

MGN Gas Networks (UK) Limited

Registered number 5095454

Directors' Report and Financial Statements 5 April 2004 to 31 March 2005



MGN Gas Networks (UK) Limited

Financial Report

Period from 5 April 2004 to 31 March 2005

Table of Contents

General Information	3
Directors' Report	4
Independent Auditors' report to the members of MGN Gas Networks (UK) Limited	6
Consolidated Profit and Loss Account.....	7
Consolidated Balance Sheet as at 31 March 2005	8
Company Balance Sheet as at 31 March 2005	9
Consolidated Cashflow Statement as at 31 March 2005	10
Notes to the financial statements for the period from 5 April 2004 to 31 March 2005	11
1. Principal accounting policies.....	11
2. Segmental reporting	11
3. Loss on ordinary activities before taxation.....	12
4. Net interest payable and similar charges.....	12
5. Directors and employees	12
6. Taxation.....	13
7. Tangible fixed assets	13
8. Tangible fixed asset investments.....	14
9. Debtors	14
10. Creditors: amounts falling due within one year	14
11. Creditors: amounts falling due after more than one year	15
12. Called up share capital	15
13. Profit and loss account	15
14. Reconciliation of movements in shareholders' funds	16
15. Commitments	16
16. Reconciliation of operating loss to operating cash flows	16
17. Analysis of net funds	16
18. Analysis of movement in Group net cash	17
19. Post balance sheet events.....	17
20. Related party transactions	17
21. Ultimate controlling parties	17
22. Principal place of business	17

MGN Gas Networks (UK) Limited

Period from 5 April 2004 to 31 March 2005

General Information

Directors:

Peregrine Secretarial Services Limited	appointed 9 June 2004	resigned 6 August 2004
Jim Craig	appointed 24 June 2004	
Howard Higgins	appointed 24 June 2004	resigned 3 September 2004
Bruno Guilmette	appointed 24 June 2004	resigned 6 August 2004
Graeme Bevans	appointed 27 August 2004	
Wayne Leamon	appointed 27 August 2004	
Lord Angus MacDonald	appointed 27 August 2004	resigned 1 November 2004
Stephen Box	appointed 13 October 2004	
James Dickson (alternate Director)	appointed 13 October 2004	
Ross Sayers	appointed 13 October 2004	
Duncan Whyte	appointed 23 November 2004	
Howard Higgins (alternate Director)	appointed 23 November 2004	
Philip Garling	appointed 23 February 2005	
Richard Howes (alternate Director)	appointed 21 April 2005	resigned 19 September 2005
Stephen Bickerton (alternate Director)	appointed 20 September 2005	

Secretary:

Swift Incorporations Limited	appointed 5 April 2004	resigned 5 April 2004
Office Organization & Services Limited	appointed 5 April 2004	resigned 24 June 2004
Alex Campbell	appointed 24 June 2004	
Suzanne Morgan	appointed 24 June 2004	resigned 21 July 2005

Registered Office:

Level 30
CityPoint
1 Ropemaker Street
London EC2Y 9HD

Auditors:

PricewaterhouseCoopers LLP
1 Kingsway
Cardiff
CF10 3PW

Company number:

5095454

MGN Gas Networks (UK) Limited

Financial Report

Statement of Directors' Responsibilities - Period from 5 April 2004 to 31 March 2005

Directors' Report

The directors present their first annual report and the audited financial statements of MGN Gas Networks (UK) Limited ("the Company") and its subsidiaries (together the "Group") for the period from 5 April 2004 to 31 March 2005 ("the period").

■ ***Principal activities and review of the business***

The Company was incorporated in England and Wales on 5 April 2004 as Precis (2426) Limited and changed its name to MGN Gas Networks (UK) Limited on 9 June 2004.

The principal activity of the Company is to act as a parent holding company and assist in the provision of financing for the acquisition of Wales & West Utilities Limited ("WWU"). The results for the period from 5 April 2004 to 31 March 2005 are summarised in the profit and loss account on page 7.

The Company does not envisage any further changes in activity for the foreseeable future. In the opinion of the Directors there were no other significant developments within the Company that occurred during the financial period under review.

On 31 August 2004, an indirect subsidiary of the Company, MGN Gas Networks (Senior Finance) Limited, won the right to acquire 100% of the operating business of WWU. Completion of the sale process required the consent of the Office of Gas and Electricity Markets (Ofgem), the Health and Safety Executive and the Secretary of State for Trade and Industry. On 1 June 2005, MGN Gas Networks (Senior Finance) Limited completed the acquisition of WWU for a total consideration of £1,227,000,000, comprising both debt and equity. In addition, a final purchase price increase of £21,804,000, as defined under the Option deed, was agreed between the seller and MGN Gas Networks (Senior Finance) Limited. Further commentary in relation to the acquisition of WWU can be found under post balance sheet events in note 19 on page 17.

On 1 June 2005 the issued share capital of the Company was increased to 290,272,506 ordinary shares of £1 each.

■ ***Results and Dividends***

The Group's loss on ordinary activities before taxation for the period from 5 April 2004 to 31 March 2005 was £653,000. No dividend is proposed.

■ ***Directors and their interests***

The directors holding office in the Period are listed on page 3.

None of the directors had an interest in any material contract with the Company during the period. None of the directors held interests in shares of the Company during the period.

■ ***Auditors***

PricewaterhouseCoopers LLP were appointed as auditors on 7 February 2005.

Pursuant to Section 386 of the Companies Act 1985, an elective resolution was passed on 24 June 2004 resolving that the Company dispense with the requirement to appoint auditors annually.

■ ***Statement of Directors' Responsibilities***

The directors are required by the Companies Act 1985 to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial period and of the profit or loss for the financial period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable 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 and Group will continue in business.

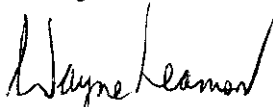
MGN Gas Networks (UK) Limited

Financial Report

Statement of Directors' Responsibilities - Period from 5 April 2004 to 31 March 2005

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Approved by the board of directors
and signed on behalf of the board



Wayne Leamon
Director
18 November 2005

Level 30
CityPoint
1 Ropemaker Street
London EC2Y 9HD

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

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the cashflow statement and the related notes.

■ Respective responsibilities of directors and auditors

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

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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

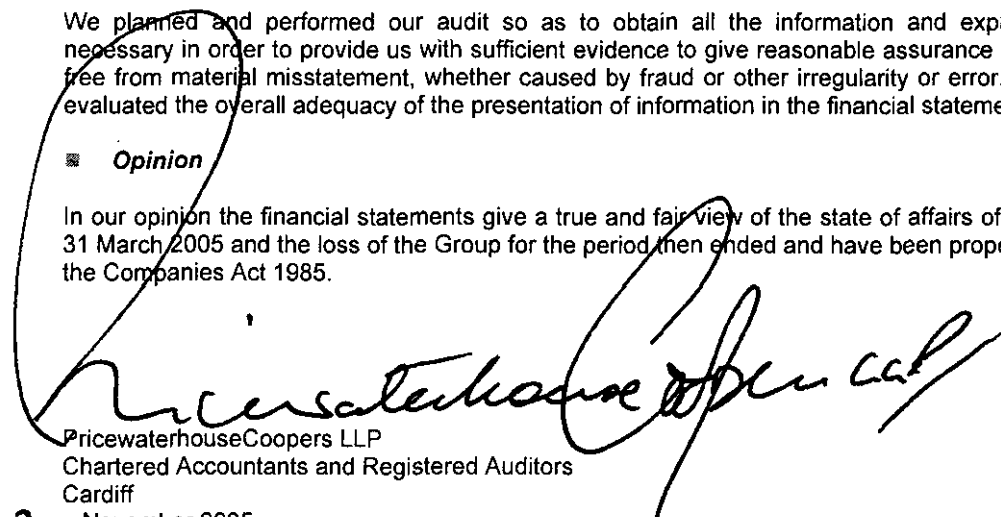
■ Basis of audit opinion

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

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

■ Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 March 2005 and the loss of the Group for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Cardiff

24 November 2005

MGN Gas Networks (UK) Limited

Financial Report

Period from 5 April 2004 to 31 March 2005

Consolidated Profit and Loss Account For the period 5 April 2004 to 31 March 2005

	Note	5 April 2004 to 31 March 2005
		£'000
Operating costs		(105)
Operating loss	3	(105)
Net interest payable and similar charges	4	(548)
Loss on ordinary activities before taxation		(653)
Taxation on ordinary activities	6	-
Loss on ordinary activities after taxation		(653)
Retained loss carried forward	13	(653)

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

The Group has no recognised gains or losses other than the loss shown above and therefore no separate statement of total Group recognised gains and losses has been presented.

All activities are continuing.

The notes on pages 11 to 17 form part of these financial statements.

MGN Gas Networks (UK) Limited**Financial Report**

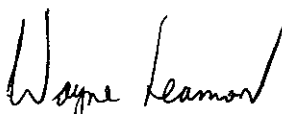
Period from 5 April 2004 to 31 March 2005

Consolidated Balance Sheet as at 31 March 2005

	Note	31 March 2005
		£'000
Fixed assets		
Tangible fixed assets	7	5,399
		<u>5,399</u>
Current Assets		
Debtors	9	1,675
Cash at bank		15,130
		<u>16,805</u>
Creditors: amounts falling due within one year	10	(2,857)
		<u>13,948</u>
Net current assets		
		<u>19,347</u>
Total assets less current liabilities		
		<u>19,347</u>
Creditors: Amounts falling due after more than one year	11	(5,000)
		<u>14,347</u>
Net assets		
		<u>14,347</u>
Capital and reserves		
Called up share capital	12	15,000
Profit and loss account	13	(653)
Equity shareholders' funds	14	<u>14,347</u>

The notes on pages 11 to 17 form part of these financial statements.

The financial statements were approved by the board of directors on 18 November 2005 and were signed on its behalf by:



Wayne Leamon
Director
18 November 2005

MGN Gas Networks (UK) Limited

Financial Report

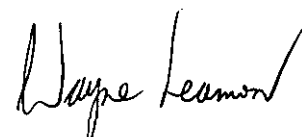
Period from 5 April 2004 to 31 March 2005

Company Balance Sheet as at 31 March 2005

	Note	31 March 2005
		£'000
Fixed assets		
Investments	8	-
		-
Current Assets		
Debtors: amounts falling due after more than one year	9	7,113
Cash at bank		15,130
		22,243
Creditors: amounts falling due within one year	10	(1,792)
Net current assets		20,451
Total assets less current liabilities		20,451
Creditors: Amounts falling due after more than one year	11	(5,000)
Net assets		15,451
Capital and reserves		
Called up share capital	12	15,000
Profit and loss account	13	451
Equity shareholders' funds	14	15,451

The notes on pages 11 to 17 form part of these financial statements.

The financial statements were approved by the board of directors on 18 November 2005 and were signed on its behalf by:



Wayne Leamon
Director
18 November 2005

MGN Gas Networks (UK) Limited

Financial Report

Period from 5 April 2004 to 31 March 2005

Consolidated Cashflow Statement as at 31 March 2005

	Note	2005 £'000
Net cash outflow from operating activities	16	(1,077)
		<u>(1,077)</u>
Returns on Investments and servicing of finance		
Interest received		456
Net cash inflow from returns on investments and servicing of finance		<u>456</u>
Capital expenditure and financial investment		
Purchase of tangible fixed assets		(4,249)
Net cash outflow from capital expenditure and financial investment		<u>(4,249)</u>
Cash outflow before financing		<u>(4,870)</u>
Financing		
Issue of ordinary share capital		15,000
Receipt of other loans		5,000
Net cash inflow from financing		<u>20,000</u>
Increase in cash in the year		<u>15,130</u>

MGN Gas Networks (UK) Limited

Financial Report

Period from 5 April 2004 to 31 March 2005

Notes to the financial statements for the period from 5 April 2004 to 31 March 2005

1. Principal accounting policies

The following accounting policies have been applied in dealing with items which are considered material in relation to the Company and Group's financial statements.

(a) Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the *historical cost accounting rules*. The Directors are satisfied that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason they adopt the going concern basis in preparing the financial statements.

(b) Tangible fixed assets and depreciation

(i) Assets in the course of construction

Costs that are directly attributable to capital projects, which remain under construction as at financial period end, are capitalised in the financial statements as fixed assets. Assets in the course of construction will be depreciated from the time they are brought into use.

(II) Capitalisation of overhead costs

Overhead costs directly attributable to capital projects are capitalised in the financial statements as part of the cost of the assets to which they relate.

(c) Tangible asset investments

Investments are recorded at cost. Where the directors are of the opinion that there has been a permanent diminution in the value of investments, the carrying amount of such investments is written down to the recoverable amount.

(d) Deferred taxation

Deferred tax is provided in respect of the material tax effect of all timing differences between the treatment of certain items for taxation and accounting purposes, at the rates of tax expected to apply when the timing differences reverse. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

2. Segmental reporting

All expenses of the Company and the Group are wholly generated within the United Kingdom. All expenses of the Company are incurred as part of the Company's role as a holding company.

MGN Gas Networks (UK) Limited

Financial Report

Period from 5 April 2004 to 31 March 2005

3. Loss on ordinary activities before taxation

Group
5 April 2004 to
31 March 2005

£'000

Loss on ordinary activities before taxation is arrived at after charging:

Wages and salaries	85
Auditors remuneration:	
Audit Services - Company	5
Audit Services - Subsidiaries	15
Other services	-

4. Net interest payable and similar charges

Group
5 April 2004 to
31 March 2005

£'000

Loan facility charges	1,004
Less: Interest income	(456)
Net interest payable and similar charges	548

5. Directors and employees

The average monthly number of persons, including salaried directors, employed by the Group during the period was:

Group	5 April 2004 to 31 March 2005 £'000
Management and administration	4
	4

The aggregate payroll costs of these persons were as follows:

5 April 2004 to
31 March 2005
£'000

Wages and salaries	85
	85

MGN Gas Networks (UK) Limited

Financial Report

Period from 5 April 2004 to 31 March 2005

5. Directors and employees (continued)

The Company had no employees during the period of account. None of the directors of the Company received remuneration in their capacity as directors of the Company.

6. Taxation

(a) Factors affecting tax charge for the period

The taxation charge for the period ended 31 March 2005 is explained below:

	Group 5 April 2004 to 31 March 2005 £'000
Loss on ordinary activities before taxation	(653)
Loss on ordinary activities before taxation multiplied by standard rate of corporation tax of 30%	(196)
Effect of tax losses	196
Current tax charge for period	-

7. Tangible fixed assets

Group	Plant and Equipment Period Ended 31 March 2005 £'000	Furniture and Fittings Period Ended 31 March 2005 £'000	Total Period Ended 31 March 2005 £'000
Cost			
On incorporation	-	-	-
Additions	5,330	69	5,399
At 31 March 2005	5,330	69	5,399
Net book value at 31 March 2005	5,330	69	5,399
Including:			
Assets in the course of construction	5,330	69	5,399

MGN Gas Networks (UK) Limited

Financial Report

Period from 5 April 2004 to 31 March 2005

8. Investments

Principal subsidiary companies:

Company name	Type of shares	Proportion of shares and voting rights	Nature
MGN Gas Networks (Junior Finance) Limited	Ordinary shares	100%	Holding company
MGN Gas Networks (Senior Finance) Limited*	Ordinary shares	100%	Holding company

All subsidiary companies are incorporated in Great Britain and registered in England and Wales.

* Held indirectly as a subsidiary of MGN Gas Networks (Junior Finance) Limited

On 9 June 2004, the Company purchased MGN Gas Networks (Junior Finance) Limited for a total consideration of £2. At 31 March 2005, the cost of investment in MGN Gas Networks (Junior Finance) Limited is £2.

9. Debtors

	Group Period Ended 31 March 2005 £'000	Company Period Ended 31 March 2005 £'000
Amounts falling due within one year:		
Prepayments	1,182	-
Other debtors	493	-
	<u>1,675</u>	<u>-</u>
Amounts falling due after one year:		
Amounts due from subsidiary undertakings	-	7,113
	<u>-</u>	<u>7,113</u>
Total debtors	<u>1,675</u>	<u>7,113</u>

Amounts due from subsidiary undertakings of £7,113,000 do not bear interest and have no fixed repayment term.

10. Creditors: amounts falling due within one year

	Group Period Ended 31 March 2005 £'000	Company Period Ended 31 March 2005 £'000
Other creditors	1,808	1,787
Accruals and deferred income	1,049	5
	<u>2,857</u>	<u>1,792</u>

MGN Gas Networks (UK) Limited

Financial Report

Period from 5 April 2004 to 31 March 2005

11. Creditors: amounts falling due after more than one year

	Group Period Ended 31 March 2005	Company Period Ended 31 March 2005
	£'000	£'000
Amounts due to consortium investors	5,000	5,000
	<u>5,000</u>	<u>5,000</u>

Amounts due to consortium investors of £5,000,000 do not bear interest and have no fixed repayment term.

12. Called up share capital

	Group Period Ended 31 March 2005	Company Period Ended 31 March 2005
	£'000	£'000
<i>Authorised share capital</i>		
800,000,000 ordinary shares of £1	800,000	800,000
<i>Called up, allotted and fully paid</i>		
15,000,004 ordinary shares of £1 each	15,000	15,000
	<u>15,000</u>	<u>15,000</u>

The share capital during the period was issued for a cash consideration of £14,999,996.

13. Profit and loss account

	Group	Company
	£'000	£'000
On incorporation	-	-
Retained (loss)/profit for the financial period	(653)	451
At 31 March 2005	<u>(653)</u>	<u>451</u>

The Company has not presented its profit and loss account as permitted by section 230 of the Companies Act 1985. Of the Group loss after taxation, profit of £451,000 is attributable to the Company.

MGN Gas Networks (UK) Limited

Financial Report

Period from 5 April 2004 to 31 March 2005

14. Reconciliation of movements in shareholders' funds

	Group	Company
	£'000	£'000
Opening shareholders' funds on incorporation	-	-
Proceeds of ordinary shares issues for cash	15,000	15,000
(Loss)/profit for the financial period	(653)	451
Net increase in shareholders' funds	14,347	15,451
Closing shareholders' funds	14,347	15,451

15. Commitments

	Group
	£'000
The Group had the following contracted capital commitments in relation to the acquisition of Wales & West Utilities Limited (see note 19):	<u>1,254,677</u>

16. Reconciliation of operating loss to operating cash flows

Group	Period Ended 31 March 2005
	£'000
Operating loss before exceptional items	(105)
(Increase) / decrease in debtors	(1,675)
(Decrease) / increase in creditors	2,857
Net cash inflow from operating activities	<u>1,077</u>

17. Analysis of net funds

Group	On Incorporation	Cash Flow	Exchange differences	At the end of the period
	£'000	£'000	£'000	£'000
Cash at bank	-	15,130	-	15,130
	<u>-</u>	<u>15,130</u>	<u>-</u>	<u>15,130</u>

MGN Gas Networks (UK) Limited

Financial Report

Period from 5 April 2004 to 31 March 2005

18. Analysis of movement in Group net cash

Group	On incorporation	Cashflow	Period Ended 31 March 2005
	£'000	£'000	£'000
Cash	-	15,130	15,130
Total Cash	-	15,130	15,130
Amounts due to consortium investors	-	(5,000)	(5,000)
Net borrowings	-	(5,000)	(5,000)
Net cash at the end of the period	-	10,130	10,130

19. Post balance sheet events

On 1 June 2005, the Group completed the purchase of Wales & West Utilities Limited (formerly Blackwater 2 Limited) ("WWU"). Total consideration for the acquisition totalled £1,227,000,000, comprising debt and equity funding by way of Shareholder debt and equity, and external loan facilities provided directly to WWU. In addition, a final purchase price increase of £21,804,000, as defined under the Option Deed, was also agreed between the seller and the MGN Gas Networks (Senior Finance) Limited in September 2005.

20. Related party transactions

Out of Pocket expenses

Under the Transition Services Agreement, Macquarie Investment Management (UK) Limited (a controlled entity of Macquarie Bank Limited, a consortium member as at 31 March 2005) is entitled to recover reasonable out of pocket expenses in relation to the expenditure incurred by its employees during the transition period. During the period to 31 March 2005, Macquarie Investment Management (UK) Limited, invoiced MGN Gas Networks (Senior Finance) Limited £112,000 in out of pocket expenses. This has been cash settled, and no amounts remain outstanding at 31 March 2005.

21. Ultimate controlling parties

The Company and the Group is controlled by a consortium of investors. No single investor has a controlling interest in the Company and the Group.

22. Principal place of business

The principal place of business of the Company is Level 30, CityPoint, 1 Ropemaker Street, London, EC2Y 9HD.