

**Northern Gas Networks Limited
Regulatory Accounts 2006/2007**

Contents

1	Important information
1	The obligation to produce Regulatory Accounts
2	Businesses and price controls
2	Regulatory ring-fence
3	Operating and Financial Review
6	Directors' Report
7	Corporate Governance statement
8	Directors' responsibilities for preparing separate Regulatory Accounts
9	Independent Accountants' report to the Gas and Electricity Markets Authority and Northern Gas Networks Limited
11	Statement of accounting policies
13	Profit and loss accounts
14	Balance sheets
15	Statements of total recognised gains and losses
16	Cash flow statements
17	Reconciliation to the Annual Report and Accounts of Northern Gas Networks Limited
18	Notes to the Regulatory Accounts

Important information

The financial information contained in these statements does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985. Statutory accounts for Northern Gas Networks Limited for the year ended 31 December 2006, to which this financial information partly relates, have been delivered to the Registrar of Companies. The auditors have made a report under Section 235 of the Companies Act 1985 on those statutory accounts which was unqualified and did not contain a statement under Section 237(2) or (3) of the Companies Act 1985. The auditors' opinion on the Northern Gas Networks Limited statutory accounts is addressed to, and for the benefit of, the members of Northern Gas Networks Limited and not for any other person or purpose. The auditors have clarified, in giving their opinion on those statutory accounts, that it has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. In giving their opinion, they do not accept or assume responsibility for any other purpose or to any other person to whom their audit report on the statutory accounts is shown or into whose hands it may come save where expressly agreed by their prior consent in writing. The statutory accounts of Northern Gas Networks Limited can be obtained from the Company Secretary, Northern Gas Networks Limited, 1100 Century Way, Thorpe Park Business Park, Colton, Leeds, LS15 8TU.

The obligation to produce Regulatory Accounts

The obligation to prepare and publish Regulatory Accounts for Northern Gas Networks Limited ("NGN") (the "Company") is placed on NGN by Standard Special Condition A30 of its Gas Transporter Licence (the "Licence") granted under section 7 of the Gas Act 1986 (the "Act"). The principal requirements of Standard Special Condition A30, in respect of the year ended 31 March 2007, are that for each of the NGN Total, Transportation, Metering, De Minimis and Other businesses, the Regulatory Accounts must:

- fairly present the revenues, costs, assets, liabilities, reserves and provisions of, or reasonably attributable to, that business;
- have the same content and format as the statutory accounts of NGN and conform to UK Generally Accepted Accounting Practice, in so far as reasonably practicable;
- separately show in appropriate detail the amounts of any revenues, costs, assets, liabilities, reserves or provisions which have been charged from or to any non-NGN business of the Northern Gas Networks Holdings Limited ("NGNH") Group, or which have been determined by apportionment ("charges and apportionments");
- be subject to audit by NGN's statutory auditors; and
- be published, except for the information on charges and apportionments, which has been removed from the public document in accordance with paragraph 10 of Standard Special Condition A30.

Businesses and price controls

These Regulatory Accounts include the following businesses of NGN:

Transportation business

The Transportation business comprises the development, administration, maintenance and operation of NGN's gas transportation system and the supply of gas transportation services.

Metering business

The Metering business comprises the provision of metering services, which includes the provision, installation and maintenance of gas metering equipment. It is subject to price control in respect of the provision of domestic metering services.

De Minimis

The other activities of NGN are not subject to price control, but must be carried on within the terms of the Licence. These terms include restrictions on the level of those activities with respect to the overall level of the regulated businesses, unless the Gas and Electricity Markets Authority (the "Regulator") has otherwise consented.

Other activities

Other activities as set out in Standard Special Condition A30 paragraph 1(f) comprise those activities to which the Licence relates to which the Regulator has given its consent in writing in a letter dated 25 May 2005 in accordance with sub-paragraph 3(d) of Standard Special Condition A36 (Restriction on Activity and Financial Ring Fencing). These activities are specifically the service agreements entered in to with National Grid Gas plc on sale of the network. These activities would otherwise have been classified as De Minimis. All De Minimis and Other activities arise as a result of the Transportation business. These activities are not subject to price control.

Regulatory ring-fence

NGN's Licence contains special 'ring-fence conditions', which include requirements on NGN:

- only to carry on certain activities;
- to ensure that it has sufficient management and financial resources to carry out its business;
- to use reasonable endeavours to maintain an investment grade credit rating as the issuer of corporate debt; and
- to deal on an arm's length basis and on normal commercial terms with other companies in the NGNH Group and not to give new guarantees for them.

If NGN is in material default of any of the ring-fence conditions it can be prohibited from declaring and paying a dividend.

Operating and Financial Review

The Operating and Financial Review below has been prepared to fulfil the requirements of Standard Special Condition A30 paragraph 3(b) (vii) to provide information to the Regulator and should not be relied upon by any other party or for any other purpose.

The Operating and Financial Review contains certain forward looking statements that are made by the Directors in good faith based on the information available to them at the time of their approval of this report and these statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward looking information.

Long term strategy and business objectives

Background

On 1 May 2005 the business of the North of England gas distribution network was hived down from National Grid Gas plc (“NGG”) to the Company. On 1 June 2005 the Company was purchased by NGNH.

On acquisition the Directors chose to separate the asset management and ownership responsibilities of the network from the delivery of operational activity under a model referred to as strategic asset management. The split of assets and operations means NGN retains all of the obligations and responsibilities required by its Licence and the safety case agreed with the Health and Safety Executive (“HSE”). NGN owns the assets and is responsible and accountable for the continued safe and efficient running of the gas distribution network, ensuring the highest possible performance standards from planning through to asset maintenance and replacement. The operation and maintenance of the network, together with the implementation of the asset maintenance and replacement programmes has been contracted out to United Utilities Operations Limited (“UUOL”), a Company owned by United Utilities plc, under the terms of an Asset Services Agreement (“ASA”).

Strategy

NGN is committed to building on the network’s inheritance of providing safe and reliable operations, and to establishing NGN as a socially responsible corporate citizen in the region covered by the network. NGN has developed a culture of sustained high performance, delivering continuous improvement to the benefit of customers, consumers, employees and shareholders.

Fundamental to the strategy is implementing productivity improvement whilst complying with regulatory obligations and achieving the standards of service required. This will ensure continual investment in the network and sharing of these efficiencies with customers through the regulatory price resets, whilst maintaining acceptable financial returns to the shareholders.

The strategic asset management model chosen by NGN to deliver services has the potential to deliver long-term strategic and operational benefits for the Company and its stakeholders through incremental cost reduction, service improvements and

growth opportunities. This outsourcing arrangement provides defined targets against specific activities, such as asset performance and emergency service, and there are incentives for out performance in each operational area.

Business objectives

NGN’s business performance is guided by the overall vision to be benchmarked by the Regulator and the HSE in the top two comparable utilities in the areas of safety management, efficiency and customer service.

NGN’s business performance objectives include:

- Maintaining and developing a reliable and safe network;
- Compliance with Licence requirements and other regulatory and legal obligations;
- Meeting regulated service standards;
- Maintaining high standards of corporate governance;
- Being a responsible corporate citizen in the region;
- Maintaining a corporate culture of performance and continuous improvement;
- Maintaining strong relationships with all key stakeholders;
- Maintaining a strong investment grade credit rating; and
- Maintaining acceptable financial returns to shareholders.

Key Performance Indicators

The key financial and non-financial performance indicators used by the Board of Directors in their monitoring of the Company focus on the areas of safety, efficiency and customer service. Key financial and non-financial performance indicators include:

	2006	2005
Post maintenance interest coverage ratio	1.6	1.3
EBITDA Interest coverage ratio	2.0	1.5
Senior Debt/Regulatory Asset Value	69%	69%
Number of lost time injuries	9	17*

* includes pre and post acquisition to give a full year comparative.

The above measures have been calculated and formally reported as at 31 December in line with NGN’s statutory year end.

Environment

The Company recognises the importance of its environmental responsibilities and undertakes its operations in an environmentally sensitive manner, complying with all relevant legislative requirements and higher standards where possible. The Company is committed to the protection of the environment in the region it serves. The Company’s environmental management systems are certified under ISO14001. This helps the Directors deal proactively with future environmental issues and legislation and assist in the development of projects, for example, the land recycling project at Sheepscar in Leeds.

Future outlook

The business has made a strong start in achieving both its operational and financial targets during the key early stages of new ownership in the UK. The Directors expect the general level of activity to remain stable, however, the future outlook has some dependence on the outcome of the current five year price control review.

Principal risks and uncertainties

There are a number of potential risks and uncertainties which could have a material impact on NGN's long term performance.

Regulatory environment, revenue and costs

The gas industry is subject to extensive legal and regulatory obligations and controls which NGN must comply with. The application and possible changes of these laws, regulations and regulatory standards could have an adverse affect on the operations and financial position of NGN.

Health and Safety

There is a risk that an incident within the network leads to injury to an employee, contractor or member of the public. Any such incident could have an adverse affect on the reputation of NGN, or lead to potential prosecution and reduced productivity.

Price control

NGN could be unsuccessful in negotiating an acceptable five year price control outcome resulting in lower than expected revenue. The final outcome for the 2008-2013 price control is expected to be published in late 2007.

Contract and Contractor management

The operation and maintenance of the network, as well as the responsibility for implementing the Capex and Repex programmes, has been contracted out to UUOL under the terms of the ASA which expires on 31 March 2013. Under the terms of the ASA, UUOL's costs of providing such services are passed through to NGN, subject to bonus and penalty payments where the costs are respectively below or above agreed target levels. There is a risk that any delivery delays, excessive costs or inadequate quality by UUOL would damage NGN's business reputation or increase costs and liabilities.

Network Performance

If the network assets were to fail this could result in a loss in supply of gas to customers and associated adverse publicity.

Employees

The success of NGN depends to a significant extent on the contribution of its employees. Fair and effective recruitment, training and employee development are critical to the successful functioning and progression of the business. The ability to adapt in a climate of change is dependent on the appointment of a high calibre, competent, flexible, quality conscious and customer focused workforce all of whom are committed to business success. Appropriate succession planning strategies mean that development of existing staff is crucial. Effective resourcing and selection

processes also play a positive role in improving the image of the Company in the community it serves.

NGN, as an equal opportunities employer, ensures that no job applicant receives less favourable treatment because of his or her age, colour, disability, ethnic or national origin, gender, marital status or sexuality or is disadvantaged by conditions or requirements which are irrelevant to performance and the Company's needs.

NGN places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Company. This is achieved through both formal and informal meetings. Employees are consulted on a wide range of matters affecting their current and future interests. All employees are eligible to receive an annual bonus related to the overall financial and operational performance of the Company.

Financial review

The overall financial results for the year are in line with expectations. The loss for the year is higher than in the prior period as a result of a full year's cost in addition to lower than expected revenue collected over the period as discussed below.

Basis of accounting

The accounts present the financial results for the year ended 31 March 2007 and the eleven month period ended 31 March 2006. They have been prepared using the accounting policies set out on pages 11 to 12. The accounting policies set out the key policies applicable to the company and any changes in those policies in the year as a result of new accounting standards.

Revenue

Total turnover, as reported for the year was £260.1m (2006 - £253.0m) which was impacted by reduced throughput volumes as a result of the warmer than seasonal normal weather experienced, with 2006 being the warmest calendar year on record across the United Kingdom.

Operating profit

The operating profit for the year was £31.9m (2006 - £47.9m). The decrease in the year results from the relationship of revenue to costs as explained above.

Interest

The net finance charge for NGN for the year ended 31 March 2007 was £45.3m (2006 - £41.8m), which principally represents interest payments on the debt that was taken on to facilitate the purchase of the network and on working capital funding (see 'Capital structure' below).

Taxation

The tax charge for the year was £0.4m (2006 - £8.3m) which represents an effective tax rate of 4% (2006 - 137%). The low effective tax rate in the year results from a prior year adjustment. The high effective tax rate in 2006 is as a result of the fair value assessment and the resulting revaluation of the asset base at acquisition.

Dividend and dividend policy

Dividends of £60.0m (2006 - £49.0m) were paid or proposed during the year. £45.0m of interim dividends have been paid and £15.0m of interim dividends have been proposed to NGNH, NGN's parent company, in the year.

Capex

Capex for the year was £39.7m (2006 - £35.2m) which represents spend of £25.8m (2006 - £23.9m) on network assets, £11.6m (2006 - £10.0m) on the development of the new FOMSA system and £2.3m (2006 - £1.3m) on other assets.

Capital structure

NGN has net debt excluding finance leases of £977.5m (2006 - £894.2m). This incorporates a drawn term loan of £366.4m, a revolving credit facility of £58.0m, a working capital facility of £25.0m and £529.3m due to group undertakings. The term loan is repayable on 31 March 2010 and carries interest at 6 month LIBOR plus a margin of 0.26%. The revolving credit facility and the working capital facility are repayable on 30 April 2007 and 31 May 2007 respectively, they both carry interest at 6 month LIBOR plus a margin on 0.26%. The amounts owed to group undertakings is an interest free loan of £24.3m, which is only repayable after the term loan has been fully repaid and an interest bearing loan of £505.0m, with £250.0m repayable in 2027 and £255.0m repayable in 2035. Interest is payable at a rate of 4.875% plus a margin to cover related costs.

NGN also enters into fixed rate interest hedges to eliminate interest rate exposures.

Credit ratings

In November 2005 Moody's Investor Services and Standard & Poors respectively assigned NGN first-time long-term senior unsecured ratings of Baa1 and BBB+ (stable outlook) and it is expected that these ratings will be re-affirmed in 2007.

Cash flow

Net cash inflow from operating activities for the year ended 31 March 2007 was £60.0m (2006 - £126.6m). The lower cash inflow's compared to the prior period result from lower operating profits as explained above.

Liquidity and investments

At 31 March 2007 NGN had £70.6m (2006 - £150.0m) of undrawn and committed borrowing facilities available for use.

NGN's net debt position has changed over the course of the year, in particular, short-term debt increased in order to fund working capital requirements.

At 31 March 2007 NGN had £9.6m (2006 - £14.3m) of the total cash balance on overnight treasury deposit.

Going concern

After making enquiries, the Directors have formed a judgement, at the time of approving the Regulatory Accounts, that there is a reasonable expectation that the Company has adequate resources to continue in operational existence for the

foreseeable future. For this reason the Directors continue to adopt the going concern basis in preparing the Regulatory Accounts.

Derivatives and other Financial Instruments

The Company's financial instruments, other than derivatives, comprise borrowings, cash and various items, such as trade debtors and trade creditors that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Group's operations.

The Company also enters into derivative transactions, principally interest rate swaps. The purpose of such transactions is to manage the interest rate risks arising from the Group's sources of finance.

The main risks arising from the Company's financial instruments are interest rate risk, currency risk and liquidity risk. The Directors have reviewed and agreed policies for managing each of these risks and these are summarised below.

Details of the maturity, currency and interest rate profile of NGN's borrowings as at 31 March 2007 are shown in note 15 to the Regulatory Accounts on pages 28 to 30.

Interest rate risk

The approach adopted in eliminating interest rate exposures on debt is to synchronise the maturities of fixed rate interest hedges with the timing of the Regulator's five yearly price control periods. This ensures that interest rate hedges are reset in the economic environment prevailing at the time the Regulator is resetting the industry's weighted average cost of capital.

Currency risk

No exposures are currently identified. Regular monitoring procedures will identify material risks as they arise.

Currency risk management is used only to hedge underlying commercial exposures. Therefore trading in currency is prohibited and if an underlying exposure ceases to exist then the corresponding hedge is closed out immediately.

All non-sterling borrowings and associated service costs are hedged into sterling at the time the commitment to draw down is made.

Liquidity risk

The maturities of required committed debt facilities are managed such that at any one time all have a time to maturity of more than one year and that at least 50% by value have a time to maturity of more than two years except for the working capital facility and finance leases which are less than one year.

Facilities are staggered to mature to avoid excessive concentrations in any twelve month period (though the value of facilities required may be insufficient to allow split maturities) as well as removing refinancing risk if such timeframes coincide with a regulatory reset date. Non-facility debt maturities are staggered where practicable.

Directors' Report

Principal activity

The principal activity of the Company throughout the year was the distribution of gas for the North of England network.

Business review

A review of the performance of the Company during the year including a description of the principal risks and uncertainties facing the Company and expected future developments is contained in the Operating and Financial Review on pages 3 to 5.

Results and dividends

The loss for the year after taxation was £13.0m (2006 - £2.3m).

The Directors do not recommend payment of a final dividend. Details of interim dividends paid and proposed are contained in the Operating and Financial Review on pages 3 to 5.

Directors

The Directors who served throughout the year except as noted, were as follows:

- W Shurniak (Chairman)
- F R Frame
- A Hunter (resigned 4 July 2006, re-appointed 1 December 2006)
- H Lam Kam
- E Bing Sing Kwan (resigned 1 December 2006)
- D V Latham
- B Scarsella
- K Sum Tso
- G A I Waters (deceased 23 December 2006)
- N McGee (appointed 4 July 2006)
- C J Brook (appointed 2 January 2007, resigned 12 April 2007)
- C Cornish (appointed 12 April 2007)

Directors' interests

The Directors who held office at 31 March 2007 had no interests in the shares of the Company at any time in the year. The Directors do not have any other interests required to be disclosed under Schedule 7 of the Companies Act 1985.

Supplier payment policy

The Company's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction, ensure that suppliers are made aware of the terms of payment and abide by the terms of payment. Trade creditors of the Company at 31 March 2007 were equivalent to 10 (2006 – 18) days' purchases, based on the average daily amount invoiced by suppliers during the year.

Charitable and political contributions

During the year the Company made charitable donations of £4,310 (2006 - £710), principally to local charities serving the communities in which the Company operates. No political donations were made (2006 - £nil).

Auditors

Each of the Directors at the date of approval of this report confirms that:

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

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

The Directors will place a resolution before the annual general meeting to reappoint Deloitte & Touche LLP as auditors for the ensuing year.

Corporate Governance statement

NGN is not a listed entity, but is required to prepare a Corporate Governance statement as if it were by the requirements of Standard Special Condition A30 paragraph 3(b) (v). As a result, a number of the specific requirements do not apply. NGN is not required to comply with the principles of Corporate Governance contained in the Combined Code on Corporate Governance which is appended to the Listing Rules of the Financial Services Authority. This statement has been prepared solely for the Regulator to fulfil the requirements of Standard Special Condition A30 paragraph 3(b) (v) and should not be relied upon by any other party or for any other purpose.

Corporate Governance statement

The Company is committed to pursuing leading governance practices. Corporate Governance is clearly defined, with each shareholder having Board representation. The Corporate Governance principles of the Company emphasise a quality Board of Directors (the "Board"), sound internal control and transparency and accountability to all Shareholders.

Board of Directors

The Board is responsible for the overall Corporate Governance of the Company including approving the strategic direction and values, monitoring financial and operational performance, ensuring adequate systems for the identification and management of risk and evaluating the performance and remuneration of senior management. The Board is also responsible to the shareholders for the performance of the Company in both the short and long term and seeks to balance the best interests of the Company with the objective of enhancing shareholder value. The Board comprises nine Directors.

The position of the Chairman of the Board is held by W. Shurniak and the position of Chief Executive Officer ("CEO") is held by B. Scarsella. These positions are separate with a view to maintaining an effective segregation of duties between management of the Board and the day to day management of the business.

All Directors make an active contribution to the affairs of the Board. The Company Secretary is responsible to the Board for ensuring that all Board procedures are followed and ensuring that the Board is briefed on all legislative, regulatory and Corporate Governance developments and that the Board has regard to them when making decisions.

Day to day management of the business and the implementation of corporate strategy and policy initiatives are formally delegated by the Board to the CEO as set out in the Delegations of Authority. These delegations are reviewed on an annual basis.

Committees

The Board has established five committees to assist in the execution of its duties and to allow a detailed consideration of complex issues. Current committees are the Audit Committee, Compliance Committee, Risk Management Committee, Treasury

Committee and Remuneration Committee. The Committee structures and charters are reviewed on an annual basis.

Audit Committee

The Audit Committee assists the Board with its responsibilities for financial reporting, maintaining an efficient system of internal control and internal and external audit processes. In addition, the Committee provides an avenue for communication between internal audit, the external auditors and the Board.

Compliance Committee

The Compliance Committee assists the Board with its responsibilities to oversee compliance with obligations determined by statute, legislation, regulation, contract or agreement.

Risk Management Committee

The Risk Management Committee is responsible for reviewing the risk profile of the business and oversight of risk management processes. The Committee provides the Board with regular reports of activities and findings. The business has a formal Risk Management Policy. In addition, an integrated risk management framework is in place that includes a quarterly review of the business risk exposures and a report to the Risk Management Committee detailing the risk position.

Treasury Committee

The Treasury Committee assists the Board in fulfilling its oversight responsibilities with respect to compliance with its Treasury Policy, strategy and procedure development. The Committee recommends any changes or amendments as appropriate. It also ensures that management undertakes to identify, monitor and manage treasury risks in a manner consistent with corporate strategy and objectives and its Treasury Policy.

Remuneration Committee

The Remuneration Committee reviews and makes recommendations to the Board on overall remuneration policy of the Company and remuneration arrangements for the senior management.

Internal Control Framework

The Company has a number of internal control policies which outline management responsibilities and help safeguard the group's assets. It is designed to manage rather than eliminate risks which may be material to the achievement of the Company's business objectives.

Internal Audit

The Company has an internal audit function operated by KPMG LLP as an outsourced arrangement. Internal audit undertakes independent appraisals and provides assurance on adequacy and effectiveness of business controls. All internal audit work is carried out according to the relevant best practice standards.

Directors' responsibilities for preparing separate Regulatory Accounts

The Directors are required by Standard Special Condition A30 to prepare Regulatory Accounts for each financial period. These Regulatory Accounts must fairly present the revenues, costs, assets, liabilities, reserves, provisions and cash flows of, or reasonably attributable to, the NGN Total business, the Transportation business, the Metering business and the De Minimis business.

The Directors consider that, in preparing the Regulatory Accounts, the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates and all applicable accounting standards have been followed. The Directors also consider that it is appropriate to prepare the Regulatory Accounts on the going concern basis.

The Directors have responsibility for ensuring that the Company and its related undertakings keep accounting records in such a form that the revenues, costs, assets, liabilities, reserves and provisions of, or reasonably attributable to, each of the businesses are separately identifiable in the books of the Company and its related undertakings from those of any other business.

The Directors have responsibility for ensuring that the Regulatory Accounts fairly present the revenues, costs, assets, liabilities, reserves and provisions of, or reasonably attributable to, each business.

The Directors have responsibility to ensure that, so far as is reasonably practicable, the Regulatory Accounts have the same content and format in respect of the businesses to which they relate as the annual accounts of NGN, that they conform to best commercial accounting practices including all relevant accounting standards issued or adopted by the Accounting Standards Board currently in force and that the accounting policies used are stated.

The Directors have responsibility to ensure that the Regulatory Accounts show separately and in appropriate detail the amounts of any revenues, costs, assets, liabilities, reserves or provisions that have been charged from or to any non-NGN business of the NGNH Group, or that have been determined by apportionment, where they relate to goods or services received or supplied for the purposes of the Transportation, Metering or De Minimis businesses.

The Directors, having prepared the Regulatory Accounts, have requested the Auditors to take whatever steps and to undertake whatever inspections they consider to be appropriate for the purpose of enabling them to give their Independent Accountants' report.

The Directors are responsible for ensuring that the Regulatory Accounts are published and, where they are published on the Internet, for the maintenance and integrity of the website. Uncertainty regarding legal requirements is compounded, as information published on the Internet is accessible in many countries with different legal requirements relating to the preparation and dissemination of financial statements.

Independent Accountants' report to the Gas and Electricity Markets Authority and Northern Gas Networks Limited

We have audited the Regulatory Accounts of Northern Gas Networks Limited (the "Company") for the year ended 31 March 2007 on pages 11 to 38 which comprise the Profit and Loss Accounts, the Statements of Total Recognised Gains and Losses, the Balance Sheets, the Cash Flow Statements, the reconciliation to the Annual Report and Accounts, the Statement of Accounting Policies and the related notes numbered 1 to 26. These Regulatory Accounts have been prepared under the accounting policies set out therein.

This report is made, on terms that have been agreed, solely to the Company and the Gas and Electricity Markets Authority (the "Regulator") in order to meet the requirements of Standard Special Condition A30 of the Gas Transporter Licence, (the "Regulatory Licence"). Our audit work has been undertaken so that we might state to the Company and the Regulator those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under the Regulatory Licence to procure such a report and (b) to facilitate the carrying out by the Regulator of its regulatory functions, 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 Regulator for our audit work, for this report, or for the opinions we have formed.

Basis of preparation

The Regulatory Accounts have been prepared under the historical cost convention and in accordance with the Regulatory Licence and the accounting policies set out in the Statement of Accounting Policies within the Regulatory Accounts.

The Regulatory Accounts are separate from the statutory accounts of the Company and have not necessarily been prepared under the basis of Generally Accepted Accounting Practice in the United Kingdom ("UK GAAP"). Financial information other than that prepared on the basis of UK GAAP does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in accounts prepared in accordance with the Companies Act 1985.

Respective responsibilities of the Regulator, the Directors and Auditors

The nature, form and content of Regulatory Accounts are determined by the Regulator. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the Regulator's purposes. Accordingly we make no such assessment.

The Directors responsibilities for preparing the Regulatory Accounts in accordance with Standard Special Condition A30 of the Regulatory Licence are set out in the Statement of Directors' Responsibilities on page 8.

Our responsibility is to audit the Regulatory Accounts in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board, except as stated in the 'Basis of audit opinion', below and having regard to the guidance contained in Audit 05/03 "Reporting to Regulators of Regulated Entities".

We report to you our opinion as to whether the Regulatory Accounts present fairly, in accordance with Standard Special Condition A30 of the Regulatory Licence and the accounting policies set out on pages 11 and 12, the results and financial position of the Company. We also report to you if, in our opinion, the Company has not kept proper accounting records or if we have not received all the information and explanations that we require for our audit.

We read the other information presented with the Regulatory Accounts, being the Operating and Financial Review, the Directors' Report, the Corporate Governance Statement, and the Directors' responsibilities for preparing separate Regulatory Accounts on which we do not express an audit opinion, and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Regulatory Accounts.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the UK Auditing Practices Board, except as noted below. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Regulatory Accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Regulatory Accounts and of whether the accounting policies are consistently applied and adequately disclosed.

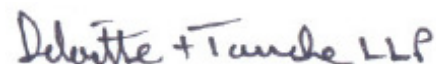
Notes 25 and 26 to the Regulatory Accounts include disclosures of amounts charged to or from related parties of, and other businesses of, the Company. Paragraph 10 of the Company's Standard Special Condition A30 permits removal of this disclosure when the accounts are made available to any party other than the Regulator. Accordingly, the Regulatory Accounts may be presented with or without these Notes, whilst still complying with Standard Special Condition A30.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Regulatory Accounts are free from material misstatement, whether caused by fraud or other irregularity or error. However, as the nature, form and content of the Regulatory Accounts are determined by the Regulator, we did not evaluate the overall adequacy of the presentation of information, which would have been required if we were to express an audit opinion under International Standards on Auditing (UK and Ireland).

Our opinion on the Regulatory Accounts is separate from our opinion on the statutory accounts of the Company on which we reported on 23 May 2007, which are prepared for a different purpose. Our independent auditors report in relation to the statutory accounts of the Company (our "statutory audit") was made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory auditor's report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than the Company and the Company's members as a body, for our statutory audit work, for our statutory audit report, or for the opinions we have formed in respect of that statutory audit.

Audit opinion

In our opinion, the Regulatory Accounts present fairly in accordance with Standard Special Condition A30 of the Regulatory Licence and the accounting policies set out on pages 11 and 12, the financial position of the Company as at 31 March 2007 and of its financial performance and cash flows for the year then ended, and have been properly prepared in accordance with Standard Special Condition A30 and the Company's accounting policies.



Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Leeds

27 July 2007

Statement of accounting policies

a) Basis of accounting

The Regulatory Accounts for the year ended 31 March 2007 have been prepared under the historical cost convention and in accordance with applicable UK accounting standards.

In the current year, costs which were previously considered to relate to the NGN business as a whole have been allocated to the appropriate business wherever possible. The results for the prior period have been restated in line with the allocations used in the current year.

The Company is not required to prepare group accounts as it is a wholly owned subsidiary of NGNH which prepares consolidated accounts which are publicly available.

Income, costs, assets and liabilities of the Company, which are not directly attributable to specific businesses or activities, are apportioned to those businesses or activities in accordance with the activities giving rise to the income, costs, assets or liabilities. Further details are set out in notes 25 and 26.

NGN has been ring-fenced for regulatory purposes. The ring-fence requires NGN to meet a number of regulatory conditions (set out in detail on page 2) including restrictions on fund raising, business activities, dividend payments and granting of guarantees.

b) Intangible assets – goodwill

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life, which is estimated to be 40 years in line with the acquired asset base. Provision is made for any impairment.

c) Tangible fixed assets

Tangible fixed assets are stated at cost net of depreciation and any provision for impairment. Cost includes internal labour costs and finance costs incurred which are directly attributable to the construction of tangible fixed assets.

Contributions received towards the cost of tangible fixed assets are included in creditors as deferred income and credited on a straight-line basis to the profit and loss account over the estimated economic lives of the assets.

Depreciation is provided on all tangible fixed assets, other than freehold land and assets in the course of construction, at rates calculated to write off the cost less estimated residual value, of each asset on a straight line basis over its expected useful life, as follows:

Mains and services	55 to 65 years
Storage	40 years
Plant and machinery	10 to 50 years
Freehold buildings	50 years
Leasehold land and buildings	Lesser of lease period and 50 years
Motor vehicles and office equipment	3 to 10 years

d) Investments

Fixed asset investments are shown at cost less provision for impairment. Current asset investments are stated at the lower of cost and net realisable value.

e) Repex

Replacement expenditure represents the cost of planned maintenance of the gas mains and services assets by replacing or lining sections of pipe. This expenditure is principally undertaken to repair and maintain the safety of the network and is expensed as incurred. Expenditure that enhances the performance of the mains and services assets is treated as an addition to tangible fixed assets.

f) Taxation

Current 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 Company's taxable profits and its results as stated in the accounts that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the accounts.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, 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 is not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the accounts. Neither is deferred tax recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

f) Taxation (continued)

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

g) Decommissioning and environmental costs

Decommissioning and environmental costs, based on discounted future estimated expenditures are provided for in full and where appropriate a corresponding tangible fixed asset is also recognised. The unwinding of the discount is included within the profit and loss accounts as a financing charge.

h) Turnover

Turnover represents amounts receivable for the distribution of gas and provision of other services in the normal course of business net of trade discounts, VAT and other sales related taxes. Turnover includes an assessment of transportation services supplied to customers between the date of the last meter reading and the year end.

i) Pension costs

The Company has obligations for a defined benefit scheme which is operated on its behalf by UUOL under the terms of the ASA. The responsibility for making payments of current service costs lies with UUOL, however the responsibility for any scheme deficit or surplus remains with the Company. The amounts charged to operating profit are the current service costs and gains and losses on settlements and curtailments. These are included within operating costs, as part of the charge to the Company from UUOL, under the terms of the ASA. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest cost and the expected return on assets are shown as a net amount of other finance costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

Defined benefit schemes are funded, with the assets of the scheme held separately from those of the Company, in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability, net of the related deferred tax, is presented separately after other net assets on the face of the balance sheets.

For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the period. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheets.

j) Leased assets

Assets held under finance leases and other similar contracts, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets and are depreciated over the shorter of the lease terms and their useful lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the leases to produce a constant rate of charge on the balance of capital repayments outstanding. Hire purchase transactions are dealt with similarly, except that assets are depreciated over their useful lives.

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term, except where the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate is shorter than the full lease term, in which case the shorter period is used.

k) Finance costs

Finance costs of debt are recognised in the profit and loss accounts over the term of the instrument at a constant rate on the carrying amount.

Finance costs which are directly attributable to the construction of tangible fixed assets are capitalised as part of the cost of those assets. The commencement of capitalisation begins when both finance costs and expenditures for the asset are being incurred and activities that are necessary to get the asset ready for use are in progress. Capitalisation ceases when substantially all the activities that are necessary to get the asset ready for use are complete.

l) Debt

Debt is initially stated at the amount of the net proceeds after deduction of issue costs. The carrying amount is increased by the finance cost in respect of the accounting period and reduced by payments made in the period.

m) Derivative financial instruments

The Company uses derivative financial instruments to reduce exposure to interest rate movements. The Company does not hold or issue derivative financial instruments for speculative purposes. The Company does not hedge account.

Profit and loss accounts

For the year ended 31 March 2007 and the 11 months ended 31 March 2006

	Notes	Transportation 2007 £'000	Metering 2007 £'000	De Minimis 2007 £'000	Other activities (i) 2007 £'000	Corporate (ii) 2007 £'000	Total 2007 £'000	Transportation 2006 £'000	Metering 2006 £'000	De Minimis 2006 £'000	Other activities(i) 2006 £'000	Corporate (ii) 2006 £'000	Total 2006 £'000
Turnover	1	250,296	123	112	9,524	-	260,055	244,677	30	128	8,210	-	253,045
Cost of Sales		(7,961)	-	(56)	(9,131)	-	(17,148)	(10,234)	-	(62)	(8,258)	-	(18,554)
Gross profit (loss)		242,335	123	56	393	-	242,907	234,443	30	66	(48)	-	234,491
Other operating expenses	2	(210,887)	(118)	-	(29)	-	(211,034)	(186,587)	(26)	-	(22)	-	(186,635)
Operating profit (loss)		31,448	5	56	364	-	31,873	47,856	4	66	(70)	-	47,856
Profit on disposal of fixed assets	4	941	-	-	-	-	941	-	-	-	-	-	-
Net finance charges	3	(45,323)	-	-	-	-	(45,323)	(41,785)	-	-	-	-	(41,785)
(Loss) profit on ordinary activities before taxation	4	(12,934)	5	56	364	-	(12,509)	6,071	4	66	(70)	-	6,071
Tax on (loss) profit on ordinary activities	7	(317)	(2)	(17)	(109)	-	(445)	(8,326)	(1)	(20)	21	-	(8,326)
(Loss) profit for the year		(13,251)	3	39	255	-	(12,954)	(2,255)	3	46	(49)	-	(2,255)

All results arise from continuing operations.

The accompanying notes are an integral part of these profit and loss accounts.

- (i) 'Other activities' as set out in Standard Special Condition A30 paragraph 1(f) comprise those activities to which the Licence relates to which the Regulator has given its consent in writing in a letter dated 25 May 2005 in accordance with sub-paragraph 3(d) of Standard Special Condition A36 (Restriction on Activity and Financial Ring Fencing). These activities are specifically the service agreements entered in to with NGG on sale of the network. These activities would otherwise have been classed as De Minimis. All De Minimis and Other activities arise as a result of the Transportation business.
- (ii) In the prior period, 'Corporate' comprised those incomes, costs and distributions which relate to the NGN business as a whole. In the current year, these have been allocated to the appropriate business wherever possible and the prior period has been restated.

Balance sheets

At 31 March	Notes	Transportation	Metering	Other		Total	Transportation	Metering	De Minimis	Other	Corporate (ii)	Total	
		2007 £'000	2007 £'000	De Minimis activities (i) 2007 £'000	activities (i) 2007 £'000	Corporate (ii) 2007 £'000	2007 £'000	2006 £'000	2006 £'000	2006 £'000	activities (i) 2006 £'000	2006 £'000	2006 £'000
Fixed assets													
Intangible assets - goodwill	9	156,920	-	-	-	-	156,920	161,031	-	-	-	-	161,031
Tangible assets	10	1,375,401	1,516	-	-	-	1,376,917	1,372,372	637	-	-	-	1,373,009
Investments	11	104	-	-	-	50	154	104	-	-	-	50	154
		1,532,425	1,516	-	-	50	1,533,991	1,533,507	637	-	-	50	1,534,194
Current assets													
Debtors – amounts falling due within one year	12	45,892	-	-	448	-	46,340	53,105	-	-	806	-	53,911
Cash at bank and in hand		-	-	-	-	10,117	10,117	-	-	-	-	15,935	15,935
		45,892	-	-	448	10,117	56,457	53,105	-	-	806	15,935	69,846
Creditors: Amounts falling due within one year	13	(139,291)	-	-	-	(25,376)	(164,667)	(93,743)	-	-	-	(22,095)	(115,838)
Net current (liabilities) assets		(93,399)	-	-	448	(15,259)	(108,210)	(40,638)	-	-	806	(6,160)	(45,992)
Total assets less current liabilities		1,439,026	1,516	-	448	(15,209)	1,425,781	1,492,869	637	-	806	(6,110)	1,488,202
Creditors: Amounts falling due after more than one year	14	(912,662)	-	-	-	-	(912,662)	(905,804)	-	-	-	-	(905,804)
Provisions for liabilities and charges excluding pension liability	16	(121,963)	-	-	-	-	(121,963)	(116,607)	-	-	-	-	(116,607)
Net assets (liabilities) excluding pension liability		404,401	1,516	-	448	(15,209)	391,156	470,458	637	-	806	(6,110)	465,791
Pension liability	23	(13,220)	-	-	-	-	(13,220)	(15,400)	-	-	-	-	(15,400)
Net assets (liabilities) including pension liability		391,181	1,516	-	448	(15,209)	377,936	455,058	637	-	806	(6,110)	450,391
Capital and reserves													
Called-up share capital	17	-	-	-	-	-	-	-	-	-	-	-	-
Profit and loss account	18	-	-	-	-	377,936	377,936	-	-	-	-	450,391	450,391
Shareholders' funds	19	-	-	-	-	377,936	377,936	-	-	-	-	450,391	450,391

The accompanying notes are an integral part of these balance sheets.

- (i) 'Other activities' as set out in Standard Special Condition A30 paragraph 1(f) comprise those activities to which the Licence relates to which the Regulator has given its consent in writing in a letter dated 25 May 2005 in accordance with sub-paragraph 3(d) of Standard Special Condition A36 (Restriction on Activity and Financial Ring Fencing). These activities are specifically the service agreements entered in to with NGG on sale of the network. These activities would otherwise have been classed as De Minimis. All De Minimis and Other activities arise as a result of the Transportation business.
- (ii) In the prior period, 'Corporate' comprises those assets, liabilities, capital and reserves which relate to the NGN business as a whole. In the current year, these have been allocated to the appropriate business wherever possible and the prior period restated.

The Regulatory Accounts on pages 1 to 38 inclusive were approved by the Board of Directors on 4 July 2007 and signed on its behalf on 27 July 2007 by:

Basil Scarsella - Chief Executive Officer

Statements of total recognised gains and losses

For the year ended 31 March 2007 and the 11 months ended 31 March 2006

	Transportation 2007 £'000	Metering 2007 £'000	De Minimis 2007 £'000	Other activities 2007 £'000	Corporate 2007 £'000	Total 2007 £'000	Transportation 2006 £'000	Metering 2006 £'000	De Minimis 2006 £'000	Other activities 2006 £'000	Corporate 2006 £'000	Total 2006 £'000
(Loss) profit for the year	(13,251)	3	39	255	-	(12,954)	(2,255)	3	46	(49)	-	(2,255)
Actuarial gain relating to the pension scheme	712	-	-	-	-	712	3,400	-	-	-	-	3,400
Deferred tax attributable to actuarial gain	(213)	-	-	-	-	(213)	(1,020)	-	-	-	-	(1,020)
Total recognised gains and losses relating to the year	(12,752)	3	39	255	-	(12,455)	125	3	46	(49)	-	125

The accompanying notes are an integral part of these statements of total recognised gains and losses.

Cash flow statements

For the year ended 31 March 2007 and the 11 months ended 31 March 2006

	Notes	Transportation 2007 £'000	Metering 2007 £'000	De Minimis 2007 £'000	Other activities 2007 £'000	Corporate 2007 £'000	Total 2007 £'000	Transportation 2006 £'000	Metering 2006 £'000	De Minimis 2006 £'000	Other activities 2006 £'000	Corporate 2006 £'000	Total 2006 £'000
Net cash inflow (outflow) from operating activities	20(a)	55,849	123	56	722	3,281	60,031	120,244	30	66	(876)	7,095	126,559
Returns on investments and servicing of finance													
Interest received		859	-	-	-	-	859	359	-	-	-	-	359
Interest paid		(51,049)	-	-	-	-	(51,049)	(41,112)	-	-	-	-	(41,112)
Finance costs		-	-	-	-	-	-	(3,665)	-	-	-	-	(3,665)
Interest element of finance lease rentals		(325)	-	-	-	-	(325)	(187)	-	-	-	-	(187)
Net cash outflow for returns on investments and servicing of finance		(50,515)	-	-	-	-	(50,515)	(44,605)	-	-	-	-	(44,605)
Taxation													
Corporation tax paid		(95)	-	-	-	-	(95)	-	-	-	-	-	-
Capital expenditure													
Purchase of tangible fixed assets		(37,564)	(997)	-	-	-	(38,561)	(33,997)	(637)	-	-	-	(34,634)
Net receipts from disposal of tangible fixed assets		943	-	-	-	-	943	-	-	-	-	-	-
Net cash outflow for capital expenditure		(36,621)	(997)	-	-	-	(37,618)	(33,997)	(637)	-	-	-	(34,634)
Equity dividends paid		-	-	-	-	(60,000)	(60,000)	-	-	-	-	(34,000)	(34,000)
Net cash (outflow) inflow before financing		(31,382)	(874)	56	722	(56,719)	(88,197)	41,642	(607)	66	(876)	(26,905)	13,320
Financing													
New unsecured term loan		-	-	-	-	-	-	366,437	-	-	-	-	366,437
New intercompany loans		-	-	-	-	-	-	529,328	-	-	-	-	529,328
New working capital and revolving credit facilities		83,000	-	-	-	-	83,000	-	-	-	-	-	-
Repayment of intercompany debt on acquisition		-	-	-	-	-	-	(892,100)	-	-	-	-	(892,100)
Capital element of finance lease rental payments		(621)	-	-	-	-	(621)	(1,050)	-	-	-	-	(1,050)
Net cash inflow from financing	20(b)(c)	82,379	-	-	-	-	82,379	2,615	-	-	-	-	2,615
Net increase (decrease) in cash	20(b)(c)	50,997	(874)	56	722	(56,719)	(5,818)	44,257	(607)	66	(876)	(26,905)	15,935

The accompanying notes are an integral part of these cash flow statements.

Reconciliation to the Annual Report and Accounts of Northern Gas Networks Limited

A reconciliation is provided below between the Annual Report and Accounts for the year ended 31 December 2006 of Northern Gas Networks Limited (Annual accounts) and these Regulatory Accounts for the year ended 31 March 2007.

Profit and loss account

	Annual accounts to December 2006 £'000	Remove 1 January – 31 March 2006 £'000	1 January – 31 March 2007 £'000	Regulatory Accounts for 2006/07 £'000
Turnover	273,326	(97,232)	83,961	260,055
Operating profit	47,922	(31,202)	15,153	31,873
Profit on disposal of fixed assets	941	-	-	941
Net finance charges	(44,663)	11,338	(11,998)	(45,323)
Tax	(5,706)	7,791	(2,530)	(445)
(Loss) profit for the year	(1,506)	(12,073)	625	(12,954)

Balance sheet

	Annual accounts as at December 2006 £'000	1 January – 31 March 2007 £'000	Regulatory Accounts for 2006/07 £'000
Fixed assets	1,537,883	(3,892)	1,533,991
Current assets	49,905	6,552	56,457
Total assets	1,587,788	2,660	1,590,448
Creditors: Amounts falling due within one year	(150,243)	(14,424)	(164,667)
Creditors: Amounts falling due after one year, provisions and pension liability	(1,050,913)	3,068	(1,047,845)
Total liabilities	(1,201,156)	(11,356)	(1,212,512)
Net assets	386,632	(8,696)	377,936
Profit and loss account	386,632	(8,696)	377,936
Shareholders' funds	386,632	(8,696)	377,936

Notes to the Regulatory Accounts

1. Turnover

	Transportation 2007 £'000	Metering 2007 £'000	De Minimis 2007 £'000	Other activities 2007 £'000	Corporate 2007 £'000	Total 2007 £'000	Transportation 2006 £'000	Metering 2006 £'000	De Minimis 2006 £'000	Other activities 2006 £'000	Corporate 2006 £'000	Total 2006 £'000
Transportation and metering	250,296	123	-	-	-	250,419	244,677	30	-	-	-	244,707
Other income	-	-	112	9,524	-	9,636	-	-	128	8,210	-	8,338
	250,296	123	112	9,524	-	260,055	244,677	30	128	8,210	-	253,045

All turnover arises in the UK.

2. Other operating expenses

	Transportation 2007 £'000	Metering 2007 £'000	De Minimis 2007 £'000	Other activities 2007 £'000	Corporate 2007 £'000	Total 2007 £'000	Transportation 2006 £'000	Metering 2006 £'000	De Minimis 2006 £'000	Other activities 2006 £'000	Corporate 2006 £'000	Total 2006 £'000
Distribution costs	197,726	118	-	-	-	197,844	177,757	26	-	-	-	177,783
Administrative expenses	13,161	-	-	29	-	13,190	8,830	-	-	22	-	8,852
	210,887	118	-	29	-	211,034	186,587	26	-	22	-	186,635

3. Net finance charges

	Transportation 2007 £'000	Metering 2007 £'000	De Minimis 2007 £'000	Other activities 2007 £'000	Corporate 2007 £'000	Total 2007 £'000	Transportation 2006 £'000	Metering 2006 £'000	De Minimis 2006 £'000	Other activities 2006 £'000	Corporate 2006 £'000	Total 2006 £'000
Interest payable and similar charges	46,223	-	-	-	-	46,223	43,244	-	-	-	-	43,244
Investment income	(859)	-	-	-	-	(859)	(359)	-	-	-	-	(359)
Other finance income	(41)	-	-	-	-	(41)	(1,100)	-	-	-	-	(1,100)
	45,323	-	-	-	-	45,323	41,785	-	-	-	-	41,785

Interest payable and similar charges

	Transportation 2007 £'000	Metering 2007 £'000	De Minimis 2007 £'000	Other activities 2007 £'000	Corporate 2007 £'000	Total 2007 £'000	Transportation 2006 £'000	Metering 2006 £'000	De Minimis 2006 £'000	Other activities 2006 £'000	Corporate 2006 £'000	Total 2006 £'000
Bank loans and overdrafts	21,540	-	-	-	-	21,540	34,038	-	-	-	-	34,038
Intercompany interest payable	25,123	-	-	-	-	25,123	9,530	-	-	-	-	9,530
Finance leases and hire purchase contracts	204	-	-	-	-	204	187	-	-	-	-	187
Unwinding of discount on provisions	17	-	-	-	-	17	6	-	-	-	-	6
	46,884	-	-	-	-	46,884	43,761	-	-	-	-	43,761
Finance costs capitalised	(661)	-	-	-	-	(661)	(517)	-	-	-	-	(517)
	46,223	-	-	-	-	46,223	43,244	-	-	-	-	43,244

Finance costs have been capitalised based on a capitalisation rate of 6.25% (2006 – 6.25%).

Investment income

	Transportation 2007 £'000	Metering 2007 £'000	De Minimis 2007 £'000	Other activities 2007 £'000	Corporate 2007 £'000	Total 2007 £'000	Transportation 2006 £'000	Metering 2006 £'000	De Minimis 2006 £'000	Other activities 2006 £'000	Corporate 2006 £'000	Total 2006 £'000
Income from fixed asset investments	(147)	-	-	-	-	(147)	-	-	-	-	-	-
Interest receivable and similar income	(712)	-	-	-	-	(712)	(359)	-	-	-	-	(359)
	(859)	-	-	-	-	(859)	(359)	-	-	-	-	(359)

Other net finance income

	Transportation 2007 £'000	Metering 2007 £'000	De Minimis 2007 £'000	Other activities 2007 £'000	Corporate 2007 £'000	Total 2007 £'000	Transportation 2006 £'000	Metering 2006 £'000	De Minimis 2006 £'000	Other activities 2006 £'000	Corporate 2006 £'000	Total 2006 £'000
Net return on pension scheme (see note 23)	(41)	-	-	-	-	(41)	(1,100)	-	-	-	-	(1,100)
	(41)	-	-	-	-	(41)	(1,100)	-	-	-	-	(1,100)

4. (Loss) profit on ordinary activities before taxation

(Loss) profit on ordinary activities before taxation is stated after charging:

	Transportation 2007 £'000	Metering 2007 £'000	De Minimis 2007 £'000	Other activities 2007 £'000	Corporate 2007 £'000	Total 2007 £'000	Transportation 2006 £'000	Metering 2006 £'000	De Minimis 2006 £'000	Other activities 2006 £'000	Corporate 2006 £'000	Total 2006 £'000
Depreciation and amounts written off tangible fixed assets												
- owned	34,251	118	-	-	-	34,369	29,245	26	-	-	-	29,271
- held under finance leases and hire purchase contracts	1,467	-	-	-	-	1,467	1,404	-	-	-	-	1,404
Amortisation of goodwill	4,111	-	-	-	-	4,111	3,426	-	-	-	-	3,426
Operating lease rentals – other	187	-	-	-	-	187	32	-	-	-	-	32

The analysis of the auditors' remuneration is as follows:

	Transportation 2007 £'000	Metering 2007 £'000	De Minimis 2007 £'000	Other activities 2007 £'000	Corporate 2007 £'000	Total 2007 £'000	Transportation 2006 £'000	Metering 2006 £'000	De Minimis 2006 £'000	Other activities 2006 £'000	Corporate 2006 £'000	Total 2006 £'000
Fees payable to the Company's auditors for the audit of the Company's annual accounts	56	-	-	-	-	56	54	-	-	-	-	54
<i>Fees payable to the Company's auditors and their associates for other services to the Company</i>												
- The audit of the Company's subsidiaries pursuant to legislation	5	-	-	-	-	5	5	-	-	-	-	5
Total audit fees	61	-	-	-	-	61	59	-	-	-	-	59
<i>Fees payable to the Company's auditors and their associates for other services to the Company</i>												
- Other services pursuant to legislation	42	-	-	-	-	42	75	-	-	-	-	75
- Tax services	78	-	-	-	-	78	31	-	-	-	-	31
- Corporate finance services	-	-	-	-	-	-	41	-	-	-	-	41
- Other services	33	-	-	-	-	33	75	-	-	-	-	75
Total non-audit fees	153	-	-	-	-	153	222	-	-	-	-	222

The profit on disposal of fixed assets relates to the sale of land in the year. The affect of the profit on disposal of fixed assets on the tax on (loss) profit on ordinary activities is an increase of £282,000 (2006 - £nil).

5. Payroll costs and employees**a) Payroll costs**

	Transportation 2007 £'000	Metering 2007 £'000	De Minimis 2007 £'000	Other activities 2007 £'000	Corporate 2007 £'000	Total 2007 £'000	Transportation 2006 £'000	Metering 2006 £'000	De Minimis 2006 £'000	Other activities 2006 £'000	Corporate 2006 £'000	Total 2006 £'000
Wages and salaries	2,296	-	-	-	-	2,296	4,369	-	-	-	-	4,369
Social security costs	282	-	-	-	-	282	431	-	-	-	-	431
Pension costs	174	-	-	-	-	174	517	-	-	-	-	517
	2,752	-	-	-	-	2,752	5,317	-	-	-	-	5,317

5. Payroll costs and employees - continued**b) Average number of employees**

	Transportation 2007 Number	Metering 2007 Number	De Minimis 2007 Number	Other activities 2007 Number	Corporate 2007 Number	Total 2007 Number	Transportation 2006 Number	Metering 2006 Number	De Minimis 2006 Number	Other activities 2006 Number	Corporate 2006 Number	Total 2006 Number
Operations	-	-	-	-	-	-	93	-	-	-	-	93
Administration	32	-	-	-	-	32	18	-	-	-	-	18
	32	-	-	-	-	32	111	-	-	-	-	111

For 2006, the calculation of the average monthly number of employees includes 1,027 operational employees for the month of May 2005 only, prior to their transfer to UUOL on 1 June 2005.

6. Directors' emoluments*Remuneration*

The remuneration of the Directors was as follows:

	2007 £'000	2006 £'000
Emoluments	484	347
Amounts receivable (other than shares and share options) under long term incentive schemes	31	-
Company contributions to money purchase pension schemes	35	25
	550	372

Pensions

The number of Directors who were members of pension schemes was as follows:

	2007 Number	2006 Number
Money purchase schemes	1	1
	1	1

Highest paid Director

The above amounts for remuneration include the following in respect of the highest paid Director:

	2007 £'000	2006 £'000
Emoluments	484	347
Amounts receivable (other than shares and share options) under long term incentive schemes	31	-
Company contributions to money purchase pension schemes	35	25
	550	372

Transactions

There have been no transactions with Directors in the year (2006 - £nil) other than as set out above in respect of remuneration.

7. Tax on (loss) profit on ordinary activities

	Total 2007 £'000	Total 2006 £'000
Current tax		
UK corporation tax	1,616	7,141
Adjustments in respect of prior period	(7,141)	-
Total current tax	(5,525)	7,141
Deferred tax		
Current year - Origination and reversal of timing differences	7,867	1,185
Adjustments in respect of prior period	(1,897)	-
Total deferred tax	5,970	1,185
Total tax on (loss) profit on ordinary activities	445	8,326

The differences between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the (loss) profit before taxation is as follows:

	Total 2007 £'000	Total 2006 £'000
(Loss) profit on ordinary activities before tax	(12,509)	6,071
Tax on (loss) profit on ordinary activities at standard UK corporation tax rate of 30% (2006 – 30%)	(3,752)	1,821
Effects of:		
Expenses not deductible for tax purposes	6,028	6,571
Utilisation of tax losses	(2,760)	-
Creation of tax losses	66	1,399
Capital allowances in excess of depreciation	(4,543)	(2,595)
Other timing differences	(564)	(55)
Current tax (credit) charge for the year	(5,525)	7,141

The Company earns its profits in the UK, therefore the tax rate used for tax on (loss) profit on ordinary activities is the standard rate for UK corporation tax, currently 30% (2006 – 30%).

The Company's planned level of capital investment is expected to remain at similar levels of current investment. Therefore it expects to be able to claim capital allowances in excess of depreciation in future years, at a similar level to the current year.

The announcement of the 2007 Budget introduced several potential corporation tax changes, including a reduction in the standard rate of UK corporation tax from 30% to 28%, which if enacted may impact the deferred tax liability in respect of accelerated capital allowances in future periods. The changes are not believed to significantly impact the Company.

8. Dividends paid and proposed on equity shares

	Total 2007 £'000	Total 2006 £'000
Equity shares:		
- interim dividend paid of £nil per ordinary share to National Grid Gas plc (2006 - £90,000)	-	9,000
- interim dividend paid of £450,000 per ordinary share to Northern Gas Networks Holdings Limited (2006 - £250,000)	45,000	25,000
- interim dividend proposed of £150,000 per ordinary share to Northern Gas Networks Holdings Limited (2005 - £150,000)	15,000	15,000
	60,000	49,000

The Company is prohibited from declaring a dividend or other distribution unless it has certified to Ofgem that it is in compliance in all material respects with certain regulatory obligations, including a requirement to ensure it has sufficient financial resources and facilities to enable it to carry on its business and a requirement to use all reasonable endeavours to maintain an investment grade rating (see Regulatory ring-fence on page 2).

9. Intangible fixed assets – goodwill**Transportation**

	Total £'000
Cost at 1 April 2006 and at 31 March 2007	164,457
Amortisation at 1 April 2006	3,426
Charge for the year	4,111
Amortisation at 31 March 2007	7,537
Net book value at 31 March 2007	156,920
Net book value at 31 March 2006	161,031

10. Tangible fixed assets**Transportation**

	Land and buildings £'000	Gas distribution assets £'000	Motor vehicles £'000	Other equipment £'000	Assets in the course of construction £'000	Total £'000
Cost at 1 April 2006	2,970	1,375,826	4,104	10,156	9,965	1,403,021
Additions	19	25,460	330	1,266	11,674	38,749
Disposals	(2)	-	-	-	-	(2)
Transfers	-	-	-	21,562	(21,562)	-
Cost at 31 March 2007	2,987	1,401,286	4,434	32,984	77	1,441,768
Depreciation at 1 April 2006	229	27,063	1,404	1,953	-	30,649
Charge for the year	315	31,097	1,542	2,764	-	35,718
Depreciation at 31 March 2007	544	58,160	2,946	4,717	-	66,367
Net book value at 31 March 2007	2,443	1,343,126	1,488	28,267	77	1,375,401
Net book value at 31 March 2006	2,741	1,348,763	2,700	8,203	9,965	1,372,372

Metering

	Other equipment £'000	Total £'000
Cost at 1 April 2006	663	663
Additions	997	997
Cost at 31 March 2007	1,660	1,660
Depreciation at 1 April 2006	26	26
Charge for the year	118	118
Depreciation at 31 March 2007	144	144
Net book value at 31 March 2007	1,516	1,516
Net book value at 31 March 2006	637	637

10. Tangible fixed assets - continued**Total**

	Land and buildings £'000	Gas distribution assets £'000	Motor vehicles £'000	Other equipment £'000	Assets in the course of construction £'000	Total £'000
Cost at 1 April 2006	2,970	1,375,826	4,104	10,819	9,965	1,403,684
Additions	19	25,460	330	2,263	11,674	39,746
Disposals	(2)	-	-	-	-	(2)
Transfers	-	-	-	21,562	(21,562)	-
Cost at 31 March 2007	2,987	1,401,286	4,434	34,644	77	1,443,428
Depreciation at 1 April 2006	229	27,063	1,404	1,979	-	30,675
Charge for the year	315	31,097	1,542	2,882	-	35,836
Depreciation at 31 March 2007	544	58,160	2,946	4,861	-	66,511
Net book value at 31 March 2007	2,443	1,343,126	1,488	29,783	77	1,376,917
Net book value at 31 March 2006	2,741	1,348,763	2,700	8,840	9,965	1,373,009

Leased assets included above:

Net book value at 31 March 2007	396	-	851	-	-	1,247
Net book value at 31 March 2006	41	-	2,318	-	-	2,359

Short leasehold included within land and buildings above has a cost of £441,000 (2006 - £42,000) and a depreciation charge in the year of £44,000 (2006 - £1,000) giving a net book value at 31 March 2007 of £396,000 (2006 - £41,000).

Cumulative finance costs capitalised included in the cost of tangible fixed assets amount to £1,178,000 (2006 - £517,000).

Included in Creditors: amounts falling due within one year and Creditors: amounts falling due after more than one year are contributions to the cost of tangible fixed assets amounting to £479,000 (2006 - £181,000) and £18,194,000 (2006 - £10,533,000) respectively.

11. Investments

	Total 2007 £'000	Total 2006 £'000
Subsidiary undertaking	50	50
Other investment	104	104
	154	154

The Company has an investment in the following subsidiary undertaking:

Subsidiary undertaking	Country of incorporation	Principal activity	Holding	%
Northern Gas Networks Finance Plc	England & Wales	Financing	49,999 ordinary shares of £1	100

The other investment represents a 10.38% shareholding in xoserve Limited, which provides information, data processing, invoicing and other supply point administration services to the Company. xoserve Limited is registered in England & Wales.

Subsidiary undertaking

	Total £'000
Cost and net book value	
At 1 April 2006 and at 31 March 2007	50

Other investment

	Total £'000
Cost and net book value	
At 1 April 2006 and 31 March 2007	104

12. Debtors - due within one year

	Transportation 2007 £'000	Metering 2007 £'000	De Minimis 2007 £'000	Other activities 2007 £'000	Corporate 2007 £'000	Total 2007 £'000	Transportation 2006 £'000	Metering 2006 £'000	De Minimis 2006 £'000	Other activities 2006 £'000	Corporate 2006 £'000	Total 2006 £'000
Trade debtors	2,549	-	-	448	-	2,997	4,919	-	-	-	-	4,919
Other taxation and social security	651	-	-	-	-	651	-	-	-	-	-	-
Prepayments and accrued income	42,692	-	-	-	-	42,692	48,186	-	-	806	-	48,992
	45,892	-	-	448	-	46,340	53,105	-	-	806	-	53,911

13. Creditors: Amounts falling due within one year

	Transportation 2007 £'000	Metering 2007 £'000	De Minimis 2007 £'000	Other activities 2007 £'000	Corporate 2007 £'000	Total 2007 £'000	Transportation 2006 £'000	Metering 2006 £'000	De minimis 2006 £'000	Other activities 2006 £'000	Corporate 2006 £'000	Total 2006 £'000
Bank loans	83,000	-	-	-	-	83,000	-	-	-	-	-	-
Obligations under finance leases and hire purchase contracts	425	-	-	-	-	425	19	-	-	-	-	19
Payments received on account	16,861	-	-	-	-	16,861	21,973	-	-	-	-	21,973
Trade creditors	8,634	-	-	-	-	8,634	5,100	-	-	-	-	5,100
Amounts owed to group undertakings	-	-	-	-	10,376	10,376	-	-	-	-	7,095	7,095
Corporation tax	1,521	-	-	-	-	1,521	7,141	-	-	-	-	7,141
Proposed dividends – equity shareholder	-	-	-	-	15,000	15,000	-	-	-	-	15,000	15,000
Other taxation and social security	87	-	-	-	-	87	2,840	-	-	-	-	2,840
Accruals and deferred income	28,737	-	-	-	-	28,737	56,664	-	-	-	-	56,664
Defined contribution pension scheme accrual	26	-	-	-	-	26	6	-	-	-	-	6
	139,291	-	-	-	25,376	164,667	93,743	-	-	-	22,095	115,838

Bank loans are a working capital facility of £25.0m repayable on 31 May 2007 and a revolving credit facility of £58.0m repayable on 30 April 2007. Both carry interest at 6 month LIBOR plus a margin of 0.26%.

14. Creditors: Amounts falling due after more than one year

	Transportation 2007 £'000	Metering 2007 £'000	De Minimis 2007 £'000	Other activities 2007 £'000	Corporate 2007 £'000	Total 2007 £'000	Transportation 2006 £'000	Metering 2006 £'000	De Minimis 2006 £'000	Other activities 2006 £'000	Corporate 2006 £'000	Total 2006 £'000
Term loan	365,128	-	-	-	-	365,128	364,903	-	-	-	-	364,903
Obligations under finance leases and hire purchase contracts	12	-	-	-	-	12	1,039	-	-	-	-	1,039
Amounts owed to group undertakings	529,328	-	-	-	-	529,328	529,328	-	-	-	-	529,328
Deferred income	18,194	-	-	-	-	18,194	10,534	-	-	-	-	10,534
	912,662	-	-	-	-	912,662	905,804	-	-	-	-	905,804

The term loan is repayable on 31 March 2010 and carries interest at 6 month LIBOR plus a margin of 0.26%.

The amounts owed to group undertakings is an interest free loan of £24.3m, which is only repayable after the term loan has been fully repaid and an interest bearing loan of £505.0m, with £250.0m repayable in 2027 and £255.0m repayable in 2035. Interest is payable at a rate of 4.875% plus a margin to cover related costs.

15. Derivatives and other financial instruments

Page 5 of the Operating and Financial Review provides an explanation of the role that financial instruments have had during the year in creating or changing the risks the Company faces and its activities. The explanation summarises the objectives and policies for holding or issuing financial instruments and similar contracts and the strategies for achieving those objectives that have been followed during the year.

The numerical disclosures in this note deal with financial assets and liabilities as defined in Financial Reporting Standard 13 "Derivatives and other financial instruments: Disclosures" ("FRS13"). Certain financial assets such as investments in subsidiary companies are excluded from the scope of these disclosures.

As permitted by FRS 13, short term debtors and creditors have been excluded from the disclosures, other than the currency disclosures. The Directors believe that the fair values are not materially different from the balance sheets values.

Interest rate profile

The Company has no financial assets other than sterling cash deposits of £10,117,000 (2006 - £15,935,000) which are part of the financing arrangements of the Company. The sterling cash deposits comprise monies held in bank accounts.

After taking into account interest rate swap contracts entered into by the Company, the interest rate profile of the Company's financial liabilities at 31 March 2007 was as follows.

	Floating rate 2007 £'000	Fixed rate 2007 £'000	Interest free 2007 £'000	Total 2007 £'000
Borrowings - Bank loans	365,128	83,000	-	448,128
Borrowings - Intercompany loan	-	505,000	24,328	529,328
Finance leases	-	437	-	437
	365,128	588,437	24,328	977,893

The profile at 31 March 2006 for comparison purposes was as follows:

	Floating rate 2006 £'000	Fixed rate 2006 £'000	Interest free 2006 £'000	Total 2006 £'000
Borrowings - Bank loans	364,903	-	-	364,903
Borrowings - Intercompany loan	-	505,000	24,328	529,328
Finance leases	-	1,058	-	1,058
	364,903	506,058	24,328	895,289

15. Derivatives and other financial instruments - continued

Further analysis of the interest rate profile at 31 March 2007 was as follows:

	<u>Floating Rate</u>	<u>Fixed Rate</u>	<u>Interest free</u>
	Weighted average interest rate %	Weighted average interest rate %	Weighted average period for which rate is fixed Years
			Weighted average period to maturity Years
Borrowings - Bank loans	4.5	5.49	0.125
Borrowings - Intercompany loan	-	4.875	24.75
Finance leases	-	15	3.75

The profile at 31 March 2006 for comparison purposes was as follows:

	<u>Floating Rate</u>	<u>Fixed Rate</u>	<u>Interest free</u>
	Weighted average interest rate %	Weighted average interest rate %	Weighted average period for which rate is fixed Years
			Weighted average period to maturity Years
Borrowings - Bank loans	4.5	-	-
Borrowings - Intercompany loan	-	4.875	25.75
Finance leases	-	15	4.75

Further details of interest rates on long term borrowings are given in note 14.

Maturity of financial liabilities

The maturity profile of the Company's financial liabilities at 31 March was as follows:

	2007 £'000	2006 £'000
In one year or less	83,425	19
More than one year, but not more than two years	12	1,039
More than two years, but not more than five years	389,456	389,231
More than five years	505,000	505,000
	977,893	895,289

Borrowing facilities

The Company had undrawn committed borrowing facilities at 31 March, in respect of which all conditions precedent had been met, as follows:

	2007 £'000	2006 £'000
Expiring in more than two years, but not more than five years	70,564	150,000
	70,564	150,000

15. Derivatives and other financial instruments - continued**Fair values**

Set out below is a comparison by category of book values and fair values of the Company's financial assets and liabilities at 31 March.

	2007		2006	
	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
Primary financial instruments held or issued to finance the Company's operations				
Working capital and revolving credit facilities	83,000	83,000	-	-
Long-term borrowings	365,128	342,684	364,903	359,017
Intercompany borrowings	529,328	549,951	529,328	539,398
Derivative financial instruments held to manage the interest rate and currency profile				
Interest rate swaps	-	6,198	-	(17,533)

The fair values of the interest rate swaps have been determined by reference to prices available from the markets on which the instruments involved are traded. All other fair values shown above have been calculated by discounting cash flows at prevailing interest rates.

Gains and losses on hedges

The Company enters into interest rate swaps to manage its interest rate profile. Changes in the fair value of instruments used as hedges are not recognised in the accounts until the hedged position matures. An analysis of these unrecognised gains and losses is as follows:

	Gains 2007 £'000	Losses 2007 £'000	Net 2007 £'000	Gains 2006 £'000	Losses 2006 £'000	Net 2006 £'000
	Unrecognised gains and losses on hedges at 1 April	24,728	(7,195)	17,533	-	-
Gains and losses arising in previous years that were recognised in the year	-	-	-	-	-	-
Gains and losses arising before 1 April that were not recognised in the year	24,728	(7,195)	17,533	-	-	-
Gains and losses arising in the year that were not recognised in the year	(953)	(22,778)	(23,731)	24,728	(7,195)	17,533
Unrecognised gains and losses on hedges at 31 March	23,775	(29,973)	(6,198)	24,728	(7,195)	17,533
Of which:						
Gains and losses expected to be recognised within one year	-	-	-	-	-	-
Gains and losses expected to be recognised after one year	23,775	(29,973)	(6,198)	24,728	(7,195)	17,533

16. Provisions for liabilities and charges excluding pension liability

	Transportation				Total			
	Environmental restoration costs £'000	Deferred tax £'000	Other provisions £'000	Total £'000	Environmental restoration costs £'000	Deferred tax £'000	Other provisions £'000	Total £'000
At 1 April 2006	7,265	100,430	8,912	116,607	7,265	100,430	8,912	116,607
Charge to profit and loss account	-	5,250	350	5,600	-	5,250	350	5,600
Utilised in the year	-	-	(261)	(261)	-	-	(261)	(261)
Unwinding of discount	8	-	9	17	8	-	9	17
At 31 March 2007	7,273	105,680	9,010	121,963	7,273	105,680	9,010	121,963

Estimated environmental restoration costs are provided where the Company has a legal obligation to remediate sites at the balance sheet date. The provision represents the estimated net present value for statutory decontamination of old gas manufacturing sites. It also reflects the obligations associated with other environmental damage.

Other provisions relate to the estimated net present value of future claims in relation to past public and employer's liability events.

The timing of the utilisation of the environmental and other provisions is inherently uncertain although the Directors expect that such utilisation will occur mainly beyond one year from the balance sheet date.

Deferred tax

	2007 £'000	2006 £'000
Accelerated capital allowances	105,957	99,924
Other timing differences	(277)	506
	105,680	100,430

Deferred tax in respect of the Company's defined benefit pension scheme is disclosed in note 23.

17. Called-up share capital

	2007 Number	2007 £	2006 Number	2006 £
Authorised				
Ordinary shares of £1 each	100	100	100	100
Allotted, called-up and fully paid				
Ordinary shares of £1 each	100	100	100	100

18. Reserves

	Profit and loss account £'000
At 1 April 2006	450,391
Retained loss for the year	(12,954)
Actuarial gain relating to the pension scheme (note 23)	712
UK deferred tax attributable to actuarial gain	(213)
Dividends paid on equity shares	(60,000)
At 31 March 2007	377,936

19. Reconciliation of movements in shareholders' funds

	2007 £'000	2006 £'000
Loss on ordinary activities after taxation	(12,954)	(2,255)
Other recognised gains and losses relating to the year (net)	499	2,380
Dividends paid and proposed on equity shares	(60,000)	(49,000)
Net reduction in shareholders' funds	(72,455)	(48,875)
Opening shareholders' funds	450,391	499,266
Closing shareholders' funds	377,936	450,391

20. Cash flow statement**a) Reconciliation of operating profit to net cash inflow (outflow) from operating activities**

	Transportation 2007 £'000	Metering 2007 £'000	De Minimis 2007 £'000	Other activities 2007 £'000	Corporate 2007 £'000	Total 2007 £'000	Transportation 2006 £'000	Metering 2006 £'000	De Minimis 2006 £'000	Other activities 2006 £'000	Corporate 2006 £'000	Total 2006 £'000
Operating profit (loss)	31,448	5	56	364	-	31,873	47,856	4	66	(70)	-	47,856
Depreciation and amortisation	39,829	118	-	-	-	39,947	34,075	26	-	-	-	34,101
Decrease (increase) in debtors	11,599	-	-	358	-	11,957	(41,162)	-	-	(806)	-	(41,968)
(Decrease) increase in creditors	(25,648)	-	-	-	3,281	(22,367)	78,304	-	-	-	7,095	85,399
Increase in provisions	89	-	-	-	-	89	671	-	-	-	-	671
Adjustment for pension funding	(1,468)	-	-	-	-	(1,468)	500	-	-	-	-	500
Net cash inflow (outflow) from operating activities	55,849	123	56	722	3,281	60,031	120,244	30	66	(876)	7,095	126,559

20. Cash flow statement - continued**b) Reconciliation of net cash flow to movement in net debt**

	Transportation	Metering	De Minimis	Other activities	Corporate	Total	Transportation	Metering	De Minimis	Other activities	Corporate	Total
	2007	2007	2007	2007	2007	2007	2006	2006	2006	2006	2006	2006
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Increase (decrease) in cash in the year	50,997	(874)	56	722	(56,719)	(5,818)	44,257	(607)	66	(876)	(26,905)	15,935
Cash outflow from increase in debt and lease financing	(82,379)	-	-	-	-	(82,379)	(2,615)	-	-	-	-	(2,615)
Change in net debt resulting from cash flows	(31,382)	(874)	56	722	(56,719)	(88,197)	41,642	(607)	66	(876)	(26,905)	13,320
Intercompany debt acquired on hive down	-	-	-	-	-	-	(892,100)	-	-	-	-	(892,100)
Other non-cash movements	1,309	-	-	-	-	1,309	-	-	-	-	-	-
Finance leases acquired on hive down	-	-	-	-	-	-	(2,108)	-	-	-	-	(2,108)
Movement in net debt in the year	(30,073)	(874)	56	722	(56,719)	(86,888)	(852,566)	(607)	66	(876)	(26,905)	(880,888)
Net debt at the start of the year	(852,566)	(607)	66	(876)	(26,905)	(880,888)	-	-	-	-	-	-
Net debt at the end of the year	(882,639)	(1,481)	122	(154)	(83,624)	(967,776)	(852,566)	(607)	66	(876)	(26,905)	(880,888)

c) Analysis of changes in net debt

	At 1 April 2006	Cash flow	Non cash Movements	At 31 March 2007
	£'000	£'000	£'000	£'000
Cash at bank	15,935	(5,818)	-	10,117
	15,935	(5,818)	-	10,117
Debt due after one year	(895,765)	-	1,309	(894,456)
Debt due within one year	-	(83,000)	-	(83,000)
Finance leases	(1,058)	621	-	(437)
	(896,823)	(82,379)	1,309	(977,893)
Net debt	(880,888)	(88,197)	1,309	(967,776)

21. Related party transactions

Northern Gas Networks Limited is a wholly owned subsidiary undertaking of Northern Gas Networks Holdings Limited, a company incorporated in England and Wales.

As a subsidiary undertaking of Northern Gas Networks Holdings Limited, the Company has taken advantage of the exemption in FRS 8 "Related party disclosures" from disclosing transactions with other members of the Group headed by Northern Gas Networks Holdings Limited.

22. Financial commitments**a) Capital commitments**

As at 31 March 2007 the Company had placed contracts for capital expenditure (tangible fixed assets) amounting to £nil (2006 - £1,250,000).

b) Lease commitments

Annual commitments under non-cancellable operating leases are as follows:

	Land and buildings 2007 £'000	Land and buildings 2006 £'000
Expiry date:		
- between two and five years	-	234
- after five years	683	683
	683	917

c) Other commitments

The Company has entered in to a Guarantee and Reimbursement Agreement with FGIC UK Limited ("FGIC") in conjunction with its subsidiary Northern Gas Networks Finance Plc ("the Issuer") in relation to the bonds issued by that company in November 2005 of £505.0m. The Company guarantees the punctual payment of any and all sums and fees due to FGIC and undertakes to pay any amount due from the Issuer but not paid by it. The Company also indemnifies FGIC against any loss or liability suffered, if any obligation guaranteed by FGIC is, or becomes, unenforceable, invalid or illegal. The amount of the loss or liability under the indemnity is equal to the amount FGIC would otherwise have been entitled to recover.

Under the terms of the ASA which expires on 31 March 2013, the operation and maintenance of the network, together with the implementation of the asset and replacement programmes has been contracted out to UUOL. The total value of the contract, to its expiry date, is estimated to be £0.9bn (2006 - £1.1bn).

23. Pension arrangements

The Company has obligations for a defined benefit pension scheme which is operated on its behalf by UUOL who are responsible for making payments of current service costs, which are then charged to the Company under the terms of the ASA. The scheme was set up following the acquisition of the business and the first full actuarial valuation will be carried out in 2008. The position at 31 March 2006 and at 31 March 2007 was calculated by a qualified actuary. The major assumptions used for the actuarial valuation were:

	31 March 2007	31 March 2006
Rate of increase in salaries	3.60%	3.40%
Rate of increase in pensions in payment	3.10%	2.90%
Discount rate	5.20%	4.90%
Inflation assumption	3.10%	2.90%

23. Pension arrangements - continued

The fair value of the assets in the scheme, the present value of the liabilities in the scheme and the expected rate of return at the balance sheet date were:

	31 March 2007 %	31 March 2007 £'000	31 March 2006 %	31 March 2006 £'000
Equities	7.6%	100,532	7.2%	89,900
Gilts & Bonds	4.9%	87,585	4.4%	81,900
Cash	5.2%	2,461	4.5%	2,200
Total fair value of assets		190,578		174,000
Present value of scheme liabilities		(209,463)		(196,000)
Deficit in the scheme		(18,885)		(22,000)
Related deferred tax asset		5,665		6,600
Net pension liability		(13,220)		(15,400)

The contribution rate was 31.1% of pensionable earnings and the agreed contribution rates for the foreseeable future is 31.1% of pensionable earnings.

The scheme is a closed scheme and therefore under the projected unit method the current service cost would be expected to increase as the members of the scheme approach retirement.

Analysis of the amount charged to operating profit

	2007 £'000	2006 £'000
Current service costs	(7,538)	(5,600)
Past service costs	(832)	-
	(8,370)	(5,600)

Analysis of the amount credited to net finance charges

	2007 £'000	2006 £'000
Expected return on pension scheme assets	10,050	9,300
Interest on pension scheme liabilities	(10,009)	(8,200)
	41	1,100

Analysis of the actuarial gain in the statements of total recognised gains and losses

	2007 £'000	2006 £'000
Actual return less expected return on pension scheme assets	(4,317)	24,600
Experience gains and losses arising on the scheme liabilities	-	400
Changes in assumptions underlying the present value of the scheme liabilities	5,029	(21,600)
	712	3,400

Movement in scheme deficit during the year before deferred tax

	2007 £'000	2006 £'000
At 1 April	(22,000)	(26,000)
Current service cost	(7,538)	(5,600)
Contributions	10,732	5,100
Past service costs	(832)	-
Net finance income	41	1,100
Actuarial gain	712	3,400
At 31 March	(18,885)	(22,000)

23. Pension arrangements - continued

History of experience gains and losses

	31 March 2007	31 March 2006
Difference between the expected and actual return on scheme assets:		
Amount (£'000)	(4,317)	24,600
Percentage of scheme assets	2%	14%
Experience of gains and losses on scheme liabilities:		
Amount (£'000)	0	400
Percentage of the present value of scheme liabilities	0%	0%
Total actuarial gain in the statement of total recognised gains and losses:		
Amount (£'000)	712	3,400
Percentage of the present value of scheme liabilities	0%	2%

The Company also operates defined contribution schemes for which the pension cost charge for the year amounted to £174,000 (2006 - £95,000).

24. Ultimate controlling party

The Directors regard Northern Gas Networks Holdings Limited, a company incorporated in England and Wales, as the ultimate parent company and ultimate controlling party. For regulatory purposes only, in accordance with Special Condition 1, Cheung Kong Infrastructure Holdings Limited and United Utilities plc are also deemed to be ultimate controllers.

Northern Gas Networks Holdings Limited is the parent company of the largest and smallest group of which the Company is a member and for which group accounts are drawn up. Copies of the accounts are available from 1100 Century Way, Thorpe Park Business Park, Colton, Leeds, LS15 8TU.

The shareholders of Northern Gas Networks Holdings Limited are a consortium consisting of:

PG (April) Limited (40%)
 Alpha Central Profits Limited (19.9%)
 Goldia Resources Limited (15.2%)
 United Utilities Contracts Solutions Limited (15%)
 Challenger Northern Gas Limited (5.8%)
 SAS Trustee Corporation (4.1%)

25. Amounts determined by apportionment

Note 25 includes disclosure of amounts determined by apportionment. Standard Special Condition A30 ("the Condition") requires this disclosure to be made to the Regulator, but allows NGN to remove this disclosure from the information made available to the public as per paragraph 10 of the Condition.

26. Charges and apportionments

Note 26 includes disclosures of amounts charged to or from other businesses of NGN or amounts determined by apportionment. The Condition requires this disclosure to be made to the Regulator, but allows NGN to remove this disclosure from the information made available to the public as per paragraph 10 of the Condition.

26. Charges and apportionments - continued

Note 26 includes disclosures of amounts charged to or from other businesses of NGN or amounts determined by apportionment. The Condition requires this disclosure to be made to the Regulator, but allows NGN to remove this disclosure from the information made available to the public as per paragraph 10 of the Condition.