Registered No. 07092596

Wales & West Utilities Holdings Limited

Annual report and consolidated financial statements
for the year ended 31 December 2013

Contents

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)
Charles Tsai	
Neil Henson	(Alternate Director to Graham Edwards)
Neil McGee	(Alternate Director to Dominic Chan)
Wendy Tong-Barnes	(Alternate Director to Hing Lam Kam)

(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
Paul Millar
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

Strategic report

Strategy and objectives

Wales & West Utilities Holdings Limited group's ("Company" or "Group" as the context requires) strategy is to continue to act as an immediate holding company. The Company does not own any physical assets or have any employees.

The objective of the Company is to provide a structure for the Whole Business Securitisation ring fence.

The principal activities of the Group are carried out by Wales & West Utilities Limited ("WWU"), a wholly owned subsidiary, which maintains the gas distribution network for which it is responsible in Wales and the South West of England as required under its licence and by the Health and Safety Executive ("HSE"). Funding for the Group is provided through WWU's wholly owned subsidiary, Wales & West Utilities Finance plc, a Company which is a special purpose vehicle.

As a regulated business WWU is subject to price controls set by the Office of Gas and Electricity markets ("Ofgem") which define its allowed revenues. The five year price control to which WWU was subject ended on 31 March 2013. This was replaced by an eight year control which commenced on 1 April 2013 under Ofgem's new RIIO (Revenue = Incentives, Innovation and Outputs) principles (The RIIO – GD1 price control). WWU submitted to Ofgem its proposed business plan and funding requirements for the eight year period from 1 April 2013 to 31 March 2021; Ofgem issued its Final Proposals on allowances for the eight year price control period in December 2012 which WWU accepted. This price control defined allowed revenue in respect of operating expenditure, capital expenditure, replacement expenditure and a return on WWU's investment in the gas infrastructure asset.

Further information in respect of the Regulatory environment is included within "The business model" section.

Under this price control, Ofgem has stated that it may perform a mid-term review of the operation of the control for the first four years. It is currently anticipated that this review will be restricted to changes in obligations on the Gas Distributions Networks as a result of legislation changes, and improved understanding of the output measures introduced for the first time as part of the RIIO-GD1 price control.

In maintaining the gas distribution network, WWU expects to operate within the revenue constraints placed on it by Ofgem as part of the price control settlement. It also anticipates earning incentive income through exceeding certain targets set by Ofgem as part of the RIIO-GD1 price control.

In addition to the revenues permitted by Ofgem, WWU earns other revenues, predominantly through gas meter work. WWU aims to continue undertaking this work, where it is of benefit to WWU. However, it is anticipated that revenue will reduce with the planned introduction of smart metering across the UK's population of domestic electricity and gas meters.

The business model

Business environment

On 31 March 2010 the Company was involved in a group reconstruction. This resulted in the Company entering into a share for share exchange whereby the Company issued a further ordinary share to its immediate parent company, Wales & West Gas Networks (Senior Finance) Limited, and in exchange acquired Wales & West Gas Networks (Senior Finance) Limited's 100% interest in the issued share capital of Wales & West Utilities Limited ("WWU"), a company incorporated in England and Wales.

As a consequence of the above transaction, the Company has accounted for the group reconstruction under merger accounting using the group reconstruction relief provisions. Under the provision of the Companies Act 2006, the share for share exchange has been recorded at the carrying value of the investment in WWU by Wales & West Gas Networks (Senior Finance) Limited of £109.1m as at the date of the transfer. Under section 611 of the Companies Act 2006, the difference between the nominal value of the share issued by the Company and the attributed carrying value has been credited to the share premium account.

The business model (continued)

Business environment (continued)
The Gas Distribution and Transmission Network in Great Britain comprise 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 Group operates one of the independently owned 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 eight companies represent the large majority of the gas distribution network in Great Britain. The gas transportation business comprises the development, administration, maintenance and operation of the Company's gas transportation system and the supply of gas transportation services.

There are other independent gas transporters who operate within the principal area of WWU's operation and WWU has contractual arrangements in place with them to ensure the safe passage of gas to their networks.

In addition to its gas distribution role, WWU 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 WWU's distribution network);
- connect gas consumers to the distribution network, unless the consumer chooses to use another party to provide the connection;
- provide meters to certain consumers if the consumer's gas supplier has not made alternative arrangements; and
- under contractual arrangements with gas suppliers, provide and maintain gas meters for some consumers.

The Group is principally engaged in the management of gas transportation assets through WWU. WWU provides gas distribution and meter work services throughout Wales and the South West of England.

Regulatory environment
The gas distribution business of WWU is regulated by the Office of Gas and 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 WWU'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.

WWU is also regulated by the Health and Safety Executive.

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.

The business model (continued)

Results and operating performance

The consolidated loss for the year ended 31 December 2013 on ordinary activities before taxation amounted to £55.7m (nine months ended 31 December 2012: £89.1m). The consolidated loss attributable to shareholders amounted to £49.8m (nine months ended 31 December 2012: £81.4m).

The results of the Group for the year ended 31 December 2013, including the results of WWU, are set out in the consolidated profit and loss account on page 16.

WWU replaced 454kms of gas mains and replaced or reconnected the associated related gas service pipes running from the gas mains to the properties of gas consumers at a cost of £77.4m (nine months ended 31 December 2012: 292kms at a cost of £57.4m). The work was undertaken either because:

(i) mains were required to be replaced under a programme defined by the Health & Safety Executive where all iron mains below 9" in diameter and within 30 metres of a property are to be replaced with plastic alternatives within a period of 30 years;
(ii) mains were required to be replaced under a programme defined by the Health and Safety Executive where all iron mains above 9" and less than 18" in diameter, within 30 metres of a property and in excess of a defined risk threshold are to be replaced within a period of 30 years;
(iii) the overall condition of the metallic main warranted replacement; or
(iv) of a request (usually through a local authority as a result of a highways project) to move the gas infrastructure.

A further £1.5m (nine months ended 31 December 2012: £12.6m) 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 year ended 31 December 2013, the Group invested and capitalised £70.7m (nine months ended 31 December 2012: £56.2m), against which consumers contributed £9.6m (nine months ended 31 December 2012: £5.9m), 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 was circa £13.0m, saving £3.0m on the restructuring accrual at 31 December 2012, and payments were largely incurred during the year ended 31 December 2013. The restructure resulted in a manpower reduction of 139 people which was 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 2 April 2013.

Business review

The Group's operating performance over the past twelve months has been satisfactory, with all standards of performance being achieved by WWU. In particular, WWU's targets for mains abandoned and replaced were met, as were its 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 by WWU. There were 2,453 complaints in the year ended 31 December 2013 (nine months ended 31 December 2012: 1,647). The definition of a complaint is in line with The Gas and Electricity (Consumer Complaint Handling Standards) Regulations 2008.

There were seven lost time injuries ("LTIs") to direct and contract labour during the year ended 31 December 2013 (nine months ended 31 December 2012: five). Five LTIs were sustained through direct labour (nine months ended 31 December 2012: three through direct labour, including two road traffic incidents) and two through WWU's contract partners (nine months ended 31 December 2012: two).

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

The business model (continued)

Financial review

Basis of accounting
The financial statements present the Group's results for the year ended 31 December 2013 and the financial position as at 31 December 2013. They have been prepared using the accounting policies shown on pages 20 to 23, in accordance with Generally Accepted Accounting Practices in the United Kingdom.

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

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 for the year ended 31 December 2013 from operations amounted to £148.6m (nine months ended 31 December 2012: £60.7m).

Investing activities absorbed net cash of £58.4m (nine months ended 31 December 2012: £50.5m) and net financing costs amounted to £211.9m (nine months ended 31 December 2012: £46.4m).

Cashflow 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 Strategic report on pages 8 and 9.

Shareholder deficit
Shareholder deficit at 31 December 2013 amounted to £851.0m (nine months ended 31 December 2012: £774.2m) as a result of a retained loss of £49.8m (nine months ended 31 December 2012: £81.4m) and an actuarial loss on the pension scheme of £27.0m (31 December 2012: £16.5m).

The directors consider that the Group has performed satisfactorily during the year.

Details of the ownership of the Company are included in note 28. There were no movements in the authorised and issued share capital of the Company in the year.

Fixed assets

Freehold land and buildings are carried in the financial statements at historic cost of £14.6m (nine months ended 31 December 2012: £7.5m).

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 £70.7m (nine months ended 31 December 2012: £55.6m), offset by capital contributions of £9.6m (nine months ended 31 December 2012: £5.9m) and net replacement expenditure was £78.9m for the year ended 31 December 2013 (nine months ended 31 December 2012: £70.0m).

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 (note 7).

The business model (continued)

Financing
The financing of the Group is as set out below:

Wales & West Utilities Finance plc ("WWUF") was established as a wholly owned subsidiary of WWU. WWUF is the funding vehicle for raising funds to support the long term debt financing requirements of the Group.

At 31 December 2013 WWUF 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	30 November 2021
£200m	5.125%	A	2 December 2009	2 December 2016
£300m	5.75%	A	31 March 2010	29 March 2030
£100m	2.496% Index-linked	A	31 March 2010	22 August 2035
£115m	6.75%*	B	31 March 2010	17 December 2018 /2036*
£250m	4.625%	A	4 November 2011	13 December 2023
£150m	5.00%	A	4 November 2011	7 March 2028

* 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%, therefore management intends to refinance these borrowings by 2018 and as a result borrowings are disclosed as maturing within five years

All of the bonds are unconditionally and irrevocably guaranteed by WWU and the Company pursuant to a guarantee and security agreement entered into over the entire property, assets, rights and undertakings of each guarantor, in the case of WWU to the extent permitted by the Gas Act and its Gas Transporters Licence.

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

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.

Key performance indicators

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.

Key performance indicators (continued)

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 an annual 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 year ended 31 December 2013 amounted to £129,332 (nine months ended 31 December 2012: £99,640).

The Group 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 WWU's website and are reported to Ofgem.

All regulatory standards of performance were achieved in the year ended 31 December 2013 and the nine months ended 31 December 2012.

Key operational performance measures were:

	Target	Year ended 31 December 2013	Nine months ended 31 December 2012	Year ended 31 March 2012
Responding to gas escapes				
1 hour target for uncontrolled escapes	97.0%	**98.1%**	98.4%	98.6%
2 hour target for controlled escapes	97.0%	**99.4%**	99.6%	99.6%
Standards of performance				
Issuing quotations	90.0%	**98.1%**	99.2%	99.1%
Offer dates for work start and finish	90.0%	**99.9%**	99.9%	99.9%
Jobs completed on agreed dates	90.0%	**95.1%**	95.0%	95.2%
Responding to complaints	90.0%	**99.8%**	99.7%	99.3%
Customer complaints				
Number of complaints		**2,453**	1,647	2,161
Number of jobs undertaken		**260,955**	98,955	150,000
Percentage complaints		**0.9%**	1.7%	1.4%
Upheld complaints				
Ombudsman service		-	-	-

Upheld complaints are defined in The Gas and Electricity (Consumer Complaint Handling Standards) Regulations 2008.

Key financial performance measures of the Group were:

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

	Year ended 31 December 2013 £m	Nine months ended 31 December 2012 £m	Year ended 31 March 2012 £m
Turnover	**406.3**	277.0	350.9
Operating costs	**(147.9)**	(102.2)	(116.6)
Operating profit before replacement expenditure, exceptional items and depreciation	**258.4**	174.8	234.3
Operating cashflows	**148.6**	60.7	116.3

Key performance indicators (continued)

Principal risks and uncertainties
The management of the business and the execution of the Group'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 risk, (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.

The key business risks facing the Group are set out below:

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

Regulatory
- compliance with the Group'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. 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 year end processes undertaken by the Group.

Financial risk management

The Group'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 Group 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 Group also uses derivative financial instruments to manage interest rate costs and the impact of inflation.

The directors have delegated the responsibility of monitoring financial risk management to a sub-committee of the Board, the Treasury Committee. The policies set by the Board are implemented by the Group's finance department through the Treasury Committee.

Commodity price risk
The Group 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 Group 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.

Key performance indicators (continued)

Credit risk

The Group 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.

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 December 2012: 100%) which, if exceeded, allows the Company to apply sanctions.

The Group'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 Group actively maintains long term debt finance that is designed to ensure the Group has sufficient available funds for operations. The Group has both interest bearing assets and interest bearing liabilities. Interest bearing assets are cash, which bear interest at variable or short-term fixed rates. The Group 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.

Corporate and social

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 members of the public. During the year ended 31 December 2013, there were seven (direct labour: five, contract labour: two) (nine months ended 31 December 2012 five, direct labour: three, two of which were road traffic incidents, contract labour: two) LTI's between direct and contract labour, giving a 12 month frequency rate of 0.03 LTIs/100,000 hours worked (nine months ended 31 December 2012: 0.03 LTI's/100,000 hours worked).

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

With a deployed work force (including contractors) of around 2,000, a multi-million pound replacement programme and WWU's core role of managing the safe and secure delivery of gas. The safety challenge is significant. The Group 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 Group 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.

Corporate and social (continued)

Environment

The Group is also proud of its environmental achievements and again maintained certification to ISO 14001 environmental management. By utilising and developing industry-wide best practices, the Group 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, and the Company is constantly looking for ways to minimise the environmental impact of its past, present and future activities.

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

Gender diversity

The group employed the following mix of staff as at 31 December 2013:-

Number	Male	Female	Total
Executive and directors	15	1	16
Senior managers	30	9	39
Other employees	1,087	188	1,275
Total employees	**1,132**	**198**	**1,330**

The Group is based in the UK and aims for a workforce that is representative of the societies in which we operate.

The Group is committed to ensuring equal opportunities in recruitment, career development, promotion, training and reward for all employees.

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 engagement and involvement in business matters.

All employees have regular opportunities 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 meetings 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 Group's workforce.

Corporate and social (continued)

Employment policies (continued)
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 with individuals leaving in April 2013 to allow realignment of core activities with the aim of improving the efficiency and effectiveness of the organisation.

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 2.4%, (12.4% including leavers in the voluntary redundancy severance programme) in the year ended 31 December 2013 (nine months ended 31 December 2012: 3.6%), and this compares favourably to the published Chartered Institute of Personnel & Development statistics which showed that the average in UK industry during 2013 was 11.9% (2012: 12.7%).

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 has a three-four year training period, depending on the course of study undertaken and there are four 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 five years and beyond (19% of the current workforce is expected to retire before 2021). Our apprentice population has been recruited into the areas of "Emergency", "Mechanical Engineering" and "Electrical & Instrumentation" – key areas where skills are not readily available in the external market and training times can be up to four years.

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 nine years to 94, meaning that 13% of the industrial workforce has joined the Company via the WWU Apprenticeship Programme.

Within the last eight years the Group 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.

By order of the Board

Paul Millar

P Millar
Company secretary
27 March 2014

Report of the directors

The directors have pleasure in presenting the annual report to the shareholders of the Wales & West Utilities Holdings Limited group ("the Group" or "the Company" as the context requires), together with the audited financial statements for the year ended 31 December 2013 as presented on pages 16 to 47.

Principal activities
The Company was incorporated on 1 December 2009 with an authorised share capital of 2 £1 shares. The issued share capital at incorporation, which was fully paid, was £2.

The sole purpose of the Company is to act as an immediate holding company; it does not own any physical assets or have any employees.

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

- the financial year end of the Company was changed from 31 March to 31 December, and
- Deloitte LLP was appointed statutory auditor to the Company and the Group.

History and development
WWU 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. WWU 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 Group is a privately owned Group. Details of the immediate and ultimate parent companies are set out in note 28 to the financial statements.

Dividend on ordinary shares
The directors do not recommend the payment of a dividend in respect of the year ended 31 December 2013 (nine months ended 31 December 2012: £nil).

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

Changes in the directors during the year and up to the date of signature of the statutory financial statements are shown below:

Charles Tsai	Appointed director - 28 February 2014
Sui See Yuen	Resigned - 28 February 2014
Neil Henson	Appointed alternate director - 18 July 2013
Charles Tsai	Resigned alternate director - 28 February 2014

Company secretary
The name of the current Company secretary is shown on page 1.

Changes in Company secretary during the year and up to the date of signature of the statutory financial statements are shown below:

Christopher Talbot	Resigned as Company secretary 1 September 2013
Paul Millar	Appointed as Company secretary 2 September 2013

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 year 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.

Contributions for political purposes
During the year ended 31 December 2013, there have been no political donations (nine months ended 31 December 2012: £nil).

Going concern
The Group's financial statements have been prepared on the basis that the Group and 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 Group's and Company's budget for 2014 and medium term business plans for 2015/21 including capital expenditure plans. The review included considering the cashflow implications of the plans and comparing these with the Group's and Company's cash resources and committed borrowing facilities and concluded that the Group and Company was in a position to meet its liabilities as they fall due.

Consolidated Regulatory Accounts
The Gas Transporter's Licence, under which Wales & West Utilities Limited operates, requires specific accounting statements to be published. Copies of the Consolidated Regulatory Accounts for Wales & West Utilities Limited for the regulatory year ended 31 March 2014 will be available from the Company Secretary after 31 July 2014.

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.

Disclosure of information to auditor
In the case of each person who is a director 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.

Deloitte LLP have expressed their willingness to continue in office as auditor and are deemed to be reappointed, subject to certain specified circumstances under s487 of the Companies Act 2006.

By order of the Board

P Millar
Company secretary
27 March 2014

Directors' responsibilities statement for the financial statements

The directors are responsible for preparing the annual strategic report, 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

Paul Millar

P Millar
Company secretary
27 March 2014

Independent auditor's report to the members of Wales & West Gas Networks (Holdings) Limited

We have audited the financial statements of Wales & West Gas Networks (Holdings) Limited ("the financial statements") for the year ended 31 December 2013 which comprise the Consolidated profit and loss account, the Consolidated statement of total recognised gains and losses, the Consolidated and parent company reconciliation of movements in shareholders' (deficit)/funds, the Consolidated and parent company balance sheets, the Consolidated cash flow statement, the principal accounting policies and the related notes 1 to 29. 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 auditor

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 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 the 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 annual report to identify material inconsistencies with the audited financial statements and to the audit. 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 2013 and of the Group's 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 Strategic report and 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 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, United Kingdom
28 March 2014

Consolidated profit and loss account for the year ended 31 December 2013

Continuing operations	Note	Year ended 31 December 2013 £m	Nine months ended 31 December 2012 £m
Turnover		**406.3**	277.0
Net operating costs	2(a)	**(279.6)**	(239.2)
Operating profit before replacement expenditure, exceptional items and depreciation		**258.4**	174.8
Replacement expenditure	2(a)	**(78.9)**	(70.0)
Exceptional items	2(b)	**3.0**	(11.0)
Depreciation	6	**(55.8)**	(56.0)
Operating profit		**126.7**	37.8
Operating profit	2	**126.7**	37.8
Interest receivable and similar income	4(a)	**25.9**	21.4
Interest payable and similar charges	4(b)	**(208.3)**	(148.3)
Loss on ordinary activities before taxation		**(55.7)**	(89.1)
Tax credit on loss on ordinary activities	5	**5.9**	7.7
Loss for the year/period	20	**(49.8)**	(81.4)

Consolidated statement of total recognised gains and losses for the year ended 31 December 2013

	Year ended 31 December 2013 £m	Nine months ended 31 December 2012 £m
Loss for the financial year/period	**(49.8)**	(81.4)
Actuarial loss on pension scheme (note 27)	**(27.0)**	(16.5)
Total recognised losses relating to the year/period	**(76.8)**	(97.9)

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

Consolidated and Company reconciliation of movements in shareholders' (deficit)/funds for the year ended 31 December 2013

Group	Year ended 31 December 2013 £m	Nine months ended 31 December 2012 £m
Total recognised losses relating to the year/period	**(76.8)**	(97.9)
Net increase in shareholders' deficit	**(76.8)**	(97.9)
At 1 January/1 April	**(774.2)**	(676.3)
At 31 December	**(851.0)**	(774.2)

Company	Year ended 31 December 2013 £m	Nine months ended 31 December 2012 £m
Total recognised gains relating to the year/period	**-**	-
Net increase in shareholders' funds	**-**	-
At 1 January/1 April	**109.1**	109.1
At 31 December	**109.1**	109.1

Balance sheets at 31 December 2013

		Group		Company	
		31 December 2013	31 December 2012	**31 December 2013**	31 December 2012
	Note	**£m**	£m	**£m**	£m
Fixed assets					
Tangible assets	6	**1,365.3**	1,350.9	**-**	-
Investments	7	**0.1**	0.1	**109.1**	109.1
		1,365.4	1,351.0	**109.1**	109.1
Current assets					
Stocks	8	**3.6**	3.1	**-**	-
Debtors	9	**47.4**	47.4	**583.9**	555.0
Current asset investments	10	**-**	150.0	**-**	-
Cash at bank and in hand	24	**41.2**	32.6	**-**	-
		92.2	233.1	**583.9**	555.0
Current liabilities					
Creditors: amounts falling due within one year:	11(a)	**(686.7)**	(775.4)	**(583.9)**	(555.0)
Net current liabilities		**(594.5)**	(542.3)	**-**	-
Total assets less current liabilities		**770.9**	808.7	**109.1**	109.1
Creditors: amounts falling due after more than one year	11(b)	**(1,531.2)**	(1,503.5)	**-**	-
Provisions for liabilities	17	**(38.8)**	(42.5)	**-**	-
Net (liabilities)/assets before pension liability		**(799.1)**	(737.3)	**109.1**	109.1
Pension liability	27	**(51.9)**	(36.9)	**-**	-
Net (liabilities)/assets including pension liability		**(851.0)**	(774.2)	**109.1**	109.1
Capital and reserves					
Called up share capital	18	**-**	-	**-**	-
Share premium account	19	**109.1**	109.1	**109.1**	109.1
Profit and loss account	20	**(960.1)**	(883.3)	**-**	-
Total shareholders' (deficit)/funds		**(851.0)**	(774.2)	**109.1**	109.1

The financial statements on pages 16 to 47 were approved by the Board of Directors and authorised for issue on 27 March 2014 and were signed on its behalf by:

Andrew Hunter
Director

Graham Edwards
Director

Consolidated cashflow statement for the year ended 31 December 2013

	Note	Year ended 31 December 2013 £m	Nine months ended 31 December 2012 £m
Operating activities			
Net cash inflow from continuing operating activities	21	**148.6**	60.7
Net cash inflow from operating activities		**148.6**	60.7
Returns on investments and servicing of finance			
Dividends received		**0.4**	0.3
Interest received		**26.5**	24.3
Interest paid		**(130.4)**	(71.0)
Payments in respect of RPI index-linked swap contracts		**(108.4)**	-
Net cash outflow from returns on investments and servicing of finance		**(211.9)**	(46.4)
Taxation			
UK corporation tax received		**1.4**	0.4
		1.4	0.4
Investing activities			
Purchase of tangible fixed assets		**(69.7)**	(56.8)
Capital contributions received		**9.6**	5.9
Proceeds of disposal of tangible fixed assets		**1.7**	0.4
Net cash outflow from investing activities		**(58.4)**	(50.5)
Net cash outflow before financing		**(120.3)**	(35.8)
Financing			
Net long term loans received	22	**-**	20.0
Debt issue costs	22	**(1.1)**	-
Cash transferred from short-term deposit	10	**150.0**	-
Long term loans repaid	22	**(20.0)**	-
Net cash inflow from financing		**128.9**	20.0
Increase/(decrease) in cash at bank and in hand	23	**8.6**	(15.8)
Cash at bank and in hand	23	**41.2**	32.6
Cash held on short-term deposit	24	**-**	150.0
Total cash and cash deposits	24	**41.2**	182.6

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 in both periods, is shown below.

Changes in accounting policy
There have been no changes in accounting policy during the year.

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 13.

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 year 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 Gas Networks (Senior Finance) Limited and is included in the consolidated financial statements of Wales & West Gas Networks (Holdings) 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 year. 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 year and includes an estimate of the value of units supplied between the date of the last meter reading and the year 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.

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:

Freehold buildings	up to 50 years
Leasehold 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.

Following a review of asset lives acquired at data take on from National Grid the useful economic life of certain infrastructure assets has been increased but remains within the range stated above.

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 therefore expensed 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 amounts. 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 cashflows 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 lives 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 in the period to which they relate.

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 and index-linked 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.

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 year.

The assets of the defined benefit section of the pension 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 year is charged to operating profit. The net of the expected return on the scheme's assets and the increase during the year 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 year ended 31 December 2013 dealt with in the financial statements of the Company was £nil (nine months ended 31 December 2012: £nil). The amount transferred to reserves was £nil (nine months ended 31 December 2012: £nil).

2. Operating profit

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

	Note	**Year ended 31 December 2013 £m**	Nine months ended 31 December 2012 £m
Continuing operations:			
Staff costs	3(b)	**79.9**	57.8
Own work capitalised		**(16.5)**	(15.3)
Depreciation: Own assets	6	**55.8**	56.0
Less amortisation of customer contributions		**(2.1)**	(1.5)
Less amortised grants		**(0.1)**	(0.1)
Profit on disposal of fixed assets		**(1.2)**	(0.1)
Replacement expenditure		**78.9**	70.0
Rentals under operating leases:			
Hire of plant and equipment		**2.8**	1.6
Other		**0.3**	0.8
Exceptional items ~ restructuring costs	2(b)	**(3.0)**	16.0
Exceptional items ~ net decrease in provisions	2(b)	**-**	(5.0)

Own work capitalised includes direct labour and ancillary costs.

(b) Exceptional items

The exceptional items relate to:-

i) 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 was circa £13.0m, saving £3m on the estimated restructure costs accrual as at 31 December 2012, and payments were mainly incurred during the year ended 31 December 2013. The restructure resulted 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 2 April 2013.

ii) 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 in the nine months ended 31 December 2012, gave rise to a net decrease in provisions of £5.0m (note 17) in the prior period (year ended 31 December 2013 £nil).

2. Operating profit (continued)

(c) Auditor remuneration
Services provided by the Group's auditor

During the year/period the Group obtained the following services from the Group's auditor:

	Year ended 31 December 2013 £000	Nine months ended 31 December 2012 £000
Fees payable to the Group's auditor for the audit of parent entity and the consolidated financial statements	**5.0**	5.0
Fees payable to the Group's auditor and its associates for other services:		
The audit of the company's subsidiaries pursuant to legislation	**56.0**	56.0
Other services pursuant to legislation		
Assurance services related to group reporting	**37.0**	50.8
Assurance services related to regulatory reporting	**75.0**	-
Other assurance services	**46.9**	-
Tax compliance services	**113.2**	71.7
Tax advisory services	**390.8**	2.7
	723.9	186.2

	Year ended 31 December 2013 £000	Nine months ended 31 December 2012 £000
Fees in respect of the pension scheme:		
Audit of pension scheme	**16.6**	-

The company's audit and tax fees were paid by Wales & West Utilities Limited, a group company.

3. Directors and employees

(a) Directors' emoluments and interests

Directors' emoluments:

	Year ended 31 December 2013 £000	Nine months ended 31 December 2012 £000
Fees	**50.0**	114.2
Compensation for loss of office	**-**	57.5
Salary payments (including benefits in kind)	**358.7**	238.2
Performance related bonus (see below)	**433.0**	480.0
Pension contributions	**12.0**	18.0
Contributions in lieu of pension	**73.0**	38.3
	926.7	946.2

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 for the year 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 year ended 31 December 2013 represents the bonus approved by the Remuneration Committee in respect of services for the year ended 31 December 2013.

The performance bonus disclosed for the year ended 31 December 2013 is apportioned between an amount due following the year end, paid in February and the balance held under a long term incentive plan, to be payable three years after the period that it arose on the achievement of defined long term targets.

The bonus disclosed for the period ended 31 December 2012 was paid in full in August 2013.

The performance bonus is conditional on the director remaining in office on the payment date.

No director had any interest over shares in the Company.

Highest paid director:

	Year ended 31 December 2013 £000	Nine months ended 31 December 2012 £000
Salary payments (including benefits in kind)	**358.7**	238.2
Performance related bonus (see above)	**433.0**	480.0
Pension contributions	**12.0**	18.0
Contributions in lieu of pension	**73.0**	38.3
	876.7	774.5
Accrued company pension	**422.1**	384.2

3. Directors and employees (continued)

(b) Staff costs

	Year ended 31 December 2013 £m	Nine months ended 31 December 2012 £m
Wages and salaries	**59.8**	45.6
Redundancy costs	**3.6**	-
Social security costs	**5.8**	4.3
Pension costs (note 27)	**10.7**	7.9
	79.9	57.8

Of the above, £13.4m (nine months ended 31 December 2012: £9.1m) has been capitalised.

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

	Year ended 31 December 2013 Number	Nine months ended 31 December 2012 Number
Regulated gas distribution activities	**1,362**	1,449
Other activities	**2**	2
	1,364	1,451

4. Interest

(a) Interest receivable and similar income

	Year ended 31 December 2013 £m	Nine months ended 31 December 2012 £m
Income from fixed asset investment	**0.4**	0.3
On interest rate swaps	**22.7**	17.2
On current asset investments	**0.8**	2.6
Other interest receivable	**0.4**	0.6
Other finance income – net pensions (note 27)	**1.6**	0.7
	25.9	21.4

(b) Interest payable and similar charges

	Year ended 31 December 2013 £m	Nine months ended 31 December 2012 £m
On external debt	**80.5**	59.2
On RPI index-linked derivate contracts	**40.0**	26.5
On group loans	**83.5**	58.8
Amortised issue costs and discount	**2.3**	1.9
On unwinding of discounts on provisions (note 17)	**1.8**	1.8
Other	**0.2**	0.1
	208.3	148.3

Notes to the financial statements

5. Tax on loss on ordinary activities

(a) Analysis of credit in the year/period

	Year ended 31 December 2013 £m	Nine months ended 31 December 2012 £m
The credit for taxation is made up as follows:		
Current tax		
UK corporation tax on loss of the year/period	**(4.5)**	(7.7)
Adjustments in respect of previous periods	**(1.4)**	-
Total current tax (note 5(b))	**(5.9)**	(7.7)
Deferred tax		
Origination and reversal of timing differences	**-**	-
Total deferred tax	**-**	-
Total tax credit on loss on ordinary activities	**(5.9)**	(7.7)

The £4.5m (nine months ended 31 December 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 year/period

The current tax assessed for the year/period is different to the standard rate of corporation tax in the UK of 23% (31 December 2012: 24%). The differences are explained below:

	Year ended 31 December 2013 £m	Nine months ended 31 December 2012 £m
Loss on ordinary activities before tax	**(55.7)**	(89.1)
Loss on ordinary activities before tax multiplied by standard rate of corporation tax in the UK of 23% (31 December 2012: 24%)	**(12.8)**	(21.4)
Effects of:		
Prior period charge	**2.6**	-
Adjustment in respect of land remediation relief	**(1.4)**	0.2
Tax effect of expenses that are not deductible in determining taxable profit/(loss)	**15.8**	12.8
Non taxable income	**(0.1)**	(0.1)
(Utilisation)/generation of tax losses	**0.6**	5.1
Accelerated capital allowances	**(4.9)**	(0.2)
Short term timing differences	**(3.0)**	(1.3)
Short term timing differences in respect of pension scheme	**(2.7)**	(2.8)
Current tax credit for the year/period (note 5(a))	**(5.9)**	(7.7)

A deferred tax asset has not been recognised in respect of accelerated capital allowances and tax losses with a tax value of £36.4m (31 December 2012: £41.6m) 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 its corporation tax computations as submitted to HM Revenue & Customs.

The fall in the future tax rate to 20% from 1 April 2015 is not expected to materially affect the future tax charge.

6. Tangible fixed assets

Group

	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 January 2013	7.8	5.1	1,688.0	151.9	23.7	**1,876.5**
Additions	-	-	-	-	70.7	**70.7**
Disposals	(0.1)	-	-	(4.9)	-	**(5.0)**
Transfers in year	7.4	-	40.4	18.1	(65.9)	**-**
At 31 December 2013	**15.1**	**5.1**	**1,728.4**	**165.1**	**28.5**	**1,942.2**
Accumulated depreciation						
At 1 January 2013	0.3	2.5	432.4	90.4	-	**525.6**
Charge for the year	0.2	0.7	40.3	14.6	-	**55.8**
Disposals	-	-	-	(4.5)	-	**(4.5)**
At 31 December 2013	**0.5**	**3.2**	**472.7**	**100.5**	**-**	**576.9**
Net book amount						
At 31 December 2013	**14.6**	**1.9**	**1,255.7**	**64.6**	**28.5**	**1,365.3**
At 31 December 2012	7.5	2.6	1,255.6	61.5	23.7	1,350.9

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.

Company

The Company had no tangible fixed assets at 31 December 2013 or at 31 December 2012.

Notes to the financial statements

7. Fixed asset investments

Group	Unlisted investments £m
Cost	
At 31 December 2013 and 31 December 2012	**0.1**
Amounts written off	
At 31 December 2013 and 31 December 2012	-
Net book amount	
At 31 December 2013 and 31 December 2012	**0.1**

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

Company	Unlisted investments £m
Cost	
At 31 December 2013 and 31 December 2012	**109.1**
Amounts written off	
At 31 December 2013 and 31 December 2012	-
Net book value	
At 31 December 2013 and 31 December 2012	**109.1**

On 31 March 2010 the Company was involved in a group reconstruction. This resulted in the Company entering into a share for share exchange whereby the Company issued a further ordinary share to its immediate parent company, Wales & West Gas Networks (Senior Finance) Limited, and in exchange acquired Wales & West Gas Networks (Senior Finance) Limited's interest in 100% of the issued share capital of Wales & West Utilities Limited ("WWU"), a company incorporated in England & Wales.

As a consequence of the above transaction, the Company has accounted for the group reconstruction under merger accounting using group reconstruction relief provisions. Under the provision of the Companies Act 2006, the share for share exchange has been recorded at the carrying value of the investment in WWU by Wales & West Gas Networks (Senior Finance) Limited of £109.1m as at the date of the transfer. Under section 611 of the Companies Act 2006, the difference between the nominal value of the share issued by the Company and the attributed carrying value has been credited to the share premium account.

8. Stocks

Group

	31 December 2013 £m	31 December 2012 £m
Raw materials and consumables	**3.6**	3.1

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

Company
The Company had no stock at 31 December 2013 or at 31 December 2012.

9. Debtors

	Group		Company	
	31 December 2013 £m	31 December 2012 £m	**31 December 2013 £m**	31 December 2012 £m
Amounts falling due within one year:				
Trade debtors	**38.1**	34.8	-	-
Prepayments and accrued income	**8.9**	12.2	-	-
Corporation tax recoverable	**0.4**	0.4	-	-
Amounts due from Group Companies	**-**	-	**583.9**	555.0
	47.4	47.4	**583.9**	555.0

10. Current asset investments

Group

	31 December 2013 £m	31 December 2012 £m
Cash held on short-term deposit	-	150.0
	-	150.0

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

Company
The Company held no current asset investments at 31 December 2013 or at 31 December 2012.

11. Creditors

Group

	Note	**31 December 2013 £m**	31 December 2012 £m	**31 December 2013 £m**	31 December 2012 £m
(a) Other creditors falling due within one year:					
Liability for index-linked swap contracts	14(d)	**-**	104.7	-	-
Payments received on account		**8.3**	5.9	-	-
Trade creditors		**8.7**	14.0	-	-
Other taxation and social security		**10.4**	5.7	-	-
Other creditors		**2.2**	2.1	-	-
Customer capital contributions		**2.6**	2.2	-	-
Accruals and deferred income		**70.5**	85.7	-	-
Capital grant		**0.1**	0.1	-	-
Amounts due to group undertakings		**583.9**	555.0	**583.9**	555.0
		686.7	775.4	**583.9**	555.0
(b) Amounts falling due after more than one year:					
Borrowings	12	**1,402.9**	1,418.0	-	-
Liability for index-linked swap contracts	14(d)	**36.3**	-	-	-
Trade creditors		**0.4**	0.6	-	-
Accruals and deferred income		-	0.7	-	-
Capital grant		**0.9**	1.0	-	-
Customer capital contributions		**90.7**	83.2	-	-
		1,531.2	1,503.5	-	-

12. Borrowings

Group

	31 December 2013 £m	31 December 2012 £m
Repayable as follows:		
In more than one year but not more than two years	-	59.6
In more than two years but not more than five years	350.8	197.8
In more than five years	1,052.1	1,160.6
	1,402.9	1,418.0

Company

The Company had no external borrowings at 31 December 2013 or at 31 December 2012.

(i) At 31 December 2013 Wales & West Utilities Finance plc had in issue guaranteed bonds with a nominal value of £1,365.0m (31 December 2012: £1,365.0m) and a book value of £1,363.9m(31 December 2012: £1,358.4m). Included in the book value is £16.0m (31 December 2012: £12.4m) of accrued inflation on the index-linked bond. 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	30 November 2021	£247.7m
£200m	5.125%	A	2 December 2009	2 December 2016	£198.3m
£300m	5.75%	A	31 March 2010	29 March 2030	£293.7m
£100m	2.496% Index-linked	A	31 March 2010	22 August 2035	£115.3m
£115m	6.75%*	B	31 March 2010	17 December 2018/2036*	£113.5m
£250m	4.625%	A	4 November 2011	13 December 2023	£247.8m
£150m	5.00%	A	4 November 2011	7 March 2028	£147.6m
£1,365m					£1,363.9m

* 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%, therefore management intends to refinance these borrowings by 2018 and as a result borrowings are disclosed as maturing within five years.

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

(ii) At 31 December 2013, the Group had borrowed £40.0m (31 December 2012: £60.0m) under its revolving credit facility which matures in December 2018, with a book value at 31 December 2013 of £39.0m (31 December 2012: £59.6m). The floating interest rates on these loans ranged from LIBOR + 0.60% to LIBOR + 3.25%.

In December 2013, WWU refinanced its medium term committed revolving bank facilities for a five year term ending December 2018. The senior secured Class A capex facility for £125.0m and the Class B bank facility for £25m were replaced with the same facility at lower costs. The refinancing also allowed WWU to increase the size of the 364 day debt service reserve liquidity facility from £55.0m to £70.0m.

13. Gross borrowings

Group

	31 December 2013 £m	31 December 2012 £m
Gross value of other loans	**1,405.0**	1,425.0

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

	31 December 2013 £m	31 December 2012 £m
In more than one year but not more than two years	-	60.0
In more than two years but not more than five years	**355.0**	200.0
In more than five years	**1,050.0**	1,165.0
	1,405.0	1,425.0

The difference between gross borrowings as disclosed above and net borrowings as disclosed in notes 11(b) and 12 reflect the unamortised element of the debt arrangement fees of £18.1m (31 December 2012: £19.4m) and the accrued inflation on the index-linked bond of £16.0m (31 December 2012: £12.4m).

The gross borrowings disclosure has been revised to exclude the accrued inflation on the index-linked bond and accrued liability on the index-linked swap contracts.

14. Financial instruments and risk management

Group

(a) Interest rate and index-linked 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.

The Group has entered into Index-linked interest rate swaps to mitigate the impact of the index-linked revenues which the Company/Group receives as part of its license obligation under the price control settlement.

Interest rate swaps
As at 31 December 2013, the Group held an interest rate swap with a notional principal of £40.0m (31 December 2012: £40.0m) which fixes the interest rate of floating liabilities held by the Group. The interest rate on this swap at 31 December 2013 was 5.19% (31 December 2012: 5.19%). The maturity date of this swap is November 2018 (31 December 2012: November 2018).

As at 31 December 2013, the Group held further interest rate swaps with a notional principal of £234.4m (31 December 2012: £234.4m), which offset the floating LIBOR on the LIBOR index-linked swaps. The interest rates the pay leg of these swaps at 31 December 2013 is floating LIBOR (31 December 2012: floating LIBOR). The maturity date of these swaps ranges between November 2018 and March 2030 (31 December 2012: between November 2018 and March 2030).

Index-linked swaps
As at 31 December 2013, the Group held index-linked swaps with a notional principal of £1,004.0m (31 December 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 the pay leg of these swaps at 31 December 2013 ranged between 0.87% and 2.23% (31 December 2012: 0.69% and 1.71%) (fixed) plus RPI. The maturity dates of these swaps range between November 2023 and November 2039 (31 December 2012: between November 2023 and November 2039).

14. Financial instruments and risk management (continued)

(a) Interest rate and index-linked swaps (continued)

Company
The Company had no index-linked or interest rate swap arrangements at 31 December 2013 or at 31 December 2012.

(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 2013 £m	31 December 2012 £m
Fixed rate	**792.8**	763.9
Fixed real rate	**1,104.0**	1,104.0
Floating rate	**85.0**	105.0
Total	**1,981.8**	1,972.9

Borrowings with a fixed real rate comprise £100.0m of 2.496% index-linked bonds (31 December 2012: £100.0m) and £1,004.0m (31 December 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 2013 ranged between 0.87% and 2.23% (31 December 2012: between 0.69% and 1.71%) (fixed) plus RPI. The maturity dates of these swaps range between November 2023 and November 2039 (31 December 2012: between November 2023 and November 2039).

The above analysis includes £576.8m (31 December 2012: £547.9m) of intra-group indebtedness to the immediate parent undertaking. Interest was chargeable on these loans at 15% (31 December 2012: 15%) on the fixed element and LIBOR + 14% (31 December 2012: LIBOR + 14%) on the floating element.

(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 2013 and 31 December 2012, 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**	
Currency		**31 December 2013 %**	31 December 2012 %	**31 December 2013 Years**	31 December 2012 Years
Sterling:	Fixed rate	**5.04**	4.99	**11.4**	11.9
	Fixed real rate	**3.61**	3.27	**10.5**	11.5
	Intercompany fixed rate	**15.00**	15.00	**0.3**	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 year/period.

14. Financial instruments and risk management (continued)

(d) Maturity profile of financial instruments

	31 December 2013 £m	31 December 2012 £m	Weighted average period until maturity 31 December 2013 Years	Weighted average period until maturity 31 December 2012 Years
Liability for index-linked swap contracts	**36.3**	104.7	**2.3**	0.3
Liability for index-linked bonds	**16.0**	12.4	**21.7**	22.7
	52.3	117.1		

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 at 31 December 2013 for the accrued inflation of 31 March 2016 (2012: 31 March 2013).

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 2013 £m	31 December 2012 £m
Committed borrowing facilities available	**150.0**	180.0
Drawn	**(40.0)**	(60.0)
Undrawn committed facilities	**110.0**	120.0

(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 £1.0m (31 December 2012: £0.4m) 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 2013 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 year 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 year end levels.

14. Financial instruments and risk management (continued)

(f) Fair values of financial instruments (continued)

	31 December 2013 Book value £m	Fair value £m
Primary financial instruments held or issued to finance the Group's operations:		
Guaranteed bonds	(1,363.9)	(1,533.4)
Bank debt	(39.0)	(40.0)
Cash at bank and in hand	41.2	41.2
	(1,361.7)	(1532.2)
Derivative financial instruments held to manage the interest rate profile and matched by primary financial instruments:		
Index-linked swaps	(52.1)	(702.8)
Interest rate swaps	-	4.9
	(1,413.8)	(2,230.1)

The fair value of derivative financial instruments matched to primary financial instruments relates to long term borrowings with a book value of £1,402.9m (31 December 2012: £1,418m) which have been included within the primary financial instruments issued to finance the Group's operations at a fair value of £1,573.4m (31 December 2012: £1,668.6m) 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 £18.1m (31 December 2012: £19.4m) and the accrued inflation on the index-linked bond of £16.0m (31 December 2012: £12.4m).

(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 £661.6m (31 December 2012: £553.1m) 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 year end levels.

	Total losses £m
At 1 January 2013	(657.8)
Movement in fair value	(40.1)
At 31 December 2013	(697.9)
Of which:	
Losses not expected to be included in 2014 or later years	(661.6)
	(661.6)

The difference between the total losses and the losses not expected to be included in 2014 or later years is the amount accrued in the financial statements of £36.3m (note 11(b)) (31 December 2012: £104.7m - note 11(a)) in respect of liability for index-linked swap contracts.

15. Capital commitments

Group

	31 December 2013 £m	31 December 2012 £m
Contracted for but not provided in the financial statements	**7.7**	8.1

In order to meet regulatory and service standards, the Group 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 eight year regulatory period which commenced 1 April 2013 and ends 31 March 2021 includes capital and replacement investment of £1,006.0m (in 2009/10 prices). The determination for the five year regulatory period ended 31 March 2013 included capital and replacement investment of £643.8m (in 2005/6 prices).

Company
The Company had no capital commitments at 31 December 2013 or at 31 December 2012.

16. Leasing commitments

At 31 December 2013 and 31 December 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

	Land and buildings		**Others**	
	31 December 2013 £m	31 December 2012 £m	**31 December 2013 £m**	31 December 2012 £m
Within one year	**0.1**	0.2	**0.5**	0.6
Between two and five years	**-**	0.1	**0.7**	0.6
After five years	**0.4**	0.9	**-**	-
	0.5	1.2	**1.2**	1.2

Company
The Company had no operating lease commitments at 31 December 2013 or at 31 December 2012.

17. Provisions for liabilities

Group

	Note	**31 December 2013 £m**	31 December 2012 £m
Insurance provision	(a)	**1.8**	2.0
Environmental and holder demolition provision	(b)	**15.9**	19.0
Onerous interest rate swap contracts provision	(c)	**15.8**	16.5
Wayleaves provision	(d)	**5.3**	5.0
		38.8	42.5

Company
The Company had no provisions for liabilities at 31 December 2013 or at 31 December 2012.

17. Provisions for liabilities (continued)

(a) Insurance provision

	31 December 2013 £m	31 December 2012 £m
At 1 January/1 April	**2.0**	2.1
Unwinding of discount (note 4(b))	**0.1**	0.1
Utilised in the year/period	**(0.3)**	(0.2)
At 31 December	**1.8**	2.0

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 periods and there is, therefore, no identifiable payment date.

(b) Environmental and holder demolition provision

	31 December 2013 £m	31 December 2012 £m
At 1 January/1 April	**19.0**	29.0
Unwinding of discount (note 4(b))	**1.4**	1.6
Increase in the year/period	**0.5**	-
Credit for the year/period	**(0.5)**	(7.9)
Utilised in the year/period	**(4.5)**	(3.7)
At 31 December	**15.9**	19.0

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 year 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

	31 December 2013 £m	31 December 2012 £m
At 1 January/1 April	**16.5**	17.0
Utilised in the year/period	**(0.7)**	(0.5)
At 31 December	**15.8**	16.5

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 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 its intercompany account. The provision is being amortised on a straight line basis over the contract life.

17. Provisions for liabilities (continued)

(d) Wayleaves provision

	31 December 2013 £m	31 December 2012 £m
At 1 January/1 April	**5.0**	2.3
Increase in the provision	**-**	2.9
Unwinding of discount (note 4b)	**0.3**	0.1
Utilised in the year/period	**-**	(0.3)
At 31 December	**5.3**	5.0

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.

18. Called up share capital

	31 December 2013	31 December 2012
	£	£
Authorised:		
3 Ordinary shares of £1 each	**3**	3
Allotted, called up and fully paid:		
3 Ordinary shares of £1 each	**3**	3

19. Share premium

	31 December 2013 £m	31 December 2012 £m
At beginning and end of the year	**109.1**	109.1

20. Profit and loss account

	Group £m	**Company £m**
At 1 January 2013	**(883.3)**	**-**
Loss for the financial year	**(49.8)**	**-**
Actuarial loss on pension scheme (note 27)	**(27.0)**	**-**
At 31 December 2013	**(960.1)**	**-**
Pension liability recorded in reserves	**102.8**	**-**
Profit and loss reserves excluding pension liability	**(857.3)**	**-**

Notes to the financial statements

21. Net cash inflow from operating activities

Group	31 December 2013 £m	31 December 2012 £m
Continuing operations:		
Operating profit	**126.7**	37.8
Depreciation of tangible fixed assets	**55.8**	56.0
Amortisation of capital contributions	**(2.1)**	(1.5)
Amortisation of grants	**(0.1)**	(0.1)
Profit on disposal of fixed assets	**(1.2)**	(0.1)
Net (increase)/decrease in stocks	**(0.5)**	1.6
Net increase in debtors	**(2.6)**	(6.7)
Net increase/(decrease) in creditors	**0.3**	(10.0)
Restructuring payments	**(12.7)**	-
Difference between pension charge and cash contributions	**(10.3)**	(11.0)
Movements in provisions for liabilities	**(4.7)**	(5.3)
Net cash inflow from operating activities	**148.6**	60.7

22. Analysis of changes in financing in the year/period

Group	Share capital (including premium)		Long term loans	
	31 December 2013 £m	31 December 2012 £m	31 December 2013 £m	31 December 2012 £m
At 1 January/1 April	**109.1**	109.1	**1,405.7**	1,383.8
New loans	-	-	-	20.0
Issue costs	-	-	**(1.1)**	-
Amortisation of issue costs and discount	-	-	**2.3**	1.9
Bank debt repaid	-	-	**(20.0)**	-
At 31 December	**109.1**	109.1	**1,386.9**	1,405.7

23. Analysis of changes in cash in the year/period

Group	Note	31 December 2013 £m	31 December 2012 £m
At 1 January/1 April	24	**32.6**	48.4
Net cash inflow/(outflow)	24	**8.6**	(15.8)
At 31 December	24	**41.2**	32.6

24. Analysis of cash and cash deposits

Group

	Note	**31 December 2013 £m**	31 December 2012 £m	**31 December 2013 Change in year £m**	31 December 2012 Change in period £m
Cash at bank and in hand	23	**41.2**	32.6	**8.6**	(15.8)
Current asset investments – cash on short-term deposit	10	**-**	150.0	**(150.0)**	-
		41.2	182.6	**(141.4)**	(15.8)

Company

The Company held no cash at 31 December 2013 or at 31 December 2012.

25. Reconciliation of net cash flow to increase in net debt

Group

	Year ended 31 December 2013 £m	Nine months ended 31 December 2012 £m
Increase/(decrease) in cash as per cash flow statement	**8.6**	(15.8)
New loans	**-**	(20.0)
Issue costs	**1.1**	-
Amortisation of issue costs and discount	**(2.3)**	(1.9)
Cash transferred from short-term deposit	**(150.0)**	-
Bank debt repaid	**20.0**	-
Increase in net debt	**(122.6)**	(37.7)
At 1 January/1 April	**(1,223.1)**	(1,185.4)
At 31 December	**(1,345.7)**	(1,223.1)

	Note	**31 December 2013 £m**	31 December 2012 £m
Gross debt	22	**(1,386.9)**	(1,405.7)
Current asset investments – cash on short-term deposit	10	**-**	150.0
Cash	24	**41.2**	32.6
Net debt		**(1,345.7)**	(1,223.1)

26. 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.

27. Pension scheme

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

Defined benefit section

The Group operates a 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 2013 is currently being completed by Lane Clark & Peacock. The actuarial valuation as at 31 March 2012 completed by Lane Clark & Peacock showed a deficit of £87.6m. 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).

Financial assumptions	**31 December 2013**	31 December 2012
Inflation assumption	**3.45% pa**	2.90% pa
Discount rate	**4.45% pa**	4.50% pa
Rate of increase in pensions in payment	**3.45% pa**	2.95% pa
Rate of increase in salaries	**4.20% pa**	3.70% 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 2013 and 31 December 2012 were:

Asset distribution and expected return	**31 December 2013**		31 December 2012	
	Expected return % pa	**Fair value £m**	Expected return % pa	Fair value £m
Equities	**8.10**	**143.4**	7.50	117.5
Bonds	**3.60**	**125.0**	3.00	124.3
Property	**6.10**	**16.2**	5.50	14.8
Diversified Growth Fund	**7.10**	**80.5**	6.50	62.9
Cash	**0.50**	**2.0**	0.50	2.7
Contributions due	-	-	-	8.6
Total market value of assets		**367.1**		330.8

27. Pension scheme (continued)

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

Equities – As at 31 December 2013 it is assumed that equities will return 4.5% above the return on long duration Government bonds.

Property – As at 31 December 2013 it is assumed that property will achieve a return of 2.5% above the return on long duration Government bonds.

Government Bonds – As at 31 December 2013 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 2013 it is assumed that the diversified growth fund will achieve a return of 3.5% above the return on long duration Government bonds.

Cash – As at 31 December 2013 it is assumed that cash will achieve a return equal to the Bank of England Base Rate.

The following amounts at 31 December 2013 and 31 December 2012 were measured in accordance with the requirements of FRS17:

Balance sheet

	31 December 2013 £m	31 December 2012 £m
Total fair value of assets	**367.1**	330.8
FRS17 value of liabilities	**(419.0)**	(367.7)
Deficit in the scheme	**(51.9)**	(36.9)

The scheme is represented on the balance sheet at 31 December 2013 as a liability under FRS17 which amounts to £51.9m (31 December 2012: £36.9m).

Over the year ended 31 December 2013, contributions by the Group of £26.8m, which included a £7.3m additional contribution in relation to the voluntary redundancy programme (nine months ended 31 December 2012: £17.9m) were made in respect of members of the defined benefit section. In addition, £0.5m (nine months ended 31 December 2012: £0.5m) has been set aside by the Group outside the Scheme during the 12 month period in order to meet the Scheme's expenses. At 31 December 2013 £nil (31 December 2012: £nil) 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 £10.4m (31 December 2012: £8.5m) 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% (nine months ended 31 December 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, £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.

27. Pension scheme (continued)

The following amounts have been recognised in the performance statements in the year ended 31 December 2013 and the nine months ended 31 December 2012 under the requirements of FRS17:

Profit and loss account	**Year ended 31 December 2013 £m**	Nine months ended 31 December 2012 £m
Analysis of amounts charged to operating costs:		
Current service cost (employer's part only)	**9.2**	6.9
Curtailments loss	-	8.6
Total operating charge	**9.2**	15.5
Analysis of amounts charged to other finance costs:		
Expected return on pension scheme assets	**17.8**	13.2
Interest on post retirement liabilities	**(16.2)**	(12.5)
Net income to finance income	**1.6**	0.7

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£7.3m pension strain paid by the group for those employees who have accepted voluntary redundancy effective 31 December 2012 and is included in the £13.0m restructuring exceptional item as described in Note 2(b) i).

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

	Year ended 31 December 2013 £m	Nine months ended 31 December 2012 £m
Actual return less expected return on scheme assets	**16.2**	(2.8)
Experience (gain)/ loss on obligations	**2.2**	(3.6)
Changes in assumptions underlying the present value of the obligation	**(45.4)**	(10.1)
Actuarial loss recognised in the statement of total recognised gains and losses	**(27.0)**	(16.5)
Cumulative actuarial loss recognised in the statement of total recognised gains and losses	**(102.8)**	(75.8)

27. Pension scheme (continued)

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

	31 December 2013 £m	31 December 2012 £m
Opening defined benefit obligations	**367.7**	329.1
Current service cost	**9.2**	6.9
Curtailments loss	**(1.3)**	8.6
Interest cost	**16.2**	12.5
Employee contributions	**0.8**	0.6
Benefits paid	**(16.8)**	(3.8)
Actuarial loss	**43.2**	13.8
Closing defined benefit obligations	**419.0**	367.7

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

	31 December 2013 £m	31 December 2012 £m
Opening fair value of Scheme assets	**330.8**	297.0
Expected return on assets	**17.8**	13.2
Employer contributions	**26.8**	17.9
Employee contributions	**0.8**	0.6
Contributions due	**(8.6)**	8.6
Benefits paid	**(16.8)**	(3.8)
Actual less expected return on assets	**16.3**	(2.7)
Closing fair value of Scheme assets	**367.1**	330.8

Amounts for the last three period ends are as follows:

	31 December 2013 £m	31 December 2012 £m	31 March 2012 £m
Defined benefit obligations	**(419.0)**	(367.7)	(329.1)
Total assets	**367.1**	330.8	297.0
Deficit	**(51.9)**	(36.9)	(32.1)
Experience adjustments on the obligation	**2.2**	(3.6)	0.4
Experience adjustments on Scheme assets	**16.2**	(2.8)	2.8

Defined contribution scheme

The Group also operates a defined contribution scheme for staff.

The employer paid a further £1.5m during the year ended 31 December 2013 (nine months ended 31 December 2012: £1.0m) in respect of defined contribution members.

28. Immediate and ultimate parent companies

The immediate parent company is Wales & West Gas Networks (Senior Finance) Limited (formerly MGN Gas Networks (Senior Finance) 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 smallest and largest group of undertakings to consolidate these financial statements at 31 December 2013. 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 was acquired by a consortium led 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 (HK) (30%), Cheung Kong Infrastructure Holdings Limited (HK) (30%), Power Assets Holdings Limited (HK) (30%) and the Li Ka Shing Foundation (HK) (10%).

29. Related party transactions

In respect of the year from 1 January to 31 December 2013

(a) Xoserve Limited

The Group owns 10% (31 December 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 £5.0m in respect of the year ended 31 December 2013 (nine months ended 31 December 2012: £3.8m), of which £1.2m was charged to capital (nine months ended 31 December 2012: £0.8m).

b) Seabank Power Limited

The Group provides Seabank Power Limited ("Seabank Power") group with an emergency callout, pipeline inspection and maintenance service. Seabank Power is 50% owned by Cheung Kong Infrastructure Holdings Limited (HK) and 50% owned by Power Assets Holdings Limited (HK), both companies which hold a 30% interest in the ultimate parent company Wales & West Gas Networks (Holdings) Limited. These services are provided on normal commercial terms. The income to the Group in respect of services to Seabank Power was £0.1m for the year ended 31 December 2013 (from 10 October 2012 to 31 December 2012: £0.1m).

c) Hutchison Whampoa Limited

Cheung Kong (Holdings) Limited, a company which holds a 30% interest in the ultimate parent company Wales & West Gas Networks (Holdings) Limited, owns 49.97% of Hutchison Whampoa Limited ("HWL"). HWL owns 78.16% of Cheung Kong Infrastructure Holdings Limited (HK), a company which holds 30% of the shares of Wales and West Gas Networks (Holdings) Group. During the year ended 31 December 2013 the Group has been invoiced by Hutchison International Limited for the following services negotiated by HWL.

Oracle Unlimited Deployment Programs Licencing agreement - cost to the Group £0.1m for the year ended 31 December 2013 (from 10 October 2012 to 31 December 2012: £nil). The contract is for a 3 year period from 1 April 2013.

29. Related party transactions (continued)

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 led by Cheung Kong (Holdings) Limited, a company incorporated in Hong Kong. Therefore the transactions below refer to the period up to 10 October 2012.

(d) 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 has contracted with Macquarie Bank Limited ("MBL"), 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 arm's length basis and the prices charged are compared to available quoted gas purchases prices to ensure they are competitive. The cost of purchasing this gas amounted to £nil in respect of the period from 1 April 2012 to 10 October 2012 (year ended 31 March 2012: £8.9m) and included £nil (year ended 31 March 2012: £0.1m) of commission paid to MBL.

(e) 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 (formerly MGN Gas Networks (UK) 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).

(f) 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, which also 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 was £0.6m for the period from 1 April 2012 to 10 October 2012 (year ended 31 March 2012: £0.7m).

(g) Onstream Limited

The Group received meter asset management services from Onstream Limited ("Onstream"). Onstream has been owned by Macquarie Bank Limited since October 2011, a company which held an indirect 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 Onstream was £0.2m for the period from 1 April 2012 to 10 October 2012 (£0.3m for the period from 1 April 2011 to 31 March 2012).