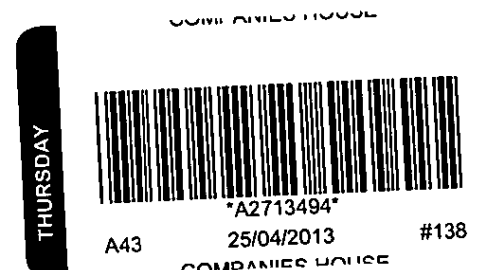


Registered No 05046791

Wales & West Utilities Limited

Directors' report and consolidated financial statements
for the nine months ended 31 December 2012



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Directors and advisors

Directors

Andrew Hunter	Chairman (R)
Graham Edwards	Chief Executive Officer (H)
Dominic Chan	(A, R, H)
Edmond Ip	
Hing Lam Kam	(R)
Duncan Macrae	(A, R, H)
Michael Pavia	(A)
Sui See Yuen	

Wendy Tong-Barnes	(Alternate Director to Hing Lam Kam)
Charles Tsai	(Alternate Director to Sui See Yuen)
Neil McGee	(Alternate Director to Dominic Chan)

(A) Member of the Audit Committee of Wales & West Utilities Limited

(R) Member of the Remuneration Committee

(H) Member of the Health & Safety Committee

Company secretary and registered office

Christopher John Talbot
Wales & West House, Spooner Close, Celtic Springs, Coedkernew, Newport, NP10 8FZ

Independent auditors

Deloitte LLP
Chartered Accountants and Statutory Auditors
Cardiff, United Kingdom

Principal bankers

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

Report of the directors

The directors have pleasure in presenting the eighth report to the shareholders of the Wales & West Utilities Limited group ("the Group"), together with the audited consolidated financial statements for the nine month period ended 31 December 2012 as presented on pages 15 to 45

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.

Following a change in the ownership of the ultimate parent company, Wales & West Gas Networks (Holdings) Limited (formerly MGN Gas Networks (Holdings) Limited) on 10 October 2012

- the financial year end of the Company was changed from 31 March to 31 December and consequently these accounts are drawn up for the nine months ended 31 December 2012, and
- Deloitte LLP were appointed statutory auditors to the Company and the Group commencing with the statutory audit of the financial statements for the nine months ended 31 December 2012

Results and operating performance

The consolidated loss on ordinary activities before taxation for the nine months ended 31 December 2012 amounted to £87.4m (year ended 31 March 2012: loss of £127.2m). The consolidated loss attributable to shareholders amounted to £79.7m (year ended 31 March 2012: £119.5m).

The results of the Group for the nine months ended 31 December 2012 are set out in the consolidated profit and loss account on page 15.

Wales & West Utilities Limited ("the Company") replaced 292kms 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 £57.4m (year ended 31 March 2012: 455kms at a cost of £81.5m). 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 £12.6m (year ended 31 March 2012: £15.8m) 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 nine months ended 31 December 2012, the Company invested £56.2m (year ended 31 March 2012: £67.2m), against which consumers contributed £5.9m (year ended 31 March 2012: £9.5m), on expanding and improving the gas distribution network.

Organisational restructure

An organisational restructure was undertaken between October and December 2012 to allow realignment of core activities with the aim of improving the efficiency and effectiveness of the organisation. The cost is expected to be £16.0m and payments are expected to be incurred in the first quarter of the year ended 31 December 2013. The restructure will result in a manpower reduction of 139 people which has been achieved through a voluntary redundancy programme. The new organisational structure was effective from 1 January 2013 with employees placed on gardening leave where possible prior to a leaving date of 31 March 2013.

Report of the directors (continued)

Financing

At 31 December 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	5.0%	A	4 November 2011	2038

* Legal maturity of the bond is 2036, however, the bond can be redeemed at the Group's sole option in 2018. If not redeemed in December 2018, the coupon for the bond increases to 3 month LIBOR + 9.4%.

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

The cumulative net proceeds of the issue of these bonds, of £1,347.5m, were lent by WWUF to the Company to repay its existing financing and to fund further capital investment.

Business review

The Group's operating performance over the past nine months 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 1,647 (year ended 31 March 2012: 2,161) complaints in the nine months ended 31 December 2012. The definition of a complaint is in line with The Gas and Electricity (Consumer Complaint Handling Standards) Regulations.

There were five lost time injuries ("LTIs") (year ended 31 March 2012: seven) to direct and contract labour during the nine months ended 31 December 2012. Three LTIs were sustained through direct labour, two of which related to road traffic incidents (year ended 31 March 2012: one, a road traffic incident) and two through our contract partners (year ended 31 March 2012: six, including three in relation to the Contractor on a LTS replacement project in North Wales).

In addition to meeting all operational standards for the period the Group also continued to work to improve operational efficiency.

History and development

The Company is a regulated gas transportation business owning and operating the principal gas distribution network in Wales and the South West of England consisting of some 32,400 kilometres of mains pipeline and a further 2,400 kilometres of Local Transmission Pipeline. The Company operates under a Gas Transporter's Licence granted by the Gas and Electricity Markets Authority and is responsible for the safety, development, maintenance and daily operation of the gas distribution network which it owns. Gas is transported on behalf of approximately 30 gas shippers through the Company's distribution pipelines to around 2.5 million consumers.

The Company is a privately owned company. Details of the immediate and ultimate parent companies are set out in note 27 to the financial statements.

Report of the directors (continued)

Business environment

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

The Company operates 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 the Company's operation and the Company has contractual arrangements in place with them to ensure the safe passage of gas to their networks.

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

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

Regulatory environment

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

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

The Company is also regulated by the Health and Safety Executive.

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

The five year price control to which the Company is subject ends on 31 March 2013. This is replaced by an eight year control which commences on 1 April 2013 under Ofgem's new RIIO (Revenue = Incentives, Innovation and Outputs) principles. The Company submitted to Ofgem its proposed business plan and funding requirements. Ofgem issued allowances for the next price control period in the Final Proposals in December 2012, which the Company has accepted.

WWU submits Consolidated Regulatory Accounts, specified annual returns and a regulatory reporting pack to Ofgem annually, by the end of July following the 31 March regulatory year end.

In October 2010 the Company informed Ofgem of four recording errors relating to its mains replacement programme for the years 2005/6, 2006/7 and 2008/9. 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 the Company informed Ofgem that it had, in aggregate, claimed incorrectly for 11kms of mains abandonment in that period, during which the Company had, overall, abandoned approximately 1,220kms of mains. The mis-recorded length is therefore approximately 0.1% of the reported mains abandoned during that period. WWU agreed a settlement with Ofgem. On 6 July 2012 Ofgem published its intention to fine WWU £0.375m for breaches of licence, a provision was included in the 31 March 2012 financial statements in respect of the anticipated liability. Ofgem published its decision and confirmed the penalty of £0.375m on 17 October 2012, which was subsequently paid on 26 November 2012 and the matter closed.

Report of the directors (continued)

Key performance measures

The Group uses a number of key measures of operational and financial performance to plan and monitor its business activities. These measures 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 and 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,
- the achievement of capital and replacement programme targets and cost efficiency, and
- the reliability of the gas distribution network and other customer facing quality of service measures

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

Operational reliability is a core measure of the Group's success, and it is fundamental to the Group's relationships with Ofgem and the public. Reliability of the gas distribution network is monitored in a number of ways, including the number and duration of interruptions to consumers' gas supplies. The Group is required by Ofgem to meet a number of different service targets ("Overall Standards"), including attendance at gas escapes, notifying consumers in advance of planned interruptions and responding to complaints. The Company's licence also requires it to meet certain service targets for connections. Performance against these standards is reported to senior management every month and is reportable to Ofgem on a quarterly basis. Compensation payments are made to consumers under the Gas (Standards of Performance) Regulations 2005, in the regrettable event that certain service standards are not met. Compensation payments for the nine months ended 31 December 2012 amounted to £0.1m (year ended 31 March 2012: £0.2m).

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

All regulatory standards of performance were achieved in the nine months to 31 December 2012 and the year ended 31 March 2012.

Key operational performance measures were,

		Nine months ended 31 December 2012	Year ended 31 March 2012	Year ended 31 March 2011	Year ended 31 March 2010
Responding to gas escapes	Target				
1 hour target for uncontrolled escapes	97.0%	98.4%	98.6%	98.5%	97.6%
2 hour target for controlled escapes	97.0%	99.6%	99.6%	99.4%	99.1%
Standards of performance					
Issuing quotations	90.0%	99.2%	99.1%	99.2%	99.1%
Offer dates for work start and finish	90.0%	99.9%	99.9%	99.9%	99.9%
Jobs completed on agreed dates	90.0%	95.0%	95.2%	94.3%	95.9%
Responding to complaints	90.0%	99.7%	99.3%	99.1%	99.4%
Customer complaints					
Number of complaints		1,647	2,161	720	513
Number of jobs undertaken		98,955	150,000	157,192	161,930
Percentage complaints		1.6%	1.4%	0.4%	0.3%
Reported complaints					
Ombudsman service		-	-	2	3

Report of the directors (continued)

Key performance measures (continued)

Reported complaints are in line with The Gas and Electricity (Consumer Complaint Handling Standards) Regulations

Key financial performance measures of the Group were

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

	Nine months ended 31 December 2012 £m	Year ended 31 March 2012 £m	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m
Turnover	277.0	350.9	312.8	314.1
Operating costs	(102.2)	(116.6)	(114.2)	(112.7)
Operating profit before replacement expenditure, exceptional items and depreciation	174.8	234.3	198.6	201.4
Operating cashflows	60.7	116.3	117.1	114.7

Health, safety and environment

Safety

The Company's objective is to achieve zero work-related injuries, zero work-related ill health and zero injuries to the public. During the nine months ended 31 December 2012, there were five (direct labour three, two of which were road traffic incidents, contract labour two) (year ended 31 March 2012 direct labour one, a road traffic incident, contract labour six) LTI's between direct and contract labour, giving a 12 month frequency rate of 0.03 LTI's/100,000 hours worked (year ended 31 March 2012 0.02 LTI's/100,000 hours worked)

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

The safety challenge is significant. With a deployed work force (including contractors) of around 2,000, a multi million pound replacement programme and the Company's core role of managing the safe and secure delivery of gas, the Company meets this challenge by having a comprehensive management system designed and certified to standards such as PAS 55 and ISO 14001, with a structured risk management process at its core.

The Company 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 Company's workforce that sees clear accountability resting with line management, employees and contract partners is a key element of the Company's successful record.

Environment

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

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

Principal risks and uncertainties

The management of the business and the execution of the Company's strategy are subject to a number of risks. The 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.

Report of the directors (continued)

Principal risks and uncertainties (continued)

The key business risks facing the Company are set out below

Operational

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

Regulatory

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

Employee

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

The Group has a comprehensive approach to risk. 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 and Safety Executive.

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.

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, undertakes 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 period end processes undertaken by the Group.

Financial risk management

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

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

Commodity price risk

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

Credit risk

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

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 Company Guarantees or by way of Prepayment.

Report of the directors (continued)

Financial risk management (continued)

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% (31 March 2012 100%) which, if exceeded, allows the Company to apply sanctions

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

Liquidity and interest rate cashflow risk

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

Financial review

Basis of accounting

The financial statements present the Group's results for the nine months ended 31 December 2012 and the financial position as at 31 December 2012. They have been prepared using the accounting policies shown on pages 19 to 22, in accordance with Generally Accepted Accounting Practices in the United Kingdom

There were no changes in accounting policies adopted during the period

Segmental reporting

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

Liquidity, resources and capital expenditure

Net cash inflow from operating activities for the nine months ended 31 December 2012 amounted to £60.7m (year ended 31 March 2012 £116.3m)

Investing activities absorbed net cash of £50.5m (year ended 31 March 2012 £52.9m) and net financing costs amounted to £46.4m (year ended 31 March 2012 £74.3m)

Cash flow forecasting

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

Borrowings

Details of net borrowings are disclosed in notes 11(b) and 12 and gross borrowings in note 13. Details of the Group's approach to financial risk management are set out in the report of the directors on pages 7 and 8

Shareholder deficit

Shareholder deficit at 31 December 2012 amounted to £834.8m (31 March 2012 £738.6m) as a result of a retained loss of £79.7m for the nine months ended 31 December 2012 (year ended 31 March 2012 £119.5m) and a loss in the pension provision reserves of £16.5m (31 March 2012 £20.2m)

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

Details of the ownership of the Company are included in note 27. There were no movements in the authorised and issued share capital of the Company in the period

Dividend on ordinary shares

The directors do not recommend the payment of a dividend in respect of the period (year ended 31 March 2012 £nil)

Report of the directors (continued)

Future developments

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

Fixed assets

Freehold land and buildings are carried in the financial statements at historic cost of £7.5m (31 March 2012 £6.1m).

In the opinion of the directors there was no significant difference between the book values of property and market values at 31 December 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 Company's network was £56.2m (year ended 31 March 2012 £67.2m) offset by capital contributions of £5.9m (year ended 31 March 2012 £9.5m) and net replacement expenditure was £70.0m (year ended 31 March 2012 £97.3m) for the nine months ended 31 December 2012.

Directors

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

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

Dominic Chan	Appointed 10 October 2012	
Andrew Hunter	Appointed 10 October 2012	
Edmond Ip	Appointed 10 October 2012	
Hing Lam Kam	Appointed 10 October 2012	
Duncan Macrae	Appointed 10 October 2012	
Sui See Yuen	Appointed 10 October 2012	
Wendy Tong-Barnes	Appointed alternate director 10 October 2012	
Neil Mc Gee	Appointed alternate director 10 October 2012	
Charles Tsai	Appointed alternate director 10 October 2012	
David Rocyn Rees	Appointed 5 July 2012	Resigned 10 October 2012
Robert Verrion		Resigned 5 July 2012
Edward Beckley		Resigned 10 October 2012
Mark Braithwaite		Resigned 10 October 2012
Simon Ellis		Resigned 10 October 2012
Howard Higgins		Resigned 10 October 2012
Alan Kadic		Resigned 10 October 2012
Andreas Köttering		Resigned 10 October 2012
Manoj Mehta		Resigned 10 October 2012
Frederic Michel-Verdier		Resigned 10 October 2012
Kevin Whiteman		Resigned 9 November 2012

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 period with the Group in which any director is or was materially interested (other than service contracts).

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

Policy on the payment of creditors

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

Report of the directors (continued)

Contractual relationships

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

Employment policies

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

- a comprehensive framework of policies which are widely understood,
- appropriate investment in training and development,
- a supportive working environment, and
- employee participation and involvement in business matters

All employees have regular opportunity to discuss their individual performance and development in a focused and proactive way. The Group seeks to maximise employees potential by identifying and developing talent and skills.

A comprehensive communications programme has been developed and is led by the Executive Team and ranges from regular staff meeting and briefings to an in-house newsletter which provides 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. The Group operates an in-house Occupational Health function to ensure a continued focus on the health and well being of the Groups workforce.

Training and development

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

The Group measures success in this area through employee retention. The Group had a turnover rate of 3.6%, in the nine months ended 31 December 2012 (year to 31 March 2012 3.4%) and this compares favourably to the published Chartered Institute of Personnel and Development statistics which showed that the average in UK industry during 2012 was 12.7% (2011 12.5%).

To maintain appropriate 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, there are 4 purpose built in-house training centres for the apprentices to develop their practical and technical skills. Recruitment is undertaken on a targeted basis, ensuring that apprentices are recruited to areas of need.

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 (29% of the current workforce are expected to retire before 2021). 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 up to 4 years.

Report of the directors (continued)

Employment policies (continued)

Ensuring continuity of 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 has joined the Company via the WWU Apprenticeship Programme.

Within the last six years the Company 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.

A comprehensive review of working arrangements was undertaken in conjunction with our Trade Unions to facilitate resource matching to workload. As a result a voluntary redundancy programme was undertaken between October and December 2012 to allow realignment of core activities with the aim of improving the efficiency and effectiveness of the organisation.

Contributions for charitable and political purposes

During the nine months ended 31 December 2012, there have been no political donations (year ended 31 March 2012 £nil), and charitable donations amounted to £71,404 (year ended 31 March 2012 £152,767). Donations in excess of £2,000 were made to

	£
Marie Curie Cancer Care	2,161
Action on Hearing Loss	5,000
Lifeskills CREATE Donation Centre	5,000
Ysbyty Gwynedd	5,000
Arts & Business Services	8,500
Institute of Welsh Affairs	10,000
National Eisteddfod of Wales	15,000

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 2013 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 the Company operates, requires specific accounting statements to be published. Copies of the Consolidated Regulatory Accounts for the Group for the regulatory year ending 31 March 2013 will be available from the Company Secretary after 31 July 2013.

Qualifying indemnity

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

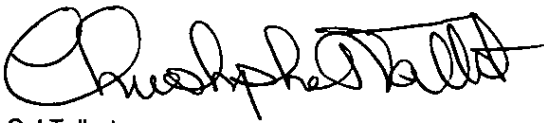
Report of the directors (continued)

Disclosure of information to auditor

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 auditor is unaware, and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Group's auditor is aware of that information

By order of the Board



C J Talbot
Company secretary
14 March 2013

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 period. 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, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

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

By order of the Board



C J Talbot
Company secretary
14 March 2013

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

We have audited the financial statements of Wales & West Utilities Limited for the nine months ended 31 December 2012 which comprise the Group profit and loss account, the Group statement of total recognised gains and losses, the Group and parent company reconciliation of movements in shareholders' deficit, the Group and parent company balance sheets, the Group cash flow statement, the principal accounting policies and the related notes 1 to 28. 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).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities, 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.

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's 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 report 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's and the parent company's affairs as at 31 December 2012 and of the Group's loss for the nine month period 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 period 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.

Nigel Thomas

Nigel Thomas (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Cardiff
15 March 2013

Consolidated profit and loss account for the nine months ended 31 December 2012

		Nine months ended 31 December 2012 £m	Year ended 31 March 2012 £m
Continuing operations	Note		
Turnover		277.0	350.9
Net operating costs	2(a)	(237.5)	(285.3)
Operating profit before replacement expenditure, exceptional items and depreciation		174.8	234.3
Replacement expenditure	2(a)	(70.0)	(97.3)
Exceptional items	2(b)	(11.0)	-
Depreciation	6	(54.3)	(71.4)
Operating profit		39.5	65.6
Operating profit	2	39.5	65.6
Income from other fixed asset investments		0.3	0.3
Interest receivable and similar income	4(a)	21.1	25.4
Interest payable and similar charges	4(b)	(148.3)	(218.5)
Loss on ordinary activities before taxation		(87.4)	(127.2)
Tax credit on loss on ordinary activities	5	7.7	7.7
Loss attributable to ordinary shareholders	19	(79.7)	(119.5)

Consolidated statement of total recognised gains and losses for the nine months ended 31 December 2012

	Nine months ended 31 December 2012 £m	Year ended 31 March 2012 £m
Loss for the financial period attributable to ordinary shareholders	(79.7)	(119.5)
Actuarial loss on pension scheme (note 26)	(16.5)	(20.2)
Total recognised gains and losses relating to the period/year	<u>(96.2)</u>	<u>(139.7)</u>

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

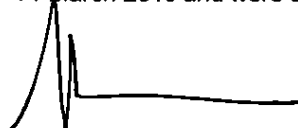
Consolidated reconciliation of movements in shareholders' deficit for the nine months ended 31 December 2012

Group and Company	Nine months ended 31 December 2012 £m	Year ended 31 March 2012 £m
Total recognised gains and losses relating to the financial period/year	(96.2)	(139.7)
Net increase in shareholders' deficit	(96.2)	(139.7)
At 1 April	(738.6)	(598.9)
At 31 December/March 2012	<u>(834.8)</u>	<u>(738.6)</u>

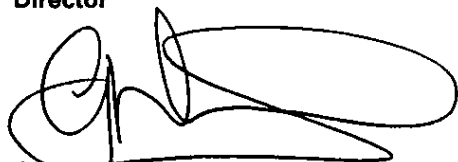
Balance sheets at 31 December 2012

	Note	Group		Company	
		31 December 2012 £m	31 March 2012 £m	31 December 2012 £m	31 March 2012 £m
Fixed assets					
Tangible assets	6	1,290.3	1,288.6	1,290.3	1,288.6
Investments	7	0.1	0.1	0.2	0.2
		<u>1,290.4</u>	<u>1,288.7</u>	<u>1,290.5</u>	<u>1,288.8</u>
Current assets					
Stocks	8	3.1	4.7	3.1	4.7
Debtors	9	47.4	44.5	47.4	44.5
Current asset investments	10	150.0	150.0	150.0	150.0
Cash at bank and in hand	23	32.6	48.4	32.6	48.4
		<u>233.1</u>	<u>247.6</u>	<u>233.1</u>	<u>247.6</u>
Current liabilities					
Creditors amounts falling due within one year	11(a)	(775.4)	(716.5)	(2,133.9)	(2,070.7)
Net current liabilities		<u>(542.3)</u>	<u>(468.9)</u>	<u>(1,900.8)</u>	<u>(1,823.1)</u>
Total assets less current liabilities		748.1	819.8	(610.3)	(534.3)
Creditors: amounts falling due after more than one year	11(b)	(1,503.5)	(1,475.9)	(145.1)	(121.8)
Provisions for liabilities and charges	17	(42.5)	(50.4)	(42.5)	(50.4)
Net liabilities before pension liability		(797.9)	(706.5)	(797.9)	(706.5)
Pension liability	26	(36.9)	(32.1)	(36.9)	(32.1)
Net liabilities including pension liability		<u>(834.8)</u>	<u>(738.6)</u>	<u>(834.8)</u>	<u>(738.6)</u>
Capital and reserves					
Called up share capital	18	30.7	30.7	30.7	30.7
Profit and loss account	19	(865.5)	(769.3)	(865.5)	(769.3)
Total shareholders' deficit		<u>(834.8)</u>	<u>(738.6)</u>	<u>(834.8)</u>	<u>(738.6)</u>

The financial statements on pages 15 to 45 were approved by the Board of Directors and authorised for issue on 14 March 2013 and were signed on its behalf by



Andrew Hunter
Director



Graham Edwards
Chief Executive Officer

Consolidated cashflow statement for the nine months ended 31 December 2012

		Nine months ended 31 December 2012 £m	Year ended 31 March 2012 £m
	Note		
Operating activities			
Net cash inflow from continuing operating activities	20	60.7	116.3
Net cash inflow from operating activities		60.7	116.3
Returns on investments and servicing of finance			
Dividends received		0.3	0.3
Interest received		24.3	22.5
Interest paid		(71.0)	(97.1)
Net cash outflow from returns on investments and servicing of finance		(46.4)	(74.3)
Taxation			
UK corporation tax received		0.4	0.1
Tax received		0.4	0.1
Investing activities			
Purchase of tangible fixed assets		(56.8)	(63.5)
Capital contributions received		5.9	9.5
Proceeds of disposal of tangible fixed assets		0.4	1.1
Net cash outflow from investing activities		(50.5)	(52.9)
Net cash outflow before financing		(35.8)	(10.8)
Financing			
Net long term loans received	21	20.0	40.0
Proceeds from issue of corporate bonds	21	-	400.0
Bond issue discount and debt costs	21	-	(5.5)
Payments in respect of interest rate swap contracts	21	-	(39.3)
Cash transferred to short-term deposit	10	-	(150.0)
Long term loans repaid	21	-	(200.0)
Net cash inflow from financing		20.0	45.2
(Decrease)/increase in cash at bank and in hand	22	(15.8)	34.4
Cash at bank and in hand	22	32.6	48.4
Cash on short-term deposit	23	150.0	150.0
Total cash and cash deposits	23	182.6	198.4

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 period.

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 and in respect of the valuation of pension assets and liabilities.

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

Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings drawn up to 31 December each year. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed. Acquisitions are accounted for under the acquisition method. They are de-consolidated from the date that control ceases.

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

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

Acquisitions and disposals

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

Related party transactions

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

Turnover

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

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

Principal accounting policies (continued)

Tangible fixed assets and depreciation

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

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

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

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

All assets are depreciated on a straight line basis.

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.

Impairment of fixed assets

Impairments of fixed assets are calculated as the difference between the carrying values of the net assets of the income generating unit and their recoverable amount. 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 cash flows discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the income generating unit, for which the estimates of future cash flows have not been adjusted.

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

Impairments are recognised in the profit and loss account.

Principal accounting policies (continued)

Leased assets

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

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

Grants, customer contributions and infrastructure charges

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

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

Investments

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

Stocks

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

Financial liabilities

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

Decommissioning and environmental costs

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

Financial instruments

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

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

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

Principal accounting policies (continued)

Pension costs

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

The increase in the net present value of the liabilities of the defined benefit scheme expected to arise from employee service in the period is charged to operating profit. The net of the expected return on the scheme's assets and the increase during the period in the present value of the scheme's 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

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements

A net deferred tax asset is regarded as recoverable and therefore recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

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 taken 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 loss after taxation for the nine month period within the financial statements of the Company was £79.7m (year ended 31 March 2012 £119.5m). The loss transferred to reserves was £79.7m (year ended 31 March 2012 £119.5m).

2. Operating profit

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

		Nine months ended 31 December 2012	Year ended 31 March 2012
	Note	£m	£m
<u>Continuing operations</u>			
Staff costs	3(b)	57.8	71.3
Own work capitalised		(15.3)	(20.7)
Depreciation Own assets	6	54.3	71.4
Less amortisation of customer contributions		(1.5)	(2.1)
Less amortised grants		(0.1)	(0.1)
Profit on disposal of fixed assets		(0.1)	(0.3)
Replacement expenditure		70.0	97.3
Rentals under operating leases			
Hire of plant and equipment		1.3	1.1
Other		0.8	1.1
Exceptional items ~ net decrease in provisions	2(b)	(5.0)	-
Exceptional items ~ restructuring costs	2(b)	16.0	-

Own work capitalised includes direct labour and ancillary costs

(b) Exceptional items

The exceptional items for the period relate to -

- i) the revision and subsequent decrease in the environmental and holder demolition provision of £7.9m and increase in the wayleaves provision of £2.9m resulting from reviews of costs incurred and the timing of work done up to the period ended 31 December 2012, giving rise to a net decrease in provisions of £5.0m (note 17)
- ii) an organisational restructure which was undertaken between October and December 2012 to allow realignment of core activities with the aim of improving the efficiency and effectiveness of the organisation. The cost is expected to be £16.0m and payments are expected to be incurred up to April 2013. The restructure will result in a manpower reduction of 139 people which has been achieved through a voluntary redundancy programme. The new organisational structure was effective from 1 January 2013 with employees placed on gardening leave where possible prior to a leaving date of 31 March 2013.

Notes to the financial statements

2. Operating profit (continued)

(c) Auditor remuneration

Services provided by the Group's auditor

During the period the Group obtained the following services from the Group's auditor

	Nine months ended 31 December 2012 £000	Year ended 31 March 2012 £000
Fees payable to the Group's auditor for the audit of parent entities and the consolidated financial statements	76 0	76 0
Fees payable to the Group's auditor and its associates for other services	9.0	9 0
The audit of the Company's subsidiaries pursuant to legislation	22 8	52 5
Other services pursuant to legislation	-	24 0
Corporate services	74 4	94 7
Tax services	182.2	256 2

	Nine months ended 31 December 2012 £000	Year ended 31 March 2012 £000
<u>Fees in respect of the pension scheme</u>		
Audit of pension scheme	-	11 5

Notes to the financial statements

3. Directors and employees

(a) Directors' emoluments and interests

Directors' emoluments

	Nine months ended 31 December 2012 £000	Year ended 31 March 2012 £000
Fees	114.2	124 6
Salary payments (including benefits in kind)	238.2	317 7
Performance related bonus (see below)	480.0	477 0
Compensation for loss of office	57.5	50 0
Pension contributions	18.0	24 0
Contributions in lieu of pension	38 3	51 0
	946.2	1,044 3

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

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

The amount disclosed in respect of the nine month period ended 31 December 2012 represents the bonus expected to be approved by the Remuneration Committee in respect of services for the nine months to 31 December 2012.

The performance bonus for the nine months ended 31 December 2012 is payable in July 2013 once approved, conditional on the director remaining in office on the payment date.

Following the acquisition of the Group on 10 October 2012 Andrew Hunter was appointed Chairman and Kevin Whiteman resigned.

No director had any interest over shares in the Company.

Highest paid director

	Nine months ended 31 December 2012 £000	Year ended 31 March 2012 £000
Salary payments (including benefits in kind)	238 2	317 7
Performance related bonus (see above)	480 0	477 0
Pension contributions	18 0	24 0
Contributions in lieu of pension	38 3	51 0
	774.5	869 7
Accrued company pension	384.2	335 4

Notes to the financial statements

3. Directors and employees (continued)

(b) Staff costs

	Nine months ended 31 December 2012 £m	Year ended 31 March 2012 £m
Wages and salaries	45.6	56.6
Social security costs	4.3	5.1
Pension costs (note 26)	7.9	9.6
	<u>57.8</u>	<u>71.3</u>

Of the above, £9.1m (year ended 31 March 2012 £13.5m) has been capitalised

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

	Nine months ended 31 December 2012 Number	Year ended 31 March 2012 Number
Regulated gas distribution activities	1,449	1,461
Other activities	2	2
	<u>1,451</u>	<u>1,463</u>

4. Interest

(a) Interest receivable and similar income

	Nine months ended 31 December 2012 £m	Year ended 31 March 2012 £m
On interest rate swaps	17.2	22.1
On current asset investments	2.6	1.3
Other interest receivable	0.6	0.4
Other finance income – net pensions (note 26)	0.7	1.6
	<u>21.1</u>	<u>25.4</u>

(b) Interest payable and similar charges

	Nine months ended 31 December 2012 £m	Year ended 31 March 2012 £m
On external debt	85.7	137.4
On group loans	58.8	74.2
Amortised issue costs and discount	1.9	3.9
On unwinding of discounts on provisions (note 17)	1.8	2.8
Other	0.1	0.2
	<u>148.3</u>	<u>218.5</u>

Interest on external debt includes a charge of £28.7m (year ended 31 March 2012 £68.9m) 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 period

	Nine months ended 31 December 2012 £m	Year ended 31 March 2012 £m
The credit for taxation is made up as follows:		
Current tax		
UK corporation tax on losses of the period	(7.7)	(7.4)
Adjustments in respect of previous periods	-	(0.3)
Total current tax (note 5(b))	(7.7)	(7.7)
Deferred tax		
Origination and reversal of timing differences	-	-
Total deferred tax	-	-
Total tax credit on loss on ordinary activities	(7.7)	(7.7)

The £6.7m (year ended 31 March 2012 £7.7m) tax credit reflects amounts due from Group undertakings in respect of balancing payments under the debt cap rules

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

The current tax assessed for the period/year is different to the standard rate of corporation tax in the UK of 24% (31 March 2012 26%). The differences are explained below

	Nine months ended 31 December 2012 £m	Year ended 31 March 2012 £m
Loss on ordinary activities before tax	(87.4)	(127.2)
Loss on ordinary activities before tax multiplied by standard rate of corporation tax in the UK of 24% (31 March 2012 26%)	(21.0)	(33.1)
Effects of:		
Prior year credit	-	(0.3)
Permanent differences	12.9	17.8
Deferred tax asset not recognised	3.2	11.3
Capital transactions	-	0.1
Short term timing differences in respect of pension scheme	(2.8)	(3.5)
Current tax credit for period (note 5(a))	(7.7)	(7.7)

A deferred tax asset has not been recognised in respect of accelerated capital allowances and tax losses with a tax value of £41.6m (31 March 2012 £40.1m) 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.

Notes to the financial statements

6. Tangible assets

Group and Company

	Freehold land and buildings £m	Leasehold land and buildings £m	Gas distribution network assets £m	Vehicles, plant and equipment £m	Assets under construction £m	Total £m
Cost or valuation						
At 1 April 2012	6.3	4.6	1,563.8	138.4	24.8	1,737.9
Additions	-	-	-	-	56.2	56.2
Disposals	-	-	-	(1.7)	-	(1.7)
Transfers in period	1.5	0.5	40.1	15.2	(57.3)	-
At 31 December 2012	7.8	5.1	1,603.9	151.9	23.7	1,792.4
Accumulated depreciation						
At 1 April 2012	0.2	1.9	365.4	81.8	-	449.3
Charge for the period	0.1	0.6	43.3	10.3	-	54.3
Disposals	-	-	-	(1.5)	-	(1.5)
At 31 December 2012	0.3	2.5	408.7	90.6	-	502.1
Net book value						
At 31 December 2012	7.5	2.6	1,195.2	61.3	23.7	1,290.3
At 31 March 2012	6.1	2.7	1,198.4	56.6	24.8	1,288.6
Analysis of net book value at 31 December 2012.						
Owned						
Cost	7.8	5.1	1,603.9	151.9	23.7	1,792.4
Accumulated Depreciation	(0.3)	(2.5)	(408.7)	(90.6)	-	(502.1)
Net book value	7.5	2.6	1,195.2	61.3	23.7	1,290.3

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 period are extrapolated using estimates. The discount rates used are pre-tax and reflect specific business risks.

Notes to the financial statements

7. Fixed asset investments

Group	Unlisted investments £m
Cost	
At 31 December 2012 and 31 March 2012	<u>0.1</u>
Amounts written off	
At 31 December 2012 and 31 March 2012	<u>-</u>
Net book value	
At 31 December 2012 and 31 March 2012	<u>0.1</u>

The unlisted fixed asset investment represents the Group's shareholding in Xoserve Limited. The Group's shareholding represents 10% (31 March 2012: 10%) of the issued share capital of Xoserve Limited.

Company	Unlisted investments £m
Cost	
At 31 December 2012 and 31 March 2012	<u>0.2</u>
Amounts written off	
At 31 December 2012 and 31 March 2012	<u>-</u>
Net book value	
At 31 December 2012 and 31 March 2012	<u>0.2</u>

An unlisted fixed asset investment of £0.1m (31 March 2012: £0.1m) represents the Company's shareholding in Xoserve Limited. The Company's shareholding represents 10% (31 March 2012: 10%) of the issued share capital of Xoserve Limited.

An unlisted fixed asset investment of £0.1m (31 March 2012: £0.1m) represents the entire issued share capital of Wales & West Utilities Finance plc comprising 50,000 shares of £1 each. West Utilities Finance plc has bonds listed on the London Stock Exchange.

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

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

8. Stocks

Group and Company

	31 December 2012 £m	31 March 2012 £m
Raw materials and consumables	<u>3.1</u>	<u>4.7</u>

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

Notes to the financial statements

9 Debtors

Group and Company

	31 December 2012 £m	31 March 2012 £m
Amounts falling due within one year.		
Trade debtors	34.8	31.9
Prepayments and accrued income	12.2	12.2
Corporation tax recoverable	0.4	0.4
	47.4	44.5

10. Current asset investments

Group and Company

	31 December 2012 £m	31 March 2012 £m
Cash held on short-term deposit	150.0	150.0
	150.0	150.0

The cash held on short-term deposit is due to mature on 27 March 2013. The cash deposits attract interest at fixed rates ranging from 2.04% to 2.38% per annum. Cash on deposit is held with four major European banks. The credit risk associated with these investments is considered to be low.

11. Creditors

	Note	Group		Company	
		31 December 2012 £m	31 March 2012 £m	31 December 2012 £m	31 March 2012 £m
(a) Other creditors falling due within one year:					
Liability for index-linked swap contracts	14(d)	104.7	78.2	104.7	78.2
Payments received on account		5.9	24.5	5.9	24.5
Trade creditors		14.0	15.1	14.0	15.1
Other taxation and social security		5.7	11.5	5.7	11.5
Other creditors		2.1	2.0	2.1	2.0
Customer capital contributions		2.2	1.6	2.2	1.3
Accruals and deferred income		85.7	60.1	59.8	41.2
Capital grant		0.1	0.1	0.1	0.1
Amounts owed to parent undertaking		555.0	523.4	555.0	523.4
Amount owed to subsidiary undertaking		-	-	1,384.4	1,373.4
		775.4	716.5	2,133.9	2,070.7
(b) Amounts falling due after more than one year:					
Borrowings	12	1,418.0	1,393.9	59.6	39.5
Trade creditors		0.6	0.6	0.6	0.6
Accruals and deferred income		0.7	0.8	0.7	0.8
Capital grant		1.0	1.2	1.0	1.2
Customer capital contributions		83.2	79.4	83.2	79.7
		1,503.5	1,475.9	145.1	121.8

Notes to the financial statements

12. Borrowings

	Group		Company	
	31 December 2012 £m	31 March 2012 £m	31 December 2012 £m	31 March 2012 £m
Repayable as follows				
In more than one year but not more than two years	59.6	-	59.6	-
In more than two years but not more than five years	197.8	236.7	-	39.5
In more than five years	1,160.6	1,157.2	-	-
	1,418.0	1,393.9	59.6	39.5

- i) At 31 December 2012 Wales & West Utilities Finance plc had in issue guaranteed bonds with a nominal value of £1,365.0m (31 March 2012 £1,365.0m) and a book value of £1,358.4m (31 March 2012 £1,354.4m). Included in the book value is £12.4m (31 March 2012 £10.2m) of accrued inflation on index linked bonds. The guaranteed bonds have 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	£247.3m
£200m	5.125%	A	2 December 2009	2016	£197.8m
£300m	5.75%	A	31 March 2010	2030	£293.3m
£100m	2.496% Index linked	A	31 March 2010	2035	£111.7m
£115m	6.75%*	B	31 March 2010	2018/2036*	£113.3m
£250m	4.625%	A	4 November 2011	2023	£247.6m
£150m	5.00%	A	4 November 2011	2028	£147.4m
£1,365m					£1,358.4m

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

- ii) As at 31 December 2012, the Company had borrowed £60.0m (31 March 2012 £40m) under its revolving credit facility which matures in December 2014, with a book value at 31 December 2012 of £59.6m (31 March 2012 £39.5m). The floating interest rates on these loans ranged from LIBOR + 0.75% to LIBOR + 3.00%.

Notes to the financial statements

13. Gross borrowings

	31 December 2012 £m	31 March 2012 £m
Gross value of other loans	1,542.1	1,493.4

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

	31 December 2012 £m	31 March 2012 £m
In one year or less, or on demand	104.7	78.2
In more than one year but not more than two years	60.0	-
In more than two years but not more than five years	200.0	240.0
In more than five years	1,177.4	1,175.2
	1,542.1	1,493.4

The difference between gross borrowings as disclosed above and net borrowings as disclosed in notes 11 and 12 reflect the unamortised element of the debt arrangement fees of £19.4m (31 March 2012 £21.3m) and the liability for index-linked swap contracts of £104.7m (31 March 2012 £78.2m)

14. Financial instruments and risk management

(a) Interest rate swaps

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

Group and Company

Index-linked swaps

As at 31 December 2012, the Group held index-linked swaps with a notional principal of £1,004.0m (31 March 2012 £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 December 2012 ranged between 0.69% and 1.71% (fixed) plus RPI (31 March 2012 0.69% and 1.71% (fixed) plus RPI). The maturity dates of these swaps range between November 2023 and November 2039 (31 March 2012 between November 2023 and November 2039).

Interest rate swaps

As at 31 December 2012, the Group held an interest rate swap with a notional principal of £40.0m (31 March 2012 £40.0m) which fixes the interest rate of floating liabilities held by the Group. The interest rate on this swap at 31 December 2012 was 5.19% (31 March 2012 5.19%). The maturity date of this swap is November 2018 (31 March 2012 November 2018).

As at 31 December 2012, the Group held further interest rate swaps with a notional principal of £234.4m (31 March 2012 £234.4m), which convert an equivalent amount of the index-linked swaps from floating to fixed. The interest rates received on these swaps at 31 December 2012 ranged between 2.91% to 4.13% (31 March 2012 2.91% to 4.13%). The maturity date of these swaps range between November 2018 and March 2030 (31 March 2012 between November 2018 and March 2030).

Notes to the financial statements

14. Financial instruments and risk management (continued)

(b) Interest rate composition of gross borrowings

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

	31 December 2012 £m	31 March 2012 £m
Fixed rate	763.9	726.6
Fixed real rate	1,104.0	1,104.0
Floating rate	105.0	85.0
Total	1,972.9	1,915.6

Borrowings with a fixed real rate comprise £100m of 2.496% index-linked bonds (31 March 2012 £100m) and £1,004.0m (31 March 2012 £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 December 2012 ranged between 0.69% and 1.71% (fixed) plus RPI (31 March 2012 0.69% and 1.71% (fixed) plus RPI). The maturity dates of these swaps range between November 2023 and November 2039 (2010 between November 2023 and November 2039).

The above analysis includes £547.9m (31 March 2012 £510.6m) of intra-group indebtedness to the immediate parent undertaking. Interest was chargeable on these loans at 15% (31 March 2012 15%) on the fixed element and LIBOR + 14% (31 March 2012 LIBOR + 14.0%) on the floating element.

The analysis excludes £117.1m (31 March 2012 £88.4m) of accrued inflation (note 14(d)). The floating rate gross borrowings include £20.0m (31 March 2012 £nil) of external bank debt with an interest charge linked to LIBOR.

(c) Interest rate profile of fixed rate borrowings

After taking account of the interest rate swaps entered into by the Group, the weighted average interest rate profile of the Group's gross borrowings at 31 December 2012, including intra-group indebtedness, together with the weighted average period for which the rate is fixed, was

Currency	Weighted average interest rate		Weighted average period for which rate is fixed	
	31 December 2012 %	31 March 2012 %	31 December 2012 Years	31 March 2012 Years
Sterling	Fixed rate	4.99	4.99	11.9
	Fixed real rate	3.27	3.27	11.5
	Intercompany fixed rate	15.00	15.00	0.3

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. The variable inflation is charged to interest payable and is accrued during the period.

Notes to the financial statements

14. Financial instruments and risk management (continued)

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

	31 December 2012 £m	31 March 2012 £m	Weighted average period until maturity 31 December 2012 Years	31 March 2012 Years
Liability for index-linked swap contracts	104.7	78.2	0.3	1.0
Liability for index-linked bonds	12.4	10.2	22.7	23.4
	117.1	88.4		

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.

Subsequent to the nine months ended 31 December 2012 an accelerated accrued inflation payment of £5.2m was paid on 31 January 2013 to ensure that the 6% accretion cap in the securitisation structure is not breached.

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

	31 December 2012 £m	31 March 2012 £m
Committed borrowing facilities available	180.0	180.0
Drawn	(60.0)	(40.0)
Undrawn committed facilities	120.0	140.0

(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 £0.4m (31 March 2012: £0.5m) of unamortised debt fees.

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

All of the guaranteed bonds are listed on the London Stock Exchange. The fair value of the guaranteed bonds has been calculated using the 31 December 2012 quoted prices.

The fair values of the derivative financial instruments fundamentally represent the change in anticipated future interest rates, to the dates of maturity of the borrowings, between the date on which those long term borrowings were raised and the period 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 period end levels.

Notes to the financial statements

14. Financial instruments and risk management (continued)

	31 December 2012	
	Book value	Fair value
	£m	£m
Primary financial instruments held or issued to finance the Group's operations		
Guaranteed bonds	(1,358.4)	(1,608.6)
Bank debt	(59.6)	(60.0)
Current asset investments – cash on short-term deposit	150.0	150.0
Cash at bank and in hand	32.6	32.6
	<u>(1,235.4)</u>	<u>(1,486.0)</u>
Derivative financial instruments held to manage the interest rate profile and matched by primary financial instruments		
Index-linked swaps	(121.2)	(647.2)
Interest rate swaps	-	(10.6)
	<u>(1,356.6)</u>	<u>(2,143.8)</u>

(f) Fair values of financial instruments (continued)

The fair value of derivative financial instruments matched to primary financial instruments relates to long term borrowings with a book value of £1,418.0m (31 March 2012 £1,393.9m) which have been included within the primary financial instruments issued to finance the Group's operations at a fair value of £1,668.6m (31 March 2012 £1,562.4m), which is the redemption value of those borrowings

The difference between net borrowings as disclosed above and gross borrowings as disclosed in note 13 reflect the unamortised element of the debt arrangement fees of £19.4m (31 March 2012 £21.3m) and the liability for index-linked swap contracts of £104.7m (31 March 2012 £78.2m)

(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 £553.1m (31 March 2012 £616.3m) 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 period end levels

	Total losses
	£m
At 1 April 2012	(694.5)
Movement in fair value	36.7
At 31 December 2012	<u>(657.8)</u>
Of which:	
Losses not expected to be included in 2013 or later years	<u>(553.1)</u>
	<u>(553.1)</u>

The difference between the total losses and the losses not expected to be included in 2013 or later years is the amount accrued in the financial statements of £104.7m (31 March 2012 £78.2m) (note 11(a)) in respect of liability for index-linked swap contracts

Notes to the financial statements

15. Capital commitments

Group and Company

	31 December 2012 £m	31 March 2012 £m
Contracted for but not provided in the financial statements	8.1	6.9

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

The determination for the five year regulatory period ending 31 March 2013 includes capital and replacement investment of £643.8m (in 2005/6 prices). The determination for the eight year regulatory commencing 1 April 2013 and ending 31 March 2021 has been agreed and includes capital and replacement investment of £1,006.0m (in 2009/10 prices)

16. Leasing commitments

At 31 December 2012 and 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

Group and company

	Land and buildings		Others	
	31 December 2012 £m	31 March 2012 £m	31 December 2012 £m	31 March 2012 £m
Within one year	0.2	0.1	0.6	0.3
Between two and five years	0.1	0.1	0.6	1.0
After five years	0.9	0.9	-	-
	1.2	1.1	1.2	1.3

17. Provisions for liabilities and charges

Group and Company

	Note	31 December 2012 £m	31 March 2012 £m
Insurance provision	(a)	2.0	2.1
Environmental and holder demolition provision	(b)	19.0	29.0
Onerous interest rate swap contracts provision	(c)	16.5	17.0
Wayleaves provision	(d)	5.0	2.3
		42.5	50.4

(a) Insurance provision Group and Company

	31 December 2012 £m	31 March 2012 £m
At 1 April	2.1	2.3
Unwinding of discount (note 4(b))	0.1	0.1
Utilised in the period	(0.2)	(0.3)
At 31 December/March	2.0	2.1

Notes to the financial statements

17. Provisions for liabilities and charges (continued)

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

(b) Environmental and holder demolition provision Group and Company

	31 December 2012 £m	31 March 2012 £m
At 1 April	29.0	34.1
Unwinding of discount (note 4(b))	1.6	2.5
Increase in the period	-	4.0
Credit for the period	(7.9)	(4.0)
Utilised in the period	(3.7)	(7.6)
At 31 December/March	19.0	29.0

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 period 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 Group and Company

	31 December 2012 £m	31 March 2012 £m
At 1 April	17.0	17.7
Utilised in the period	(0.5)	(0.7)
At 31 December/March	16.5	17.0

As part of the Group's hedging strategy, during the period ended 31 March 2006 the Group acquired from Wales & West Gas Networks (Senior Finance) Limited (formerly MGN Gas Networks (Senior Finance) Limited) an interest rate swap contract with a notional value of £924m. This contract was recorded in the financial statements of the Group at its negative fair value on transfer of £50.4m and was offset by an equivalent reduction in the amount that the Group owed Wales & West Gas Networks (Senior Finance) Limited through their intercompany account. The provision is being amortised on a straight line basis over the contract life.

(d) Wayleaves provision Group and Company

	31 December 2012 £m	31 March 2012 £m
At 1 April	2.3	2.6
Unwinding of discount (note 4(b))	0.1	0.2
Increase in the provision	2.9	-
Utilised in the period	(0.3)	(0.5)
At 31 December/March	5.0	2.3

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

Notes to the financial statements

18 Called up share capital

	31 December 2012 £	31 March 2012 £
Authorised 30,675,000 Ordinary shares of £1 each	30,675,000	30,675,000
Allotted, called up and fully paid 30,675,000 Ordinary shares of £1 each	30,675,000	30,675,000

19 Profit and loss account

	Group £m	Company £m
At 1 April 2012	(769.3)	(769.3)
Loss for the financial period	(79.7)	(79.7)
Actuarial loss on pension scheme (note 26)	(16.5)	(16.5)
At 31 December 2012	(865.5)	(865.5)
Pension liability recorded in reserves	75.8	75.8
Profit and loss reserves excluding pension liability	(789.7)	(789.7)

20. Net cash inflow from operating activities

	Nine months ended 31 December 2012 £m	Year ended 31 March 2012 £m
<u>Continuing operations</u>		
Operating profit	39.5	65.6
Depreciation of tangible fixed assets	54.3	71.4
Amortisation of capital contributions	(1.5)	(2.1)
Amortisation of grants	(0.1)	(0.1)
Profit on disposal of fixed assets	(0.1)	(0.3)
Net decrease in stocks	1.6	1.7
Net increase in debtors	(6.7)	(3.2)
Net (decrease)/increase in creditors	(10.0)	2.6
Restructuring payments	-	(0.7)
Difference between pension charge and cash contributions	(11.0)	(12.1)
Movements in provisions for liabilities	(5.3)	(6.5)
Net cash inflow from operating activities	60.7	116.3

Notes to the financial statements

21 Analysis of changes in financing in the period

	Share capital		Long term loans	
	31 December 2012 £m	31 March 2012 £m	31 December 2012 £m	31 March 2012 £m
At 1 April	30.7	30.7	1,472.1	1,204.1
New loans	-	-	20.0	40.0
Bonds issued	-	-	-	400.0
Issue costs and discount	-	-	-	(5.5)
Amortisation of issue costs and discount	-	-	1.9	3.9
Index-linked swap accretion paid	-	-	-	(39.3)
Increase in index-linked swap accretion	-	-	26.5	64.0
Increase in index-linked bond accretion	-	-	2.2	4.9
Bank debt repaid	-	-	-	(200.0)
At 31 December/March	30.7	30.7	1,522.7	1,472.1

22. Analysis of changes in cash in the period

Group and company	Note	31 December 2012 £m	31 March 2012 £m
At 1 April	23	48.4	14.0
Net cash (outflow)/inflow	23	(15.8)	34.4
At 31 December/March	23	32.6	48.4

23. Analysis of cash and cash deposits

Group and company		31 December 2012 £m	31 March 2012 £m	31 December 2012 Change in period £m	31 March 2012 Change in year £m
Cash at bank and in hand	22	32.6	48.4	(15.8)	34.4
Current asset investments – cash on short-term deposit	10	150.0	150.0	-	150.0
		182.6	198.4	(15.8)	184.4

Notes to the financial statements

24 Reconciliation of net cash flow to increase in net debt

	Nine months ended 31 December 2012 £m	Year ended 31 March 2012 £m
(Decrease)/increase in cash as per cash flow statement	(15.8)	34.4
New loans	(20.0)	(40.0)
Bonds issued	-	(400.0)
Issue costs and discount	-	5.5
Amortisation of issue costs and discount	(1.9)	(3.9)
Index-linked swap accretion paid	-	39.3
Increase in index-linked swap accretion	(26.5)	(64.0)
Increase in index-linked bond accretion	(2.2)	(4.9)
Cash transferred to short-term deposit	-	150.0
Bank debt repaid	-	200.0
Increase in net debt	(66.4)	(83.6)
At 1 April	(1,273.7)	(1,190.1)
At 31 December/March	(1,340.1)	(1,273.7)

	Note	31 December 2012 £m	31 March 2012 £m
Gross debt	21	(1,522.7)	(1,472.1)
Current asset investments – cash on short-term deposit	10	150.0	150.0
Cash at bank and in hand	23	32.6	48.4
Net debt		(1,340.1)	(1,273.7)

25. Directors' and officers' loans and transactions

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

26. Pension scheme

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

Defined benefit section

The Group operates a funded 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 2012 is currently being completed by Lane Clark & Peacock. The actuarial valuation as at 31 March 2009 completed by Lane Clark & Peacock 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).

Notes to the financial statements

26 Pension scheme (continued)

Financial assumptions	31 December 2012	31 March 2012
Inflation assumption	2.90% pa	3.30% pa
Discount rate	4.50% pa	5.00% pa
Rate of increase in pensions in payment	2.95% pa	3.30% pa
Rate of increase in salaries	3.70% pa	4.05% 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

The assets in the scheme (excluding the Defined Contribution Section of the Scheme and the members' AVC funds) and the expected rates of return at 31 December 2012 and 31 March were

Asset distribution and expected return	31 December 2012		31 March 2012	
	Expected return % pa	Fair value £m	Expected return % pa	Fair value £m
Equities	7.50	117.5	7.80	111.9
Bonds	3.00	124.3	3.30	115.3
Property	5.50	14.8	5.80	14.5
Diversified Growth Fund	6.50	62.9	6.80	53.7
Cash	0.50	2.7	0.50	1.6
Contributions due	-	8.6	-	-
Total market value of assets		<u>330.8</u>		<u>297.0</u>

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

Equities – As at 31 December 2012 it is assumed that equities will return 4.5% above the return on long duration Government bonds

Property – As at 31 December 2012 it is assumed that property will return 2.5% above the return on long duration Government bonds

Government Bonds – As at 31 December 2012 it is assumed that Government bonds will achieve a return in line with the annualised gross redemption yield on UK Gilts all stocks over 15 year index

Diversified Growth Fund – As at 31 December 2012 it is assumed that the diversified growth fund will achieve a return 3.5% above the return on long duration Government bonds

Cash – As at 31 December 2012 it is assumed that cash will achieve a return equal to the Bank of England Base Rate

The following amounts at 31 December 2012 and 31 March 2012 were measured in accordance with the requirements of FRS17

Balance sheet

	31 December 2012 £m	31 March 2012 £m
Total fair value of assets	330.8	297.0
FRS17 value of liabilities	(367.7)	(329.1)
Deficit in the scheme	<u>(36.9)</u>	<u>(32.1)</u>

Notes to the financial statements

26. Pension scheme (continued)

The scheme is represented on the balance sheet at 31 December 2012 as a liability under FRS17 which amounts to £36.9m (31 March 2012 £32.1m)

Over the nine months ended 31 December 2012, contributions by the Group of £17.9m (year ended 31 March 2012 £20.4m) were made in respect of members of the defined benefit section. In addition, £0.5m (year ended 31 March 2012 £0.6m) has been set aside by the Group outside of the Scheme during the nine month period in order to meet the Scheme's expenses. At 31 December 2012 £nil (31 March 2012 £0.6m) was accrued in respect of contributions due to the defined benefit section.

A deferred tax asset in respect of the pension deficit with a tax value of £8.5m (31 March 2012 £7.7m) has not been recognised as there is insufficient evidence that the asset will be recoverable.

It has been agreed that the ongoing employer contribution will be at a rate of 37.7% (year ended 31 March 2012 37.7%) of pensionable salary plus an allowance for expenses. In addition, the Group has agreed a 15 year deficit recovery plan following the 31 March 2009 actuarial valuation 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 financial statements in the nine months ended 31 December 2012 and the year ended 31 March 2012 under the requirements of FRS17

	Nine months ended 31 December 2012 £m	Year ended 31 March 2012 £m
Profit and loss account		
Analysis of amounts charged to operating costs		
Current service cost (employer's part only)	6.9	8.3
Curtailments loss	8.6	-
Total operating charge	<u>15.5</u>	<u>8.3</u>
Analysis of amounts charged to other finance costs		
Expected return on pension scheme assets	13.2	17.9
Interest on post retirement liabilities	(12.5)	(16.3)
Net income to finance charges	<u>0.7</u>	<u>1.6</u>

The scheme is 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 curtailments loss represents the estimated pension strain payable by the group for those employees who have accepted voluntary redundancy effective 31 December 2012 and is included in the £16.0m restructuring exceptional item as described in Note 2(b)(ii).

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

	Nine months ended 31 December 2012 £m	Year ended 31 March 2012 £m
Actual return less expected return on scheme assets	(2.8)	2.8
Experience (loss)/gains on obligations	(3.6)	0.4
Changes in assumptions underlying the present value of the obligation	<u>(10.1)</u>	<u>(23.4)</u>
Actuarial loss recognised in the statement of total recognised gains and losses	<u>(16.5)</u>	<u>(20.2)</u>
Cumulative actuarial loss recognised in the statement of total recognised gains and losses	<u>(75.8)</u>	<u>(59.3)</u>

Notes to the financial statements

26. Pension scheme (continued)

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

	31 December 2012 £m	31 March 2012 £m
Opening defined benefit obligations	329.1	285.3
Current service cost	6.9	8.3
Curtailments loss	8.6	-
Interest cost	12.5	16.3
Employee contributions	0.6	0.7
Benefits paid	(3.8)	(4.5)
Actuarial loss	13.8	23.0
Closing defined benefit obligations	367.7	329.1

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

	31 December 2012 £m	31 March 2012 £m
Opening fair value of Scheme assets	297.0	259.7
Expected return on assets	13.2	17.9
Employer contributions	17.9	20.4
Employee contributions	0.6	0.7
Contributions due	8.6	-
Benefits paid	(3.8)	(4.5)
Actual less expected return on assets	(2.7)	2.8
Closing fair value of Scheme assets	330.8	297.0

Amounts for the five periods ended 31 December 2012 are as follows

	Nine months ended 31 December 2012 £m	Year ended 31 March 2012 £m	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m	Year ended 31 March 2009 £m
Defined benefit obligations	(367.7)	(329.1)	(285.3)	(295.3)	(201.1)
Total assets	330.8	297.0	259.7	231.2	162.1
Deficit	(36.9)	(32.1)	(25.6)	(64.1)	(39.0)
Experience adjustments on the obligation	(3.6)	0.4	0.4	13.3	-
Experience adjustments on Scheme assets	(2.8)	2.8	(0.6)	44.5	(50.5)

Defined contribution scheme

The Group also operates a defined contribution scheme for staff

The employer paid a further £1.0m during the nine months ended 31 December 2012 in respect of defined contribution members (year ended 31 March 2012 £1.3m)

Notes to the financial statements

27. Immediate and ultimate parent companies

The immediate parent company is Wales & West Utilities Holdings Limited and the ultimate parent company and controlling party is Wales & West Gas Networks (Holdings) Limited (formerly MGN Gas Networks (UK) Limited). Wales & West Gas Networks (Holdings) Limited is the parent undertaking of the largest group of undertakings to consolidate these financial statements at 31 December 2012. Wales & West Utilities Holdings Limited is the parent undertaking of the smallest group of undertakings to consolidate these financial statements. Copies of the annual consolidated financial statements of Wales & West Gas Network (Holdings) Limited and Wales & West Utilities Holdings Limited may be obtained from The Company Secretary, Wales & West Gas Networks (Holdings) Limited, Wales & West House, Spooner Close, Celtic Springs, Coedkernew, Newport, NP10 8FZ.

On 10 October 2012 the ultimate parent company, Wales & West Gas Networks (Holdings) Limited (formerly MGN Gas Networks (UK) Limited) was acquired by a consortium lead by Cheung Kong (Holdings) Limited, a company incorporated in Hong Kong. Subsequent to the change of ownership, MGN Gas Networks (UK) Limited changed its name to Wales & West Gas Networks (Holdings) Limited on 10 December 2012.

The shares in the ultimate parent company, Wales & West Gas Networks (Holdings) Limited are owned equally by West Gas Networks Limited and Western Gas Networks Limited. These two companies are ultimately owned by a consortium comprising Cheung Kong Holdings Limited (30%), Cheung Kong Infrastructure Holdings Limited (30%), Power Asset Holdings Limited (30%) and Li Ka Shing Foundation (10%).

28. Related party transactions

In respect of the period from 1 April to 31 December 2012

a) Xoserve Limited

The Group owns 10% (31 March 2012: 10%) of the issued share capital of Xoserve Limited ("Xoserve"). Xoserve is owned jointly by the UK Gas Distribution companies and National Grid group as owner of the gas transmission business in the UK.

Xoserve provides gas throughput (meter reading) and billing information to the Group which is used by the Group in setting its regulated gas distribution charges to gas transporters. The cost to the Group of Xoserve providing these services was £3.8m (year to 31 March 2012: £3.7m) in respect of the nine months ended 31 December 2012, of which £0.8m (year to 31 March 2012: £0.6m) was charged to capital.

In respect of the period from 1 April to 10 October 2012

The following were related parties up to 10 October 2012 when the ultimate parent company, Wales & West Gas Networks (Holdings) Limited (formerly MGN Gas Networks (UK) Limited) was acquired by a consortium lead by Cheung Kong (Holdings) Limited, a company incorporated in Hong Kong. Therefore the transactions below refer to the period up to 10 October 2012.

(b) Macquarie Bank Limited

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

The Group had contracted with Macquarie Bank Limited ("MBL") until 31 March 2012, a company which held an indirect interest in the ultimate parent company Wales & West Gas Networks (Holdings) Limited (formerly 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 were carried out on an arms length basis and the prices charged were compared to available quoted gas purchases prices to ensure they were competitive. The cost of purchasing this gas amounted to £nil (year ended 31 March 2012: £8.9m) in respect of the period from 1 April 2012 to 10 October 2012 and included £nil (year ended 31 March 2012: £0.1m) of commission paid to MBL.

Notes to the financial statements

(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 group is owned by Macquarie Bank Limited, a company which held an indirect interest in the ultimate parent company Wales & West Gas Networks (Holdings) Limited until 10 October 2012. 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 £6.9m for the period from 1 April 2012 to 10 October 2012 (year ended 31 March 2012: £10.8m).

(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 held an interest in the ultimate parent company Wales & West Gas Networks (Holdings) Limited (formerly MGN Gas Networks (UK) Limited) until 10 October 2012. These services are received on normal commercial terms. The cost to the Group in respect of these services from Arqiva for the period from 1 April 2012 to 10 October 2012 was £0.6m (year ended 31 March 2012: £0.7m).

(e) Onstream Limited

The Group received meter asset management services from Onstream Limited ("Onstream"). Onstream was acquired by Macquarie Bank Limited, a company who held an indirect interest in the ultimate parent company Wales & West Gas Networks (Holdings) 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 £0.2m for the period from 1 April 2012 to 10 October 2012 in respect of these services from Onstream was £0.2m (£0.3m for the period from October 2011 to 31 March 2012).