

Registered No. 05149491

MGN Gas Networks (Junior Finance) Limited

Directors' report and financial statements
for the year ended 31 March 2010

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Directors and advisors

Directors

Duncan Whyte (A, R, H) Chairman
Roderick Gadsby
Philip Garling (R)
Howard Higgins (A, R, H)
Andreas Kottering (R)
Sara Leong
Manoj Mehta (A, R, H)

Edward Beckley (Alternate Director to Roderick Gadsby, Howard Higgins and Sara Leong)
Alan Kadic (Alternate Director to Philip Garling and Andreas Kottering)
Frederic Michel-Verdier (Alternate Director to Manoj Mehta)
Robert Verrion (Alternate Director to Philip Garling)

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

Company secretary and registered office

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

Auditors

PricewaterhouseCoopers LLP
1 Kingsway, Cardiff CF10 3PW

Principal bankers

Barclays Bank plc
One Churchill Place, London E14 5HP

Report of the directors

The directors have pleasure in presenting their fifth annual report for MGN Gas Networks (Junior Finance) Limited ("the Company") to shareholders, together with the audited financial statements for the year ended 31 March 2010 as presented on pages 7 to 15

Results and operating performance

The profit on ordinary activities before taxation amounted to £2.1m (2009 £5.5m). The profit attributable to shareholders amounted to £2.1m (2009 £6.5m).

The results of the Company for the year ended 31 March 2010 are set out in the Profit and Loss account on page 7.

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

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.

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

Overall the Company has performed satisfactorily during the year.

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 17 to the financial statements.

Principal risks and uncertainties

The principal risk to the Company is the recovery of funds lent to 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 group and are not managed separately. Accordingly, the principal risks and uncertainties of the MGN Gas Networks (UK) Limited, which include those of the company, are disclosed within the group's annual financial statements.

Financial review

Basis of accounting

The accounts present the Company's results for the year ended 31 March 2010 and the financial position as at 31 March 2010 and 2009. 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 year.

Cash flow forecasting

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

Shareholder funds

Shareholder funds at 31 March 2010 amounted to £12.5m (2009 £10.4m) as a result of a retained profit for the year of £2.1m (2009 £6.5m).

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

Report of the directors (continued)

Financial review

Debt

Details of net debt are disclosed in note 6 and 7 and gross borrowings in note 8

On 31 March 2010, the company repaid its £65m of external borrowings. The company had no external financial indebtedness at the year end

Dividend on ordinary shares

The Directors do not recommend the payment of a dividend (2009: £nil) in respect of the year

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 year under review

Directors

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

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

Andreas Kottering	Appointed alternate 24 September 2009 Appointed full director 28 January 2010	
Graeme Bevans		Resigned as alternate director 24 September 2009
Alan Kadic	Appointed alternate 28 January 2010	Resigned as full director 28 January 2010
Robert Gregor		Resigned as alternate director 28 January 2010
Robert Verrion	Appointed alternate director 28 January 2010	
Stephen Box		Died 6 March 2010
Martin Baggs		Resigned as full director 16 April 2010
Sara Leong	Appointed full director 16 April 2010	

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 year with the Company 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

Contributions for charitable and political purposes

During the year, there have been no political (2009: nil) or charitable donations (2009: nil)

Going concern

The Company's accounts have been prepared on the basis that the Company is a going concern. In arriving at their decision to prepare the accounts on a going concern basis, the directors have reviewed the Company's budget for 2010/11 and medium term business plans for 2011/12 to 2012/13. The review included considering the cash flow implications of the plans and comparing these with the Company's cash resources and committed borrowing facilities.

Report of the directors (continued)

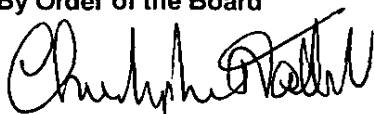
Auditors

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

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

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

By Order of the Board



C J Talbot
Company Secretary
26 May 2010

Statement of directors' responsibilities for the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have 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,
- 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
26 May 2010

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

We have audited the financial statements of MGN Gas Networks (Junior Finance) Limited for the year ended 31 March 2010 which comprise the profit and loss account, the statement of total recognised gains and losses, the reconciliation of movements in shareholders' funds, the balance sheet, accounting policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities for the financial statements set out on page 5 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 the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 March 2010 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, 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.



Stephen Harrison (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cardiff
26 May 2010

Profit and loss account for year ended 31 March 2010

	Note	2010 £m	2009 £m
Turnover		-	-
Net operating costs	1	-	-
Operating profit		-	-
Interest receivable	2(a)	80.3	83.0
Interest payable and similar charges	2(b)	(78.2)	(77.5)
Profit on ordinary activities before taxation		2.1	5.5
Taxation	3	-	1.0
Profit attributable to ordinary shareholders		2.1	6.5
Dividends on ordinary shares		-	-
Retained profit for the year	14	2.1	6.5

All operations are continuing

Statement of total recognised gains and losses for the year ended 31 March 2010

	2010 £m	2009 £m
Profit for the financial year attributable to ordinary shareholders	2 1	6 5
Total recognised gains and losses relating to the year	2 1	6 5

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

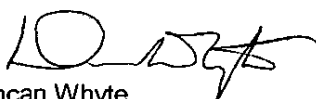
Reconciliation of movements in shareholders' funds for the year ended 31 March 2010

	2010 £m	2009 £m
Total recognised gains and losses for the year	2 1	6 5
Net increase in shareholders' funds	2 1	6 5
At 1 April	10 4	3 9
At 31 March	12 5	10 4

Balance sheet at 31 March 2010

	Note	2010 £m	2009 £m
Fixed assets			
Investments	4	-	-
		-	-
Current assets			
Debtors	5	579 0	551 9
		579.0	551 9
Current liabilities			
Creditors: amounts falling due within one year			
Amounts owed to parent undertaking	9(a)	(566 5)	(476 4)
Other creditors falling due within one year	6(a)	-	(0 5)
		(566.5)	(476 9)
Net current assets		12 5	75 0
Total assets less current liabilities		12 5	75 0
Creditors: amounts falling due after more than one year	6(b)	-	(64 6)
Net assets		12.5	10 4
Capital and reserves			
Called up share capital	13	-	-
Reserves	14	12 5	10 4
Equity shareholders' funds		12 5	10 4
Total shareholders' funds		12 5	10 4

The financial statements on pages 7 to 15 were approved by the Board of Directors on 26 May 2010 and were signed on its behalf by


Duncan Whyte
Chairman


Howard Higgins
Director

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 year.

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 3.

The Directors chose to prepare consolidated accounts for the years ended 31 March 2009, but for the year ended 31 March 2010, 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 ultimate parent company, MGN Gas Networks (UK) Limited prepares consolidated financial statements which are publicly available. The comparatives for the year ended 31 March 2009 have therefore been represented on an entity basis.

Cash flow statement

The Company is a 100% owned subsidiary of 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 accounts are made publically 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 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 MGN Gas Networks (UK) 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.

Deferred taxation

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

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

Deferred tax balances are not discounted.

Notes to the financial statements

1 Operating costs

Auditor remuneration

Services provided by the Company's auditor

During the year the Company obtained the following services from the Company's auditor at costs as detailed below

	2010 £000	2009 £000
<u>Audit Services</u>		
Fees payable to company auditor for the audit of the accounts	10.0	10.0
	<u>10.0</u>	<u>10.0</u>

2 Interest

a Interest receivable

	2010 £m	2009 £m
Interest receivable on group loans	80.3	83.0
	<u>80.3</u>	<u>83.0</u>

b Interest payable and similar charges

	2010 £m	2009 £m
On other loans	1.2	5.0
On loans to immediate parent company	76.6	72.2
Other, amortised issue costs (note 7)	0.4	0.3
	<u>78.2</u>	<u>77.5</u>

3 Taxation

a Analysis of credit in the year

	2010 £m	2009 £m
The credit for taxation is made up as follows		
Current taxation		
UK corporation tax on profits of the year	-	0.7
Adjustments in respect of previous periods	-	(1.7)
Total current tax (note 3b)	<u>-</u>	<u>(1.0)</u>
Deferred tax		
Origination and reversal of timing differences	-	-
Total deferred tax (note 12)	<u>-</u>	<u>-</u>
Total tax credit on loss on ordinary activities	<u>-</u>	<u>(1.0)</u>

The £nil (2009 £1.0m) reflects amounts due from Group undertakings in respect of group relief surrendered for the year

Notes to the financial statements

3 Taxation (continued)

b Factors affecting the current tax credit for the year

The current tax assessed for the year is different to the standard rate of corporation tax in the UK of 28% (2008 30%) The differences are explained below

	2010 £m	2009 £m
Profit before tax	2.1	5.5
Profit multiplied by standard rate of corporation tax in the UK of 28% (2009 28%)	0.6	1.5
Effects of		
Prior year credit	-	(1.7)
Permanent differences	(0.6)	(0.8)
Current tax credit for the year (note 3a)	-	(1.0)

4 Fixed asset investments

	Interests in Group undertakings £m
Cost	
At 31 March 2010 & 31 March 2009	-
Amounts written off	
At 31 March 2010 & 31 March 2009	-
Net book value	
At 31 March 2010 & 31 March 2009	-

During the year the Company acquired and then disposed of the entire issued share capital of Wales & West Utilities Holdings Limited, of 2 shares of £1 each. The Company disposed of this investment to MGN Gas Networks (Senior Finance) Limited, its immediate subsidiary.

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

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

Notes to the financial statements

5 Debtors

	2010 £m	2009 £m
Amounts falling due within one year:		
Amounts owed by subsidiary undertakings	579 0	551 9
	579 0	551 9

6 Creditors

	Note	2010 £m	2009 £m
(a) Other creditors falling due within one year			
Accruals and deferred income		-	0 5
		-	0 5
(b) Amounts falling due after more than one year			
Other loans	7	-	64 6
		-	64 6

7 Other loans

	2010 £m	2009 £m
Repayable as follows:		
In more than one year but not more than two years	-	64 6
	-	64 6

During the year, the Company repaid its £65 0m of bank borrowings. The unamortised issue costs of £0 4m were written off during the year (note 2(b)).

8 Gross borrowings

	2010 £m	2009 £m
Gross value of other loans	526.1	476 4
	526.1	476 4

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

	2010 £m	2009 £m
In one year or less, or on demand	526.1	427 9
In more than one year but not more than two years	-	65 0
	526 1	492 9

Notes to the financial statements

9 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

	2010 £m	2009 £m
Fixed rate	394.5	321.0
Floating rate	131.5	171.9
Total	526.1	492.9

The floating rate loans include £nil of external borrowings by the Company (2009 £65.0m), and £131.5m (2009 £107m) of intra-group indebtedness

The above analysis includes £526.1m (2009 £427.9m) of intra-group indebtedness to its parent undertaking. The remaining £40.4m (2009 £48.5m) owed to parent undertaking constitutes the interest accrued on the principal. Interest was chargeable on these loans at 18% (2009 18%) on the fixed element and LIBOR + 6% (2009 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	
	2010 %	2009 %	2010 Years	2009 Years
Sterling Intercompany Fixed rate	15.0	18.0	1.0	1.0

c Borrowing facilities

Undrawn committed borrowing facilities were

	2010 £m	2009 £m
Committed borrowing facilities available	-	65.0
Drawn	-	(65.0)
Undrawn facilities at 31 March 2010	-	-

10 Capital commitments

The Company had no capital commitments at 31 March 2010 or at 31 March 2009

11 Leasing commitments

The Company had no operating lease commitments at 31 March 2010 or 31 March 2009

Notes to the financial statements

12 Provisions for liabilities and charges

Deferred taxation

The Company has no deferred tax asset or liability at 31 March 2010 or 2009

13 Called up share capital

	2010 £	2009 £
Authorised		
Ordinary shares of £1 each	<u>2</u>	<u>2</u>
Allotted, called up and fully paid		
Ordinary shares of £1 each	<u>2</u>	<u>2</u>

14 Reserves ~ Profit and loss account

	£m
At 1 April 2009	10.4
Profit retained for the year	<u>2.1</u>
At 31 March 2010	<u>12.5</u>

15 Directors' and officers' loans and transactions

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

16 Directors and employees

(a) Staff costs

The Company had no employees during the year (2009 none)

(b) Directors' emoluments

There were no directors' emoluments in the year (2009 none)

17 Immediate and ultimate parent company

The immediate and ultimate parent company is MGN Gas Networks (UK) Limited. Copies of the annual accounts of MGN Gas Network (UK) Limited may be obtained from The Company Secretary, MGN Gas Networks (UK) Limited, Wales & West House, Spooner Close, Celtic Springs, Coedkernew, Newport, NP10 8FZ.