Registered No. 05095454

MGN Gas Networks (UK) Limited

Directors' report and consolidated financial statements
for the year ended 31 March 2012

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Directors and advisors

Directors

Kevin Whiteman (A, R, H) Chairman
Mark Braithwaite
Howard Higgins (A, R, H)
Andreas Kottering (A, R)
Manoj Mehta (A, R, H)
Michael Pavia (A, R, H)
Robert Verrion (A, R, H)

Edward Beckley	(Alternate Director to Howard Higgins and Mark Braithwaite)
Simon Ellis	(Alternate Director to Robert Verrion)
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 of Wales & West Utilities Limited
(H) Member of the Health & Safety Committee of Wales & West Utilities Limited

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 seventh annual report to the shareholders of MGN Gas Networks (UK) Limited group ("the Group"), together with the audited consolidated financial statements for the year ended 31 March 2012 as presented on pages 14 to 42

Principal activities
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

The purpose of the Company is to act as a holding company, it does not own any physical assets or have any employees

Results and operating performance
The consolidated loss on ordinary activities before taxation amounted to £63 4m (2011 loss £62 8m) The loss attributable to shareholders amounted to £63 1m (2011 loss £62 5m)

The results of the Group for the year ended 31 March 2012 are set out in the consolidated profit and loss account on page 14

The trading subsidiary of the MGN Gas Networks (UK) Limited group is Wales & West Utilities Limited ("WWU")

WWU replaced 455 1kms of gas mains and undertook work on the related gas service pipes running from the gas mains to the properties of gas consumers at a cost of £81 5m (2011 424 9kms at a cost of £75 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 £15 8m (2011 £4 3m) was spent on Local Transmission System ("LTS") replacement projects Under Generally Accepted Accounting Practices in the United Kingdom these costs are charged as an operating cost

In addition during the year ended 31 March 2012, WWU invested £67 2m (2011 £70 3m), against which consumers contributed £9 5m (2011 £10 2m), on expanding and improving the gas distribution network

Financing

On 4 November 2011 the Group issued £400m of bonds and repaid a £200m term loan

At 31 March 2012 Wales & West Utilities Finance plc ("WWUF"), a subsidiary of the Company, had in issue a series of bonds, 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*
£250m	4 625%	A	4 November 2011	2023
£150m	5 00%	A	4 November 2011	2028

* Legal maturity of the bond is 2036, however, the bond can be redeemed at the Company'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 WWU and its 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 WWU to the extent permitted by the Gas Act and its Gas Transportation Licence

Financing (continued)
The cumulative net proceeds of the issue of these bonds, of £1,347 5m, were lent by WWUF to WWU to repay its existing bank financing and to fund further capital investment

With effect from 27 January 2011, the existing £96,757,500 floating rate unsecured loan notes due 2024 issued by the Company pursuant to a Loan Note Instrument dated 14 September 2004 as amended by a Deed of Amendment dated 24 January 2011 were admitted to the Official List of the Channel Islands Stock Exchange, LBG ("the Exchange") subject to the rules of the Exchange

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 within one and two hour time frames The standards for achieving connection quotations and for completing connection activities within agreed timescales were also both met There were 2,161 (2011 720) 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 seven (2011 four) lost time injuries ("LTIs") to direct and contract labour during the year One LTI was sustained through direct labour (2011 one) and six through our contract partners (2011 three) including three in relation to the Contractor on a LTS replacement project in North Wales

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

History and development
WWU 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 WWU 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 WWU's distribution pipelines to around 2 5 million consumers

The Group is a privately owned Group Details of the ownership of the Group are set out in note 19 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 Group operates one of the gas distribution networks comprising the Wales and South West of England local distribution zones Three other distribution networks are owned by independent operators National Grid retained the remaining four local gas distribution networks Together these companies represent the large majority of the gas distribution network in Great Britain

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

In addition to its gas distribution role, WWU 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 WWU'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 WWU 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 WWU'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 Group is also regulated by the Health and Safety Executive

As a regulated business WWU is subject to price controls set by Ofgem which define its allowed revenues In January 2008 WWU 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 WWU's investment in the gas infrastructure asset

The current five year price control to which WWU is subject will end on 31 March 2013 This will be replaced by an eight year control commencing on 1 April 2013 under Ofgem's new RIIO (Revenue = Incentives, Innovation and Outputs) principles The process for agreeing the allowances under the new control are in progress and, as part of this, WWU has submitted to Ofgem its proposed business plan and funding requirements It is expected that Ofgem will issue its Initial Proposals on allowances for the next price control period in July 2012 and Final Proposals in December 2012

WWU submits consolidated regulatory accounts, specified annual returns and a regulatory reporting pack to Ofgem annually, by the end of July following the financial year end

In October 2010 WWU informed Ofgem of four recording errors relating to its mains replacement programme for the years 2005/6, 2006/7 and 2008/9 The errors were identified as a result of routine investigations completed over Asset Error Notifications raised following publicly reported escapes of gas during 2010 The investigations concluded, and WWU informed Ofgem that it had, in aggregate, claimed incorrectly for 1 1kms of mains abandonment in that period, during which WWU 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 WWU 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 WWU has responded and Ofgem made an announcement on their website on 9 May 2011 that WWU were under formal investigation Two further requests for information were issued to WWU by Ofgem following the announcement to which WWU has responded in full A meeting was held between senior members of Ofgem and WWU in November 2011, this meeting was followed up with a formal letter to Ofgem capturing WWU's responses provided at the meeting WWU is currently awaiting Ofgem's decision on the investigation

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

Key performance measures (continued)

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 WWU 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 WWU'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, compensation payments for 2011/12 amounted to £0 2m (2011 £0 1m)

The Group 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 Group, the results of which are published on WWU's website and are reported to Ofgem

All regulatory standards of performance were achieved in the year to 31 March 2012

Key operational performance measures were,

	Target	2011/12	2010/11	2009/10	2008/9
Responding to gas escapes					
1 hour target for uncontrolled escapes	97 0%	**98 6%**	98 5%	97 6%	97 8%
2 hour target for controlled escapes	97 0%	**99 6%**	99 4%	99 1%	99 2%
Standards of performance					
Issuing quotations	90 0%	**99 1%**	99 2%	99 1%	98 7%
Offer dates for work start & finish	90 0%	**99 9%**	99 9%	99 9%	99 8%
Jobs completed on agreed dates	90 0%	**95 2%**	94 3%	95 9%	96 5%
Responding to complaints		**99 3%**	99 1%	99 4%	99 1%
Customer complaints					
Number of complaints		**2,161**	720	513	692
Number of jobs undertaken		**150,000**	157,192	161,930	171,788
Percentage complaints		**1 4%**	0 4%	0 3%	0 4%
Reported complaints*					
Ombudsman service		**-**	2	3	-
Energywatch		**-**	-	-	1

* 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 of the Group were,

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

	2011/12 £m	2010/11 £m	2009/10 £m	2008/9 £m
Turnover	**350.9**	312 8	314 1	309 4
Operating costs	**(116.5)**	(114 2)	(112 7)	(111 8)
Operating profit before replacement expenditure, exceptional items and depreciation	**234 4**	198 6	201 4	197 6
Operating cashflows	**116 4**	117 1	114 7	102 0

Report of the directors (continued)

Health, safety and environment

Safety

The Group'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 seven (direct labour one (road traffic incident), contract labour six) (2011 direct labour one, contract labour three) LTI's between direct and contract labour, giving a 12 month frequency rate of 0 02 LTI's/100,000 hours worked (2011 0 034 LTI's/100,000 hours worked)

The Group 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 Group's core role of managing the safe and secure delivery of gas, the Group 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 core

The Group believes that its safety performance is amongst the leaders in 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 Group's workforce that sees clear accountability resting with line management, employees and contract partners is a key element of the Group's successful record

Environment

The Group is also proud of its environmental achievements and again maintained certification to ISO 14001 By utilising and developing industry-wide best practices, the Group has reduced its environmental impact Key areas of 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 Group going forward, constantly looking for ways to minimise the environmental impact of its past, present and future activities

The Group 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 Group'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 Group's strategy are subject to a number of risks
The Group has embedded risk management into its business decision-making process Within the business, the risk management process continues to be based on assessments of operational, including safety, financial and other business or project risks Key business units prepare and maintain risk registers that capture their key risks and the actions being taken to manage them Senior management are closely involved at critical stages in the review process, owning the resulting key Strategic Risks that sit above the operational risks identified in the units

The key business risks facing the Group are set out below

Operational

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

Regulatory

- compliance with the Group'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

Principal risks and uncertainties (continued)
The Group has a comprehensive approach to risk The systems and processes implemented by the Group, together with the recruitment of appropriately qualified staff, are designed to mitigate the risks identified above In addition, the Group undertakes regular reviews of its compliance with the requirements of the Gas Licence, standards of service and obligations with the Health & Safety Executive

On an annual basis, the Board as the body with overall responsibility for the Group's system of internal control and for the monitoring of its effectiveness, undertake a review of the internal processes and a key part of that process is the receipt of a Letter of Assurance from the Chief Executive, which consolidates the key matters of interest raised through the year end processes undertaken by the Group

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 Group'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 Group has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the Group by monitoring levels of debt finance and related finance costs The Group also uses derivative financial instruments to manage interest rate costs

Given the size of the Group, 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 Group's finance department

Commodity price risk
The Group 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 Group 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 Group 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

Credit risk arises from cash at bank, deposits with banks and financial institutions and credit exposures to customers For banks and financial institutions, only independently rated parties with a minimum short term rating of A1 with Standards & Poor's and F1 with Fitch are accepted

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 Group 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% (2011 100%) which, if exceeded, allows the Group to apply sanctions

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

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

Fınancıal review

Basıs of accountıng

The financıal statements present the Group's results for the year ended 31 March 2012 and the fınancıal posıtıon as at 31 March 2012 They have been prepared usıng the accountıng polıcıes shown on pages 18 to 20, ın accordance wıth Generally Accepted Accountıng Practıces ın the Unıted Kıngdom

There were no changes ın accountıng polıcıes adopted durıng the year

Segmental reportıng

In addıtıon to provıdıng the overall results and fınancıal posıtıon ın the fınancıal statements, the Group provıdes a breakdown of those results and balances ınto a number of dıfferent busıness segments as requıred by the Lıcence wıthın the Consolıdated Regulatory Accounts of Wales & West Utılıtıes Lımıted

Lıquıdıty, resources and capıtal expendıture

Net cash ınflow from operatıons amounted to £116 4m (2011 £117 1m)
Investıng actıvıtıes absorbed net cash of £52 9m (2011 £60 3m) and net fınancıng costs amounted to £74 6m (2011 £79 0m)

Cash flow forecastıng

Both short term and long term cashflow forecasts are produced frequently to assıst ın ıdentıfyıng the lıquıdıty requırements of the Group

Borrowıngs

Detaıls of net borrowıngs are dısclosed ın notes 12 and 13 and gross borrowıngs ın note 14 Detaıls of the Group's approach to fınancıal rısk management are set out ın the report of the dırectors on page 7

Shareholder defıcıt

Shareholder defıcıt at 31 March 2012 amounted to a defıcıt of £250 4m (2011 defıcıt £136 9m) as a result of a retaıned loss of £93 3m (2011 loss £71 1m) and a loss ın the pensıon provısıon reserves of £20 2m (2011 gaın of £31 9m)

The dırectors consıder that the Group has performed satısfactorıly durıng the year

Detaıls of the ownershıp of the Group are ıncluded ın note 19 There were no movements ın the authorısed and ıssued share capıtal of the Group durıng the year

Dıvıdends on ordınary shares

The dırectors paıd an ınterım dıvıdend of 5 64p (net) per ordınary share ın February 2012 ın respect of the year to 31 March 2012 (2011 2 95p) The total value of the ınterım dıvıdend was £16 4m (2011 £8 6m)

On 31 May 2012 the Board of Dırectors approved the payment of a fınal dıvıdend ın respect of the year endıng 31 March 2012 of 5 64 pence per ordınary share (2011 4 75 pence per ordınary share) (net), totallıng £16 4m (2011 £13 8m), whıch has not been provıded for as a lıabılıty at 31 March 2012

Future developments

The Group does not envısage any changes ın the actıvıty of the Group for the foreseeable future Other than those matters referred to above, there were no sıgnıfıcant developments wıthın the Group that occurred durıng the fınancıal year under revıew

Report of the directors (continued)

Fixed assets
Freehold land and buildings are carried in the accounts at a combination of historic cost and fair value of £6 1m (2011 £6 3m)

In the opinion of the directors there was no significant difference between the book values of property and market values at 31 March 2012

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 Group's network was £67 2m (2011 £70 3m) offset by capital contributions of £9 5m (2011 £10 2m) and net replacement expenditure was £97 3m (2011 £79 6m) in the year to 31 March 2012

Directors
The names of the current directors of the Group are shown on page 1

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

Philip Garling		Resigned 3 May 2011
Robert Verrion	Appointed 9 May 2011*	
Roderick Gadsby		Resigned 20 June 2011
Mark Braithwaite	Appointed 9 September 2011	
Duncan Whyte		Resigned 31 December 2011
Kevin Whiteman	Appointed 1 January 2012	
Michael Pavia	Appointed 1 January 2012	
Simon Ellis	Appointed alternate director 2 June 2011	

* Date of change from alternate director to full director status

Directors' service contracts and remuneration
Details of directors' remuneration are set out in note 3(a)

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 Group

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 (meter reading) 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

Report of the directors (continued)

Employment policies (continued)

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 From October 2011 the Occupational Health function was bought in-house to ensure a continued focus on the health and well being of the Groups workforce

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 4%, in the year to 31 March 2012 (2011 3 3%) and this compares favourably to the published Chartered Institute of Personnel & Development statistics which showed that the average in UK industry during 2011 was 12 5% (2010 13 5%)

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

The WWU Apprenticeship Programme is a 3-4 year training period, depending on the course of study undertaken and there are 4 purpose built in-house training centres for the Apprentices to develop their practical and technical skills Recruitment is on a targeted basis, ensuring that apprentices are recruited to areas of need

During the year the Group employed a further 6 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 (12% of the current workforce are expected to retire before 2017) 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 six years to 94 meaning that 11% of the industrial workforce have joined the Group through the WWU Apprenticeship Programme

Within the last six years the Group has also directly employed some 250 people previously employed by the Group's 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

The Group is also investing in its line management population as they are critical to the ongoing delivery of performance and have created an in-house management development programme Around 95% of the existing line manager workforce is enrolled in the programme and the Group has extended it to incorporate future line managers in support of our succession planning

Report of the directors (continued)

Contributions for charitable and political purposes

During the year, there have been no political donations (2011 £nil), and charitable donations amounted to £152,767 (2011 £89,292) Donations in excess of £2,000 were made to

	£
Routeway	2,600
Breast Cancer Care	4,667
Hijinx Theatre	5,000
Princes Trust	5,000
St David's Hospice	5,000
Sports Aid Cymru	5,000
Arts & Business Services	8,500
Lifeskills CREATE Donation Centre	10,000
Institute of Welsh Affairs	10,000
Royal Welsh Agricultural Show	10,000
Royal Bath & West Show	10,000
Tenovus	12,000
Business in the Community	15,000
National Eisteddfod of Wales	15,000
Techniquest	15,000
Royal Welsh College of Music & Drama	20,000

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 2012/13 and medium term business plans for 2013/21 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

Consolidated Regulatory accounts

The Gas Transporters Licence, under which Wales & West Utilities Limited operates, requires specific accounting statements to be published Copies of the Consolidated Regulatory Accounts for the Wales & West Utilities Limited group will be available from the Group Secretary after 31 July 2012

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 and were in force during the financial year and also at the date of approval of the financial statements

Disclosure of information to auditors

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

Following a competitive tender exercise undertaken by the Group for external audit services, KPMG has been appointed statutory auditors of the Group commencing with the interim accounts for the six months ending 30 September 2012

By order of the Board

C J Talbot
Company secretary
31 May 2012

Statement of directors' responsibilities for the financial statements

The directors are responsible for preparing the report of the directors 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 and 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 company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and 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
31 May 2012

Independent auditors' report to the members of MGN Gas Networks (UK) Limited

We have audited the Group and parent company financial statements of MGN Gas Networks (UK) Limited ("the financial statements") for the year ended 31 March 2012 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, principal 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 In addition, we read all the financial and non-financial information in the financial statements to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

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 2012 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
31 May 2012

Consolidated profit and loss account for the year ended 31 March 2012

Continuing operations	Note	2012 £m	2011 £m
Turnover		**350 9**	312 8
Net operating costs	2(a)	**(288 5)**	(264 8)
Operating profit before replacement expenditure, exceptional items and depreciation		**234 4**	198 6
Replacement expenditure	2(a)	**(97.3)**	(79 6)
Exceptional items	2(b)	**-**	1 1
Depreciation	7	**(74 7)**	(72 1)
Operating profit		**62 4**	48 0
Operating profit	2	**62 4**	48 0
Income from fixed asset investments		**0.3**	0 3
Interest receivable and similar income	4(a)	**23 8**	21 7
Other finance income/(costs) ~ net pension	28	**1 6**	(0 2)
Interest payable and similar charges	4(b)	**(151 5)**	(132 6)
Loss on ordinary activities before taxation		**(63 4)**	(62 8)
Tax credit on loss on ordinary activities	5	**0 3**	0 3
Loss attributable to ordinary shareholders		**(63 1)**	(62 5)
Dividends on ordinary shares	6	**(30.2)**	(8 6)
Loss for the financial year	21	**(93.3)**	(71 1)

Consolidated statement of total recognised gains and losses for the year ended 31 March 2012

	2012 £m	2011 £m
Loss for the fınancıal year attrıbutable to ordınary shareholders	**(63.1)**	(62 5)
Actuarıal (loss)/gaın on pensıon scheme (note 28)	**(20.2)**	31 9
Total recognısed gaıns and losses relatıng to the year	**(83.3)**	(30 6)

There are no materıal dıfferences between the loss on ordınary actıvıtıes before taxatıon and the loss for the fınancıal year stated above and theır hıstorıcal cost equıvalents

Reconciliation of movements in shareholders' deficit for the year ended 31 March 2012

	2012 £m	2011 £m
Total loss for the fınancıal year	**(83.3)**	(30 6)
Ordınary dıvıdends	**(30 2)**	(8 6)
Net ıncrease ın shareholders' defıcıt	**(113 5)**	(39 2)
At 1 Aprıl	**(136 9)**	(97 7)
At 31 March	**(250 4)**	(136 9)

Balance sheets at 31 March 2012

	Note	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
Fixed assets					
Tangible assets	7	**1,350.9**	1,359 2	**-**	-
Investments	8	**0.1**	0 1	**-**	-
		1,351.0	1,359 3	**-**	-
Current assets					
Stocks	9	**4 7**	6 4	**-**	-
Debtors	10	**44 5**	39 0	**620 4**	591 8
Current asset investments	11	**150 0**	-	**-**	-
Cash at bank and in hand	25	**48 4**	14 2	**-**	0 2
		247 6	59 6	**620 4**	592 0
Current liabilities					
Creditors amounts falling due within one year	12(a)	**(196 6)**	(102 1)	**(3 5)**	(1 4)
Net current assets/(liabilities)		**51 0**	(42 5)	**616.9**	590 6
Total assets less current liabilities		**1,402 0**	1,316 8	**616 9**	590 6
Creditors. amounts falling due after more than one year	12(b)	**(1,572.5)**	(1,374 1)	**(96 8)**	(96 8)
Provisions for liabilities and charges	18	**(47 8)**	(54 0)	**-**	-
Net (liabilities)/assets before pension liability		**(218 3)**	(111 3)	**520 1**	493 8
Pension liability	28	**(32 1)**	(25 6)	**-**	-
Net (liabilities)/assets including pension liability		**(250 4)**	(136 9)	**520 1**	493 8
Capital and reserves					
Called up share capital	19	**290 3**	290 3	**290.3**	290 3
Share premium account	20	**-**	-	**-**	-
Profit and loss account	21	**(540.7)**	(427 2)	**229 8**	203 5
Total shareholders' (deficit)/funds		**(250.4)**	(136 9)	**520 1**	493 8

The financial statements on pages 14 to 42 were approved by the Board of Directors on 31 May 2012 and were signed on its behalf by

Michael J Pavia

Michael Pavia
Director

Howard Higgins
Director

Consolidated cashflow statement for the year ended 31 March 2012

	Note	2012 £m	2011 £m
Operating activities			
Net cash inflow from continuing operating activities	22	**116 4**	117 1
Net cash inflow from operating activities		**116 4**	117 1
Returns on investments and servicing of finance			
Dividends received		**0 3**	0 3
Interest received		**22.5**	16 1
Interest paid		**(67 2)**	(86 8)
Dividends paid	6	**(30 2)**	(8 6)
Net cash outflow from returns on investments and servicing of finance		**(74.6)**	(79 0)
Taxation			
UK corporation tax received		**0 1**	0 2
Tax paid		**0.1**	0 2
Investing activities			
Purchase of tangible fixed assets		**(63 5)**	(70 8)
Capital contributions received		**9 5**	10 2
Proceeds of disposal of tangible fixed assets		**1.1**	0 3
Net cash outflow from investing activities		**(52 9)**	(60 3)
Net cash outflow before financing		**(11 0)**	(22 0)
Financing			
Net long term loans received	23	**40 0**	-
Proceeds from issue of corporate bonds	23	**400 0**	
Debt issue costs	23	**(5.5)**	(2 7)
Payments in respect of interest rate swap contracts	23	**(39.3)**	-
Cash transferred to short-term deposit	11	**(150.0)**	-
Long term loans repaid	23	**(200.0)**	-
Net cash outflow from financing		**45 2**	(2 7)
Increase/(decrease) in cash at bank and in hand	24	**34 2**	(24 7)
Cash at bank and in hand	24	**48 4**	14 2
Cash held on short-term deposit	25	**150 0**	-
Total cash and cash deposits	25	**198 4**	14 2

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 consolidated 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

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 consolidated 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

Uniform accounting policies have been adopted across the Group

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

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 Turnover is billed monthly 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

Tangible fixed assets and depreciation
Tangible fixed assets, which include assets in which the Group's interest comprise legally protected statutory or contractual rights of use, are included in the balance sheet at their cost less accumulated depreciation or at fair value 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 Utilities 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

Principal accounting policies (continued)

Tangible fixed assets and depreciation (continued)
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 land and 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	5 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

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 in the year to which they relate

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 which takes account of any provision necessary to recognise damage and obsolescence

Principal accounting policies

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

Pension costs
The Group operates one pension scheme with defined contribution and defined benefit pension sections

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

The assets of the defined benefit section of the pension 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 year in the present value of the schemes' liabilities, arising from the passage of time, are included in other finance income or costs, 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 and material provision charges or credits through the profit and loss account

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 profit after taxation, but before dividends, for the year dealt with in the financial statements of the Company was £56 5m (2011 £53 3m) The amount transferred to reserves was £26 3m (2011 £44 7m)

2. Operating profit

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

	Note	**2012 £m**	2011 £m
Continuing operations			
Staff costs	3(b)	**71 3**	68 7
Own work capitalised		**(20.7)**	(19 9)
Depreciation Own assets	7	**74.7**	72 1
Less amortisation of customer contributions		**(2.1)**	(1 3)
Less amortised grants		**(0 1)**	(0 1)
Profit on disposal of fixed assets		**(0 3)**	(0 2)
Replacement expenditure		**97 3**	79 6
Rentals under operating leases			
Hire of plant and equipment		**1.1**	1 2
Other		**1 1**	1 1
Exceptional items ~ decrease in provisions	2(b)	**-**	(1 8)
Exceptional items ~ restructuring costs	2(b)	**-**	0 7

Own work capitalised includes direct labour and ancillary costs

(b) Exceptional items

The exceptional items for the prior year relate to the cost of the environmental and holder demolition provision and the 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 for the year ended 31 March 2011 relate to amounts payable to National Grid following the implementation of the new in-house gas control systems

2. **Operatıng profit (contınued)**

(c) **Auditor remuneratıon**
Servıces provıded by the Group's audıtor

Durıng the year the Group obtaıned the followıng servıces from the Group's audıtor

	2012 £000	2011 £000
Fees payable to the Company's audıtor for the audıt of parent entıty and the consolıdated accounts	**20 0**	20 0
Fees payable to the Company's audıtor and ıts assocıates for other servıces		
The audıt of the Company's subsıdıarıes pursuant to legıslatıon	**110 0**	117 0
Other servıces pursuant to legıslatıon	**52 5**	59 0
Corporate servıces	**24.0**	3 0
Tax complıance servıces	**94 7**	70 0
	301 2	269 0

	2012 £000	2011 £000
Fees ın respect of the pensıon scheme		
Audıt of pensıon scheme	**11 5**	11 5

Audıt and tax fees were paıd by a group company

3 **Dırectors and employees**

(a) **Dırectors' emoluments and ınterests**

	2012 £000	2011 £000
Fees	**124 6**	100 1
Compensatıon for loss of office	**50 0**	-
	174 6	100 1

Durıng the year ended 31 March 2012, the Chaırman resıgned and a new Chaırman was appoınted In addıtıon a new ındependent non-executıve dırector was appoınted ın January 2012

All dırectors make theır own pensıon arrangements, accordıngly no retırement benefıts are accruıng to the dırectors

No dırector had any ınterest over shares ın the Company

Hıghest paıd dırector

	2012 £000	2011 £000
Fees	**83 3**	100 1
Compensatıon for loss of office	**50 0**	-
	133 3	100 1

Notes to the financial statements

3 Directors and employees (continued)

(b) Staff costs

	2012 £m	2011 £m
Wages and salaries	**56 6**	53 9
Social security costs	**5.1**	4 7
Pension costs (note 28)	**9 6**	10 1
	71 3	68 7

Of the above, £13 5m (2011 £15 0m) has been charged to capital

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

	2012 Number	2011 Number
Regulated gas distribution activities	**1,461**	1,447
Other activities	**2**	2
	1,463	1,449

4 Interest

(a) Interest receivable and similar income

	2012 £m	2011 £m
On interest rate swaps	**22 1**	21 6
On current asset investments	**1 3**	-
Other interest receivable	**0 4**	0 1
	23.8	21 7

(b) Interest payable and similar charges

	2012 £m	2011 £m
On external debt	**144 6**	125 7
Amortised issue costs and discount	**3.9**	3 7
On unwinding of discounts on provisions (note 18)	**2.8**	2 9
Other	**0.2**	0 3
	151.5	132 6

Interest on external debt includes a charge of £68 9m (2011 £56 0m) for accrued inflation on UK Retail Price Index ("RPI") linked debt

Notes to the financial statements

5 Tax on loss on ordinary activities

(a) Analysis of credit in the year

	2012 £m	2011 £m
The credit for taxation is made up as follows:		
Current taxation		
UK corporation tax on loss of the year	-	(0 1)
Adjustments in respect of previous periods	(0 3)	(0 2)
Total current tax (note 5(b))	(0 3)	(0 3)
Deferred tax		
Origination and reversal of timing differences	-	-
Total deferred tax (note 18(e))	-	-
Total tax credit on loss on ordinary activities	(0 3)	(0 3)

(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 26% (2011 28%) The differences are explained below

	2012 £m	2011 £m
Loss on ordinary activities before tax	(63.4)	(62 8)
Loss on ordinary activities before tax multiplied by standard rate of corporation tax in the UK of 26% (2011 28%)	(16 5)	(17 6)
Effects of:		
Prior year credit	(0 3)	(0 2)
Permanent differences	8 6	9 4
Deferred tax asset not recognised	11.3	10 6
Capital transactions	0.1	0 1
FRS17 deferred tax movement not recognised	(3 5)	(2 6)
Current tax credit for the year (note 5(a))	(0 3)	(0 3)

During the year ended 31 March 2011 the Group became aware that a liability to Stamp Duty Land Tax following the hive down of the fixed assets of the business into WWU as at 31 May 2005 had not been settled Under the terms of the Tax Deed put in place at the time, this liability should be settled directly by National Grid Group Accordingly the Group has not disclosed any liability or asset in respect of this tax The amount owed was estimated to be some £8m Subsequent to this, during the year ended 31 March 2012, the Group was notified that HMRC has cancelled the assessment

6 Dividends on equity shares

	2012 £m	2011 £m
Final dividend paid in respect of the year ended 31 March 2011, 4 75 pence per £1 ordinary share (2010 nil pence)	13 8	-
Interim dividend in respect of the year ended 31 March 2012, 5 64 pence per £1 ordinary share (2011 2 95 pence)	16.4	8 6
Total dividends paid	30 2	8 6

The directors propose a final dividend of 5 64 pence (net) per £1 ordinary share in respect of the year to 31 March 2012 (2011 4 75 pence (net) per ordinary share) The total value of the final dividend is £16 4m (2011 £13 8m) (note 29)

Notes to the financial statements

7 Tangible assets

Group	Freehold land and buildings	Leasehold land and buildings	Gas distribution network assets	Vehicles, plant and equipment	Assets under construction	Total
	£m	£m	£m	£m	£m	£m
Cost or valuation						
At 1 April 2011	6 4	4 5	1,588 7	108 3	48 0	**1,755 9**
Additions	-	-	-	-	67 2	**67 2**
Disposals	(0 7)	-	-	(0 4)	-	**(1 1)**
Transfers in year	0 6	0 1	59 2	30 5	(90 4)	**-**
At 31 March 2012	**6 3**	**4.6**	**1,647 9**	**138.4**	**24 8**	**1,822.0**
Accumulated depreciation						
At 1 April 2011	0 1	1 2	326 7	68 7	-	**396 7**
Charge for the year	0 1	0 7	60 7	13 2	-	**74 7**
Disposals	-	-	-	(0 3)	-	**(0 3)**
At 31 March 2012	**0 2**	**1 9**	**387 4**	**81.6**	**-**	**471.1**
Net book value						
At 31 March 2012	**6 1**	**2 7**	**1,260.5**	**56 8**	**24 8**	**1,350 9**
At 31 March 2011	6 3	3 3	1,262 0	39 6	48 0	1,359 2
Analysis of net book value at 31 March 2012.						
Owned						
Cost	6 3	4 6	1,647 9	138 4	24 8	**1,822.0**
Accumulated Depreciation	(0 2)	(1 9)	(387 4)	(81 6)	-	**(471 1)**
Net book value	**6 1**	**2 7**	**1,260 5**	**56 8**	**24 8**	**1,350 9**

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 businesses risks

Company
The Company had no tangible fixed assets at 31 March 2012 or at 31 March 2011

8 Fixed asset investments

Group

	Unlisted investments £m
Cost	
At 31 March 2012 and 31 March 2011	0 1
Amounts written off	
At 31 March 2012 and 31 March 2011	-
Net book value	
At 31 March 2012 and 31 March 2011	0 1

The unlisted fixed asset investment of £0 1m (2011 £0 1m) represents the Group's shareholding in Xoserve Limited The Group's shareholding represents 10% (2011 10%) of the issued share capital of Xoserve Limited

Company

	Interests in Group undertakings £m
Cost	
At 31 March 2012 and 31 March 2011	-
Amounts written off	
At 31 March 2012 and 31 March 2011	-
Net book value	
At 31 March 2012 and 31 March 2011	-

The Company's direct subsidiary is MGN Gas Networks (Junior Finance) Limited and comprises 2 shares of £1 each The Company owns the entire issued share capital of MGN Gas Networks (Junior Finance) Limited

The Company's principal indirect subsidiary undertakings are Wales & West Utilities Limited and Wales & West Utilities Finance plc, both companies are incorporated in England & Wales The Group is the beneficial holder of 100% of the issued share capital of Wales & West Utilities Limited and Wales & West Utilities Finance plc

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

9 Stocks

Group

	2012 £m	2011 £m
Raw materials and consumables	**4 7**	6 4

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

Company
The Company had no stock at 31 March 2012 or at 31 March 2011

Notes to the financial statements

10. Debtors

	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
Amounts fallıng due wıthın one year				
Trade debtors	**31 9**	29 4	-	-
Amounts owed by Group undertakıngs	-	-	**620 4**	591 8
Prepayments and accrued ıncome	**12 2**	9 5	-	-
Corporatıon tax recoverable	**0 4**	0 1	-	-
	44 5	39 0	**620.4**	591 8

11. Current asset ınvestments

	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
Amounts fallıng due wıthin one year				
Cash held on short-term deposıt	**150.0**	-	-	-
	150.0	-	-	-

The cash held on short-term deposıt ıs due to mature on 27 March 2013 The cash deposıts attract ınterest at fıxed rates rangıng from 2 04% to 2 38% Cash on deposıt ıs held wıth major European banks The credıt rısk assocıated wıth these ınvestments ıs consıdered to be low

12 Credıtors

	Note	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
(a) Amounts falling due wıthın one year					
Lıabılıty for ındex-lınked swap contracts	15(d)	**78 2**	-	-	-
Payments receıved on account		**24 5**	24 9	-	-
Trade credıtors		**15.1**	11 9	-	-
Other taxatıon and socıal securıty		**11 5**	9 6	-	-
Other credıtors		**2 0**	1 7	-	-
Customer capıtal contrıbutıons		**1 6**	1 3	-	-
Accruals and deferred ıncome		**63 6**	52 6	**3 5**	1 4
Capıtal grant		**0 1**	0 1	-	-
		196 6	102 1	**3.5**	1 4
(b) Amounts falling due after more than one year					
Loan notes	13(a, b)	**96 8**	96 8	**96.8**	96 8
Borrowıngs	13(b)	**1,393 9**	1,150 6	-	-
Trade credıtors		**0 6**	0 7	-	-
Lıabılıty for ındex-lınked swap contracts	15(d)	-	53 5	-	-
Accruals and deferred ıncome		**0.6**	0 8	-	-
Capıtal grant		**1 2**	1 3	-	-
Customer capıtal contrıbutıons		**79 4**	70 4	-	-
		1,572 5	1,374 1	**96 8**	96 8

Notes to the financial statements

13. Borrowings

(a) Loan notes

Loan notes amounting to £96,757,500 at 31 March 2012 were in issue to the Company's shareholders

On 27 January 2011, the existing £96,757,500 floating rate unsecured loan notes due 2024 issued by the Company pursuant to a Loan Note Instrument dated 14 September 2004 as amended by a Deed of Amendment dated 24 January 2011 were admitted to the Official List of the Channel Islands Stock Exchange, LBG ("the Exchange") subject to the rules of the Exchange

The notes are unsecured, bear interest at LIBOR plus 6 per cent, and are repayable in 2024

(b) Other borrowings

The maturity profile of the book value of the Groups other borrowings is -

	Group 2012 £m	2011 £m
Repayable as follows:		
In more than one year but not more than two years	-	197 3
In more than two years but not more than five years	**236 7**	-
In more than five years	**1,157 2**	953 3
	1,393.9	1,150 6

(i) At 31 March 2012 Wales & West Utilities Finance plc had in issue guarantee bonds with a nominal value of £1,365 0m (2011 £965 0m) and a book value of £1,354 4m (2011 £953 3m) Included in the book value is £10 2m (2011 £5 3m) of accrued inflation on index-linked bonds The guaranteed bonds had legal maturities ranging between December 2016 and December 2036, as outlined in the following table

Nominal value	Coupon	Class	Issue date	Redemption date	Book value
£250m	6 25%	A	10 July 2009	2021	£247 0m
£200m	5 125%	A	2 December 2009	2016	£197 2m
£300m	5 75%	A	31 March 2010	2030	£293 0m
£100m	2 496% index linked	A	31 March 2010	2035	£109 4m
£115m	6 75%*	B	31 March 2010	2018/2036*	£113 1m
£250m	4 625%	A	4 November 2011	2023	£247 4m
£150m	5 00%	A	4 November 2011	2028	£147 3m
£1,365m					£1,354 4m

* 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 Wales & West Utilities Limited ("WWU") and its 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 WWU to the extent permitted by the Gas Act and its Gas Transportation Licence

(ii) At the year end, the Group had borrowed £40m under its revolving credit facility which matures in December 2014, with a book value at 31 March 2012 of £39 5m (2011 £nil) The floating interest rate on this loan was LIBOR + 0 75% A £200m term loan with a book value at 31 March 2011 of £197 3m was repaid during the year The loan held a maturity of November 2012 and a floating interest rate of LIBOR + 1 75%

14 Gross borrowings

	2012 £m	2011 £m
Gross value of other loans	**1,493 4**	1,223 8
Loan notes	**96.8**	96 8
	1,590 2	1,320 6

The maturity profile of the Group's gross borrowings was as follows

	2012 £m	2011 £m
In one year or less, or on demand	**78.2**	-
In more than one year but not more than two years	**-**	253 5
In more than two years but not more than five years	**240 0**	-
In more than five years	**1,272 0**	1,067 1
	1,590 2	1,320 6

The difference between the gross value of loans as disclosed above and net borrowings as disclosed in notes 12(b) and 13 reflect the unamortised element of the debt arrangement fees and issue discount of £21 3m (2011 £19 7m) and the liability for index-linked swap contracts of £78 2m (2011 £53 5m)

15 Financial instruments and risk management

Group

(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

Index-linked swaps

As at 31 March 2012, the Group held index-linked swaps with a notional principal of £1,004 0m (2011 £1,004 0m) 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 2012 ranged between 0 69% and 1 71% (fixed) plus RPI (2011 0 69% and 1 71% (fixed) plus RPI) The maturity dates of these swaps range between November 2023 and November 2039 (2011 between November 2023 and November 2039)

Interest rate swaps

As at 31 March 2012, the Group held an interest rate swap with a notional principal of £40 0m (2011 £40 0m) which fixes the interest rate of floating liabilities held by the Group The interest rate on this swap at 31 March 2012 was 5 19% (2011 5 19%) The maturity date of this swap was November 2018 (2011 November 2018)

As at 31 March 2012, the Group held interest rate swaps with a notional principal of £234 4m (2011 £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 2012 ranged between 2 91% and 4 13% (2011 3 56% and 4 13%) The maturity dates of these swaps range between December 2018 and March 2030 (2011 between December 2018 and March 2030)

Company

The Company had no interest rate swap arrangements at 31 March 2012 or at 31 March 2011

15 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 was

	2012 **£m**	2011 £m
Fixed rate	**301 0**	40 0
Fixed real rate	**1,104 0**	1,104 0
Floating rate	**96 8**	117 8
Total	**1,501 8**	1,261 8

Borrowings with a fixed real rate comprise £100m of 2 496% index-linked bonds (2011 £100m) and £1,004 0m (2011 £1,004 0m) 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 2012 ranged between 0 69% and 1 71% (fixed) plus RPI (2011 0 69% and 1 71%) The maturity dates of these swaps range between November 2023 and November 2039 (2011 between November 2023 and November 2039)

The analysis excludes £88 4m (2011 £58 8m) of accrued inflation (note 15(d)) The floating rate gross borrowings include £nil (2011 £21 0m) 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, 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**	
		2012	2011	**2012**	2011
Currency		**%**	%	**Years**	Years
Sterling	Fixed rate	**4.99**	6 69	**12 6**	1 7
	Fixed real rate	**3 27**	3 05	**12 2**	11 8

The fixed real rates exclude the indexation charge applicable to the index-linked bonds and index-linked swaps The index-linked swap arrangements fix the real interest rate cost In addition the variable inflation is charged to interest payable and is accrued during the year

15 Financial instruments and risk management (continued)

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

	2012 £m	2011 £m	Weighted average period until maturity 2012 Years	2011 Years
Liability for index-linked swap contracts	**78 2**	53 5	**1.0**	2 0
Liability for index-linked bonds	**10 2**	5 3	**23.4**	24 4
	88 4	58 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

	2012 £m	2011 £m
Committed borrowing facilities available	**180 0**	380 0
Drawn	**(40.0)**	(200 0)
Undrawn committed facilities at 31 March	**140.0**	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 £0 5m (2011 £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

The loan notes were listed on the Channel Islands Stock Exchange on 27 January 2011 As the loan notes have not traded, the fair value at 31 March 2012 is deemed to be the issue price of £96 8m

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 2012 quoted prices

The fair values 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

15 Financial instruments and risk management (continued)

	31 March 2012 Book value £m	Fair value £m
Primary financial instruments held or issued to finance the Group's operations		
Loan notes	(96 8)	(96 8)
Guaranteed bonds	(1,354 4)	(1,522 4)
Bank debt	(39 5)	(40 0)
Current asset investments – cash on short-term deposit	150 0	150 0
Cash at bank and in hand	48 4	48.4
	(1,292 3)	(1,460.8)
Derivative financial instruments held to manage the interest rate profile and matched by primary financial instruments:		
Index-linked swaps	(92 6)	(685 0)
Interest rate swaps	-	(9.5)
	(1,384.9)	(2,155.3)

The fair value of derivative financial instruments matched to primary financial instruments relates to long term borrowings with a book value of £1,490 7m (2011 £1,247 4m) which have been included within the primary financial instruments issued to finance the Group's operations at a fair value of £1,659 2m (2011 £1,321 6m), which is the redemption value of those borrowings

The difference between the gross value of loans as disclosed above and net borrowings as disclosed in notes 12 and 13 reflect the unamortised element of the debt arrangement fees and issue discount of £21 3m (2011 £19 7m) and the liability for index-linked swap contracts of £78 2m (2011 £53 5m)

(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 14(f)) Of these losses £616 3m (2011 £529 2m) 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 2011	(582.7)
Movement in fair value	(111 8)
At 31 March 2012	(694 5)
Of which:	
Losses not expected to be included in 2012/13 or later years	(616 3)
	(616 3)

The difference between the total losses and the losses not expected to be included in 2012/13 or later years is the amount accrued in the financial statements of £78 2m (2011 £53 5m) (note 12(a)) in respect of liability for index-linked swap contracts

Notes to the financial statements

16. Capital commitments

Group

	2012 £m	2011 £m
Contracted for but not provided in the financial statements	**6 9**	8 0

In order to meet regulatory and service standards, the Group 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)

Company
The Company had no capital commitments at 31 March 2012 or at 31 March 2011

17 Leasing commitments

Group

	Land and buildings		Others	
	2012 £m	2011 £m	**2012 £m**	2011 £m
At 31 March 2012 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 1	**0 3**	0 3
Between two and five years	**0 1**	0 1	**1 0**	0 9
After five years	**0 9**	0 8	**-**	-
	1.1	1 0	**1 3**	1 2

Company
The Company had no operating lease commitments at 31 March 2012 or at 31 March 2011

18 Provisions for liabilities and charges

Group

	Note	2012 £m	2011 £m
Insurance provision	(a)	**2 1**	2 3
Environmental and holder demolition provision	(b)	**29 0**	34 1
Onerous interest rate swap contracts provision	(c)	**14 4**	15 0
Wayleaves provision	(d)	**2 3**	2 6
Deferred taxation	(e)	**-**	-
		47 8	54 0

Company
The Company had no provisions at 31 March 2012 or at 31 March 2011

Notes to the financial statements

18. Provisions for liabilities and charges (continued)

(a) Insurance provision

	2012 £m	2011 £m
At 1 April	**2.3**	2 6
Unwinding of discount (note 4(b))	**0.1**	0 2
Utilised in the year	**(0 3)**	(0 5)
At 31 March	**2 1**	2 3

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 was, therefore, no identifiable payment date

(b) Environmental and holder demolition provision

	2012 £m	2011 £m
At 1 April	**34 1**	35 7
Unwinding of discount (note 4(b))	**2 5**	2 5
Increase in provision in year	**4 0**	-
Release in the year	**(4 0)**	(1 8)
Utilised in the year	**(7.6)**	(2 3)
At 31 March	**29.0**	34 1

The environmental and holder demolition 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 until 2050

(c) Onerous interest rate swap contract provision

	2012 £m	2011 £m
At 1 April	**15 0**	15 6
Utilisation in the year	**(0 6)**	(0 6)
At 31 March	**14 4**	15 0

On acquisition of Wales & West Utilities Limited, the MGN Gas Networks (UK) Limited group acquired an interest rate swap contract with a notional value of £924m from the National Grid group recorded in the accounts at a negative fair value of £42 4m Contracts with a notional value of £472m have been extended to maturities ranging between November 2035 and November 2039 The provision is being amortised on a straight line basis over the contract life

(d) Wayleaves provision

	2012 £m	2011 £m
At 1 April	**2.6**	3 3
Unwinding of discount (note 4(b))	**0 2**	0 2
Utilised in the year	**(0 5)**	(0 9)
At 31 March	**2 3**	2 6

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

Notes to the financial statements

18 Provisions for liabilities and charges (continued)

(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 £44.4m (2011 £37 5m) 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 & Customs

19 Called up share capital

	2012 £m	2011 £m
Authorised		
800,000,000 Ordinary shares of £1 each	**800 0**	800 0
Allotted, called up and fully paid		
290,272,506 Ordinary shares of £1 each	**290 3**	290 3

The interests of the shareholders in the shares and loan notes of the company as at 31 March 2012 were

	Shareholding %	Share Capital £	Loan Notes £
AMP Capital Investors (MGN Gas) SARL	12 53%	36,375,000	12,125,000
CPP Investment Board European Holdings Sarl	19 54%	56,737,656	18,912,552
Codan Trust Company (Cayman) Limited	15 01%	43,575,001	14,525,000
Macquarie Global Infrastructure Fund 2 SA	5 17%	15,000,000	5,000,000
Whaley Pty Limited	3 16%	9,162,866	3,054,288
Macquarie Luxembourg Gas SARL	44 59%	129,421,983	43,140,660
	100%	290,272,506	96,757,500

The group has no controlling party as it is owned by the above consortium members

With effect from 27 January 2011 the existing £96,757,500 floating rate unsecured loan notes due 2024 issued by the Company pursuant to a Loan Note Instrument dated 14 September 2004 as amended by a Deed of Amendment dated 24 January 2011 were admitted to the Official List of the Channel Islands Stock Exchange, LBG ("the Exchange") subject to the rules of the Exchange

20 Share premium account

	Group £m	Company £m
At 31 March 2012 and 31 March 2011	-	-

21. Profit and loss account

	Group £m	Company £m
At 1 April 2011	(427 2)	203 5
(Loss)/profit for the financial year	(93 3)	26 3
Actuarial loss on pension scheme (note 28)	(20.2)	-
At 31 March 2012	(540 7)	229 8
Pension liability recorded in reserves	59.3	-
Profit and loss reserves excluding pension liability	(481 4)	229 8

Notes to the financial statements

22. Net cash inflow from operating activities

	2012 £m	2011 £m
Continuing operations		
Operating profit	**62 4**	48 0
Depreciation of tangible fixed assets	**74 7**	72 1
Amortisation of customer capital contributions	**(2.1)**	(1 3)
Amortisation of grants	**(0 1)**	(0 1)
Profit on disposal of fixed assets	**(0 3)**	(0 2)
Net increase/(decrease) in stocks	**1 7**	(2 7)
Net (increase)/decrease in debtors	**(3 2)**	1 9
Net increase in creditors	**2.6**	11 7
Difference between pension charge and cash contributions	**(12 1)**	(6 8)
Restructuring payments	**(0.7)**	-
Movements in provisions for liabilities	**(6.5)**	(5 5)
Net cash inflow from operating activities	**116 4**	117 1

23. Analysis of changes in financing in the year

	Share capital (including premium) 2012 £m	Share capital (including premium) 2011 £m	Long term loans 2012 £m	Long term loans 2011 £m
At 1 April	**290 3**	290 3	**1,300 9**	1,241 3
New loans	-	-	**40 0**	-
Bonds issued	-	-	**400.0**	-
Issue costs and discount	-	-	**(5 5)**	(0 1)
Amortisation of issue costs and discount	-	-	**3 9**	3 7
Index-linked swap accretion paid	-	-	**(39 3)**	-
Increase in index-linked swap accretion	-	-	**64 0**	50 7
Increase in index-linked bond accretion	-	-	**4.9**	5 3
Bank debt repaid	-	-	**(200.0)**	-
At 31 March	**290 3**	290 3	**1,568 9**	1,300 9

24 Analysis of changes in cash in the year

	Note	2012 £m	2011 £m
At 1 April		**14 2**	38 9
Net cash inflow/(outflow)	25	**34 2**	(24 7)
At 31 March	25	**48 4**	14 2

25. Analysis of cash and cash deposits

	Note	2012 £m	2011 £m	2012 Change in year £m	2011 Change in year £m
Cash at bank and in hand	24	**48.4**	14 2	**34 2**	(24 7)
Current asset investments – cash on short-term deposit	11	**150 0**	-	**150 0**	-
		198 4	14 2	**184 2**	(24 7)

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

	2012 £m	2011 £m
Increase/(decrease) in cash as per cash flow statement	**34 2**	(24 7)
New loans	**(40.0)**	-
Bonds issued	**(400.0)**	-
Issue costs and discount	**5 5**	0 1
Amortisation of issue costs and discount	**(3 9)**	(3 7)
Index-linked swap accretion paid	**39 3**	-
Increase in index-linked swap accretion	**(64 0)**	(50 7)
Increase in index-linked bond accretion	**(4 9)**	(5 3)
Cash transferred to short-term deposit	**150 0**	-
Bank debt repaid	**200 0**	-
Increase in net debt	**(83 8)**	(84 3)
At 1 April	**(1,286 7)**	(1202 4)
At 31 March	**(1,370 5)**	(1,286 7)

	Note	2012 £m	2011 £m
Gross debt	23	**(1,568 9)**	(1,300 9)
Current asset investments – cash on short-term deposit	11	**150 0**	-
Cash at bank and in hand	25	**48 4**	14 2
Net debt		**(1,370 5)**	(1,286 7)

27 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

28 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 2009 has been completed by Lane Clark & Peacock This valuation showed a deficit of £90 5m 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	**2012**	2011
Inflation assumption	**3 30% pa**	3 55% pa
Discount rate	**5 00% pa**	5 65% pa
Rate of increase in pensions in payment	**3 30% pa**	3 55% pa
Rate of increase in salaries	**4 05% pa**	4 30% pa
Mortality Assumptions		
Life expectancy of a male aged 60	**27**	27
Life expectancy of a male currently age 40 from age 60	**30**	30

28. Pension scheme (continued)

The assets ın the scheme (excludıng the Defıned Contrıbutıon Sectıon of the Scheme and the members' AVC funds) and the expected rates of return at 31 March 2012 were

Asset dıstrıbutıon and expected return

	2012 Expected return % pa	**2012** Fair value £m	2011 Expected return % pa	2011 Fair value £m
Equıtıes	**7 80**	**111.9**	8 35	112 5
Bonds	**3.30**	**115.3**	4 35	84 5
Property	**5.80**	**14 5**	6 35	13 8
Dıversıfıed Growth Fund	**6.80**	**53.7**	7 35	47 4
Cash	**0 50**	**1.6**	0 50	1 5
Total market value of assets		**297.0**		259 7

The expected long term rate of return on net assets have been derıved so as to be consıstent wıth market yıelds at the accountıng date and prevıous years accountıng dısclosures

Equıtıes – As at 31 March 2012 ıt ıs assumed that equıtıes wıll return 4 5% above the return on long duratıon Government bonds

Property – As at 31 March 2012 ıt ıs assumed that property wıll achıeve a return of 2 0% below the return on equıtıes

Government Bonds – As at 31 March 2012 ıt ıs assumed that Government bonds wıll achıeve a return ın lıne wıth the annualısed gross redemptıon yıeld on UK Gılts all stocks 15 year ındex

Dıversıfıed Growth Fund – As at 31 March 2012 ıt ıs assumed that the dıversıfıed growth fund wıll achıeve a return of 1 0% below the return on equıtıes

Cash – As at 31 March 2012 ıt ıs assumed that cash wıll achıeve a return equal to the Bank of England Base Rate

The followıng amounts at 31 March 2012 were measured ın accordance wıth the requırements of FRS17

Balance sheet

	2012 £m	2011 £m
Total faır value of assets	**297 0**	259 7
FRS17 value of lıabılıtıes	**(329 1)**	(285 3)
Defıcıt ın the scheme	**(32.1)**	(25 6)

The scheme ıs represented on the balance sheet at 31 March 2012 as a lıabılıty under FRS17 whıch amounts to £32 1m (2011 £25 6m)

Over the year to 31 March 2012, contrıbutıons by the Group of £20 4m (2011 £15 8m) were made ın respect of members of the defıned benefıt sectıon In addıtıon, £0 6m (2011 £0 6m) has been set asıde by the Group outsıde of the Scheme durıng the year ın order to meet the Scheme's expenses At 31 March 2012 £0 6m (2011 £0 6m) was accrued ın respect of contrıbutıons due to the defıned benefıt sectıon

A deferred tax asset ın respect of the pensıon defıcıt wıth a tax value of £7 7m (2011 £6 7m) has not been recognısed as there ıs suffıcıent evıdence that the asset wıll be recoverable

Notes to the financial statements

28 Pension scheme (continued)

It has been agreed that the ongoing employer contribution for the next three years will be at a rate of 37 7% (2011 36 7%) of pensionable salary plus an allowance for expenses In addition, the Group has agreed to a 15 year deficit recovery plan with contributions of £14 4m for the year ending 31 March 2013, £10 1m per annum for the three years ending 31 March 2016, £12 5m per annum until 31 March 2020 and £3 3m per annum until 31 March 2024

The following amounts have been recognised in the performance statements in the year to 31 March 2012 under the requirements of FRS17

Profit and loss account	**2012 £m**	2011 £m
Analysis of amounts charged to operating costs		
Current service cost (employer's part only)	**8 3**	9 0
Total operating charge	**8 3**	9 0
Analysis of amounts charged to other finance costs		
Expected return on pension scheme assets	**17 9**	17 1
Interest on post retirement liabilities	**(16.3)**	(17 3)
Net income/(cost) to finance charges	**1.6**	(0 2)

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 under FRS17

	2012 £m	2011 £m
Actual return less expected return on scheme assets	2 8	(0 6)
Experience gains and (losses) on obligations	0 4	0 4
Changes in assumptions underlying the present value of the obligation	(23 4)	32 1
Actuarial (loss)/gain recognised in the Statement of total recognised gains and losses	**(20 2)**	31 9
Cumulative actuarial loss recognised in the Statement of total recognised gains and losses	**(59 3)**	(39 1)

Notes to the financial statements

28. Pension scheme (continued)

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

	2012 £m	2011 £m
Opening defined benefit obligations	**285.3**	295 3
Current service cost	**8 3**	9 0
Interest cost	**16 3**	17 3
Employee contributions	**0 7**	0 7
Benefits paid	**(4.5)**	(4 5)
Actuarial loss/(gain)	**23 0**	(32 5)
Closing defined benefit obligations	**329.1**	285 3

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

	2012 £m	2011 £m
Opening fair value of Scheme assets	**259 7**	231 2
Expected return on assets	**17 9**	17 1
Employer contributions	**20 4**	15 8
Employee contributions	**0.7**	0 7
Benefits paid	**(4.5)**	(4 5)
Actual less expected return on assets	**2 8**	(0 6)
Closing fair value of Scheme assets	**297.0**	259 7

Amounts for the five years ended 31 March 2012 are as follows

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Defined benefit obligations	**(329.1)**	(285 3)	(295 3)	(201 1)	(224 2)
Total assets	**297 0**	259 7	231 2	162 1	194 0
Deficit	**(32.1)**	(25 6)	(64 1)	(39 0)	(30 2)
Experience adjustments on the obligation	**0 4**	0 4	13 3	-	-
Experience adjustments on Scheme assets	**2 8**	(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 3m (2011 £1 1m) during the year in respect of defined contribution members

29 Post balance sheet event

On 31 May 2012 the Board of Directors approved the payment of a final dividend in respect of the year ending 31 March 2012 of 5 64 pence per £1 ordinary share, totalling £16 4m, which has not been provided for as a liability at 31 March 2012

Notes to the financial statements

30 Related party transactions

(a) Gas purchases

Under its licence condition, the Group 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"), a company who hold an indirect interest in MGN Gas Networks (UK) Limited, 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 £8 9m (2011 £7 4m) in respect of the year and included £0 1m (2011 £0 1m) of commission paid to MBL

(b) Xoserve Limited

The Group owns 10% (2011 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 7m (2011 £3 8m) in respect of the year, of which £0 6m (2011 £0 7m) 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, a company who hold an indirect interest in MGN Gas Networks (UK) 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 group was £10 8m (2011 £9 6m) for the year ended 31 March 2012

(d) Arqiva Limited

The Group received telemetry services from Arqiva Limited ("Arqiva") Arqiva is owned by a number of investors including Macquarie Bank Limited, CPP Investment Board European Holdings Sarl and Codan Trust Company (Cayman) Limited, who also hold an interest in MGN Gas Networks (UK) Limited These services are received on normal commercial terms The cost to the Group in respect of these services from Arqiva was £0 7m (2011 £0 2m) for the year ended 31 March 2012

(f) Onstream Limited

The Group received meter asset management services from Onstream Limited ("Onstream") Onstream was acquired by Macquarie Bank Limited, a company who hold an indirect interest in MGN Gas Networks (UK) Limited, in October 2011 These services are received on normal commercial terms The cost to the Group in respect of these services from Onstream was £0 3m for the period from October 2011 to 31 March 2012

(e) Loan interest and dividend payments

The investors in the Company (as set out in note 19) have received interest income in relation to loan notes which the Company has issued to them

Interest of £7 1m (2011 £7 7m) was payable to investors during the year to 31 March 2012

During the year a final dividend in respect of the year ended 31 March 2011 of 4 75 pence (net) per ordinary £1 share, totalling £13 8m and an interim dividend in respect of the year to 31 March 2012 of 5 64 pence (net) per ordinary £1 share, totalling £16 4m (2011 £8 6m) was paid to investors

On 31 May 2012 the Board of Directors approved the payment of a final dividend in respect of the year ending 31 March 2012 of 5 64 pence per £1 ordinary share, totalling £16 4m, which has not been provided for as a liability at 31 March 2012