

# **MGN Gas Networks (Senior Finance) Limited**

Registered number 5149493

## **Directors' Report and Financial Statements 9 June 2004 to 31 March 2005**



# **MGN Gas Networks (Senior Finance) Limited**

## **Financial Report**

Period from 9 June 2004 to 31 March 2005

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## **MGN Gas Networks (Senior Finance) Limited**

Period from 9 June 2004 to 31 March 2005

### **General Information**

#### **Directors:**

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

#### **Secretary:**

Swift Incorporations Limited	appointed 9 June 2004	resigned 9 June 2004
Office Organization & Services Limited	appointed 9 June 2004	resigned 6 August 2004
Alex Campbell	appointed 6 August 2004	
Suzanne Morgan	appointed 6 August 2004	resigned 21 July 2005

#### **Registered Office:**

Level 30  
CityPoint  
1 Ropemaker Street  
London EC2Y 9HD

#### **Auditors:**

PricewaterhouseCoopers LLP  
1 Kingsway  
Cardiff  
CF10 3PW

#### **Company number:**

5149493

# **MGN Gas Networks (Senior Finance) Limited**

## **Financial Report**

Statement of Directors' Responsibilities- Period from 9 June 2004 to 31 March 2005

### **Directors' Report**

The directors present their first annual report and the audited financial statements of MGN Gas Networks (Senior Finance) Limited ("the Company") for the period from 9 June 2004 to 31 March 2005 ("the period").

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

The Company was incorporated in England and Wales on 9 June 2004 as Precis (2440) Limited and changed its name to MGN Gas Networks (Senior Finance) Limited on 6 August 2004.

On 31 August 2004, the Company won the right to acquire 100% of the operating business of Wales & the West Gas Distribution Network. Completion of the sale process required the consent of the Office of Gas and Electricity Markets (Ofgem), the Health and Safety Executive and the Secretary of State for Trade and Industry. On 1 June 2005, the Company completed the acquisition of Wales & West Utilities Limited (formerly Blackwater 12 Limited) ("WWU"), the company operating the Wales & the West Gas Distribution Network, for a total consideration of £1,227,000,000, comprising both debt and equity. In addition, a final purchase price increase of £21,804,000, as defined under the Option Deed, was agreed between the seller and the Company. Further commentary in relation to the acquisition of WWU can be found under post balance sheet events in note 15 on page 14.

The principal activity of the Company is to act as an intermediary holding company and provide financing for the acquisition of WWU.

The results for the period from 9 June 2004 to 31 March 2005 are summarised in the profit and loss account on page 7.

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

#### **■ Results and Dividends**

The Company's loss on ordinary activities before and after taxation for the period from 9 June 2004 to 31 March 2005 was £909,000. No dividend is proposed.

#### **■ Directors and their interests**

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

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

#### **■ Auditors**

PricewaterhouseCoopers LLP were appointed as auditors on 7 February 2005.

Pursuant to Section 386 of the Companies Act 1985, an elective resolution was passed on 6 August 2004 resolving that the Company dispense with the requirement to appoint auditors annually.

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

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

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the

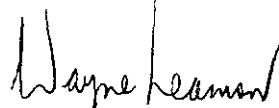
# **MGN Gas Networks (Senior Finance) Limited**

## **Financial Report**

Statement of Directors' Responsibilities- Period from 9 June 2004 to 31 March 2005

Companies Act 1985. 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.

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



Wayne Leamon  
Director  
18<sup>th</sup> November 2005

Level 30  
CityPoint  
1 Ropemaker Street  
London EC2Y 9HD

## **Independent Auditors' report to the members of MGN Gas Networks (Senior Finance) Limited**

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

### **Respective responsibilities of directors and auditors**

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

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

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

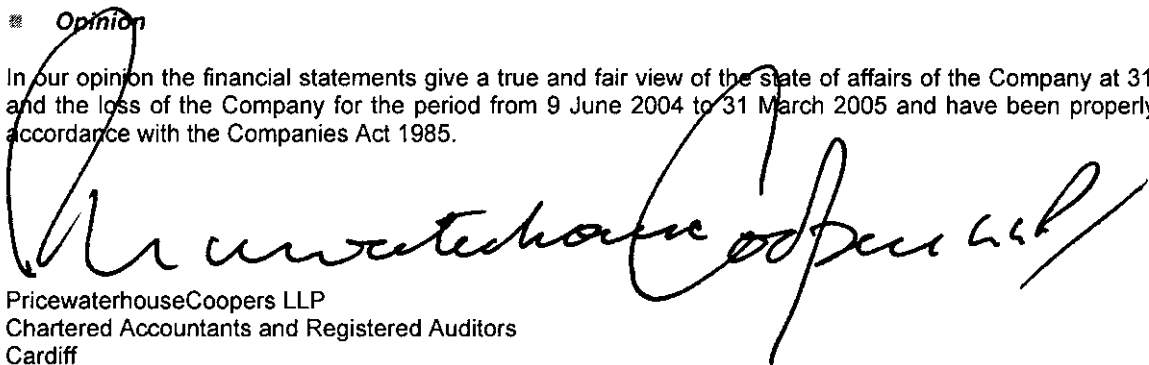
### **Basis of audit opinion**

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

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

### **Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the Company at 31 March 2005 and the loss of the Company for the period from 9 June 2004 to 31 March 2005 and have been properly prepared in accordance with the Companies Act 1985.

  
PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
Cardiff

24 November 2005

# **MGN Gas Networks (Senior Finance) Limited**

## **Financial Report**

Period from 9 June 2004 to 31 March 2005

### **Profit and Loss Account**

**For the period 9 June 2004 to 31 March 2005**

	Note	9 June 2004 to 31 March 2005
		£'000
Operating costs		(95)
<b>Operating loss</b>	3	(95)
Interest expense	4	(814)
<b>Loss on ordinary activities before taxation</b>		(909)
Taxation on ordinary activities	6	-
<b>Loss on ordinary activities after taxation</b>		(909)
<b>Retained loss carried forward</b>	12	(909)

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

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

All activities are continuing.

The notes on pages 9 to 15 form part of these financial statements.

# MGN Gas Networks (Senior Finance) Limited

## Financial Report

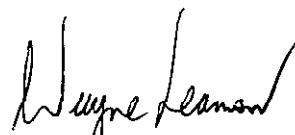
Period from 9 June 2004 to 31 March 2005

### Company Balance Sheet as at 31 March 2005

	Note	2005 £'000
<b>Fixed assets</b>		
Tangible fixed assets	7	5,399
		<u>5,399</u>
<b>Current Assets</b>		
Debtors	8	1,675
		<u>1,675</u>
<b>Creditors: amounts falling due within one year</b>	9	(870)
		<u>805</u>
<b>Net current assets</b>		<u>805</u>
<b>Total assets less current liabilities</b>		<u>6,204</u>
<b>Creditors: Amounts falling due after more than one year</b>	10	(7,113)
		<u>(909)</u>
<b>Net liabilities</b>		<u>(909)</u>
<b>Capital and reserves</b>		
Called up share capital	11	-
Profit and loss account	12	(909)
<b>Equity shareholders' deficit</b>	13	<u>(909)</u>

The notes on pages 9 to 15 form part of these financial statements.

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



Wayne Beamon  
Director

18 November 2005



# **MGN Gas Networks (Senior Finance) Limited**

## **Financial Report**

Period from 9 June 2004 to 31 March 2005

## **Notes to the financial statements for the period from 9 June 2004 to 31 March 2005**

### **1. Principal accounting policies**

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

#### **(a) Basis of preparation**

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

#### **(b) Cash flow statement**

The immediate parent company is MGN Gas Networks (Junior Finance) Limited and the ultimate parent company is MGN Gas Networks (UK) Limited. The company is included in the consolidated financial statements of MGN Gas Networks (UK) Limited. Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS1 (revised).

#### **(c) Tangible fixed assets and depreciation**

##### **(i) Assets in the course of construction**

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

##### **(ii) Capitalisation of overhead costs**

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

#### **(d) Deferred taxation**

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

#### **(e) Related party disclosure**

As a wholly owned member of MGN Gas Networks (UK) Limited, the ultimate parent as at the balance sheet date, the Company has taken advantage of the exemption under FRS 8 "Related Party Disclosures" not to provide information on related party transactions with other companies within the MGN Gas Networks (UK) Limited group. Note 17 gives details of how to obtain a copy of the financial statements of MGN Gas Networks (UK) Limited.

### **2. Segmental reporting**

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

# MGN Gas Networks (Senior Finance) Limited

## Financial Report

Statement of Directors' Responsibilities- Period from 9 June 2004 to 31 March 2005

### 3. Loss on ordinary activities before taxation

	9 June 2004 to 31 March 2005
	£'000
Loss on ordinary activities before taxation is arrived at after charging:	
Wages and salaries	85
Auditors remuneration:	
Audit Services	10
Other services	-

### 4. Interest payable and similar charges

	9 June 2004 to 31 March 2005
	£'000
Loan facility charges	814
Total interest payable and similar charges	814

### 5. Directors and employees

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

	9 June 2004 to 31 March 2005
Management and administration	4

The aggregate payroll costs of these persons were as follows:

	9 June 2004 to 31 March 2005
	£'000
Wages and salaries	85

**MGN Gas Networks (Senior Finance) Limited**  
**Financial Report**

Statement of Directors' Responsibilities- Period from 9 June 2004 to 31 March 2005

**5. Directors and employees (continued)**

The company had 4 employees during the period of account.

**Remuneration of Directors**

	9 June 2004 to 31 March 2005
	£'000
Aggregate emoluments	48
	48

Emoluments of the highest paid director are as follows:

	9 June 2004 to 31 March 2005
	£'000
Aggregate emoluments	30

**6. Taxation**

**(a) Factors affecting tax charge for the period**

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

	9 June 2004 to 31 March 2005
	£'000
Loss on ordinary activities before taxation	(909)
Loss on ordinary activities before taxation multiplied by standard rate of corporation tax of 30%	(273)
Effect of tax losses	273
Current tax charge for period	-

# **MGN Gas Networks (Senior Finance) Limited**

## **Financial Report**

Statement of Directors' Responsibilities- Period from 9 June 2004 to 31 March 2005

### **7. Tangible fixed assets**

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

### **8. Debtors**

	Company Period Ended 31 March 2005 £'000
<b>Amounts falling due within one year:</b>	
Prepayments	1,182
Other debtors	493
	1,675

## MGN Gas Networks (Senior Finance) Limited

### Financial Report

Statement of Directors' Responsibilities- Period from 9 June 2004 to 31 March 2005

#### 9. Creditors: amounts falling due within one year

	Company Period Ended 31 March 2005
	£'000
Other creditors	21
Accruals and deferred income	849
	<u>870</u>

#### 10. Creditors: amounts falling due after more than one year

	Company Period Ended 31 March 2005
	£'000
Amounts due to group undertakings	7,113
	<u>7,113</u>

Amounts due to group undertakings of £7,113,000 do not bear interest and have no fixed term.

#### 11. Called up share capital

	Company Period Ended 31 March 2005
	£
<i>Authorised, called up, allotted and fully paid</i>	
2 ordinary shares of £1 each	2
	<u>2</u>

## **MGN Gas Networks (Senior Finance) Limited**

### **Financial Report**

Statement of Directors' Responsibilities- Period from 9 June 2004 to 31 March 2005

#### **12. Profit and loss account**

	Company
	£'000
On incorporation	-
Retained loss for the financial period	(909)
At 31 March 2005	(909)

#### **13. Reconciliation of movements in shareholders' funds**

	Company
	£'000
Opening shareholders' funds on incorporation (£2)	-
Loss for the financial period	(909)
Net reduction in shareholders' funds	(909)
Closing shareholders' deficit	(909)

#### **14. Commitments**

	Company
	£'000
The Company had the following contracted capital commitments in relation to the acquisition of Wales & West Utilities Limited (see note 15):	1,254,677

#### **15. Post balance sheet events**

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

Tangible fixed asset in the course of construction, which were being developed by the Company, prior to acquisition of WWU have subsequently been transferred at cost to WWU in July 2005. Other prepayments at the balance sheet date have been charged to WWU on an arms length basis.

## **MGN Gas Networks (Senior Finance) Limited**

### **Financial Report**

Statement of Directors' Responsibilities- Period from 9 June 2004 to 31 March 2005

#### **16. Related party transactions**

As a wholly owned subsidiary of MGN Gas Networks (UK) Limited throughout the period to 31 March 2005, the company has taken advantage of the exemption under FRS 8 "Related Party Disclosures" not to provide information on related party transactions with other companies within the MGN Gas Networks (UK) Limited group.

##### **Out of Pockets expenses**

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

#### **17. Parent company and ultimate controlling parties**

The immediate parent company is MGN Gas Networks (Junior Finance) Limited, a company incorporated in the England and Wales and registered at the following address: Level 30 Citypoint, 1 Ropemaker Street, London EC2Y 9HD, United Kingdom.

The results of the Company are consolidated into the financial statements of MGN Gas Networks (UK) Limited, a company incorporated in England and Wales, which is also the company's ultimate parent company. The financial statements of MGN Gas Networks (UK) Limited may be obtained from the Company Secretary, Level 30, CityPoint, 1 Ropemaker Street, London, EC2Y 9HD.