

Registered No 05149491

**Wales & West Gas Networks (Junior Finance) Limited
(formerly MGN Gas Networks (Junior Finance) Limited)**

**Directors' report and 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)
Sui See Yuen	

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

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

(R) Member of the Remuneration Committee of Wales & West Utilities Limited

(H) Member of the Health & Safety Committee of Wales & West Utilities Limited

Company secretary and registered office

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

Independent auditor

Deloitte LLP
Chartered Accountants and Statutory Auditor
Cardiff, United Kingdom

Principal bankers

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

Report of the directors

The directors have pleasure in presenting their eighth report to the shareholders of Wales & West Gas Networks (Junior Finance) Limited ("the Company"), together with the audited financial statements for the nine months ended 31 December 2012 as presented on pages 7 to 15

Principal activities and business review

The Company is principally a holding company. It has an indirect 100% interest in Wales & West Utilities Limited, a company engaged in the management of gas transportation assets. That company 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 (UK) 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 auditor to the Company and the Group commencing with the statutory audit of the financial statements for the nine months ended 31 December 2012

The Company changed its name to Wales & West Gas Networks (Junior Finance) Limited (formerly MGN Gas Networks (Junior Finance) Limited) with effect from 10 December 2012

The Company does not envisage any changes in its activities in the foreseeable future

Overall the Company has performed satisfactorily during the period

Results and operating performance

The profit on ordinary activities before taxation for the nine months ended 31 December 2012 amounted to £1.4m (year ended 31 March 2012: £1.8m). The profit attributable to shareholders amounted to £0.6m (year ended 31 March 2012: £1.6m).

The results of the Company for the nine months ended 31 December 2012 are set out in the profit and loss account on page 7.

The principal trading subsidiary of the Company is Wales & West Utilities Limited.

History and development

The Company is a member of a private group. Details of the immediate and ultimate parent company are set out in note 14 to the financial statements.

Principal risks and uncertainties

The principal risk to the Company is the recovery of funds lent to Wales & West Gas Networks (Senior Finance) Limited (formerly MGN Gas Networks (Senior Finance) Limited) and the repayment of the amounts owed to the parent company as they fall due.

From the perspective of the Company, additional principal risks and uncertainties are integrated with the principal risks of the Wales & West Gas Networks (Holdings) Limited Group (formerly MGN Gas Networks (UK) Limited) ("The Group") and are not managed separately. Accordingly, the principal risks and uncertainties of the Group, which include those of the Company, are disclosed within the Group's consolidated financial statements.

Financial review

Basis of accounting

The financial statements present the Company'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 page 10, in accordance with Generally Accepted Accounting Practices in the United Kingdom.

There were no changes in accounting policies adopted during the period.

Cash flow forecasting

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

Report of the directors (continued)

Financial review (continued)

Shareholder funds

Shareholder funds at 31 December 2012 amounted to £15.9m (31 March 2012 £15.3m) as a result of a retained profit for the nine month period of £0.6m (year ended 31 March 2012 £1.6m)

There were no movements in the authorised and issued share capital of the Company during the period

Borrowings

Details of gross borrowings are disclosed in notes 5 and 6

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)

Future developments

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

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 signing of the statutory financial statements are shown below

Dominic Chan	Appointed 10 October 2012	
Graham Edwards	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 McGee	Appointed alternate director 19 November 2012	
Charles Tsai	Appointed alternate director 19 November 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
Michael Pavia		Resigned 10 October 2012
Kevin Whiteman		Resigned 9 November 2012

Directors' service contracts and remuneration

No director received any remuneration in respect of their duties to the Company

Directors' interests

There were no significant contracts subsisting during or at the end of the period with the Company in which any director is or was materially interested (other than service contracts)

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

Contributions for charitable and political purposes

During the period, there have been no political donations (year ended 31 March 2012 £nil) or charitable donations (year ended 31 March 2012 £nil)

Report of the directors (continued)

Going concern

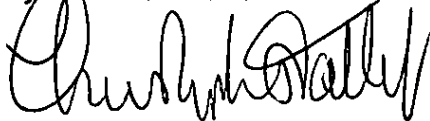
The Company's financial statements have been prepared on the basis that the Company is a going concern. In arriving at their decision to prepare the financial statements on a going concern basis, the directors have reviewed the Company's budget for the year ended 31 December 2013 and medium term business plans for 2013/21. The review included considering the cash flow implications of the plans and comparing these with the Company's cash resources and committed borrowing facilities.

Disclosure of information to auditors

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

- so far as the director is aware, there is no relevant audit information of which the Company'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 Company's auditor is aware of that information.

By Order of the Board



C J Talbot
Company secretary
14 March 2013

Directors' responsibilities statement for the financial statements

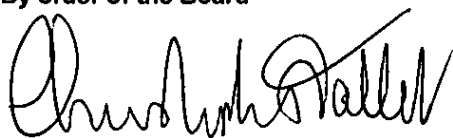
The directors are responsible for preparing the report of the directors and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial period. Under that law the directors have elected to prepare the 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 Company and of the profit or loss of 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 Company 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 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 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 auditor's report to the members of Wales & West Gas Networks (Junior Finance) Limited

We have audited the financial statements of Wales & West Gas Networks (Junior Finance) Limited for the nine months ended 31 December 2012 which comprise the profit and loss account, the reconciliation of movements in shareholders' funds, the balance sheet, the principal accounting policies and the related notes 1 to 13. 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 directors' responsibilities statement 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 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 company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2012 and of its profit 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, or returns adequate for our audit have not been received from branches not visited by us, or
- the 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, United Kingdom
15 March 2013

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
	Note		
Operating profit	1	-	-
Interest receivable and similar income	2(a)	58.5	74.7
Interest payable and similar charges	2(b)	(57.1)	(72.9)
Profit on ordinary activities before taxation		1.4	1.8
Tax on profit on ordinary activities	3	(0.8)	(0.2)
Profit for the period/year	11	0.6	1.6

All operations are continuing

The Company has no other recognised gains and losses in the period or the prior year and accordingly a separate statement of total recognised gains and losses has not been presented

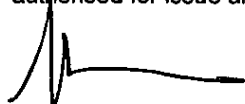
Reconciliation of movements in shareholders' funds for the nine months ended 31 December 2012

	Nine months ended 31 December 2012 £m	Year ended 31 March 2012 £m
Profit for the financial period/year	0.6	1.6
Net increase in shareholders' funds	0.6	1.6
At 1 April	15.3	13.7
At 31 December/March 2012	15.9	15.3

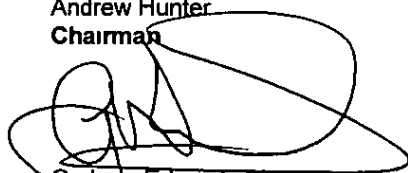
Balance sheet at 31 December 2012

	Note	31 December 2012 £m	31 March 2012 £m
Fixed assets			
Investments	4	-	-
		<u>-</u>	<u>-</u>
Current assets			
Debtors amounts owed by group undertakings		665.5	635.7
		<u>665.5</u>	<u>635.7</u>
Current liabilities			
Creditors amounts falling due within one year	5	(649.6)	(620.4)
		<u>(649.6)</u>	<u>(620.4)</u>
Net current assets		<u>15.9</u>	<u>15.3</u>
Total assets less current liabilities		<u>15.9</u>	<u>15.3</u>
Net assets		<u>15.9</u>	<u>15.3</u>
Capital and reserves			
Called up share capital	9	-	-
Profit and loss account	10	15.9	15.3
		<u>15.9</u>	<u>15.3</u>
Total shareholders' funds		<u>15.9</u>	<u>15.3</u>

The financial statements on pages 7 to 15 were approved by the Board of Directors on 14 March 2013 and were authorised for issue and signed on its behalf by



Andrew Hunter
Chairman



Graham Edwards
Chief Executive Officer

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 Company 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 financial statements have been prepared in accordance with the historical cost convention.

The directors are satisfied that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they adopt the going concern basis in the preparation of these financial statements as set out in the report of the directors on page 4.

The directors have taken advantage of the exemption under section 400 of the Companies Act 2006 not to prepare consolidated financial statements on the basis that its parent company, Wales & West Gas Networks (Holdings) Limited, prepares consolidated financial statements which are publicly available.

Cashflow statement

The Company is a 100% owned subsidiary of Wales & West Gas Networks (Holdings) Limited (formerly MGN Gas Networks (UK) Limited), and is included in the consolidated financial statements of that company, which is incorporated in the United Kingdom, whose consolidated financial statements are publicly available. Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 "Cash flow statements" (revised 1996).

Related party transactions

The Company is a 100% owned subsidiary of Wales & West Gas Networks (Holdings) Limited (formerly MGN Gas Networks (UK) Limited), and is included in the consolidated financial statements of that entity. 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.

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.

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.

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

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

Deferred tax balances are not discounted.

Notes to the financial statements

1. Operating profit

Operating profit is stated after charging:

Auditor remuneration

Services provided by the Company auditor

During the period the Company obtained the following services from the Company auditor

	Nine months ended 31 December 2012 £000	Year ended 31 March 2012 £000
Fees payable to Company auditor for the audit of the financial statements	5.0	5.0
	<u>5.0</u>	<u>5.0</u>

Audit fees are paid by Wales & West Utilities Limited, a Group company

2. Interest

(a) Interest receivable and similar income

	Nine months ended 31 December 2012 £m	Year ended 31 March 2012 £m
On group loans	58.5	74.7
	<u>58.5</u>	<u>74.7</u>

(b) Interest payable and similar charges

	Nine months ended 31 December 2012 £m	Year ended 31 March 2012 £m
On loans from immediate parent company	57.1	72.9
	<u>57.1</u>	<u>72.9</u>

Notes to the financial statements

3. Tax on profit ordinary activities

(a) Analysis of charge in the period/year

	Nine months ended 31 December 2012 £m	Year ended 31 March 2012 £m
The charge for taxation is made up as follows:		
Current taxation		
UK corporation tax on profits of the period/year	0.8	0.3
Adjustments in respect of previous periods	-	(0.1)
Total current tax (note 3b)	0.8	0.2
Deferred tax		
Origination and reversal of timing differences	-	-
Total deferred tax (note 9)	-	-
Total tax charge on profit on ordinary activities	0.8	0.2

The £0.8m tax charge (year ended 31 March 2012: £0.2m) reflects amounts due to Group undertakings in respect of balancing payments under the debt cap rules.

(b) Factors affecting the current tax charge for the period/year

The current tax assessed for the 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
Profit before tax	1.4	1.8
Profit multiplied by standard rate of corporation tax in the UK of 24% (31 March 2012: 26%)	0.3	0.5
Effects of:		
Deferred tax not recognised	0.6	(0.1)
Permanent differences	(0.1)	(0.2)
Current tax charge for the period/year (note 3a)	0.8	0.2

A deferred tax asset has not been recognised in respect of tax losses, with a tax value of £0.6m, as there is insufficient evidence that the asset will be recoverable.

Notes to the financial statements

4. Fixed asset investments

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

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

The Company's principal indirect subsidiary undertaking is Wales & West Utilities Limited, a company incorporated in England & Wales.

5. Creditors, amounts falling due within one year

Gross Borrowings	31 December 2012 £m	31 March 2012 £m
Amounts owed to group undertakings	642.9	607.9
Accrued interest on group loans	6.7	12.5
	649.6	620.4

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

	31 December 2012 £m	31 March 2012 £m
In one year or less, or on demand	649.6	620.4
	649.6	620.4

Notes to the financial statements

6. Financial instruments and risk management

(a) Interest rate composition of gross borrowings

The fixed and floating interest rate profile of the Company's gross borrowings, including intra-group indebtedness, was

	31 December 2012 £m	31 March 2012 £m
Fixed rate	482.2	455.9
Floating rate	160.7	152.0
Total	642.9	607.9

The above analysis represents £642.9m (31 March 2012 £607.9m) of intra-group indebtedness to its parent undertaking. The remaining £6.7m (31 March 2012 £12.5m) owed to parent undertaking constitutes the interest accrued on the principal. Interest was chargeable on these loans at 14% (31 March 2012 14%) on the fixed element and LIBOR + 6% (31 March 2012 LIBOR + 6%) on the floating element.

(b) Interest rate profile of fixed rate borrowings

The weighted average interest rate profile of the Company's gross borrowings, including intra-group indebtedness, together with the weighted average period for which the rate is fixed was

	Weighted average interest rate		Weighted average period for which rate is fixed	
	31 December 2012 %	31 March 2012 %	31 December 2012 Years	31 March 2012 Years
Currency				
Sterling Inter-company fixed rate	14.0	14.0	1.0	1.0

7 Capital commitments

The Company had no capital commitments at 31 December 2012 or at 31 March 2012.

8. Leasing commitments

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

9. Called up share capital

	31 December 2012 £	31 March 2012 £
Authorised		
2 Ordinary shares of £1 each	2	2
Allotted, called up and fully paid		
2 Ordinary shares of £1 each	2	2

Notes to the financial statements

10 Profit and loss account

	£m
At 1 April 2012	15.3
Profit retained for the financial period	0.6
At 31 December 2012	<u>15.9</u>

11. Directors' and officers' loans and transactions

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

12 Directors and employees

(a) Staff costs

The Company had no employees during the period (year to 31 March 2012 none)

(b) Directors emoluments

There were no directors' emoluments in the period (year to 31 March 2012 none)

13. Immediate and ultimate parent company

The immediate and ultimate parent company 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 and smallest group of undertakings to consolidate these financial statements at 31 December 2012. Copies of the annual consolidated financial statements of Wales & West Gas Network (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 was acquired by a consortium led by Cheung Kong (Holdings) Limited. As a result the Company now considers Cheung Kong (Holdings) Limited, a company incorporated in Hong Kong, to be the ultimate controlling party. Subsequent to the change of control, 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%).