

**Northern Gas Networks Limited
Regulatory Accounts 2007/2008**

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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 2007, 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 2008, are that for each of the NGN Total, Transportation, Metering, De Minimis and Other activities, 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 ("UK GAAP"), 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 ("NGG") 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 acquisition of the business in 2005, the directors implemented a unique operating model, referred to as strategic asset management, by separating the asset management and ownership responsibilities of the network from the delivery of operational activity. 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 network 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”). The model is delivering the expected operational results.

Strategy

NGN is committed to building on the network’s inheritance of providing safe and reliable operations, and to maintaining 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, 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 and service improvements. 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 its 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:

| | 2007 | 2006 |
|---|---------------------|---------------------|
| Post maintenance interest coverage ratio | 1.9 | 1.6 |
| EBITDA interest coverage ratio | 2.1 | 2.0 |
| Senior Debt/Regulatory Asset Value | 68% | 69% |
| Number of lost time injuries to employees and contractors | 8 | 9 |
| Injuries to members of the general public | 10 | 23 |
| Quarterly customer satisfaction survey for repair and replacement | Score of 4 out of 5 | Score of 4 out of 5 |

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 recycling project at Sheepscar in Leeds and the Northern Green Networks project which supports local environmental schemes within the network region.

Future outlook

The directors expect the general level of activity to remain stable given the certainty now provided by the price control outcomes for the period April 2008 to March 2013.

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. The Risk Management Committee is responsible for reviewing the risk profile of the business and risk management processes. The Committee has a formal Risk Management Policy and framework. For further information about the Risk Management Committee see the Corporate Governance Statement on pages 8 and 9.

The principal risks and uncertainties identified by NGN are set out below:

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 effect 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 effect on the reputation of NGN, or lead to potential prosecution and reduced productivity.

Contract and Contractor management

As described above 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, poor quality of information, 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, associated adverse publicity and an unexpected increase in costs.

Employees

The success of NGN depends to a significant extent on the contribution of its employees and the employees and contractors of UUOL. 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 retention of a high calibre, competent, flexible, quality conscious and customer focused workforce all of whom are committed to the businesses 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, as well as the contractors of UUOL, informed on matters affecting them as well as 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.

Price control

NGN now has a price control review outcome agreed for 2008 - 2013 which has determined revenue and cost allowances which will apply for the next five years. After this period, revenue and cost allowances will be subject to review with Ofgem.

Financial review

The overall financial results for the year are in line with expectations.

Basis of accounting

The accounts present the financial results for the years ended 31 March 2008 and 31 March 2007. They have been prepared using the accounting policies set out on pages 13 to 14. 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.

Turnover

Total turnover, as reported for the year was £301.5m (2007 - £260.1m), was impacted by a price increase from October 2007 resulting from the warmer than seasonal normal weather in 2006/7.

Operating profit

The operating profit for the year was £67.0m (2007 - £31.9m).

Operating and Financial Review *continued*

Interest

The net finance charges for NGN for the year ended 31 March 2008 was £48.5m (2007 - £45.3m), which principally represents interest payments and charges on the debt that was taken on to facilitate the purchase of the network, ongoing investment programmes and working capital funding requirements (see 'Capital structure' below).

Taxation

The tax charge for the year was £3.4m (2007 - £0.4m) which represents an effective tax charge of 18.7% (2007 - 4%).

Dividend and dividend policy

Dividends of £65.8m (2007 - £60.0m) were paid or declared during the year. £50.0m of interim dividends have been paid and £15.8m of interim dividends have been declared to NGNH, NGN's parent company, in the year.

Capex

Capex for the year was £42.7m (2007 - £39.7m) which represents investment in network assets of £33.9m (2007 - £25.8m), development of new IT systems used to support many of NGN's operational business activities of £7.4m (2007 - £11.6m) and spend on other assets of £1.4m (2007 - £2.3m).

Capital structure

NGN has debt excluding finance leases of £1,015.9m (2007 - £977.5m). This incorporates a drawn term loan of £366.4m, a revolving credit facility of £82.0m, a bi-lateral credit facility of £14.0m, a working capital facility of £25.0m and £529.3m due to group undertakings.

The term loan is repayable on 1 June 2010 and carries interest at 6 month LIBOR plus a margin of 0.26%. The revolving credit facility carries interest at 6 month LIBOR plus a margin of 0.26% with £30.0m repayable on 22 April 2008 and £52.0m repayable on 30 April 2008. The working capital facility carries interest at 6 month LIBOR plus 0.26% and is repayable on 30 April 2008. The Bi-lateral facility carries interest at 6 month LIBOR plus 0.43% and is repayable on 30 April 2008. 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) these ratings were re-affirmed in 2007 and 2008.

Cash flow

Net cash inflow from operating activities for the year ended 31 March 2008 was £123.9m (2007 - £60.0m). The higher cash inflow compared to the prior period results from higher revenue as explained above and working capital movements.

Liquidity and investments

At 31 March 2008 NGN had £32.6m (2007 - £70.6m) 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 ongoing and working capital requirements.

At 31 March 2008 NGN had £13.3m (2007 - £9.6m) 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 hedges. 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 2008 are shown in note 15 to the Regulatory Accounts on pages 30 to 32.

Interest rate risk

The approach adopted in reducing interest rate exposures on debt is as follows:

- To maintain a balanced debt portfolio comprising a mixture of fixed rate, floating rate and index-linked debt as appropriate in order to achieve a degree of symmetry with the Regulator's broad approach to setting cost of debt allowances (each class of debt comprises between 20% and 50% of total debt beyond the end of the current price control period).
- To maintain a debt portfolio consistent with those of comparable utility companies; and

Operating and Financial Review *continued*

- To synchronise the maturities of fixed rate interest hedges on floating rate debt with the timing of the Regulator's five yearly price control review.

Currency risk

No exposures are currently identified. Regular monitoring procedures 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 finance leases which are less than one year.

Facilities are staggered to mature to avoid excessive concentrations in any twelve month period 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 6.

Results and dividends

The profit for the year after taxation was £15.0m (2007 - loss of £13.0m).

The Directors do not recommend payment of a final dividend. Details of interim dividends are contained in the Operating and Financial Review on pages 3 to 6.

Directors

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

| | |
|-----------------------|---|
| W Shurniak (Chairman) | |
| B Scarsella | |
| F R Frame | |
| D V Latham | (resigned 8 October 2007) |
| H Lam Kam | |
| K Sum Tso | |
| N McGee | |
| A Hunter | |
| C J Brook | (resigned 12 April 2007) |
| C Cornish | (appointed 12 April 2007, resigned 2 December 2007) |
| J Dorrian | (appointed 8 October 2007, resigned 25 April 2008) |
| S Fraser | (appointed 2 December 2007) |
| M Robinson | (appointed 25 April 2008) |

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 2008 were equivalent to 7 (2007 - 10) 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 £59,794 (2007 - £4,310), principally to local charities serving the communities in which the Company operates. Charitable donations included the Northern Green Networks project which provided £50,000 to local community groups within the network region to support environmental schemes.

No political donations were made (2007 - £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.

By order of the Board



B Scarsella
Director

23 July 2008

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.

The Board of Directors meet at least five times a year. The number of Board meetings held during the year and attendees at the Board meetings is detailed below:

| 2007/08 | | 2006/07 | |
|------------------|------------|------------------|------------|
| Date | Attendees | Date | Attendees |
| 21 May 2007 | 7 out of 9 | 3 April 2006 | 9 out of 9 |
| 4 July 2007 | 8 out of 9 | 3 July 2006 | 8 out of 9 |
| 3 September 2007 | 9 out of 9 | 9 October 2006 | 9 out of 9 |
| 12 November 2007 | 9 out of 9 | 17 November 2006 | 9 out of 9 |
| 7 January 2008 | 9 out of 9 | 8 January 2007 | 8 out of 9 |
| 3 March 2008 | 9 out of 9 | 5 March 2007 | 9 out of 9 |

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 regular 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.

Corporate Governance statement *continued*

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 accounting books and records 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 Statutory 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 2008 on pages 13 to 40 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 10.

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 13 and 14, 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 17 March 2008, 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 13 and 14, the financial position of the Company as at 31 March 2008 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

29 July 2008

Statement of accounting policies

a) Basis of accounting

The Regulatory Accounts for the year ended 31 March 2008 have been prepared under the historical cost convention and in accordance with applicable UK accounting standards.

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 stated 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 Regulatory 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 Regulatory 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 Regulatory 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.

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 statements 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 accounts 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 accounts 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 years ended 31 March

| | Notes | Transportation 2008 £'000 | Metering (i) 2008 £'000 | De Minimis 2008 £'000 | Other activities (ii) 2008 £'000 | Corporate (iii) 2008 £'000 | Total 2008 £'000 | Transportation 2007 £'000 | Metering (i) 2007 £'000 | De Minimis 2007 £'000 | Other activities (ii) 2007 £'000 | Corporate (iii) 2007 £'000 | Total 2007 £'000 |
|---|-------|---------------------------------|-------------------------------|-----------------------------|---|----------------------------------|------------------------|---------------------------------|-------------------------------|-----------------------------|---|----------------------------------|------------------------|
| Turnover | 1 | 292,850 | 755 | 396 | 7,511 | - | 301,512 | 250,296 | 123 | 112 | 9,524 | - | 260,055 |
| Cost of Sales | | (6,421) | (518) | (198) | (7,462) | - | (14,599) | (7,961) | - | (56) | (9,131) | - | (17,148) |
| Gross profit | | 286,429 | 237 | 198 | 49 | - | 286,913 | 242,335 | 123 | 56 | 393 | - | 242,907 |
| Other operating expenses | 2 | (219,697) | (234) | - | (16) | - | (219,947) | (210,887) | (118) | - | (29) | - | (211,034) |
| Operating profit | | 66,732 | 3 | 198 | 33 | - | 66,966 | 31,448 | 5 | 56 | 364 | - | 31,873 |
| Profit on disposal of fixed assets | 4 | - | - | - | - | - | - | 941 | - | - | - | - | 941 |
| Net finance charges | 3 | (48,546) | - | - | - | - | (48,546) | (45,323) | - | - | - | - | (45,323) |
| Profit (loss) on ordinary activities before taxation | 4 | 18,186 | 3 | 198 | 33 | - | 18,420 | (12,934) | 5 | 56 | 364 | - | (12,509) |
| Tax on profit (loss) on ordinary activities | 7 | (3,378) | (1) | (59) | (10) | - | (3,448) | (317) | (2) | (17) | (109) | - | (445) |
| Profit (loss) for the year | 18 | 14,808 | 2 | 139 | 23 | - | 14,972 | (13,251) | 3 | 39 | 255 | - | (12,954) |

All results arise from continuing operations.

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

- (i) The "Metering" category in 2007/8 includes Post-Emergency Metering Services ("PEMS") income as determined by the Regulator in a letter dated 21 December 2007. In the prior period, 2006/7 £396,000 of PEMS income was classified as "Other activities".
- (ii) "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.
- (iii) All costs have been allocated to the appropriate business.

Balance sheets

At 31 March

| | Notes | Transportation 2008 £'000 | Metering 2008 £'000 | De Minimis 2008 £'000 | Other activities (i) 2008 £'000 | Corporate 2008 £'000 | Total 2008 £'000 | Transportation 2007 £'000 | Metering 2007 £'000 | De Minimis 2007 £'000 | Other activities (i) 2007 £'000 | Corporate 2007 £'000 | Total 2007 £'000 |
|---|-------|---------------------------------|---------------------------|-----------------------------|--|----------------------------|------------------------|---------------------------------|---------------------------|-----------------------------|--|----------------------------|------------------------|
| Fixed assets | | | | | | | | | | | | | |
| Intangible assets - goodwill | 9 | 152,808 | - | - | - | - | 152,808 | 156,920 | - | - | - | - | 156,920 |
| Tangible assets | 10 | 1,380,066 | 2,476 | - | - | - | 1,382,542 | 1,375,401 | 1,516 | - | - | - | 1,376,917 |
| Investments | 11 | 104 | - | - | - | 50 | 154 | 104 | - | - | - | 50 | 154 |
| | | 1,532,978 | 2,476 | - | - | 50 | 1,535,504 | 1,532,425 | 1,516 | - | - | 50 | 1,533,991 |
| Current assets | | | | | | | | | | | | | |
| Debtors – amounts falling due within one year | 12 | 49,981 | - | - | 579 | - | 50,560 | 45,892 | - | - | 448 | - | 46,340 |
| Cash at bank | | - | - | - | - | 13,508 | 13,508 | - | - | - | - | 10,117 | 10,117 |
| | | 49,981 | - | - | 579 | 13,508 | 64,068 | 45,892 | - | - | 448 | 10,117 | 56,457 |
| Creditors: Amounts falling due within one year | 13 | (195,311) | - | - | - | (26,894) | (222,205) | (139,291) | - | - | - | (25,376) | (164,667) |
| Net current (liabilities) assets | | (145,330) | - | - | 579 | (13,386) | (158,137) | (93,399) | - | - | 448 | (15,259) | (108,210) |
| Total assets less current liabilities | | 1,387,648 | 2,476 | - | 579 | (13,336) | 1,377,367 | 1,439,026 | 1,516 | - | 448 | (15,209) | 1,425,781 |
| Creditors: Amounts falling due after more than one year | 14 | (920,423) | - | - | - | - | (920,423) | (912,662) | - | - | - | - | (912,662) |
| Provisions for liabilities excluding pension liability | 16 | (120,043) | - | - | - | - | (120,043) | (121,963) | - | - | - | - | (121,963) |
| Net assets (liabilities) excluding pension liability | | 347,182 | 2,476 | - | 579 | (13,336) | 336,901 | 404,401 | 1,516 | - | 448 | (15,209) | 391,156 |
| Pension liability | 23 | (21,408) | - | - | - | - | (21,408) | (13,220) | - | - | - | - | (13,220) |
| Net assets (liabilities) including pension liability | | 325,774 | 2,476 | - | 579 | (13,336) | 315,493 | 391,181 | 1,516 | - | 448 | (15,209) | 377,936 |
| Capital and reserves | | | | | | | | | | | | | |
| Called-up share capital | 17 | - | - | - | - | - | - | - | - | - | - | - | - |
| Profit and loss account (ii) | 18 | - | - | - | - | 315,493 | 315,493 | - | - | - | - | 377,936 | 377,936 |
| Shareholders' funds | 19 | - | - | - | - | 315,493 | 315,493 | - | - | - | - | 377,936 | 377,936 |

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) The businesses included in these regulatory accounts do not have their own share capital and reserves. Accordingly the profit and loss reserve is shown entirely as "Corporate".

The Regulatory Accounts on pages 1 to 40 inclusive were approved by the Board of Directors on 2 July 2008 and signed on its behalf on 23 July 2008 by:



Basil Scarsella - Chief Executive Officer

Statements of total recognised gains and losses

For the years ended 31 March

| | Transportation 2008 £'000 | Metering 2008 £'000 | De Minimis 2008 £'000 | Other activities 2008 £'000 | Corporate 2008 £'000 | Total 2008 £'000 | Transportation 2007 £'000 | Metering 2007 £'000 | De Minimis 2007 £'000 | Other activities 2007 £'000 | Corporate 2007 £'000 | Total 2007 £'000 |
|---|---------------------------------|---------------------------|-----------------------------|--------------------------------------|----------------------------|------------------------|---------------------------------|---------------------------|-----------------------------|--------------------------------------|----------------------------|------------------------|
| Profit (loss) for the year | 14,808 | 2 | 139 | 23 | - | 14,972 | (13,251) | 3 | 39 | 255 | - | (12,954) |
| Actuarial (loss) gain relating to the pension scheme | (15,872) | - | - | - | - | (15,872) | 712 | - | - | - | - | 712 |
| Deferred tax attributable to actuarial loss (gain) | 4,207 | - | - | - | - | 4,207 | (213) | - | - | - | - | (213) |
| Total recognised gains and losses relating to the year | 3,143 | 2 | 139 | 23 | - | 3,307 | (12,752) | 3 | 39 | 255 | - | (12,455) |

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

Cash flow statements

For the years ended 31 March

| | Notes | Transportation 2008 £'000 | Metering 2008 £'000 | De Minimis 2008 £'000 | Other activities 2008 £'000 | Corporate 2008 £'000 | Total 2008 £'000 | Transportation 2007 £'000 | Metering 2007 £'000 | De Minimis 2007 £'000 | Other activities 2007 £'000 | Corporate 2007 £'000 | Total 2007 £'000 |
|---|----------|---------------------------------|---------------------------|-----------------------------|--------------------------------------|----------------------------|------------------------|---------------------------------|---------------------------|-----------------------------|--------------------------------------|----------------------------|------------------------|
| Net cash inflow (outflow) from operating activities | 20(a) | 122,046 | 229 | 198 | (98) | 1,518 | 123,893 | 55,849 | 123 | 56 | 722 | 3,281 | 60,031 |
| Returns on investments and servicing of finance | | | | | | | | | | | | | |
| Interest received | | 685 | - | - | - | - | 685 | 859 | - | - | - | - | 859 |
| Interest paid | | (50,314) | - | - | - | - | (50,314) | (51,049) | - | - | - | - | (51,049) |
| Interest element of finance lease rentals | | (372) | - | - | - | - | (372) | (325) | - | - | - | - | (325) |
| Net cash outflow for returns on investments and servicing of finance | | (50,001) | - | - | - | - | (50,001) | (50,515) | - | - | - | - | (50,515) |
| Taxation | | | | | | | | | | | | | |
| Corporation tax paid | | (1,834) | - | - | - | - | (1,834) | (95) | - | - | - | - | (95) |
| Capital expenditure | | | | | | | | | | | | | |
| Purchase of tangible fixed assets | | (40,721) | (1,186) | - | - | - | (41,907) | (37,564) | (997) | - | - | - | (38,561) |
| Net receipts from disposal of tangible fixed assets | | 459 | - | - | - | - | 459 | 943 | - | - | - | - | 943 |
| Net cash outflow for capital expenditure | | (40,262) | (1,186) | - | - | - | (41,448) | (36,621) | (997) | - | - | - | (37,618) |
| Equity dividends paid | | - | - | - | - | (65,000) | (65,000) | - | - | - | - | (60,000) | (60,000) |
| Net cash (outflow) inflow before financing | | 29,949 | (957) | 198 | (98) | (63,482) | (34,390) | (31,382) | (874) | 56 | 722 | (56,719) | (88,197) |
| Financing | | | | | | | | | | | | | |
| Revolving credit and bi-lateral facilities | | 38,000 | - | - | - | - | 38,000 | 83,000 | - | - | - | - | 83,000 |
| Capital element of finance lease rental payments | | (219) | - | - | - | - | (219) | (621) | - | - | - | - | (621) |
| Net cash inflow from financing | 20(b)(c) | 37,781 | - | - | - | - | 37,781 | 82,379 | - | - | - | - | 82,379 |
| Net increase (decrease) in cash | 20(b)(c) | 67,730 | (957) | 198 | (98) | (63,482) | 3,391 | 50,997 | (874) | 56 | 722 | (56,719) | (5,818) |

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 2007 of Northern Gas Networks Limited (Statutory Accounts) and these Regulatory Accounts for the year ended 31 March 2008.

Profit and loss account

| | Statutory Accounts to December 2007 £'000 | Remove 1 January – 31 March 2007 £'000 | 1 January – 31 March 2008 £'000 | Regulatory Accounts for 2007/2008 £'000 |
|----------------------------|---|--|--|--|
| Turnover | 289,529 | (83,961) | 95,944 | 301,512 |
| Operating profit | 65,226 | (15,153) | 16,893 | 66,966 |
| Net finance charges | (48,520) | 11,998 | (12,024) | (48,546) |
| Tax | (2,776) | 2,530 | (3,202) | (3,448) |
| Profit for the year | 13,930 | (625) | 1,667 | 14,972 |

Balance sheet

| | Statutory Accounts as at December 2007 £'000 | 1 January – 31 March 2008 £'000 | Regulatory Accounts for 2007/2008 £'000 |
|---|--|--|--|
| Fixed assets | 1,534,929 | 575 | 1,535,504 |
| Current assets | 48,255 | 15,813 | 64,068 |
| Total assets | 1,583,184 | 16,388 | 1,599,572 |
| Creditors: Amounts falling due within one year | (196,201) | (26,004) | (222,205) |
| Creditors: Amounts falling due after one year, provisions and pension liability | (1,044,034) | (17,840) | (1,061,874) |
| Total liabilities | (1,240,235) | (43,844) | (1,284,079) |
| Net assets | 342,949 | (27,456) | 315,493 |
| Profit and loss account | 342,949 | (27,456) | 315,493 |
| Shareholders' funds | 342,949 | (27,456) | 315,493 |

Notes to the Regulatory Accounts

1. Turnover

| | Transportation 2008 £'000 | Metering 2008 £'000 | De Minimis 2008 £'000 | Other activities 2008 £'000 | Corporate 2008 £'000 | Total 2008 £'000 | Transportation 2007 £'000 | Metering 2007 £'000 | De Minimis 2007 £'000 | Other activities 2007 £'000 | Corporate 2007 £'000 | Total 2007 £'000 |
|-----------------------------|---------------------------------|---------------------------|-----------------------------|--------------------------------------|----------------------------|------------------------|---------------------------------|---------------------------|-----------------------------|--------------------------------------|----------------------------|------------------------|
| Transportation and metering | 292,850 | 755 | - | - | - | 293,605 | 250,296 | 123 | - | - | - | 250,419 |
| Other income | - | - | 396 | 7,511 | - | 7,907 | - | - | 112 | 9,524 | - | 9,636 |
| | 292,850 | 755 | 396 | 7,511 | - | 301,512 | 250,296 | 123 | 112 | 9,524 | - | 260,055 |

All turnover arises in the UK.

2. Other operating expenses

| | Transportation 2008 £'000 | Metering 2008 £'000 | De Minimis 2008 £'000 | Other activities 2008 £'000 | Corporate 2008 £'000 | Total 2008 £'000 | Transportation 2007 £'000 | Metering 2007 £'000 | De Minimis 2007 £'000 | Other activities 2007 £'000 | Corporate 2007 £'000 | Total 2007 £'000 |
|-------------------------|---------------------------------|---------------------------|-----------------------------|--------------------------------------|----------------------------|------------------------|---------------------------------|---------------------------|-----------------------------|--------------------------------------|----------------------------|------------------------|
| Distribution costs | 204,418 | 226 | - | - | - | 204,644 | 197,726 | 118 | - | - | - | 197,844 |
| Administrative expenses | 15,279 | 8 | - | 16 | - | 15,303 | 13,161 | - | - | 29 | - | 13,190 |
| | 219,697 | 234 | - | 16 | - | 219,947 | 210,887 | 118 | - | 29 | - | 211,034 |

3. Net finance charges

| | Transportation 2008 £'000 | Metering 2008 £'000 | De Minimis 2008 £'000 | Other activities 2008 £'000 | Corporate 2008 £'000 | Total 2008 £'000 | Transportation 2007 £'000 | Metering 2007 £'000 | De Minimis 2007 £'000 | Other activities 2007 £'000 | Corporate 2007 £'000 | Total 2007 £'000 |
|--------------------------------------|---------------------------------|---------------------------|-----------------------------|--------------------------------------|----------------------------|------------------------|---------------------------------|---------------------------|-----------------------------|--------------------------------------|----------------------------|------------------------|
| Interest payable and similar charges | 50,507 | - | - | - | - | 50,507 | 46,223 | - | - | - | - | 46,223 |
| Investment income | (701) | - | - | - | - | (701) | (859) | - | - | - | - | (859) |
| Other finance income | (1,260) | - | - | - | - | (1,260) | (41) | - | - | - | - | (41) |
| | 48,546 | - | - | - | - | 48,546 | 45,323 | - | - | - | - | 45,323 |

Interest payable and similar charges

| | Transportation 2008 £'000 | Metering 2008 £'000 | De Minimis 2008 £'000 | Other activities 2008 £'000 | Corporate 2008 £'000 | Total 2008 £'000 | Transportation 2007 £'000 | Metering 2007 £'000 | De Minimis 2007 £'000 | Other activities 2007 £'000 | Corporate 2007 £'000 | Total 2007 £'000 |
|--|---------------------------------|---------------------------|-----------------------------|--------------------------------------|----------------------------|------------------------|---------------------------------|---------------------------|-----------------------------|--------------------------------------|----------------------------|------------------------|
| Bank loans and overdrafts | 25,369 | - | - | - | - | 25,369 | 21,540 | - | - | - | - | 21,540 |
| Intercompany interest payable | 25,302 | - | - | - | - | 25,302 | 25,123 | - | - | - | - | 25,123 |
| Finance leases and hire purchase contracts | 204 | - | - | - | - | 204 | 204 | - | - | - | - | 204 |
| Unwinding of discount on provisions | 25 | - | - | - | - | 25 | 17 | - | - | - | - | 17 |
| | 50,900 | - | - | - | - | 50,900 | 46,884 | - | - | - | - | 46,884 |
| Finance costs capitalised | (393) | - | - | - | - | (393) | (661) | - | - | - | - | (661) |
| | 50,507 | - | - | - | - | 50,507 | 46,223 | - | - | - | - | 46,223 |

Finance costs have been capitalised based on a capitalisation rate of 6.25% (2007 - 6.25%).

Investment income

| | Transportation 2008 £'000 | Metering 2008 £'000 | De Minimis 2008 £'000 | Other activities 2008 £'000 | Corporate 2008 £'000 | Total 2008 £'000 | Transportation 2007 £'000 | Metering 2007 £'000 | De Minimis 2007 £'000 | Other activities 2007 £'000 | Corporate 2007 £'000 | Total 2007 £'000 |
|--|---------------------------------|---------------------------|-----------------------------|--------------------------------------|----------------------------|------------------------|---------------------------------|---------------------------|-----------------------------|--------------------------------------|----------------------------|------------------------|
| Income from fixed asset investments | (201) | - | - | - | - | (201) | (147) | - | - | - | - | (147) |
| Interest receivable and similar income | (500) | - | - | - | - | (500) | (712) | - | - | - | - | (712) |
| | (701) | - | - | - | - | (701) | (859) | - | - | - | - | (859) |

Other net finance income

| | Transportation 2008 £'000 | Metering 2008 £'000 | De Minimis 2008 £'000 | Other activities 2008 £'000 | Corporate 2008 £'000 | Total 2008 £'000 | Transportation 2007 £'000 | Metering 2007 £'000 | De Minimis 2007 £'000 | Other activities 2007 £'000 | Corporate 2007 £'000 | Total 2007 £'000 |
|--|---------------------------------|---------------------------|-----------------------------|--------------------------------------|----------------------------|------------------------|---------------------------------|---------------------------|-----------------------------|--------------------------------------|----------------------------|------------------------|
| Net return on pension scheme (see note 23) | (1,260) | - | - | - | - | (1,260) | (41) | - | - | - | - | (41) |
| | (1,260) | - | - | - | - | (1,260) | (41) | - | - | - | - | (41) |

4. Profit (loss) on ordinary activities before taxation

Profit (loss) on ordinary activities before taxation is stated after charging (crediting):

| | Transportation 2008 £'000 | Metering 2008 £'000 | De Minimis 2008 £'000 | Other activities 2008 £'000 | Corporate 2008 £'000 | Total 2008 £'000 | Transportation 2007 £'000 | Metering 2007 £'000 | De Minimis 2007 £'000 | Other activities 2007 £'000 | Corporate 2007 £'000 | Total 2007 £'000 |
|--|---------------------------------|---------------------------|-----------------------------|--------------------------------------|----------------------------|------------------------|---------------------------------|---------------------------|-----------------------------|--------------------------------------|----------------------------|------------------------|
| Depreciation and amounts written off tangible fixed assets | | | | | | | | | | | | |
| - owned | 36,142 | 226 | - | - | - | 36,368 | 34,251 | 118 | - | - | - | 34,369 |
| - held under finance leases and hire purchase contracts | 638 | - | - | - | - | 638 | 1,467 | - | - | - | - | 1,467 |
| Amortisation of goodwill | 4,112 | - | - | - | - | 4,112 | 4,111 | - | - | - | - | 4,111 |
| Profit on disposal on tangible fixed assets | (365) | - | - | - | - | (365) | (941) | - | - | - | - | (941) |
| Operating lease rentals – other | 194 | - | - | - | - | 194 | 187 | - | - | - | - | 187 |

The profit on disposal of fixed assets in 2007 relates to the sale of land in the year and the effect on the tax on loss on ordinary activities in 2007 is an increase of £282,000.

The analysis of the auditors' remuneration is as follows:

| | Transportation 2008 £'000 | Metering 2008 £'000 | De Minimis 2008 £'000 | Other activities 2008 £'000 | Corporate 2008 £'000 | Total 2008 £'000 | Transportation 2007 £'000 | Metering 2007 £'000 | De Minimis 2007 £'000 | Other activities 2007 £'000 | Corporate 2007 £'000 | Total 2007 £'000 |
|--|---------------------------------|---------------------------|-----------------------------|--------------------------------------|----------------------------|------------------------|---------------------------------|---------------------------|-----------------------------|--------------------------------------|----------------------------|------------------------|
| Fees payable to the Company's auditors for the audit of the Company's annual accounts | 58 | - | - | - | - | 58 | 56 | - | - | - | - | 56 |
| <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 | 63 | - | - | - | - | 63 | 61 | - | - | - | - | 61 |

Fees payable to the Company's auditors and their associates for other services to the Company

| | | | | | | | | | | | | |
|--|------------|----------|----------|----------|----------|------------|------------|----------|----------|----------|----------|------------|
| - Other services pursuant to legislation | 41 | - | - | - | - | 41 | 42 | - | - | - | - | 42 |
| - Tax services | 144 | - | - | - | - | 144 | 78 | - | - | - | - | 78 |
| - Other services | 5 | - | - | - | - | 5 | 33 | - | - | - | - | 33 |
| Total non-audit fees | 190 | - | - | - | - | 190 | 153 | - | - | - | - | 153 |

The profit on disposal of fixed assets in 2007 relates to the sale of land in the year and the effect on the tax on loss on ordinary activities in 2007 is an increase of £282,000.

5. Payroll costs and employees

a) Payroll costs

| | Transportation 2008 £'000 | Metering 2008 £'000 | De Minimis 2008 £'000 | Other activities 2008 £'000 | Corporate 2008 £'000 | Total 2008 £'000 | Transportation 2007 £'000 | Metering 2007 £'000 | De Minimis 2007 £'000 | Other activities 2007 £'000 | Corporate 2007 £'000 | Total 2007 £'000 |
|-----------------------|---------------------------------|---------------------------|-----------------------------|--------------------------------------|----------------------------|------------------------|---------------------------------|---------------------------|-----------------------------|--------------------------------------|----------------------------|------------------------|
| Wages and salaries | 2,960 | - | - | - | - | 2,960 | 2,296 | - | - | - | - | 2,296 |
| Social security costs | 344 | - | - | - | - | 344 | 282 | - | - | - | - | 282 |
| Pension costs | 242 | - | - | - | - | 242 | 174 | - | - | - | - | 174 |
| | 3,546 | - | - | - | - | 3,546 | 2,752 | - | - | - | - | 2,752 |

5. Payroll costs and employees - continued

b) Average number of employees

| | Transportation 2008 Number | Metering 2008 Number | De Minimis 2008 Number | Other activities 2008 Number | Corporate 2008 Number | Total 2008 Number | Transportation 2007 Number | Metering 2007 Number | De Minimis 2007 Number | Other activities 2007 Number | Corporate 2007 Number | Total 2007 Number |
|----------------|----------------------------------|----------------------------|------------------------------|---------------------------------------|-----------------------------|-------------------------|----------------------------------|----------------------------|------------------------------|---------------------------------------|-----------------------------|-------------------------|
| Administration | 49 | - | - | - | - | 49 | 32 | - | - | - | - | 32 |
| | 49 | - | - | - | - | 49 | 32 | - | - | - | - | 32 |

6. Directors' emoluments

Remuneration

The remuneration of the Directors was as follows:

| | 2008 £'000 | 2007 £'000 |
|--|---------------|---------------|
| Emoluments | 545 | 484 |
| Amounts receivable (other than shares and share options) under long term incentive schemes | 36 | 31 |
| Company contributions to money purchase pension schemes | 132 | 35 |
| | 713 | 550 |

Pensions

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

| | 2008 Number | 2007 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:

| | 2008 £'000 | 2007 £'000 |
|--|---------------|---------------|
| Emoluments | 545 | 484 |
| Amounts receivable (other than shares and share options) under long term incentive schemes | 36 | 31 |
| Company contributions to money purchase pension schemes | 132 | 35 |
| | 713 | 550 |

Transactions

There have been no transactions with Directors in the year (2007 - £nil) other than as set out above in respect of remuneration.

7. Tax on profit (loss) on ordinary activities

| | Total 2008 £'000 | Total 2007 £'000 |
|---|------------------------|------------------------|
| Current tax | | |
| UK corporation tax | 4,516 | 1,616 |
| Adjustments in respect of prior year | (940) | (7,141) |
| Total current tax | 3,576 | (5,525) |
| Deferred tax | | |
| Current year - origination and reversal of timing differences | 3,670 | 7,867 |
| Effect of decrease in tax rate on opening liability | (7,096) | - |
| Adjustments in respect of prior year | 3,298 | (1,897) |
| Total deferred tax | (128) | 5,970 |
| Total tax on profit (loss) on ordinary activities | 3,448 | 445 |

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

| | Total 2008 £'000 | Total 2007 £'000 |
|---|------------------------|------------------------|
| Profit (loss) on ordinary activities before tax | 18,420 | (12,509) |
| Tax on profit (loss) on ordinary activities at standard UK corporation tax rate of 30% (2007 - 30%) | 5,526 | (3,752) |
| Effects of: | | |
| Expenses not deductible for tax purposes | 6,124 | 6,028 |
| Utilisation of tax losses | (4,564) | (2,760) |
| Creation of tax losses | - | 66 |
| Capital allowances in excess of depreciation | (1,937) | (4,543) |
| Other timing differences | (1,488) | (564) |
| Adjustments in respect of prior year | (11) | - |
| Effect of decrease in tax rate | (74) | - |
| Current tax charge (credit) for the year | 3,576 | (5,525) |

The Company earns its taxable profits in the UK, therefore the tax rate used for tax on profit (loss) on ordinary activities is the standard rate for UK corporation tax, currently 30% (2007- 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 2007 Finance Act introduced several corporation tax changes, including a reduction in the standard rate of UK corporation tax from 30% to 28%, which impacts the deferred tax liability in respect of accelerated capital allowances in future periods.

8. Dividends on equity shares

| | Total 2008 £'000 | Total 2007 £'000 |
|--|------------------------|------------------------|
| Equity shares: | | |
| - interim dividend paid of £500,000 per ordinary share to Northern Gas Networks Holdings Limited (2007 - £450,000) | 50,000 | 45,000 |
| - interim dividend declared of £157,500 per ordinary share to Northern Gas Networks Holdings Limited (2007 - £150,000) | 15,750 | 15,000 |
| | 65,750 | 60,000 |

The Company is prohibited from declaring a dividend or other distribution unless it has certified to the Regulator 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 2007 and at 31 March 2008 | 164,457 |
| Amortisation at 1 April 2007 | 7,537 |
| Charge for the year | 4,112 |
| Amortisation at 31 March 2008 | 11,649 |
| Net book value at 31 March 2008 | 152,808 |
| Net book value at 31 March 2007 | 156,920 |

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 2007 | 2,987 | 1,401,286 | 4,434 | 32,984 | 77 | 1,441,768 |
| Additions | - | 29,146 | 4,785 | 196 | 7,412 | 41,539 |
| Disposals | (4) | - | (729) | (24) | - | (757) |
| Transfers | - | - | - | 77 | (77) | - |
| Cost at 31 March 2008 | 2,983 | 1,430,432 | 8,490 | 33,233 | 7,412 | 1,482,550 |
| Depreciation at 1 April 2007 | 544 | 58,160 | 2,946 | 4,717 | - | 66,367 |
| Charge for the year | 265 | 31,550 | 1,192 | 3,773 | - | 36,780 |
| Disposals | - | - | (660) | (3) | - | (663) |
| Depreciation at 31 March 2008 | 809 | 89,710 | 3,478 | 8,487 | - | 102,484 |
| Net book value at 31 March 2008 | 2,174 | 1,340,722 | 5,012 | 24,746 | 7,412 | 1,380,066 |
| Net book value at 31 March 2007 | 2,443 | 1,343,126 | 1,488 | 28,267 | 77 | 1,375,401 |

Metering

| | Other equipment £'000 | Total £'000 |
|--|-----------------------------|----------------|
| Cost at 1 April 2007 | 1,660 | 1,660 |
| Additions | 1,186 | 1,186 |
| Cost at 31 March 2008 | 2,846 | 2,846 |
| Depreciation at 1 April 2007 | 144 | 144 |
| Charge for the year | 226 | 226 |
| Depreciation at 31 March 2008 | 370 | 370 |
| Net book value at 31 March 2008 | 2,476 | 2,476 |
| Net book value at 31 March 2007 | 1,516 | 1,516 |

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 2007 | 2,987 | 1,401,286 | 4,434 | 34,644 | 77 | 1,443,428 |
| Additions | - | 29,146 | 4,785 | 1,382 | 7,412 | 42,725 |
| Disposals | (4) | - | (729) | (24) | - | (757) |
| Transfers | - | - | - | 77 | (77) | - |
| Cost at 31 March 2008 | 2,983 | 1,430,432 | 8,490 | 36,079 | 7,412 | 1,485,396 |
| Depreciation at 1 April 2007 | 544 | 58,160 | 2,946 | 4,861 | - | 66,511 |
| Charge for the year | 265 | 31,550 | 1,192 | 3,999 | - | 37,006 |
| Disposals | - | - | (660) | (3) | - | (663) |
| Depreciation at 31 March 2008 | 809 | 89,710 | 3,478 | 8,857 | - | 102,854 |
| Net book value at 31 March 2008 | 2,174 | 1,340,722 | 5,012 | 27,222 | 7,412 | 1,382,542 |
| Net book value at 31 March 2007 | 2,443 | 1,343,126 | 1,488 | 29,783 | 77 | 1,376,917 |

Leased assets included above:

| | | | | | | |
|--|------------|----------|------------|----------|----------|--------------|
| Net book value at 31 March 2008 | 355 | - | 144 | - | - | 499 |
| Net book value at 31 March 2007 | 396 | - | 851 | - | - | 1,247 |

Short leasehold included within land and buildings above has a cost of £441,000 (2007 - £441,000), a depreciation charge in the year of £41,000 (2007 - £44,000) and a net book value at 31 March 2008 of £355,000 (2007 - £396,000).

Cumulative finance costs capitalised included in the cost of tangible fixed assets amount to £1,571,000 (2007 - £1,178,000).

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 £682,000 (2007 - £479,000) and £25,553,000 (2007 - £18,194,000) respectively.

11. Investments

| | Total 2008 £'000 | Total 2007 £'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 2007 and at 31 March 2008 | 50 |

Other investment

| | Total £'000 |
|-----------------------------------|----------------|
| Cost and net book value | |
| At 1 April 2007 and 31 March 2008 | 104 |

12. Debtors – Amounts falling due within one year

| | Transportation 2008 £'000 | Metering 2008 £'000 | De Minimis 2008 £'000 | Other activities 2008 £'000 | Corporate 2008 £'000 | Total 2008 £'000 | Transportation 2007 £'000 | Metering 2007 £'000 | De Minimis 2007 £'000 | Other activities 2007 £'000 | Corporate 2007 £'000 | Total 2007 £'000 |
|------------------------------------|---------------------------------|---------------------------|-----------------------------|--------------------------------------|----------------------------|------------------------|---------------------------------|---------------------------|-----------------------------|--------------------------------------|----------------------------|------------------------|
| Trade debtors | 3,836 | - | - | 579 | - | 4,415 | 2,549 | - | - | 448 | - | 2,997 |
| Other taxation and social security | - | - | - | - | - | - | 651 | - | - | - | - | 651 |
| Prepayments and accrued income | 46,145 | - | - | - | - | 46,145 | 42,692 | - | - | - | - | 42,692 |
| | 49,981 | - | - | 579 | - | 50,560 | 45,892 | - | - | 448 | - | 46,340 |

13. Creditors: Amounts falling due within one year

| | Transportation 2008 £'000 | Metering 2008 £'000 | De Minimis 2008 £'000 | Other activities 2008 £'000 | Corporate 2008 £'000 | Total 2008 £'000 | Transportation 2007 £'000 | Metering 2007 £'000 | De minimis 2007 £'000 | Other activities 2007 £'000 | Corporate 2007 £'000 | Total 2007 £'000 |
|--|---------------------------------|---------------------------|-----------------------------|--------------------------------------|----------------------------|------------------------|---------------------------------|---------------------------|-----------------------------|--------------------------------------|----------------------------|------------------------|
| Bank loans | 121,000 | - | - | - | - | 121,000 | 83,000 | - | - | - | - | 83,000 |
| Obligations under finance leases and hire purchase contracts | 218 | - | - | - | - | 218 | 425 | - | - | - | - | 425 |
| Payments received on account | 20,984 | - | - | - | - | 20,984 | 16,861 | - | - | - | - | 16,861 |
| Trade creditors | 1,665 | - | - | - | - | 1,665 | 8,634 | - | - | - | - | 8,634 |
| Amounts owed to group undertakings | - | - | - | - | 11,144 | 11,144 | - | - | - | - | 10,376 | 10,376 |
| Corporation tax | 3,228 | - | - | - | - | 3,228 | 1,521 | - | - | - | - | 1,521 |
| Declared dividends – equity shareholder | - | - | - | - | 15,750 | 15,750 | - | - | - | - | 15,000 | 15,000 |
| Other taxation and social security | 2,067 | - | - | - | - | 2,067 | 87 | - | - | - | - | 87 |
| Accruals and deferred income | 46,121 | - | - | - | - | 46,121 | 28,737 | - | - | - | - | 28,737 |
| Defined contribution pension scheme accrual | 28 | - | - | - | - | 28 | 26 | - | - | - | - | 26 |
| | 195,311 | - | - | - | 26,894 | 222,205 | 139,291 | - | - | - | 25,376 | 164,667 |

Bank loans are a working capital facility of £25.0m repayable on 30 April 2008, revolving credit facilities of £30.0m repayable on 22 April 2008 and £52.0m repayable on 30 April 2008 and a bi-lateral facility of £14.0m repayable on 30 April 2008. The working capital facility and the revolving credit facilities carry interest at 6 month LIBOR plus a margin of 0.26%. The bi-lateral facility carries interest at 6 month LIBOR plus a margin of 0.43%.

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

| | Transportation 2008 £'000 | Metering 2008 £'000 | De Minimis 2008 £'000 | Other activities 2008 £'000 | Corporate 2008 £'000 | Total 2008 £'000 | Transportation 2007 £'000 | Metering 2007 £'000 | De Minimis 2007 £'000 | Other activities 2007 £'000 | Corporate 2007 £'000 | Total 2007 £'000 |
|--|---------------------------------|---------------------------|-----------------------------|--------------------------------------|----------------------------|------------------------|---------------------------------|---------------------------|-----------------------------|--------------------------------------|----------------------------|------------------------|
| Term loan | 365,542 | - | - | - | - | 365,542 | 365,128 | - | - | - | - | 365,128 |
| Obligations under finance leases and hire purchase contracts | - | - | - | - | - | - | 12 | - | - | - | - | 12 |
| Amounts owed to group undertakings | 529,328 | - | - | - | - | 529,328 | 529,328 | - | - | - | - | 529,328 |
| Deferred income | 25,553 | - | - | - | - | 25,553 | 18,194 | - | - | - | - | 18,194 |
| | 920,423 | - | - | - | - | 920,423 | 912,662 | - | - | - | - | 912,662 |

The term loan is repayable on 1 June 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

Pages 5 and 6 of the Operating and Financial Review provide 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. 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 £13,508,000 (2007 - £10,117,000) 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 2008 was as follows:

| | Floating rate 2008 £'000 | Fixed rate 2008 £'000 | Interest free 2008 £'000 | Total 2008 £'000 |
|--------------------------------|--------------------------------|-----------------------------|--------------------------------|------------------------|
| Borrowings - Bank loans | 365,542 | 121,000 | - | 486,542 |
| Borrowings - Intercompany loan | - | 505,000 | 24,328 | 529,328 |
| Finance leases | - | 218 | - | 218 |
| | 365,542 | 626,218 | 24,328 | 1,016,088 |

The profile at 31 March 2007 for comparison purposes 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 |

15. Derivatives and other financial instruments - continued

Further analysis of the interest rate profile at 31 March 2008 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 | 6.2 | 6.06 | 0.074 |
| Borrowings - Intercompany loan | - | 4.875 | 23.75 |
| Finance leases | - | 15 | 2.75 |

The profile at 31 March 2007 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 | 5.49 | 0.125 |
| Borrowings - Intercompany loan | - | 4.875 | 24.75 |
| Finance leases | - | 15 | 3.75 |

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:

| | <u>2008</u> | <u>2007</u> |
|---|------------------|----------------|
| | £'000 | £'000 |
| In one year or less | 121,218 | 83,425 |
| More than one year, but not more than two years | - | 12 |
| More than two years, but not more than five years | 389,870 | 389,456 |
| More than five years | 505,000 | 505,000 |
| | 1,016,088 | 977,893 |

Borrowing facilities

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

| | <u>2008</u> | <u>2007</u> |
|---|---------------|---------------|
| | £'000 | £'000 |
| Expiring in more than two years, but not more than five years | 32,564 | 70,564 |
| | 32,564 | 70,564 |

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.

| | Book value 2008 £'000 | Fair value 2008 £'000 | Book value 2007 £'000 | Fair value 2007 £'000 |
|--|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Primary financial instruments held or issued to finance the Company's operations | | | | |
| Working capital and revolving credit facilities | 121,000 | 121,000 | 83,000 | 83,000 |
| Long-term borrowings | 365,542 | 349,382 | 365,128 | 342,684 |
| Intercompany borrowings | 529,328 | 533,885 | 529,328 | 549,951 |
| Derivative financial instruments held to manage the interest rate and currency profile | | | | |
| Interest rate swaps | - | 7,024 | - | 6,198 |

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 2008 £'000 | Losses 2008 £'000 | Net 2008 £'000 | Gains 2007 £'000 | Losses 2007 £'000 | Net 2007 £'000 |
|--|------------------------|-------------------------|----------------------|------------------------|-------------------------|----------------------|
| Unrecognised gains and losses on hedges at 1 April | 23,775 | (29,973) | (6,198) | 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 | 23,775 | (29,973) | (6,198) | 24,728 | (7,195) | 17,533 |
| Gains and losses arising in the year that were not recognised in the year | (5,153) | 4,327 | (826) | (953) | (22,778) | (23,731) |
| Unrecognised gains and losses on hedges at 31 March | 18,622 | (25,646) | (7,024) | 23,775 | (29,973) | (6,198) |
| Of which: | | | | | | |
| Gains and losses expected to be recognised within one year | - | - | - | - | - | - |
| Gains and losses expected to be recognised after one year | 18,622 | (25,646) | (7,024) | 23,775 | (29,973) | (6,198) |

16. Provisions for liabilities 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 2007 | 7,273 | 105,680 | 9,010 | 121,963 | 7,273 | 105,680 | 9,010 | 121,963 |
| Charge (credit) to profit and loss account | 126 | (1,665) | 241 | (1,298) | 126 | (1,665) | 241 | (1,298) |
| Utilised in the year | (136) | (11) | (500) | (647) | (136) | (11) | (500) | (647) |
| Unwinding of discount | 17 | - | 8 | 25 | 17 | - | 8 | 25 |
| At 31 March 2008 | 7,280 | 104,004 | 8,759 | 120,043 | 7,280 | 104,004 | 8,759 | 120,043 |

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

| | 2008 £'000 | 2007 £'000 |
|--------------------------------|----------------|----------------|
| Accelerated capital allowances | 102,723 | 105,957 |
| Other timing differences | 1,281 | (277) |
| | 104,004 | 105,680 |

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

17. Called-up share capital

| | 2008 Number | 2008 £ | 2007 Number | 2007 £ |
|------------------------------------|----------------|------------|----------------|------------|
| 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 accounts £'000 |
|---|---|
| At 1 April 2007 | 377,936 |
| Retained profit for the year | 14,972 |
| Actuarial loss relating to the pension scheme (note 23) | (15,872) |
| UK deferred tax attributable to actuarial loss | 4,207 |
| Dividends paid and declared on equity shares | (65,750) |
| At 31 March 2008 | 315,493 |

19. Reconciliation of movements in shareholders' funds

| | 2008 £'000 | 2007 £'000 |
|--|-----------------|-----------------|
| Profit (loss) on ordinary activities after tax | 14,972 | (12,954) |
| Other recognised gains and losses relating to the year (net) | (11,665) | 499 |
| Dividends paid and declared on equity shares | (65,750) | (60,000) |
| Net reduction in shareholders' funds | (62,443) | (72,455) |
| Opening shareholders' funds | 377,936 | 450,391 |
| Closing shareholders' funds | 315,493 | 377,936 |

20. Cash flow statement

a) Reconciliation of operating profit to net cash inflow (outflow) from operating activities

| | Transportation 2008 £'000 | Metering 2008 £'000 | De Minimis 2008 £'000 | Other activities 2008 £'000 | Corporate 2008 £'000 | Total 2008 £'000 | Transportation 2007 £'000 | Metering 2007 £'000 | De Minimis 2007 £'000 | Other activities 2007 £'000 | Corporate 2007 £'000 | Total 2007 £'000 |
|--|---------------------------------|---------------------------|-----------------------------|--------------------------------------|----------------------------|------------------------|---------------------------------|---------------------------|-----------------------------|--------------------------------------|----------------------------|------------------------|
| Operating profit | 66,732 | 3 | 198 | 33 | - | 66,966 | 31,448 | 5 | 56 | 364 | - | 31,873 |
| Depreciation and amortisation | 40,892 | 226 | - | - | - | 41,118 | 39,829 | 118 | - | - | - | 39,947 |
| Profit on sale of tangible fixed assets | (365) | - | - | - | - | (365) | - | - | - | - | - | - |
| (Increase) decrease in debtors | (4,016) | - | - | (131) | - | (4,147) | 11,599 | - | - | 358 | - | 11,957 |
| Increase (decrease) in creditors | 22,872 | - | - | - | 1,518 | 24,390 | (25,648) | - | - | - | 3,281 | (22,367) |
| (Decrease) Increase in provisions | (269) | - | - | - | - | (269) | 89 | - | - | - | - | 89 |
| Adjustment for pension funding | (3,800) | - | - | - | - | (3,800) | (1,468) | - | - | - | - | (1,468) |
| Net cash inflow (outflow) from operating activities | 122,046 | 229 | 198 | (98) | 1,518 | 123,893 | 55,849 | 123 | 56 | 722 | 3,281 | 60,031 |

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 |
|--|------------------|----------------|------------|------------------|------------------|--------------------|------------------|----------------|------------|------------------|-----------------|------------------|
| | 2008 | 2008 | 2008 | 2008 | 2008 | 2008 | 2007 | 2007 | 2007 | 2007 | 2007 | 2007 |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Increase (decrease) in cash in the year | 67,730 | (957) | 198 | (98) | (63,482) | 3,391 | 50,997 | (874) | 56 | 722 | (56,719) | (5,818) |
| Cash outflow from increase in debt and lease financing | (37,781) | - | - | - | - | (37,781) | (82,379) | - | - | - | - | (82,379) |
| Change in net debt resulting from cash flows | 29,949 | (957) | 198 | (98) | (63,482) | (34,390) | (31,382) | (874) | 56 | 722 | (56,719) | (88,197) |
| Other non-cash movements | (414) | - | - | - | - | (414) | 1,309 | - | - | - | - | 1,309 |
| Movement in net debt in the year | 29,535 | (957) | 198 | (98) | (63,482) | (34,804) | (30,073) | (874) | 56 | 722 | (56,719) | (86,888) |
| Net debt at the start of the year | (882,639) | (1,481) | 122 | (154) | (83,624) | (967,776) | (852,566) | (607) | 66 | (876) | (26,905) | (880,888) |
| Net debt at the end of the year | (853,104) | (2,438) | 320 | (252) | (147,106) | (1,002,580) | (882,639) | (1,481) | 122 | (154) | (83,624) | (967,776) |

c) Analysis of changes in net debt

| | At 1 April 2007 | Cash flow | Non cash Movements | At 31 March 2008 |
|--------------------------|------------------|-----------------|--------------------|--------------------|
| | £'000 | £'000 | £'000 | £'000 |
| Cash at bank | 10,117 | 3,391 | - | 13,508 |
| | 10,117 | 3,391 | - | 13,508 |
| Debt due after one year | (894,456) | - | (414) | (894,870) |
| Debt due within one year | (83,000) | (38,000) | - | (121,000) |
| Finance leases | (437) | 219 | - | (218) |
| | (977,893) | (37,781) | (414) | (1,016,088) |
| Net debt | (967,776) | (34,390) | (414) | (1,002,580) |

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 2008 the Company had placed contracts for capital expenditure (tangible fixed assets) amounting to £6,303,000 (2007 - £nil).

b) Lease commitments

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

| | Land and buildings | Land and buildings |
|------------------------------|--------------------|--------------------|
| | 2008 | 2007 |
| | £'000 | £'000 |
| Expiry date: | | |
| - between two and five years | 53 | - |
| - after five years | 386 | 683 |
| | 439 | 683 |

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 £0.8bn (2007 - £0.9bn).

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 2007 and at 31 March 2008 was calculated by a qualified actuary. The major assumptions used for the actuarial valuation were:

| | 31 March 2008 | 31 March 2007 | 31 March 2006 |
|---|---------------|---------------|---------------|
| Rate of increase in salaries | 4.1% | 3.6% | 3.4% |
| Rate of increase in pensions in payment | 3.6% | 3.1% | 2.9% |
| Discount rate | 5.8% | 5.2% | 4.9% |
| Inflation assumption | 3.6% | 3.1% | 2.9% |

The life expectancy at age 60, implied by the mortality tables used in the calculation of the actuarial value of scheme liabilities as at 31 March 2008 is 26.8 for males and 29.7 for females. The same mortality tables were used in the calculation of the actuarial value of the scheme liabilities as at 31 March 2007.

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 2008 % | 31 March 2008 £'000 | 31 March 2007 % | 31 March 2007 £'000 | 31 March 2006 % | 31 March 2006 £'000 |
|-------------------------------------|-----------------------|---------------------------|-----------------------|---------------------------|-----------------------|---------------------------|
| Equities | 7.1% | 88,699 | 7.6% | 100,532 | 7.2% | 89,900 |
| Gilts & Bonds | 4.6% | 87,829 | 4.9% | 87,585 | 4.4% | 81,900 |
| Property | 7.1% | 13,208 | - | - | - | - |
| Cash | 5.1% | 3,953 | 5.2% | 2,461 | 4.5% | 21,200 |
| Total fair value of assets | | 193,689 | | 190,578 | | 174,000 |
| Present value of scheme liabilities | | (223,423) | | (209,463) | | (196,000) |
| Deficit in the scheme | | (29,734) | | (18,885) | | (22,000) |
| Related deferred tax asset | | 8,326 | | 5,665 | | 6,600 |
| Net pension liability | | (21,408) | | (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

| | 2008 £'000 | 2007 £'000 |
|-----------------------|----------------|----------------|
| Current service costs | (7,411) | (7,538) |
| Past service costs | - | (832) |
| | (7,411) | (8,370) |

Analysis of the amount credited to net finance charges

| | 2008 £'000 | 2007 £'000 |
|--|---------------|---------------|
| Expected return on pension scheme assets | 12,282 | 10,050 |
| Interest on pension scheme liabilities | (11,022) | (10,009) |
| | 1,260 | 41 |

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

| | 2008 £'000 | 2007 £'000 |
|---|-----------------|---------------|
| Actual return less expected return on pension scheme assets | (17,913) | (4,317) |
| Experience gains and losses arising on the scheme liabilities | (802) | - |
| Changes in assumptions underlying the present value of the scheme liabilities | 2,843 | 5,029 |
| | (15,872) | 712 |

Movement in scheme deficit during the year before deferred tax

| | 2008 £'000 | 2007 £'000 |
|-----------------------|-----------------|-----------------|
| At 1 April | (18,885) | (22,000) |
| Current service cost | (7,411) | (7,538) |
| Contributions | 11,174 | 10,732 |
| Past service costs | - | (832) |
| Net finance income | 1,260 | 41 |
| Actuarial (loss) gain | (15,872) | 712 |
| At 31 March | (29,734) | (18,885) |

23. Pension arrangements - continued

History of experience gains and losses

| | 31 March 2008 | 31 March 2007 | 31 March 2006 | 1 May 2005 |
|---|---------------|---------------|---------------|------------|
| Difference between the expected and actual return on scheme assets: | | | | |
| Amount (£'000) | (17,913) | (4,317) | 24,600 | - |
| Percentage of scheme assets | (9%) | 2% | 14% | - |
| Experience of gains and losses on scheme liabilities: | | | | |
| Amount (£'000) | (802) | 0 | 400 | - |
| Percentage of the present value of scheme liabilities | 0% | 0% | 0% | - |
| Total actuarial (loss) gain in the statement of total recognised gains and losses: | | | | |
| Amount (£'000) | (15,872) | 712 | 3,400 | - |
| Percentage of the present value of scheme liabilities | (7%) | 0% | 2% | - |

The Company also operates defined contribution schemes for which the pension cost charge for the year amounted to £242,000 (2007 - £174,000).

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 Annual 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%)
 Beta Central Profits Limited (19.9%)
 Goldia Resources Limited (15.2%)
 United Utilities Energy and Contracting Services Holdings Limited (15%)
 Challenger Northern Gas Limited (5.8%)
 SAS Trustee Corporation (4.1%)

During the year the company paid legal expenses on behalf of PG (April) Limited and Beta Central Profits Limited worth £15,000 and £8,000 respectively. These debtors remain unpaid as at the 31 March 2008.

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 disclosure 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.