99 2%**	99 1%	98 7%	97 7%
Offer dates for work start & finish	90 0%	**99 9%**	99 9%	99 8%	99 3%
Jobs completed on agreed dates	90 0%	**94.3%**	95 9%	96 5%	97 4%
Responding to complaints	90 0%	**99.1%**	99 4%	99 1%	99 4%
Customer complaints					
Number of complaints		**720**	513	692	695
Number of jobs undertaken		**157,192**	161,930	171,788	183,582
Percentage complaints		**0 4%**	0 3%	0 4%	0 4%
Reported complaints*					
Ombudsman service		**2**	3	-	-
Energywatch		-	-	1	5

* Energywatch was replaced by the Ombudsman Service with effect from 1 October 2008

The increase in reported complaints can largely be attributed to the introduction of The Gas and Electricity (Consumer Complaint Handling Standards) Regulations, which have widened the definition of a complaint from that previously used

Key financial performance measures were,

- operating cash flow, including management of working capital, and
- controllable costs

	2010/11 £m	2009/10 £m	2008/9 £m	2007/8 £m
Turnover	**312 8**	314 1	309 4	277 7
Operating costs	**(114 2)**	(112 7)	(111 8)	(123 1)
Operating profit before replacement expenditure, exceptional items and depreciation	**198 6**	201 4	197 6	154 6
Operating cashflows	**117.1**	114 7	102 0	86 6

Health, safety and environment

Safety

The Company's objective is to achieve zero work-related injuries, zero work-related ill health and zero injuries to the public Over the last year, there were four (direct labour one, contract labour three) (2010 direct labour two, contract labour one) LTI's between direct and contract labour, giving a 12 month frequency rate of 0 034 LTI's/100,000 hours worked (2010 0 035 LTI's/100,000 hours worked) This rate compares very favourably with other industry comparators that are available, such as electricity distribution (0 12 LTI's/100,000 hours worked)

The Company continues to make progress in the management of occupational illnesses with a comprehensive health surveillance and occupational health programme for industrial employees

The safety challenge is significant With a deployed work force (including contractors) of around 2,000, a multi million pound replacement programme and the Company's central role of managing the safe and secure delivery of gas, the Company meets this challenge by having a comprehensive management system designed and certified to standards such as PAS 55 and ISO 14001, with a structured risk management process at its centre The Company believes that its safety performance leads the sector This valued position is targeted at being maintained through continued, vigilant implementation of its health, safety and environmental procedures Nurturing a safety aware culture within the Company's workforce that sees clear accountability resting with line management, employees and contract partners is a key element of the Company's successful record

Environment

The Company is also proud of its environmental achievements and again maintained certification to ISO 14001 By utilising and developing industry-wide best practices, the Company has reduced its environmental impact Key areas for focus have been climate change, the disposal of waste to land fill and the use of quarried stone Protecting the environment is a key focus for the Company going forward, constantly looking for ways to minimise the environmental impact of its past, present and future activities

The Company continues to manage its portfolio of contaminated land These sites are principally former manufacturing gas plants and can sometimes have a complex mix of contamination dating back over 100 years The Company's remediation programme has a main focus on managing environmental risk

Principal risks and uncertainties

The management of the business and the execution of the Company's strategy are subject to a number of risks The key business risks facing the Company are set out below

Operational

- maintenance of the gas distribution network and security of supply,
- health & safety compliance,
- appropriate investment in the network asset, and
- meeting mains replacement targets

Regulatory

- compliance with the Company's licence obligations and standards of service, and
- impact of future price controls determined by Ofgem, including the effect of incentive mechanisms

Employee

- retention of key individuals or the ability to recruit people with the right experience and skills from the local community

The Group has a comprehensive approach to risk A risk register is maintained and this is reviewed and updated regularly Risks are reviewed by the Board and senior management and appropriate processes put in place to monitor and mitigate them

If more than one event occurs, it is possible that the overall effect of such events would compound the possible adverse effects on the Group

Financial risk management

The Company's operations expose it to a variety of financial risks that include the effects of changes in debt and commodity market prices, credit risk, liquidity risk and interest rate risk The Company has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the Company by monitoring levels of debt finance and related finance costs The Company also uses derivative financial instruments to manage interest rate costs

Given the size of the Company, the directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the Board The policies set by the Board are implemented by the Company's finance department

Commodity Price risk

The Company is exposed to commodity price risk through the purchase of "shrinkage gas" as a result of its operations Shrinkage gas is that gas which the Company consumes during its operational activity and comprises gas used by the gas distribution business, the gas which leaks from the distribution network and gas stolen from the network This risk is managed through appropriate commodity purchases in the forward market

Credit risk

The Company has implemented policies that require appropriate credit checks on potential customers before sales are made The amount of exposure to any individual counterparty is subject to a limit, which is reassessed on a regular basis

The amount of credit given to Gas Shippers is governed by Uniform Network Code ("UNC") regulations and guidelines This provides for defined levels of unsecured credit with Gas Shippers based on Investment Grade Ratings ("IGRs") with any excess credit amounts being secured by Letters of Credit, Parent Company Guarantees or by way of Prepayment

The value at risk is monitored on a daily basis and is again regulated by UNC criteria allowing a maximum credit limit usage of 100% (2010 100%) which, if exceeded, allows the Company to apply sanctions

The Company's overall exposure is also monitored and approved having regard to the levels of exposure within each IGR category

Liquidity and Interest rate cashflow risk

The Company actively maintains long term debt finance that is designed to ensure the Company has sufficient available funds for operations The Company has both interest bearing assets and interest bearing liabilities Interest bearing assets are cash, which bear interest at variable rates The Company has a policy of hedging through interest rate swaps in order to fix interest rates and give greater certainty over future cashflows

Financial review

Basis of accounting

The financial statements present the Group's results for the year ended 31 March 2011 and the financial position as at 31 March 2011 and 2010 They have been prepared using the accounting policies shown on pages 18 to 21, in accordance with Generally Accepted Accounting Practices in the United Kingdom

There were no changes in accounting policies adopted during the year

Segmental reporting

In addition to providing the overall results and financial position in the financial statements, the Company provides a breakdown of those results and balances into a number of different business segments as required by the Licence within the Regulatory Accounts

Liquidity, resources and capital expenditure

Net cash inflow from operating activities amounted to £117 1m (2010 £114 7m)

Investing activities absorbed net cash of £60 3m (2010 £72 0m) and net financing costs amounted to £79 2m (2010 £84 1m)

Report of the directors (continued)

Financial review (continued)

Cash flow forecasting

Both short term and long term cashflow forecasts are produced frequently to assist in identifying the liquidity requirements of the Group

Debt

Details of net borrowings are disclosed in note 10 and 11 and gross borrowings in note 12 Details of the Group's approach to financial risk management are set out in the Report of the directors on page 6

Shareholder deficit

Shareholder deficit at 31 March 2011 amounted to a deficit of £598 9m (2010 £516 2m) as a result of a retained loss of £114 6m (2010 loss £89 7m) and reserves movement on the Pensions provision gain of £31 9m (2010 loss £30 3m)

The directors consider that the Group has performed satisfactorily during the year

Details of the ownership of the Company are included in note 26 There were no movements in the authorised and issued share capital of the Company in the year

Dividend on ordinary shares

The directors do not recommend the payment of a dividend in respect of the year (2010 £nil)

Future developments

The Group does not envisage any changes in the activity of the Group for the foreseeable future Other than those matters referred to above, there were no significant developments within the Group that occurred during the financial year under review

Fixed assets

Freehold land and buildings are carried in the financial statements at a combination of historic cost and fair value of £6 3m (2010 £3 9m)

In the opinion of the directors there was no significant difference between the book values of property and market values at 31 March 2011

Investment in the network is essential for ensuring the security of the gas supply and the safety of the public Gross capital expenditure in the Company's network was £70 3m (2010 £83 1m) offset by capital contributions of £10 2m (2010 £12 2m) and net replacement expenditure was £79 6m (2010 £76 6m) in the year to 31 March 2011

Directors

The names of the current directors of the Company are shown on page 1

Changes in directors during the period up to the date of signature of the statutory financial statements are shown below, all other directors served throughout the period

Martin Baggs		Resigned as full director 16 April 2010
Sara Leong	Appointed full director 16 April 2010	Resigned as full director 11 February 2011
Philip Garling		Resigned as full director 3 May 2011
Robert Verrion	Appointed 9 May 2011	
Simon Ellis	Appointed alternate director 2 June 2011	

Directors' service contracts and remuneration

Details of directors' remuneration are set out in note 3(a)

Report of the directors (continued)

Directors' interests
There were no significant contracts subsisting during or at the end of the year with the Group in which any director is or was materially interested (other than service contracts)

None of the directors has or has had a beneficial interest in the shares of the Company

Policy on the payment of creditors
It is the Group's policy to comply with terms of payment agreed with suppliers Where payment terms are not negotiated the Group endeavours to adhere with the suppliers standard terms

Contractual relationships
The Group has contractual relationships with many parties including directors, employees, suppliers and banking groups However, none are considered essential in terms of their effect on the business of the Group except the relationship with xoserve Limited, the company which provides gas throughput and billing information to the Group which is used by the Group in setting its regulated gas distribution charges to gas transporters

Employment policies
The Group recognises that its employees are key to both the present and future success of the Group and supports the fundamental belief that to maximise the potential of every individual there must be -

- investment in training and development,
- a supportive working environment, and
- employee participation and involvement in business matters

To this end the Group continually evolves a framework of comprehensive policies and all employees have the opportunity to discuss their individual performance and development in a focused and proactive way

The Group seeks to maximise staff potential by encouraging employees to consider internal opportunities as part of their personal development This can only be achieved with knowledge of the Group's business aims and objectives, and keeping employees up to date with the Group's news and views continues to be a high priority A comprehensive communications programme has been developed and is led by the Executive Team The in-house newsletter continues to provide employees with a wide range of business related information

The Group continues to formally consult employees at all levels in the spirit of partnership and co-operation and the use of employee opinion and attitude surveys provide the Group with valuable information upon which to base future policy decisions

The Group offers equality of opportunity and support for disabled employees and maintains good links with external organisations to encourage involvement in the workplace of disabled members of the wider community

The Group's policy for the employment of disabled persons gives full and fair consideration to all applications for employment made by such persons, having regard to their aptitudes and abilities and to the Group's operational requirements Once employed, a career plan is developed so as to ensure suitable opportunities for each disabled person Arrangements are made, where possible, for retaining employees who become disabled, to enable them to perform work identified as appropriate to their aptitudes and abilities in line with the Group's operational requirements

Report of the directors (continued)

Employment policies (continued)

Training & development

The Group has consistently sought to recruit and retain the best employees in its local geography in order to provide the level of service which is expected

The Group measures success in this area through employee retention The Group has had a turnover rate of 3 3%, in the year to 31 March 2011 (2010 2 5%) and this compares favourably to the published Chartered Institute of personnel and development statistics which showed that the average in UK industry during 2011 was 13 7% (2010 15 7%)

To improve retention rates the Group has continued its focus on succession planning and talent management This ensures that key skill and knowledge workers are retained and that there is a plan to replace them upon retirement

The Apprenticeship Programme has been further developed and also extended to include Emergency Services There is a 3-4 year training period, depending on the course of study undertaken and there are 4 in-house purpose built training centres for our apprentices to develop their practical and technical skills Recruitment is undertaken on a targeted basis, ensuring that apprentices are recruited to areas of need

During the year the Group employed a further 10 apprentices Refreshing the industrial workforce is seen as being important The age profile of the industrial workforce is high and the Group will see a large number of leavers' during the next 5 years and beyond (9% of the current workforce are expected to reach retirement age before 2014) Our apprentice population has been recruited into the areas of "Emergency", "Mechanical Engineering" and "Electrical and instrumentation" – key areas where skills are not readily available in the external market and training times can be 4 years or more Ensuring continuity to the key skills required within the Industry and enabling a full and proper knowledge transfer to take place will ensure that the Group is well placed to effectively undertake this work going forward The recruitment brings the number of apprentices employed in the last five years to 88 and a further 5 are expected to be taken on in 2011/12 meaning that 10% of our industrial workforce will be apprentices

Within the last five years the Company has also directly employed some 250 people previously employed by our contract partners This has tangible benefits to both the employees and the Group, not least the fact that it further refreshes the workforce, as this recruited population has a younger age profile

Contributions for charitable and political purposes

During the year, there have been no political donations (2010 £nil), and charitable donations amounted to £89,292 (2010 £58,000) Donations in excess of £2,000 were made to

	£
Arts & Business Services	4,750
Sports Aid Cymru	5,000
Tenovus	6,000
Lifeskills CREATE Donation Centre	10,000
Institute of Welsh Affairs	10,000
Business in the Community	22,800
The Community Foundation in Wales	16,666

Report of the directors (continued)

Going concern

The Group's financial statements have been prepared on the basis that the Group is a going concern In arriving at their decision to prepare the financial statements on a going concern basis, the directors have reviewed the Group's budget for 2011/12 and medium term business plans for 2012/13 including capital expenditure plans The review included considering the cash flow implications of the plans and comparing these with the Group's cash resources and committed borrowing facilities

Regulatory accounts

The Gas Transporters Licence, under which the Company operates, requires specific accounting statements to be published Copies of the Regulatory Accounts for the Group will be available from the Company Secretary after 31 July 2011

Qualifying indemnity

On 5 June 2008, the Group entered into a qualifying indemnity, within the meaning of section 235 Companies Act 2006, in favour of the directors of the Group's subsidiary, Wales & West Pension Scheme Trustees Limited

Directors' liability insurance

The Group has entered into deeds of indemnity for the benefit of each director of the Group in respect of liabilities to which they may become liable in their capacity as director of the Group and of any Company in the Group These indemnities are qualifying third party indemnity provisions for the purposes of Section 234 of the Companies Act 2006

Independent auditors

Pursuant to Section 386 of the Companies Act 1985, an elective resolution was passed on 17 March 2004 resolving that the Company dispense with the requirement to appoint auditors annually

In the case of each of the persons who are directors at the time when the report is approved under section 419 of the Companies Act 2006

- so far as the director is aware, there is no relevant audit information of which the Group's auditors are unaware, and
- the director 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 Group's auditors are aware of that information

By order of the Board

C J Talbot
Company secretary
2 June 2011

Statement of directors' responsibilities for the financial statements

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have prepared the group and company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company of the profit or loss of the Group and the Company for that period In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

By order of the Board

C J Talbot
Company secretary
2 June 2011

Independent auditors' report to the members of Wales & West Utilities Limited

We have audited the Group and parent company financial statements of Wales & West Utilities Limited for the year ended 31 March 2011 which comprise the Group profit and loss account, the Group statement of total recognised gains and losses, the Group reconciliation of movements in shareholders' deficit, the Group and parent company balance sheet, the Group cashflow statement, accounting policies and the related notes The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

Respective responsibilities of directors and auditors
As explained more fully in the statement of directors' responsibilities set out on page 12 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, 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

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the Group and parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements

Opinion on financial statements
In our opinion the financial statements

- give a true and fair view of the state of the Group and parent company's affairs as at 31 March 2011 and of the Group's cashflows and loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

KE Finn

Katharine Finn (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cardiff
6 June 2011

Consolidated profit and loss account for the year ended 31 March 2011

Continuing operations	Note	2011 £m	2010 £m
Turnover		**312 8**	314 1
Net operating costs	2(a)	**(261.5)**	(262 9)
Operating profit before replacement expenditure, exceptional items and depreciation		**198 6**	201 4
Replacement expenditure	2(a)	**(79 6)**	(76 6)
Exceptional items	2(b)	**1 1**	(3 3)
Depreciation	6	**(68 8)**	(70 3)
Operating profit		**51 3**	51 2
Operating profit		**51.3**	51 2
Income from other fixed asset investments		**0.3**	0 2
Interest receivable and similar income	4(a)	**21.6**	6 1
Other finance costs ~ net pension	25	**(0 2)**	(2 4)
Interest payable and similar charges	4(b)	**(195 0)**	(150 3)
Loss on ordinary activities before taxation		**(122 0)**	(95 2)
Tax on loss on ordinary activities	5	**7 4**	5 5
Loss attributable to ordinary shareholders		**(114 6)**	(89 7)
Dividends on ordinary shares		**-**	-
Loss for the financial year	18	**(114.6)**	(89 7)

Consolidated statement of total recognised gains and losses for the year ended 31 March 2011

	2011 £m	2010 £m
Loss for the financial year attributable to ordinary shareholders	**(114.6)**	(89 7)
Actuarial gain/(loss) on pension scheme (note 25)	**31 9**	(30 3)
Total recognised gains and losses relating to the year	**(82.7)**	(120 0)

There are no material differences between the loss on ordinary activities before taxation and the retained loss for the year stated above and their historical cost equivalents

Reconciliation of movements in shareholders' deficit for the year ended 31 March 2011

	2011 £m	2010 £m
Total recognised losses for the year	**(82 7)**	(120 0)
Net decrease in shareholders' deficit	**(82 7)**	(120 0)
At 1 April	**(516 2)**	(396 2)
At 31 March	**(598 9)**	(516 2)

Balance sheets at 31 March 2011

	Note	Group 2011 £m	Group 2010 £m	Company 2011 £m	Company 2010 £m
Fixed assets					
Tangible assets	6	**1,293 6**	1,292 2	**1,293 6**	1,292 2
Investments	7	**0 1**	0 1	**0 2**	0 2
		1,293 7	1,292 3	**1,293 8**	1,292 4
Current assets					
Stocks	8	**6 4**	3 7	**6.4**	3 7
Debtors	9	**39 0**	34 5	**39 0**	34 5
Cash at bank and in hand	21	**14 0**	38 9	**14.0**	38 9
		59 4	77 1	**59 4**	77 1
Current liabilities					
Creditors: amounts falling due within one year					
Amounts owed to parent undertaking		**(491.7)**	(464 0)	**(491 7)**	(464 0)
Amount owed to subsidiary undertaking		**-**	-	**(964.4)**	(955 2)
Other creditors falling due within one year	10(a)	**(100 7)**	(87 8)	**(89.6)**	(79 3)
		(592.4)	(551 8)	**(1,545.7)**	(1,498 5)
Net current liabilities		**(533.0)**	(474 7)	**(1,486 3)**	(1421 4)
Total assets less current liabilities		**760 7**	817 6	**(192 5)**	(129 0)
Creditors: amounts falling due after more than one year	10(b)	**(1,277.3)**	(1,209 7)	**(324.1)**	(263 1)
Provisions for liabilities and charges	16	**(56.7)**	(60 0)	**(56.7)**	(60 0)
Net liabilities before pension liability		**(573.3)**	(452 1)	**(573 3)**	(452 1)
Pension liability	25	**(25.6)**	(64 1)	**(25 6)**	(64 1)
Net liabilities including pension liability		**(598 9)**	(516 2)	**(598 9)**	(516 2)
Capital and reserves					
Called up share capital	17	**30 7**	30 7	**30 7**	30 7
Profit and loss account	18	**(629.6)**	(546 9)	**(629.6)**	(546 9)
Total shareholders' deficit		**(598.9)**	(516 2)	**(598.9)**	(516 2)

The financial statements on pages 14 to 43 were approved by the Board of Directors on 2 June 2011 and were signed on its behalf by

Duncan Whyte
Chairman

Graham Edwards
Chief Executive Officer

Consolidated cashflow statement for the year ended 31 March 2011

	Note	2011 £m	2010 £m
Operating activities			
Net cash inflow from continuing operating activities	19	**117 1**	114 7
Net cash inflow from operating activities		**117 1**	114 7
Returns on investments and servicing of finance			
Dividends received		**0 3**	0 2
Interest received		**16.1**	13 4
Interest paid		**(95.6)**	(79 5)
Exceptional interest paid		**-**	(18 2)
Net cash outflow from returns on investments and servicing of finance		**(79 2)**	(84 1)
Taxation			
UK corporation tax received		**0 2**	-
		0 2	-
Investing activities			
Purchase of tangible fixed assets		**(70 8)**	(84 4)
Capital contributions received		**10 2**	12 2
Proceeds of disposal of tangible fixed assets		**0 3**	0 2
Net cash outflow from investing activities		**(60 3)**	(72 0)
Net cash outflow before financing and treasury activities		**(22 2)**	(41 4)
Financing and treasury activities			
Net long term loans received		**-**	1,205 0
Debt issue costs	20	**(2.7)**	(35 0)
Payments in respect of interest rate swap contracts	20	**-**	(77 9)
Long term loans repaid	20	**-**	(1,044 0)
Net cash (outflow)/inflow from financing and treasury activities		**(2 7)**	48 1
(Decrease)/increase in cash at bank and in hand	21	**(24.9)**	6 7

Principal accounting policies

The financial statements have been prepared in accordance with Accounting Standards applicable in the United Kingdom and comply with the Companies Act 2006 A summary of the principal Group accounting policies, which have been consistently applied, is shown below

Changes in accounting policy
There have been no changes in accounting policy during the year

Basis of accounting
These financial statements have been prepared in accordance with the historical cost convention as modified for the fair valuation exercise undertaken on the acquisition of the gas distribution business and in respect of the valuation of pension assets and liabilities

The directors are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future For this reason they adopt the going concern basis in the preparation of these financial statements, as set out in the Report of the directors on page 11

Basis of consolidation
Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half the voting rights Subsidiaries are fully consolidated from the date on which control is transferred to the Group They are de-consolidated from the date that control ceases

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated

Acquisitions and disposals
The results of businesses acquired during the year are dealt with in the financial statements from the date of acquisition of those businesses Where appropriate, adjustments are made to bring different accounting policies of newly acquired companies into line with the existing Group accounting policies

Related party transactions
The Company is a 100% owned subsidiary of Wales & West Utilities Holdings Limited and is included in the consolidated financial statements of MGN Gas Networks (UK) Limited Consequently, under the terms of FRS 8 "Related Party Transactions", the Company is exempt from disclosing related party transactions with entities that are part of the MGN Gas Networks (UK) Limited group

Turnover
Turnover represents the sales value derived from the distribution of gas together with the sales value derived from the provision of other services to customers during the year, is billed on a monthly basis and excludes value added tax within the UK

Turnover from the distribution of gas is partially derived from the value of units supplied during the year and includes an estimate of the value of units supplied between the date of the last meter reading and the year end and from the capacity requested by shippers No liability is recognised when revenues received or receivable exceed the maximum amount permitted by regulatory agreement and reductions will be made to future prices to reflect any over-recovery

Principal accounting policies (continued)

Tangible fixed assets and depreciation

Tangible fixed assets, which include assets in which the Group's interest comprises legally protected statutory or contractual rights of use, are included in the balance sheet at their cost less accumulated depreciation Cost includes the original purchase price of the asset, payroll and other costs incurred which are directly attributable to the construction of tangible fixed assets

Fixed assets acquired on the acquisition of the Wales & West gas distribution business are included at fair value

Additions represent the purchase or construction of new assets and extensions or significant increases in the capacity of existing tangible fixed assets Contributions received towards the cost of tangible fixed assets are included in creditors as deferred income and amortised on a straight line basis to the profit and loss account over the estimated economic lives of the assets

No depreciation is provided on freehold land and assets in the course of construction Other tangible fixed assets are depreciated, principally on a straight line basis, at rates estimated to write off their book values over their estimated useful economic lives In assessing estimated economic lives, which are reviewed on a regular basis, consideration is given to any contractual arrangements and operational requirements relating to particular assets Unless otherwise determined by operational requirements, the depreciation periods for the principal categories of tangible fixed assets are, in general, shown below

Replacement expenditure represents the costs of planned maintenance of mains and services assets by replacing or lining sections of pipe This expenditure is principally undertaken to repair and to maintain the safety of the network and is written off as incurred Expenditure which enhances the performance of the mains and services assets is treated as an addition to tangible fixed assets

Principal depreciation periods are

Freehold buildings	up to 50 years
Leasehold land and buildings	over the period of the lease
Gas distribution network assets	
Mains, services and regulating equipment	30 to 65 years
Storage	40 years
Meters	10 to 20 years
Vehicles, plant and equipment	3 to 10 years

Impairment of fixed assets

Impairments of fixed assets are calculated as the difference between the carrying values of the net assets of income generating units, including, where appropriate, investments and goodwill, and their recoverable amounts Recoverable amount is defined as the higher of net realisable value or estimated value in use at the date the impairment review is undertaken Net realisable value represents the net amount that can be generated through sale of the assets Value in use represents the present value of expected future cashflows discounted on a pre-tax basis, using the estimated cost of capital of the income generating unit

Impairment reviews are carried out if there is some indication that an impairment may have occurred, or where otherwise required, to ensure that fixed assets are not carried above their estimated recoverable amounts

Impairments are recognised in the profit and loss account

Principal accounting policies (continued)

Leased assets
Where assets are financed by leasing arrangements which transfer substantially all the risks and rewards of ownership of an asset to the lessee (finance leases), the assets are treated as if they had been purchased and the corresponding capital cost is shown as an obligation to the lessor Leasing payments are treated as consisting of a capital element and finance costs, the capital element reducing the obligation to the lessor and the finance charges being written off to the profit and loss account over the period of the lease in reducing amounts in relation to the written down amount The assets are depreciated over the shorter of their estimated useful life and the lease period

All other leases are regarded as operating leases Rental costs arising under operating leases are charged to the profit and loss account on a straight line basis over the lease term

Grants, customer contributions and infrastructure charges
Grants, customer contributions and infrastructure charges relating to gas infrastructure assets and expenditure on other fixed assets are treated as deferred income and recognised in the profit and loss account over the expected useful economic lives of the related assets

Certain contributions noted above are wholly or partially refundable if an agreed volume of gas is distributed to them Such contributions are included in provisions until there is no further liability to make refunds

Investments
Long term investments held as fixed assets are stated at cost less amounts written off or provided to reflect permanent diminutions in value Those held as current assets are stated at the lower of cost and net realisable value

Stocks
Stocks are stated at the lower of cost and net realisable value with cost being determined on a weighted average basis which takes account of any provision necessary to recognise damage and obsolescence

Financial liabilities
Debt is initially measured at fair value, which is the amount of the net proceeds after deduction of directly attributable issue costs, with subsequent measurement at amortised cost Debt issue costs and discounts on issue are recognised over the expected term of the instruments

Decommissioning and environmental costs
Decommissioning and environmental costs, based on discounted future estimated expenditures, are provided for in full The unwinding of the discount is included within the profit and loss account as a financing charge

Financial instruments
Derivative financial instruments ("derivatives") are used by the Group for the management of interest rate exposures and commodity price risks in respect of expected gas usage The principal derivatives used include interest rate swaps and forward purchases relating to the purchase of gas

All transactions are undertaken, or maintained, with a view to providing a commercial hedge of the interest or commodity price risks associated with the Group's underlying business activities and the financing of those activities Amounts payable or receivable in respect of interest rate swaps are recognised in the profit and loss account over the economic lives of the agreements or underlying position being hedged, either within net interest or disclosed separately where deemed exceptional

Those derivatives relating to interest rates that are directly associated with a specific transaction and exactly match the underlying cashflows relating to the transaction are accounted for on the basis of the combined economic result of the transaction including the related derivative

Principal accounting policies (continued)

Pension costs
The Group operates defined contribution and defined benefit pension schemes

The pension costs in respect of the defined contribution pension schemes comprise contributions payable in respect of the period

The assets of the defined benefit scheme are measured using closing market values at the balance sheet date Pension scheme liabilities are measured using the projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability

The increase in the net present value of the liabilities of the defined benefit scheme expected to arise from employee service in the period is charged to operating profit The net of the expected return on the scheme's assets and the increase during the period in the present value of the schemes' liabilities, arising from the passage of time, are included in net interest payable or other finance income, as appropriate

Actuarial gains and losses are recognised in the statement of total recognised gains and losses

Deferred taxation
Provision is made for deferred taxation, using the liability method, on all material timing differences to the extent that it is probable that a liability or asset will crystallise

Deferred tax assets are only recognised to the extent that they are considered recoverable

Deferred tax balances are not discounted

Exceptional items
These are items of an unusual or non-recurring nature incurred by the Group and include restructuring costs, material provision charges or credits through the profit and loss account and one off credits arising from termination of the finance swap arrangements

Notes to the financial statements

1 Company profit and loss account

As permitted by section 408 of the Companies Act 2006, the profit and loss account of the Company has not been included in these financial statements The loss after taxation for the year dealt with in the financial statements of the Company was £114 6m (2010 £89 7m) The loss transferred to reserves was £114 6m (2010 £89 7m)

2 Operating profit

(a) Operating profit is stated after charging/(crediting)

	Note	**2010 £m**	2010 £m
Continuing operations			
Staff costs	3(b)	**68.7**	66 6
Own work capitalised		**(19 9)**	(18 1)
Depreciation Own assets	6	**68 8**	70 3
Release of advanced amortisation on onerous contract		**-**	1 3
Less amortisation of customer contributions		**(1.3)**	(1 1)
Less amortised grants		**(0.1)**	(0 1)
Profit on disposal of fixed assets		**(0.2)**	(0 2)
Replacement expenditure		**79 6**	76 6
Rentals under operating leases			
Hire of plant and equipment		**1.2**	1 0
Other		**1 1**	1 2
Exceptional items ~ (decrease)/increase in provisions	2(b)	**(1 8)**	3 3
Exceptional items ~ restructuring costs	2(b)	**0 7**	-

Own work capitalised includes direct labour and ancillary costs

(b) Exceptional items

The exceptional items relate to the revision of the environmental and demolition provision and wayleaves provision resulting from reviews of costs incurred and the timing of work done during the three years ended 31 March 2011 The restructuring costs relate to amounts payable to National Grid following the implementation of the new in-house gas control systems

Notes to the financial statements

2 Operating profit (continued)

(c) Auditor remuneration

During the year the Group obtained the following services from the Group's auditor as detailed below

	2011 £000	2010 £000
Fees payable to the group's auditor for the audit of parent entity and the consolidated financial statements	**73 0**	73 0
Fees payable to the group's auditor and its associates for other services		
The audit of the company's subsidiaries pursuant to legislation	**9.0**	9 0
Other services pursuant to legislation	**59 0**	56 0
Corporate services	**3 0**	93 4
Tax compliance services	**50 0**	78 2
	194.0	309 6

	2011 £000	2010 £000
Fees in respect of the pension scheme		
Audit of pension scheme	**11 5**	11 5

Notes to the financial statements

3 Directors and employees

(a) Directors' emoluments and interests

Directors' emoluments

	2011 £000	2010 £000
Fees	**100.1**	144 9
Salary payments (including benefits in kind)	**317 9**	317 6
Performance related bonus (see below)	**294 0**	436 7
Pension contributions	**24.0**	24 0
Contributions in lieu of pension	**51.0**	51 0
	787.0	974 2

One director is a member of the defined contribution section of the Group pension scheme All other directors make their own pension arrangements

Performance related bonuses in respect of service by the directors and senior employees for the year will be payable Bonuses are payable subject to the achievement of certain targets These include safety, standards of service, customer satisfaction and financial

The amount disclosed in respect of 2011 represents the bonus approved by the Remuneration Committee in respect of services for the year to 31 March 2011

The performance bonus is normally payable in instalments, with two thirds payable in the July of the year following the year end once approved and the balance being payable in two equal annual instalments conditional on the director remaining in office on the payment date

No director had any interest over shares in the Company

Highest paid director

	2011 £000	2010 £000
Salary payments (including benefits in kind)	**317 9**	317 6
Performance related bonus (see above)	**294.0**	436 7
Pension contributions	**24 0**	24 0
Contributions in lieu of pension	**51.0**	51 0
	686 9	829 3
Accrued company pension	**236 5**	190 9

Notes to the financial statements

3 Directors and employees (continued)

(b) Staff costs

	2011 £m	2010 £m
Wages and salaries	**53.9**	54 1
Social security costs	**4.7**	4 8
Pension costs (note 25)	**10 1**	7 7
	68 7	66 6

Of the above, £15 0m (2010 £13 7m) has been charged to capital

(c) Average monthly number of employees during the year (excluding directors)

	2011 Number	2010 Number
Regulated gas distribution activities	**1,447**	1,451
Other activities	**2**	2
	1,449	1,453

4 Interest

(a) Interest receivable and similar income

	2011 £m	2010 £m
On interest rate swaps	**21.5**	6 0
Other interest receivable	**0.1**	0 1
	21.6	6 1

(b) Interest payable and similar charges

	2011 £m	2010 £m
On external debt	**117 8**	28 7
On group loans	**70 3**	82 3
Amortised issue costs and discount	**3 7**	18 3
On unwinding of discounts on provisions (note 16)	**2 9**	2 5
Exceptional costs*	**-**	18 2
Other	**0 3**	0 3
	195 0	150 3

* As part of the refinancing of the group on 31 March 2010, the Company cancelled an interest rate swap contract with a notional principal of £83 5m, resulting in a termination payment to the hedge counterparty of £18 2m

Interest on external debt includes a charge of £56 0m for accrued inflation on UK Retail Price Index ("RPI") linked debt (2010 £10 2m credit)

Notes to the financial statements

5 Tax on loss on ordinary activities

(a) Analysis of credit in the year

	2011 £m	2010 £m
The credit for taxation is made up as follows:		
Current tax		
UK corporation tax on losses of the year	**(7.1)**	(5 5)
Adjustments in respect of previous years	**(0.3)**	-
Total current tax (Note 5(b))	**(7.4)**	(5 5)
Deferred tax		
Origination and reversal of timing differences	-	-
Total deferred tax (Note 16)	-	-
Total tax credit on loss on ordinary activities	**(7.4)**	(5 5)

The £7 4m (2010 £5 5m) tax credit reflects amounts due from Group undertakings in respect of balancing payments under the debt cap rules The tax credit for the previous period reflects amounts due from Group undertakings in respect of group relief surrendered to them

(b) Factors affecting the current tax credit for the year

The current tax assessed for the year is different to the standard rate of corporation tax in the UK of 28% (2010 28%) The differences are explained below

	2010 £m	2010 £m
Loss on ordinary activities before tax	**(122.0)**	(95 2)
Loss on ordinary activities before tax multiplied by standard rate of corporation tax in the UK of 28% (2010 28%)	**(34 2)**	(26 7)
Effects of:		
Prior year (credit)/charge	**(0.3)**	-
Permanent differences	**19 0**	22 6
Deferred tax asset not recognised	**10 6**	1 1
Capital transactions	**0 1**	-
FRS17 deferred tax movement not recognised	**(2.6)**	(2 5)
Current tax credit for year (Note 5(a))	**(7.4)**	(5 5)

The Company has become aware that a liability to Stamp Duty Land Tax following the hive down of the fixed assets of the business into the entity as at 31 May 2005 has not been settled Under the terms of the Tax Deed put in place at the time, this liability shall be settled directly by National Grid Group Accordingly the Company has not disclosed any liability or asset in respect of this tax The amount owed is estimated to be some £8m

Notes to the financial statements

6 Tangible assets

Group and Company

	Freehold land and buildings £m	Leasehold land and buildings £m	Gas distribution network assets £m	Vehicles, plant and equipment £m	Assets under construction £m	Total £m
Cost or valuation						
At 1 April 2010	3 9	3 1	1,456 4	99 3	39 1	**1,601.8**
Additions	-	-	-	-	70 3	**70.3**
Disposals	-	-	-	(0 3)	-	**(0.3)**
Transfers in year	2 5	1 4	48 2	9 3	(61 4)	-
At 31 March 2011	**6 4**	**4 5**	**1,504 6**	**108 3**	**48 0**	**1,671.8**
Accumulated depreciation						
At 1 April 2010	-	0 6	252 4	56 6	-	**309 6**
Charge for the year	0 1	0 6	55 5	12 6	-	**68 8**
Disposals	-	-	-	(0 2)	-	**(0 2)**
At 31 March 2011	**0 1**	**1 2**	**307.9**	**69.0**	-	**378 2**
Net book value						
At 31 March 2011	**6 3**	**3 3**	**1,196.7**	**39 3**	**48 0**	**1,293.6**
At 31 March 2010	3 9	2 5	1,204 0	42 7	39 1	**1,292.2**
Analysis of net book value at 31 March 2011.						
Owned						
Cost	6 4	4 5	1,504 6	108 1	48 0	**1,671 6**
Accumulated Depreciation	(0 1)	(1 2)	(307 9)	(68 8)	-	**(378 0)**
Net book value	**6 3**	**3.3**	**1,196 7**	**39 3**	**48.0**	**1,293 6**
Held under finance lease						
Cost	-	-	-	0 2	-	**0 2**
Accumulated Depreciation	-	-	-	(0 2)	-	**(0 2)**
Net book value	-	-	-	-	-	-

No impairment charge is required as a result of a review of the carrying value of fixed assets based on value in use calculations These calculations use pre-tax cashflow projections based on financial budgets approved by the directors and the regulatory price control Cashflows beyond this year are extrapolated using estimates The discount rates used are pre-tax and reflect specific business risks

Notes to the financial statements

7 Fixed asset investments

Group	Unlisted investments £m	Listed investments £m	Total investments £m
Cost			
At 31 March 2011 and 2010	0 1	-	0 1
Amounts written off			
At 31 March 2011 and 2010	-	-	-
Net book value			
At 31 March 2011 and 2010	0.1	-	0 1

The unlisted fixed asset investment represents the Group's shareholding in xoserve Limited The Group's shareholding represents 10% of the issued share capital of xoserve Limited

Company	Unlisted investments £m	Listed investments £m	Total investments £m
Cost			
At 31 March 2011 and 2010	0 1	0 1	0 2
Amounts written off			
At 31 March 2011 and 2010	-	-	-
Net book value			
At 31 March 2011 and 2010	0 1	0 1	0 2

The unlisted fixed asset investment represents the Company's shareholding in xoserve Limited The Company's shareholding represents 10% of the issued share capital of xoserve Limited

The listed fixed asset investment represents the entire issued share capital of Wales & West Utilities Finance plc comprising 50,000 shares of £1 each

In addition, the Company owns the entire issued share capital of Wales & West Utilities Pension Scheme Trustees Limited, which is non-trading and comprises 2 shares of £1 each

The directors believe that the carrying value of the investments is supported by their underlying net assets

8 Stocks

Group and Company

	2011 £m	2010 £m
Raw materials and consumables	6.4	3 7

The replacement cost of stocks is not materially different from their carrying value

Notes to the financial statements

9 Debtors
Group and Company

	2011 £m	2010 £m
Amounts falling due within one year.		
Trade debtors	**29.4**	31 2
Prepayments and accrued income	**9 5**	3 3
Corporation tax recoverable	**0 1**	-
	39 0	34 5

10 Creditors

	Note	Group 2011 £m	Group 2010 £m	Company 2011 £m	Company 2010 £m
(a) Other creditors falling due within one year·					
Payments received on account		**24 9**	23 6	**24.9**	23 6
Trade creditors		**11 9**	10 8	**11.9**	10 8
Other taxation and social security		**9 6**	9 3	**9.6**	9 3
Other creditors		**1 7**	1 4	**1 7**	1 4
Customer capital contributions		**1 3**	1 2	**1 3**	1 2
Accruals and deferred income		**51 2**	41 4	**40.1**	32 9
Capital grant		**0 1**	0 1	**0.1**	0 1
		100.7	87 8	**89.6**	79 3
(b) Amounts falling due after more than one year					
Borrowings	11	**1,150 6**	1,141 7	**197 3**	195 1
Liability for index linked swap contracts	13(d)	**53 5**	2 8	**53 5**	2 8
Accruals and deferred income		**1 5**	1 3	**1 6**	1 3
Capital grant		**1.3**	1 5	**1.3**	1 5
Customer capital contributions		**70 4**	62 4	**70.4**	62 4
		1,277.3	1,209 7	**324.1**	263 1

Notes to the financial statements

11. Borrowings

	Group		Company	
	2011	2010	**2011**	2010
	£m	£m	**£m**	£m
Repayable as follows:				
In more than one year but not more than two years	**197 3**	-	**197 3**	-
In more than two years but not more than five years	-	195 1	-	195 1
In more than five years	**953 3**	946 6	-	-
	1,150 6	1,141 7	**197 3**	195 1

During the year ended 31 March 2010 the Group completed the refinancing of its bank borrowings As part of that refinancing, the following borrowings were raised

(a) Wales & West Utilities Finance plc issued guaranteed bonds with a nominal value of £965 0m (2010 £965 0m) and a book value of £953 3m (2010 £946 6m) Included in the book value is £5 3m of accrued inflation on index linked bonds (2010 £nil) The guaranteed bonds have legal maturities ranging between December 2016 and December 2036, as outlined in the following table, and are all repayable in greater than 5 years

Nominal value	**Coupon**	**Class**	**Issue date**	**Redemption date**	**Book value**
£250m	6 25%	A	10 July 2009	2021	£246 7m
£200m	5 125%	A	2 December 2009	2016	£196 7m
£300m	5 75%	A	31 March 2010	2030	£292 7m
£100m	2 496% Index linked	A	31 March 2010	2035	£104 1m
£115m	6 75%*	B	31 March 2010	2018/2036*	£113 1m
£965m					£953 3m

* Legal maturity of the bond is 2036, however, the bond can be redeemed at the Group's sole option in 2018 If not redeemed in December 2018, the coupon for the bond increases to 3 month LIBOR + 9 4%

All of the bonds are unconditionally and irrevocably guaranteed by the Company and its immediate parent, Wales & West Utilities Holdings Limited, pursuant to a guarantee and security agreement entered into over the entire property, assets, rights and undertakings of each guarantor, in the case of the Company to the extent permitted by the Gas Act and its Gas Transportation Licence

(b) The Company entered into a £200m term loan with a book value at 31 March 2011 of £197 3m (2010 £195 1m) maturing in November 2012 The floating interest rate on this loan at 31 March 2011 was LIBOR + 1 5 per cent (31 March 2010 LIBOR + 1 5 per cent) The £200m term loan was part of £380m of committed facilities raised as part of the refinancing (see note 13(e) below)

Notes to the financial statements

12 Gross borrowings

	2011 £m	2010 £m
Gross value of other loans	**1,223.8**	1,167 8

The maturity profile of the Group's gross borrowings, excluding bank overdrafts, was as follows

	2011 £m	2010 £m
In more than one year but not more than two years	**253.5**	-
In more than two years but not more than five years	**-**	202 8
In more than five years	**970 3**	965 0
	1,223 8	1,167 8

The difference between gross borrowings as disclosed above and net borrowings as disclosed in notes 10 and 11 reflect the unamortised element of the debt arrangement fees of £19 7m (2010 £23 3m) and the liability for index linked swap contracts of £53 5m (2010 £2 8m)

13. Financial instruments and risk management

(a) Interest rate swaps

The Group has entered into interest rate swap arrangements in order to manage the interest rate exposure of the Group and not for trading or speculative purposes

Group and Company

Index-linked swaps

As at 31 March 2011, the Group held index-linked swaps with a notional principal of £1,004 0m (2010 £929 5m) which have the effect of index-linking the interest rate to the UK retail price index ("RPI") The interest rates on these swaps at 31 March 2011 ranged between 0 69% and 1 71% (fixed) plus RPI (2010 1 69% and 2 04% (fixed) plus RPI) The maturity dates of these swaps range between November 2023 and November 2039 (2010 between November 2023 and November 2039)

Interest rate swaps

As at 31 March 2011, the Group held interest rate swaps with a notional principal of £40 0m (2010 £40 0m) which fix the interest rate of floating liabilities held by the Group The interest rates on these swaps at 31 March 2011 was 5 19% (2010 5 12%) The maturity date of these swaps was November 2018 (2010 November 2018)

As at 31 March 2011, the Group held interest rate swaps with a notional principal of £129 0m (2010 £129 0m), which convert an equivalent amount of the index linked swaps from floating to fixed The interest rates on these swaps at 31 March 2011 was 3 56% to 4 13% (2010 3 56% to 4 13%) The maturity date of these swaps range between December 2018 and March 2030 (2010 between December 2018 and March 2030)

13 Financial instruments and risk management (continued)

(b) Interest rate composition of gross borrowings

After taking account of the interest rate swaps entered into by the Group, the fixed and floating interest rate profile of the Group's gross borrowings, including intra-group indebtedness, was

	2011 £m	2010 £m
Fixed rate	**435.0**	419 0
Fixed real rate	**1,104 0**	1,029 5
Floating rate	**106.0**	180 5
Total	**1,645.0**	1,629 0

Borrowings with a fixed real rate comprise £100m of 2 496% index-linked bonds (2010 £100m) and £1,004 0m (2010 £929 5m) of other borrowings hedged by index-linked swaps which have the effect of index-linking the interest rate to the RPI The interest rates on these swaps at 31 March 2011 ranged between 0 69% and 1 71% (fixed) plus RPI (2010 1 69% and 2 04% (fixed) plus RPI) The maturity dates of these swaps range between November 2023 and November 2039 (2010 between November 2023 and November 2039)

The above analysis includes £480 0m (2010 £464 0m) of intra-group indebtedness to the immediate parent undertaking Interest was chargeable on these loans at 15% (2010 21%) on the fixed element and LIBOR + 14% (2010 LIBOR + 16 4%) on the floating element

The analysis excludes £58 8m of accrued inflation (note 13(d)) The floating rate gross borrowings include £21 0m (2010 £98 5m) of external bank debt with an interest charge linked to LIBOR

(c) Interest rate profile of fixed rate borrowings

After taking account of the interest rate swaps entered into by the Group, the weighted average interest rate profile of the Group's gross borrowings at 31 March 2011, including intra-group indebtedness, together with the weighted average period for which the rate is fixed was

		Weighted average interest rate		**Weighted average period for which rate is fixed**	
Currency		**2011 %**	2010 %	**2011 Years**	2010 Years
Sterling	Fixed rate	**6.69**	6 62	**1 7**	2 7
	Fixed real rate	**3.05**	3 69	**11 8**	13 6
	Intercompany fixed rate	**15.00**	15 00	**1 0**	1 0

The fixed real rates exclude the indexation charge applicable to the index-linked bonds and index-linked swaps The variable inflation is charged to interest payable and is accrued during the year

Notes to the financial statements

13. Financial instruments and risk management (continued)

(d) Maturity profile of financial instruments with no interest paid

	2011 £m	2010 £m	Weighted average period until maturity 2011 Years	2010 Years
Liability for index-linked swap contracts	**53.5**	2 8	**2.0**	3 0
Liability for index-linked bonds	**5 3**	-	**24.4**	25 4
	58 8	2 8		

The liability for index linked swap contracts represents the accrued inflation on those instruments All index-linked swaps held by the Group have a contracted payment date for the accrued inflation of 31 March 2013

The liability for index linked bonds represents the accrued inflation and is repayable at maturity in August 2035

(e) Borrowing facilities

Undrawn committed borrowing facilities were

	2011 £m	2010 £m
Committed borrowing facilities available	**380 0**	380 0
Drawn	**(200.0)**	(200 0)
Undrawn committed facilities as at 31 March 2011	**180 0**	180 0

(f) Fair values of financial instruments

In the table below, the fair value of short term borrowings, current asset investments, cash at bank and in hand and bank loans approximates to book values due to the short maturity of these instruments after reflecting £2 7m of unamortised debt fees

The fair values of long term instruments have been determined by reference to prices available from the financial markets on which these borrowings are traded

All of the guaranteed bonds are listed on the London Stock Exchange The fair value of the guaranteed bonds has been calculated using the 31 March 2011 quoted prices

The fair values of the derivative financial instruments fundamentally represent the change in anticipated future interest rates, to the dates of maturity of the borrowings, between the date on which those long term borrowings were raised and the year end This increased liability will only materialise if the Group ceases trading or the derivative financial instruments were terminated prior to their maturity and future anticipated interest rates remain at year end levels

	Book value £m	Fair value £m
Primary financial instruments held or issued to finance the Group's operations:		
Guaranteed bonds	**(953 3)**	**(1,024.8)**
Bank debt	**(197 3)**	**(200.0)**
Cash at bank and in hand	**14 0**	**14 0**
	(1,136 6)	**(1,210 8)**
Derivative financial instruments held to manage the interest rate profile and matched by primary financial instruments.		
Index linked swaps	**(53 5)**	**(577.4)**
Interest rate swaps	**-**	**(5.3)**
	(1,190.1)	**(1,793 5)**

Notes to the financial statements

13 Financial instruments and risk management (continued)

(f) Fair values of financial instruments (continued)

The fair value of derivative financial instruments matched to primary financial instruments relates to long term borrowings with a book value of £1,150 6m (2010 £1,141 7m) which have been included within the primary financial instruments issued to finance the Group's operations at a fair value of £1,793 5m (2010 £1,703 9m), which is the redemption value of those borrowings

The difference between gross borrowings as disclosed above and net borrowings as disclosed in notes 10 and 11 reflect the unamortised element of the debt arrangement fees of £19 7m (2010 £23 3m) and the liability for index linked swap contracts of £53 5m (2010 £2 8m)

(g) Losses on derivative financial instruments

The fair value of losses on derivative financial instruments is not recognised in the financial statements These instruments are held to manage the Group's interest rate exposures and the resultant fixed interest charges are made in the accounting periods to which they relate The table below analyses the composition of the fair value losses (note 13(f)) Of these losses £529 2m (2010 £541 5m) are notional and would only materialise if the Group were to cease trading or the derivative financial instruments were terminated prior to their maturity and future anticipated interest rates remain at year end levels

	Total losses £m
At 1 April 2010	**(544 3)**
Movement in fair value	**(38 4)**
At 31 March 2011	**(582 7)**
Of which:	
Losses not expected to be included in 2011/2012 or later years	**(529.2)**
	(529 2)

The difference between the total losses and the losses not expected to be included in 2011/12 or later years is the amount accrued in the financial statements of £53 5m (2010 £2 8m) (note 10(b)) in respect of liability for index linked swap contracts

14 Capital commitments

Group and Company

	2011 £m	2010 £m
Contracted for but not provided in the financial statements	**8.0**	10 7

In order to meet regulatory and service standards, the Group and Company has longer term capital expenditure obligations within the regulated gas distribution business, which include investments to meet shortfalls in performance and condition, and to provide for new demands and growth

The last regulatory review period ended on 31 March 2008 The determination for the five year regulatory period ended 31 March 2013 has been agreed and includes capital and replacement investment of £275 3m for capital work and £368 5m for replacement work (in 2005/6 prices)

Notes to the financial statements

15. Leasing commitments
Group and company

	Land and buildings		Others	
	2011	2010	**2011**	2010
	£m	£m	**£m**	£m
At 31 March 2011 there were revenue commitments, in the ordinary course of business in the next year to the payment of rentals on non cancellable operating leases expiring				
Within one year	**0 1**	0 2	**0 3**	0 6
Between two and five years	**0 1**	-	**0 9**	0 5
After five years	**0 8**	0 8	**-**	-
	1 0	1 0	**1 2**	1 1

16. Provisions for liabilities and charges
Group and Company

	Note	**2011** **£m**	2010 £m
Insurance provision	(a)	**2 3**	2 6
Environmental and demolition provisions	(b)	**34 1**	35 7
Onerous interest rate swap contracts provision	(c)	**17 7**	18 4
Wayleaves provision	(d)	**2 6**	3 3
Deferred taxation	(e)	**-**	-
		56 7	60 0

(a) Insurance provisions
Group and Company

	2011 **£m**	2010 £m
At 1 April	**2.6**	2 7
Unwinding of discount (note 4(b))	**0.2**	0 2
Utilised in the year	**(0 5)**	(0 3)
At 31 March	**2 3**	2 6

The insurance provision is the estimate of liabilities in respect of past events incurred by the business In accordance with insurance industry practice, these estimates were based on experience from previous years and there is, therefore, no identifiable payment date

Notes to the financial statements

16. Provisions for liabilities and charges (continued)

(b) Environmental and demolition provisions
Group and Company

	2011 £m	2010 £m
At 1 April	**35 7**	30 7
Unwinding of discount (note 4(b))	**2 5**	2 1
Change in discount rate	**-**	(1 6)
(Credit)/charge for the year	**(1.8)**	4 9
Utilised in the year	**(2 3)**	(0 4)
At 31 March	**34 1**	35 7

The environmental provision represents the estimated environmental restoration and remediation costs relating to a number of sites owned and managed by the Group During the year the Group has reassessed the provision The provision has been discounted to its estimated net present value The anticipated timing of the cashflows for statutory decontamination is expected to be incurred over the period 2011 to 2050

(c) Onerous interest rate swap contract provision
Group and Company

	2011 £m	2010 £m
At 1 April	**18.4**	19 1
Utilised in the year	**(0.7)**	(0 7)
At 31 March	**17 7**	18 4

As part of the Group's hedging strategy, during the period ended 31 March 2006 the Group acquired from MGN Gas Networks (Senior Finance) Limited an interest rate swap contract with a notional value of £924m This contract was recorded in the financial statements of the Group at its negative fair value on transfer of £50 4m and was offset by an equivalent reduction in the amount that the Group owed MGN Gas Networks (Senior Finance) Limited through their intercompany account The provision is being amortised on a straight line basis over the contract life

(d) Wayleaves provision
Group and Company

	2011 £m	2010 £m
At 1 April	**3 3**	3 3
Unwinding of discount (note 4(b))	**0 2**	0 2
Utilised in the year	**(0.9)**	(0 2)
At 31 March	**2 6**	3 3

The wayleaves provision is provided to cover the costs associated with rectifying gas distribution assets which are the subject of ineffective easements or wayleaves The provision is expected to be utilised over the period until 2020

(e) Deferred taxation

A deferred tax asset has not been recognised in respect of accelerated capital allowances and tax losses with a tax value of £32 8m (2010 £24 2m) as there is insufficient evidence that the asset will be recoverable This figure has been updated in line with the actual tax treatment of the Group's fixed assets in their corporation tax computations as submitted to HM Revenue and Customs

Notes to the financial statements

17. Called up share capital

	2011 £	2010 £
Authorised		
30,675,000 Ordinary shares of £1 each	**30,675,000**	30,675,000
Allotted and fully paid		
30,675,000 Ordinary shares of £1 each	**30,675,000**	30,675,000

18. Profit and loss account

	Group £m	Company £m
At 1 April 2010	**(546.9)**	**(546 9)**
Loss for the financial year	**(114 6)**	**(114.6)**
Actuarial gain on pension scheme (note 25)	**31 9**	**31.9**
At 31 March 2011	**(629 6)**	**(629.6)**
Pension liability recorded in reserves	**39 1**	**39.1**
Profit and loss reserves excluding pension liability	**(590 5)**	**(590.5)**

19 Net cash inflow from operations

	2011 £m	2010 £m
Continuing operations		
Operating profit	**51.3**	51 2
Depreciation of tangible fixed assets	**68.8**	70 3
Release of advanced amortisation of capital contributions	**-**	1 3
Amortisation of capital contributions	**(1 3)**	(1 1)
Amortisation of grants	**(0.1)**	(0 1)
Profit on disposal of fixed assets	**(0.2)**	(0 2)
Net (increase)/decrease in stocks	**(2.7)**	0 1
Net decrease in debtors	**1 9**	8 6
Net increase/(decrease) in creditors	**11.7**	(9 4)
Difference between pension charge and cash contributions	**(6.8)**	(7 6)
Movements in provisions for liabilities	**(5.5)**	1 6
Net cash inflow from operating activities	**117 1**	114 7

20 Analysis of changes in financing in the year

	Share capital		Long term loans	
	2011 £m	2010 £m	2011 £m	2010 £m
At 1 April	**30 7**	30 7	**1,144 5**	1,090 9
Long term loans	**-**	-	**-**	240 0
Bonds issued	**-**	-	**-**	965 0
Issue costs and discount	**-**	-	**(0 1)**	(37 5)
Amortisation of issue costs and discount	**-**	-	**3 7**	18 3
Index linked swap liability paid	**-**	-	**-**	(77 9)
Increase/(decrease) in index linked swap	**-**	-	**50 7**	(10 3)
Increase in index linked bond accretion	**-**	-	**5 3**	-
Bank debt repaid	**-**	-	**-**	(1,044 0)
At 31 March	**30 7**	30 7	**1,204 1**	1,144 5

Notes to the financial statements

21 Analysis of changes in cash in the year

Group and company

	2011 £m	2010 £m
At 1 April	**38 9**	32 2
Net cash (outflow)/inflow	**(24.9)**	6 7
At 31 March	**14.0**	38 9

22. Analysis of cash

Group and company

	2011 £m	2010 £m	2011 Change in year £m	2010 Change in year £m
Cash at bank and in hand	**14.0**	38 9	**(24.9)**	6 7

23. Reconciliation of net cash flow to increase in net debt

	2011 £m	2010 £m
(Decrease)/increase in cash as per cash flow statement	**(24.9)**	6 7
Long term loans	**-**	(240 0)
Bonds issued	**-**	(965 0)
Issue costs and discount	**0 1**	37 5
Amortisation of issue costs and discount	**(3 7)**	(18 3)
Index linked swap liability paid	**-**	77 9
(Increase)/decrease in index linked swap	**(50.7)**	10 3
Increase in index linked bond	**(5.3)**	-
Bank debt repaid	**-**	1,044 0
Increase in net debt	**(84 5)**	(46 9)
At 1 April	**(1,105 6)**	(1,058 7)
At 31 March	**(1,190 1)**	(1,105 6)

	Note	2011 £m	2010 £m
Gross debt	20	**(1,204.1)**	(1,144 5)
Cash	22	**14.0**	38 9
Net debt		**(1,190 1)**	(1,105 6)

24. Directors' and officers' loans and transactions

No loans or credit transactions with any directors, officers or connected persons subsisted during the year or were outstanding at the end of the year

Notes to the financial statements

25 Pension scheme

The Group operates one pension scheme which has defined benefit and defined contribution sections

Defined benefit section

The Group operates a defined benefit pension scheme, the Wales & West Utilities Pension Scheme ("the Scheme") The Scheme funds are administered by trustees and are independent of the Group's finances Contributions are paid to the Scheme in accordance with the Schedule of Contributions agreed between the Trustees and the Group

A full actuarial valuation as at 31 March 2006 was completed by Lane Clark & Peacock This valuation showed a deficit of £37m The calculations carried out to produce the results of this valuation were updated to the accounting date by an independent qualified actuary in accordance with FRS17 As required by FRS17, the value of the defined benefit liabilities has been measured using the projected unit method

The key FRS17 assumptions used for the Scheme are set out below, along with the fair value of assets, a breakdown of the assets into the main asset classes, the present value of the FRS17 liabilities and the net deficit of assets below the FRS17 liabilities (which equals the gross pension liability)

Financial Assumptions	**2011**	2010
Price inflation	**3 55% pa**	3 95% pa
Discount rate	**5 65% pa**	5 80% pa
Pension increases (LPI)	**3 55% pa**	3 95% pa
Salary growth	**4 30% pa**	5 20% pa
Mortality Assumptions		
Life expectancy of a male aged 60	**27**	27
Life expectancy of a male currently age 40 from age 60	**30**	28

Notes to the financial statements

25. Pension scheme (continued)

The assets in the scheme (excluding the Defined Contribution Section of the Scheme and the members' AVC funds) and the expected rates of return at 31 March 2011 were

Asset distribution and expected return

	2011 Expected return % pa	**Fair value £m**	2010 Expected return % pa	Fair value £m
Equities	**8 35**	**112 5**	8 55	149 6
Bonds	**4 35**	**84 5**	4 55	67 6
Property	**6 35**	**13.8**	6 55	12 6
Diversified Growth Fund	**7 35**	**47 4**	-	-
Cash	**0 50**	**1 5**	0 50	1 4
Total market value of assets		**259 7**		231 2

The expected long term rate of return on net assets have been derived so as to be consistent with market yields at the accounting date and previous years accounting disclosures

Equities – As at 31 March 2011 it is assumed that equities will return 4 0% above the return on long duration Government bonds

Property – As at 31 March 2011 it is assumed that property will achieve a return of 2 0% below the return on equities

Government Bonds – As at 31 March 2011 it is assumed that Government bonds will achieve a return in line with the annualised gross redemption yield on UK Gilts all stocks 20 year index

Diversified Growth Fund – As at 31 March 2011 it is assumed that the diversified growth fund will achieve a return of 1 0% below the return on equities

Cash – As at 31 March 2011 it is assumed that Cash will achieve a return equal to the Bank of England Base Rate

The following amounts at 31 March 2011 were measured in accordance with the requirements of FRS17

Balance sheet

	2011 £m	2010 £m
Total fair value of assets	**259 7**	231 2
FRS17 value of liabilities	**(285 3)**	(295 3)
Deficit in the scheme	**(25 6)**	(64 1)

The scheme is represented on the balance sheet at 31 March 2011 as a liability under FRS17 which amounts to £25 6m (2010 £64 1m)

Over the year to 31 March 2011, contributions by the Group of £15 8m (2010 £14 3m) were made in respect of members of the defined benefit section In addition, £0 6m (2010 £0 6m) has been set aside by the Group outside of the Scheme during the year in order to meet the Scheme's expenses At 31 March 2011 £0 6m (2010 £0 4m) was accrued in respect of contributions due to the defined benefit section

It has been agreed that future ongoing employer contributions will be at a rate of 36 7% (2010 36 7%) of pensionable salary plus an allowance for expenses In addition, the Group has agreed to pay deficit recovery contributions of £5 2m pa until 31 March 2017 plus £1 7m pa for the period from 1 April 2010 to 31 March 2013

Notes to the financial statements

25. Pension scheme (continued)

The following amounts have been recognised in the financial statements in the year to 31 March 2011 under the requirements of FRS17

Profit and loss account	**2011 £m**	2010 £m
Analysis of amounts charged to operating costs		
Current service cost (employer's part only)	**9 0**	6 3
Past service cost (NG Transfer)	**-**	0 4
Total operating charge	**9.0**	6 7
Analysis of amounts charged to other finance costs		
Expected return on pension scheme assets	**17 1**	11 4
Interest on post retirement liabilities	**(17 3)**	(13 8)
Net cost to debit finance income	**(0 2)**	(2 4)

The scheme is now closed to new entrants and, under the method used to calculate pension costs in accordance with FRS17, the cost as a percentage of covered pensionable payroll will tend to increase as the average age of the membership increases

The following amounts have been recognised within the statement of total recognised gains and losses ("Statement of total recognised gains and losses") under FRS17

	2011 £m	2010 £m
Actual return less expected return on scheme assets	**(0.6)**	44 5
Experience gains and (losses) on obligations	**0.4**	13 3
Changes in assumptions underlying the present value of the obligation	**32.1**	(88 1)
Actuarial gain/(loss) recognised in the Statement of total recognised gains and losses	**31 9**	(30 3)
Cumulative actuarial loss recognised in the Statement of total recognised gains and losses	**(39.1)**	(71 0)

Notes to the financial statements

25 Pension scheme (continued)

Changes in the present value of the defined benefit obligations are as follows

	2011 £m	2010 £m
Opening defined benefit obligations	**295 3**	201 1
Current service cost	**9 0**	6 3
Past service cost (NG transfer)	**-**	0 4
Interest cost	**17 3**	13 8
Employee contributions	**0 7**	0 7
Benefits paid	**(4 5)**	(1 8)
Actuarial (gain)/loss	**(32.5)**	74 8
Closing defined benefit obligations	**285 3**	295 3

Changes in the fair value of the Scheme assets are as follows

	2011 £m	2010 £m
Opening fair value of Scheme assets	**231 2**	162 1
Expected return on assets	**17 1**	11 4
Employer contributions	**15 8**	14 3
Employee contributions	**0.7**	0 7
Benefits paid	**(4.5)**	(1 8)
Actual less expected return on assets	**(0.6)**	44 5
Closing fair value of Scheme assets	**259.7**	231 2

Amounts for the five years ended 31 March 2011 are as follows

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Defined benefit obligations	**(285.3)**	(295 3)	(201 1)	(224 2)	(218 1)
Total assets	**259.7**	231 2	162 1	194 0	183 8
Deficit	**(25.6)**	(64 1)	(39 0)	(30 2)	(34 3)
Experience adjustments on the Obligation	**0.4**	13 3	-	-	(2 1)
Experience adjustments on Scheme assets	**(0.6)**	44 5	(50 5)	(25 8)	-

Defined contribution scheme

The Group also operates a defined contribution scheme for staff

The employer paid a further £1 1m (2010 £1 0m) during the year in respect of defined contribution members

26 Immediate and ultimate parent companies

The immediate parent company is Wales & West Utilities Holdings Limited and the ultimate parent company and controlling party is MGN Gas Networks (UK) Limited MGN Gas Networks (UK) Limited is the parent undertaking of the largest group of undertakings to consolidate these financial statements at 31 March 2011 Wales & West Utilities Holdings Limited is the parent undertaking of the smallest group of undertakings to consolidate these financial statements Copies of the annual financial statements of MGN Gas Network (UK) Limited and Wales & West Utilities Holdings Limited may be obtained from The Company Secretary, MGN Gas Networks (UK) Limited, Wales & West House, Spooner Close, Celtic Springs, Coedkernew, Newport, NP10 8FZ

Notes to the financial statements

27. Related party transactions

(a) Gas purchases

Under its licence condition, the Company is required to purchase gas to cover certain "own use" activities including own consumption in operating the gas distribution network and shrinkage due to estimated losses from the network

The Group has contracted with Macquarie Bank Limited ("MBL") to purchase the gas it requires to fulfil these commitments The contract was awarded to MBL after it won a competitive tender process These transactions are carried out on an arms length basis and the prices charged are compared to available quoted gas purchases prices to ensure they are competitive The cost of purchasing this gas amounted to £7 4m (2010 £4 9m) in respect of the year and included £0 1m (2010 £0 1m) of commission paid to MBL

(b) xoserve Limited

The Group owns 10% (2010 10%) of the issued share capital of xoserve Limited ("xoserve") xoserve is owned jointly by the UK Gas Distribution companies and National Grid group as owner of the gas transmission business in the UK

xoserve provides gas throughput (meter reading) and billing information to the Group which is used by the Group in setting its regulated gas distribution charges to gas transporters The cost to the Group of xoserve providing these services was £3 8m (2010 £3 5m) in respect of the year, of which £0 7m (2010 £0 3m) was charged to capital

(c) Corona Energy Retail Limited group

The Group provided gas transportation services to the three companies in the Corona Energy Retail Limited ("Corona") group Corona is owned by Macquarie Bank Limited These services are provided on normal commercial terms in common with all other gas shippers operating in the Group's geographic region The income to the Group in respect of these services to the Corona Energy Retail group was £9 6m (2010 £8 6m)

(d) Arqiva Limited

The Group received telemetry services from Arqiva Limited Arqiva Limited is owned by a number of investors including Macquarie Bank Limited, CPP Investment Board European Holdings Sarl and Codan Trust Company (Cayman) Limited These services are received on normal commercial terms The cost to the Group in respect of these services from Arqiva Limited was £0 2m