Northern Gas Networks Limited
Regulatory Accounts 2009/2010

Contents

Important information

The financial information contained in these statements does not constitute Statutory Accounts within the meaning of Section 434 of the Companies Act 2006. Statutory Accounts for Northern Gas Networks Limited ("NGN") (the "Company") for the year ended 31 December 2009, to which this financial information partly relates, have been delivered to the Registrar of Companies. The auditors have made a report under Section 495 of the Companies Act 2006 on those Statutory Accounts which was unqualified and did not contain a statement under Section 498 (2) and (3) of the Companies Act 2006. The auditors' opinion on the Company's Statutory Accounts is addressed to, and for the benefit of, the members of the Company 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 495 of the Companies Act 2006 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 the Company 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 NGN 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 2010, 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 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

NGN operates a unique operating model, referred to as strategic asset management, whereby it has separated 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 controls, 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 ("the Board") in their monitoring of the Company focus on the areas of safety, efficiency and customer service. The measures shown below are as calculated and formally reported as at 31 December in line with NGN's statutory year end.

	31 December 2009	31 December 2008
Financial performance		
EBITDA*	£130.0m	£116.7m
Dividends paid	£30.0m	£70.0m
Post maintenance interest coverage ratio	1.9	1.9
EBITDA interest coverage ratio	2.1	2.1
Senior net debt/regulatory asset value	69.4%	69.2%
* Profit before interest, tax, depreciation and amortisation		
Customer services		
Quarterly customer satisfaction survey for repair, replacement and connections	7.5 out of 10	4 out of 5
Safety		
Number of lost time injuries to employees and contractors	5	7
Reported injuries to members of the general public	4	25

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 environmentally beneficial projects.

Future outlook

The Directors expect the general level of activity to remain stable given the certainty 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 or in the case of financial misreporting, a potential fine.

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, 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 appointment and retention of a high calibre, competent, flexible, quality conscious and customer focused workforce all of whom are committed to business success and are given appropriate training. 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 the employees of UUOL and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Company. This is achieved through both formal and informal meetings. Employees are consulted on a wide range of matters affecting their current and future interests. All employees are eligible to receive an annual bonus related to the overall financial and operational performance of the Company.

Financial review

The overall financial results for the year are in line with expectations with the exception of dividend payments which have been reduced to maintain senior net debt/ regulated asset value at a prudent level following the deflated Retail Price Index ("RPI") inflation across late 2008 and 2009.

Basis of accounting

The Regulatory Accounts present the financial results for the years ended 31 March 2010 and 31 March 2009. 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 £340.0m (2009 - £311.9m).

Operating profit

The operating profit for the year was £97.6m (2009 - £65.0m).

Interest

The net finance charges for NGN for the year ended 31 March 2010 was £65.4m (2009 - £56.7m), 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 £16.1m (2009 - £8.4m) which represents an effective tax charge of 49.9% (2009 - 100.7%).

Dividends and dividend policy

Dividends of £27.8m (2009 - £70.8m) were paid or declared during the year. £13.5m of interim dividends have been paid and £14.3m of interim dividends have been declared to NGNH, NGN's parent company, in the year.

Capex

Capex for the year was £50.3m (2009 - £41.8m) which represents investment in network assets of £34.0m (2009 - £29.9m), development of new IT systems used to support many of NGN's operational business activities of £10.0m (2009 - £9.1m) and expenditure on other assets of £6.3m (2009 - £2.8m).

Capital structure

NGN has debt excluding finance leases of £1,067.4m (2009 - £1,040.7m), comprising of:

- Bank loans of £18.0m (2009 - £486.4m) which carry interest at LIBOR plus a margin of 2.01%;
- European Investment Bank ("EIB") loans of £100.0m and £25.0m (2009 - £25.0m) which carry interest at 3 month LIBOR plus a margin of 0.65% and 0.36% respectively; and
- Intercompany loans of £924.5m (2009 - £529.3m).

The intercompany loans comprise an interest free loan of £24.3m (2009 - £24.3m) and interest bearing loans of £900.1m (2009 - £505.0m) of which £250.0m is repayable in 2027 and £255.0m is repayable in 2035 which both carry interest at 4.875%, £198.2m is repayable in 2019 with interest at 5.875% and £196.9m is repayable in 2040 with interest of 5.625%. A margin to cover related costs is added to all interest bearing loans.

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+. These ratings have been re-affirmed each year since.

Cash flow

Net cash inflow from operating activities for the year ended 31 March 2010 was £119.4m (2009 - £132.1m).

Liquidity and investments

At 31 March 2010 NGN had £207.0m (2009 - £193.6m) 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 bank loans have been replaced with interest bearing intercompany loans repayable in 2019 and 2040.

At 31 March 2010 NGN had £10.2m (2009 - £14.7m) of the total cash balance on treasury deposit.

Going concern

NGN's long term strategy and business objectives, future outlook, principal risks and uncertainties and financial review are discussed on pages 3 to 6. In addition note 15 to the Regulatory Accounts includes details of the Company's net debt position and its derivatives and other financial instruments.

NGN has considerable available financial facilities following the recent debt refinancing completed in July 2009 and March 2010 and as a consequence, the Directors believe that the Company is well placed to manage its business risks successfully despite the current difficult economic conditions.

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Regulatory Accounts.

Financial risk management objectives and policies

The Company's financial instruments, other than derivatives, comprise debt 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 finance the Company's operations.

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

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

Details of the maturity, currency and interest rate profile of NGN's borrowings as at 31 March 2010 are shown in note 15 to the Regulatory Accounts on pages 30 to 32.

Interest rate risk

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

- To have a balanced debt portfolio comprising a mixture of fixed rate, floating rate and index-linked debt 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
- To synchronise the maturities of fixed rate interest hedges on floating rate debt with the timing of the Regulator's five yearly price control reviews.

Currency risk

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

Currency risk management is only used 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 have a maturity of 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 the start of a regulatory price control. Non-facility debt maturities are also 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 £16.1m (2009 - loss of £0.1m).

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 (Chief Executive Officer)

F R Frame
H Lam Kam
K Sum Tso
N McGee
A Hunter
S Fraser
(resigned 19 May 2009)
M Robinson
C Cornish
(appointed 19 May 2009, resigned 13 January 2010)

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 2010 were equivalent to 20 (2009 - 22) 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 £91,000 (2009 - £79,720), principally to charities serving the communities in which the Company operates. Charitable donations included the Northern Green Networks project which provided £60,000 (2009 - £60,000) to local community groups within the network region to support environmental schemes.

No political donations were made (2009 - £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 Section 418 of the Companies Act 2006.

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

By order of the Board

B Scarsella
Director

23 July 2010

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, 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. At 31 March 2010 the Board comprises eight 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 meet at least six times a year. The number of Board meetings held during the year and attendees at the Board meetings is detailed below:

2009/10		2008/09	
Date	**Attendees**	**Date**	**Attendees**
6 May 2009	9 out of 9	7 May 2008	8 out of 9
6 July 2009	9 out of 9	2 July 2008	9 out of 9
14 September 2009	9 out of 9	8 September 2008	7 out of 9
16 November 2009	9 out of 9	17 November 2008	8 out of 9
11 January 2010	8 out of 9	12 January 2009	9 out of 9
15 March 2010	7 out of 8	2 March 2009	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.

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 Company'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 which 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 ("the Regulator") and Northern Gas Networks Limited ("the Company")

We have audited the Regulatory Accounts of the Company for the year ended 31 March 2010 on pages 13 to 41 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 Regulator in order to meet the requirements of Standard Special Condition A30 of the Gas Distribution 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 2006.

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 Directors' Responsibilities Statement 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 1 April 2010, 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 Chapter 3 of Part 16 of the Companies Act 2006. 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 2010 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 LLP
Chartered Accountants and Registered Auditors
Leeds

23 July 2010

Statement of accounting policies

a) Basis of accounting

The Regulatory Accounts for the year ended 31 March 2010 have been prepared under the historical cost convention and in accordance with applicable UK accounting standards.

The accounting policies have all been applied consistently throughout the year and the preceding year.

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

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

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

b) Intangible assets – goodwill

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

c) Tangible fixed assets

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

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

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

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

d) Investments

Fixed asset investments are 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 sections of pipe. This expenditure is principally undertaken to 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.

f) Taxation (continued)

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

g) Decommissioning and environmental costs

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

h) Turnover

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

i) Pension costs

The Company has obligations for a defined benefit scheme which is operated on its behalf by UUOL under the terms of the ASA. The responsibility for making payments of current service costs lies with UUOL, however the responsibility for any scheme deficit or surplus remains with the Company. The amounts charged to operating profit are the current service costs and gains and losses on settlements and curtailments. These are included within operating costs, as part of the charge to the Company from UUOL, under the terms of the ASA. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest cost and the expected return on assets are shown as a net amount of other finance costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the 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 year. 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 only holds or issues derivative financial instruments to manage interest rate exposures or commodity price risks in respect of expected gas usage. The principal derivatives used are interest rate swaps. The Company does not hold or issue any derivative financial instruments for speculative purposes.

Interest rate swaps are entered into for the purpose of matching or eliminating risk from potential movements in interest rates associated with the borrowing requirements of the Company. Amounts payable or receivable in respect of the interest rate swaps are recognised within net interest payable in the profit and loss accounts over the life of the financial instrument.

Profit and loss accounts

For the years ended 31 March

	Notes	Transportation 2010 £'000	Metering 2010 £'000	De Minimis 2010 £'000	Other activities (i) 2010 £'000	Corporate 2010 £'000	Total 2010 £'000	Transportation 2009 £'000	Metering 2009 £'000	De Minimis 2009 £'000	Other activities (i) 2009 £'000	Corporate 2009 £'000	Total 2009 £'000
Turnover	1	**337,397**	**1,078**	**452**	**1,118**	**-**	**340,045**	**308,765**	**754**	**522**	**1,902**	**-**	**311,943**
Cost of sales		(4,909)	(569)	(139)	(1,118)	-	(6,735)	(9,101)	(437)	(135)	(1,902)	-	(11,575)
Gross profit		**332,488**	**509**	**313**	**-**	**-**	**333,310**	**299,664**	**317**	**387**	**-**	**-**	**300,368**
Other operating expenses	2	(235,154)	(549)	-	(6)	-	(235,709)	(234,982)	(380)	-	(5)	-	(235,367)
Operating profit (loss)		**97,334**	**(40)**	**313**	**(6)**	**-**	**97,601**	**64,682**	**(63)**	**387**	**(5)**	**-**	**65,001**
Net finance charges	3	(65,436)	-	-	-	-	(65,436)	(56,688)	-	-	-	-	(56,688)
Profit (loss) on ordinary activities before taxation	4	**31,898**	**(40)**	**313**	**(6)**	**-**	**32,165**	**7,994**	**(63)**	**387**	**(5)**	**-**	**8,313**
Tax on profit (loss) on ordinary activities	7	(15,988)	11	(88)	2	-	**(16,063)**	(8,283)	18	(108)	1	-	(8,372)
Profit (loss) for the financial year	18	**15,910**	**(29)**	**225**	**(4)**	**-**	**16,102**	**(289)**	**(45)**	**279**	**(4)**	**-**	**(59)**

All results arise from continuing operations.

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

(i) 'Other activities' as set out in Standard Special Condition A30 paragraph 1(f) comprise those activities to which the Licence relates to which the Regulator has given its consent in writing in 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.

Balance sheets

At 31 March

	Notes	Transportation 2010 £'000	Metering 2010 £'000	De Minimis 2010 £'000	Other activities (i) 2010 £'000	Corporate (ii) 2010 £'000	Total 2010 £'000	Transportation 2009 £'000	Metering 2009 £'000	De Minimis 2009 £'000	Other activities (i) 2009 £'000	Corporate (ii) 2009 £'000	Total 2009 £'000
Fixed assets													
Intangible assets - goodwill	9	144,585	-	-	-	-	144,585	148,696	-	-	-	-	148,696
Tangible assets	10	1,392,616	5,012	-	-	-	1,397,628	1,383,038	3,843	-	-	-	1,386,881
Investments	11	104	-	-	-	50	154	104	-	-	-	50	154
		1,537,305	**5,012**	**-**	**-**	**50**	**1,542,367**	**1,531,838**	**3,843**	**-**	**-**	**50**	**1,535,731**
Current assets													
Debtors – due within one year	12	29,279	10	-	330	-	29,619	30,263	-	-	159	-	30,422
Cash at bank and in hand		-	-	-	-	10,537	10,537	-	-	-	-	15,204	15,204
		29,279	**10**	**-**	**330**	**10,537**	**40,156**	**30,263**	**-**	**-**	**159**	**15,204**	**45,626**
Creditors: Amounts falling due within one year	13	(83,428)	-	-	-	(32,032)	(115,460)	(234,792)	-	-	-	(28,622)	(263,414)
Net current (liabilities) assets		**(54,149)**	**10**	**-**	**330**	**(21,495)**	**(75,304)**	**(204,529)**	**-**	**-**	**159**	**(13,418)**	**(217,788)**
Total assets less current liabilities		**1,483,156**	**5,022**	**-**	**330**	**(21,445)**	**1,467,063**	**1,327,309**	**3,843**	**-**	**159**	**(13,368)**	**1,317,943**
Creditors: Amounts falling due after more than one year	14	(1,087,545)	-	-	-	-	(1,087,545)	(927,559)	-	-	-	-	(927,559)
Provisions for liabilities excluding pension liability	16	(129,512)	-	-	-	-	(129,512)	(126,200)	-	-	-	-	(126,200)
Net assets (liabilities) excluding pension liability		**266,099**	**5,022**	**-**	**330**	**(21,445)**	**250,006**	**273,550**	**3,843**	**-**	**159**	**(13,368)**	**264,184**
Pension liability	23	(19,504)	-	-	-	-	(19,504)	(25,539)	-	-	-	-	(25,539)
Net assets (liabilities) including pension liability		**246,595**	**5,022**	**-**	**330**	**(21,445)**	**230,502**	**248,011**	**3,843**	**-**	**159**	**(13,368)**	**238,645**
Capital and reserves													
Called-up share capital	17	-	-	-	-	-	-	-	-	-	-	-	-
Profit and loss accounts	18	-	-	-	-	230,502	230,502	-	-	-	-	238,645	238,645
Shareholders' funds	19	**-**	**-**	**-**	**-**	**230,502**	**230,502**	**-**	**-**	**-**	**-**	**238,645**	**238,645**

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 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) 'Corporate' comprises those assets, liabilities, capital and reserves which relate to the NGN business as a whole.

The Regulatory Accounts on pages 1 to 41 inclusive were approved by the Board of Directors on 28 June 2010 and signed on its behalf on 23 July 2010 by:

B Scarsella - Director

Statements of total recognised gains and losses

For the years ended 31 March

	Transportation 2010 £'000	Metering 2010 £'000	De Minimis 2010 £'000	Other activities 2010 £'000	Corporate 2010 £'000	Total 2010 £'000	Transportation 2009 £'000	Metering 2009 £'000	De Minimis 2009 £'000	Other activities 2009 £'000	Corporate 2010 £'000	Total 2009 £'000
Profit (loss) for the financial year	15,910	(29)	225	(4)	-	16,102	(289)	(45)	279	(4)	-	(59)
Actuarial gain (loss) relating to the pension scheme	4,868	-	-	-	-	4,868	(8,388)	-	-	-	-	(8,388)
Deferred tax attributable to actuarial gain (loss)	(1,363)	-	-	-	-	(1,363)	2,349	-	-	-	-	2,349
Total recognised gains and losses relating to the year	**19,415**	**(29)**	**225**	**(4)**	**-**	**19,607**	**(6,328)**	**(45)**	**279**	**(4)**	**-**	**(6,098)**

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 2010 £'000	Metering 2010 £'000	De Minimis 2010 £'000	Other activities 2010 £'000	Corporate 2010 £'000	Total 2010 £'000	Transportation 2009 £'000	Metering 2009 £'000	De Minimis 2009 £'000	Other activities 2009 £'000	Corporate 2009 £'000	Total 2009 £'000
Net cash inflow (outflow) from operating activities	20(a)	**113,076**	**488**	**313**	**(177)**	**5,660**	**119,360**	**129,300**	**306**	**387**	**415**	**1,728**	**132,136**
Returns on investments and servicing of finance													
Interest received		307	-	-	-	-	307	673	-	-	-	-	673
Interest paid		(65,730)	-	-	-	-	(65,730)	(40,255)	-	-	-	-	(40,255)
Net cash outflow for returns on investments and servicing of finance		**(65,423)**	**-**	**-**	**-**	**-**	**(65,423)**	**(39,582)**	**-**	**-**	**-**	**-**	**(39,582)**
Taxation													
Corporation tax paid		(5,940)	-	-	-	-	(5,940)	(4,110)	-	-	-	-	(4,110)
Capital expenditure													
Purchase of tangible fixed assets		(47,849)	(1,707)	-	-	-	(49,556)	(39,262)	(1,736)	-	-	-	(40,998)
Net receipts from disposal of tangible fixed assets		199	-	-	-	-	199	250	-	-	-	-	250
Net cash outflow for capital expenditure		**(47,650)**	**(1,707)**	**-**	**-**	**-**	**(49,357)**	**(39,012)**	**(1,736)**	**-**	**-**	**-**	**(40,748)**
Equity dividends paid		**-**	**-**	**-**	**-**	**(30,000)**	**(30,000)**	**-**	**-**	**-**	**-**	**(70,000)**	**(70,000)**
Net cash (outflow) inflow before financing		**(5,937)**	**(1,219)**	**313**	**(177)**	**(24,340)**	**(31,360)**	**46,596**	**(1,430)**	**387**	**415**	**(68,272)**	**(22,304)**
Financing													
Issue of group loans		395,130	-	-	-	-	395,130	-	-	-	-	-	-
New unsecured loans		118,000	-	-	-	-	118,000	-	-	-	-	-	-
Repayment of unsecured borrowings		(486,437)	-	-	-	-	(486,437)	-	-	-	-	-	-
Increase in short term borrowings		-	-	-	-	-	-	24,000	-	-	-	-	24,000
Net cash inflow from financing	20(b)(c)	**26,693**	**-**	**-**	**-**	**-**	**26,693**	**24,000**	**-**	**-**	**-**	**-**	**24,000**
Increase (decrease) in cash in the year	20(b)(c)	**20,756**	**(1,219)**	**313**	**(177)**	**(24,340)**	**(4,667)**	**70,596**	**(1,430)**	**387**	**415**	**(68,272)**	**1,696**

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 2009 of Northern Gas Networks Limited (Statutory Accounts) and these Regulatory Accounts for the year ended 31 March 2010.

Profit and loss account

	Statutory Accounts to December **2009** **£'000**	Exclude 1 January – 31 March **2009** **£'000**	1 January – 31 March **2010** **£'000**	Regulatory Accounts for **2009/2010** **£'000**
Turnover	343,497	(84,224)	80,772	340,045
Operating profit	87,329	(6,876)	17,148	97,601
Net finance charges	(62,023)	14,421	(17,834)	(65,436)
Tax on profit on ordinary activities	(13,726)	(713)	(1,624)	(16,063)
Profit (loss) for the financial year	**11,580**	**6,832**	**(2,310)**	**16,102**

Balance sheet

	Statutory Accounts as at December **2009** **£'000**	1 January – 31 March **2010** **£'000**	Regulatory Accounts for **2009/2010** **£'000**
Fixed assets	1,545,288	(2,921)	1,542,367
Current assets	41,091	(935)	40,156
Total assets	1,586,379	(3,856)	1,582,523
Creditors: Amounts falling due within one year	(403,495)	288,035	(115,460)
Creditors: Amounts falling due after one year, provisions and pension liability	(934,044)	(302,517)	(1,236,561)
Total liabilities	(1,337,539)	(14,482)	(1,352,021)
Net assets	**248,840**	**(18,338)**	**230,502**
Profit and loss account	248,840	(18,338)	230,502
Shareholders' funds	**248,840**	**(18,338)**	**230,502**

Notes to the Regulatory Accounts

1. Turnover

	Transportation 2010 £'000	Metering 2010 £'000	De Minimis 2010 £'000	Other activities 2010 £'000	Corporate 2010 £'000	Total 2010 £'000	Transportation 2009 £'000	Metering 2009 £'000	De Minimis 2009 £'000	Other activities 2009 £'000	Corporate 2009 £'000	Total 2009 £'000
Transportation and Metering	337,397	1,078	-	-	-	338,475	308,765	754	-	-	-	309,519
Other income	-	-	452	1,118	-	1,570	-	-	522	1,902	-	2,424
	337,397	**1,078**	**452**	**1,118**	**-**	**340,045**	**308,765**	**754**	**522**	**1,902**	**-**	**311,943**

All turnover arises in the UK.

2. Other operating expenses

	Transportation 2010 £'000	Metering 2010 £'000	De Minimis 2010 £'000	Other activities 2010 £'000	Corporate 2010 £'000	Total 2010 £'000	Transportation 2009 £'000	Metering 2009 £'000	De Minimis 2009 £'000	Other activities 2009 £'000	Corporate 2009 £'000	Total 2009 £'000
Distribution costs	222,455	538	-	-	-	222,993	217,709	369	-	-	-	218,078
Administrative expenses	12,699	11	-	6	-	12,716	17,273	11	-	5	-	17,289
	235,154	**549**	**-**	**6**	**-**	**235,709**	**234,982**	**380**	**-**	**5**	**-**	**235,367**

3. Net finance charges

	Transportation 2010 £'000	Metering 2010 £'000	De Minimis 2010 £'000	Other activities 2010 £'000	Corporate 2010 £'000	Total 2010 £'000	Transportation 2009 £'000	Metering 2009 £'000	De Minimis 2009 £'000	Other activities 2009 £'000	Corporate 2009 £'000	Total 2009 £'000
Interest payable and similar charges	64,224	-	-	-	-	64,224	54,620	-	-	-	-	54,620
Investment income	(301)	-	-	-	-	(301)	(662)	-	-	-	-	(662)
Other finance charges	1,513	-	-	-	-	1,513	2,730	-	-	-	-	2,730
	65,436	**-**	**-**	**-**	**-**	**65,436**	**56,688**	**-**	**-**	**-**	**-**	**56,688**

Interest payable and similar charges

	Transportation 2010 £'000	Metering 2010 £'000	De Minimis 2010 £'000	Other activities 2010 £'000	Corporate 2010 £'000	Total 2010 £'000	Transportation 2009 £'000	Metering 2009 £'000	De Minimis 2009 £'000	Other activities 2009 £'000	Corporate 2009 £'000	Total 2009 £'000
Bank loans and overdrafts	31,202	-	-	-	-	31,202	30,259	-	-	-	-	30,259
Intercompany interest payable	34,258	-	-	-	-	34,258	25,101	-	-	-	-	25,101
Finance leases and hire purchase contracts	34	-	-	-	-	34	204	-	-	-	-	204
	65,494	**-**	**-**	**-**	**-**	**65,494**	**55,564**	**-**	**-**	**-**	**-**	**55,564**
Finance costs capitalised	(1,270)	-	-	-	-	(1,270)	(944)	-	-	-	-	(944)
	64,224	**-**	**-**	**-**	**-**	**64,224**	**54,620**	**-**	**-**	**-**	**-**	**54,620**

Finance costs have been capitalised based on a capitalisation rate of 5.99% (2009 – 5.99%).

Investment income

	Transportation 2010 £'000	Metering 2010 £'000	De Minimis 2010 £'000	Other activities 2010 £'000	Corporate 2010 £'000	Total 2010 £'000	Transportation 2009 £'000	Metering 2009 £'000	De Minimis 2009 £'000	Other activities 2009 £'000	Corporate 2009 £'000	Total 2009 £'000
Income from fixed asset investments	(225)	-	-	-	-	(225)	(207)	-	-	-	-	(207)
Interest receivable and similar income	(76)	-	-	-	-	(76)	(455)	-	-	-	-	(455)
	(301)	**-**	**-**	**-**	**-**	**(301)**	**(662)**	**-**	**-**	**-**	**-**	**(662)**

Other finance charges

	Transportation 2010 £'000	Metering 2010 £'000	De Minimis 2010 £'000	Other activities 2010 £'000	Corporate 2010 £'000	Total 2010 £'000	Transportation 2009 £'000	Metering 2009 £'000	De Minimis 2009 £'000	Other activities 2009 £'000	Corporate 2009 £'000	Total 2009 £'000
Unwinding of discount on provisions	(885)	-	-	-	-	(885)	1,458	-	-	-	-	1,458
Net charge on pension scheme (see note 23)	2,398	-	-	-	-	2,398	1,272	-	-	-	-	1,272
	1,513	**-**	**-**	**-**	**-**	**1,513**	**2,730**	**-**	**-**	**-**	**-**	**2,730**

4. Profit (loss) on ordinary activities before taxation

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

	Transportation 2010 £'000	Metering 2010 £'000	De Minimis 2010 £'000	Other activities 2010 £'000	Corporate 2010 £'000	Total 2010 £'000	Transportation 2009 £'000	Metering 2009 £'000	De Minimis 2009 £'000	Other activities 2009 £'000	Corporate 2009 £'000	Total 2009 £'000
Depreciation and amounts written off tangible fixed assets												
- owned	38,990	538	-	-	-	39,528	36,929	369	-	-	-	37,298
- held under finance leases and hire purchase contracts	49	-	-	-	-	49	142	-	-	-	-	142
Amortisation of goodwill	4,111	-	-	-	-	4,111	4,112	-	-	-	-	4,112
Profit on disposal of tangible fixed assets	(185)	-	-	-	-	(152)	(225)	-	-	-	-	(225)
Operating lease rentals – other	209	-	-	-	-	209	210	-	-	-	-	210

The analysis of auditors' remuneration is as follows:

	Transportation 2010 £'000	Metering 2010 £'000	De Minimis 2010 £'000	Other activities 2010 £'000	Corporate 2010 £'000	Total 2010 £'000	Transportation 2009 £'000	Metering 2009 £'000	De Minimis 2009 £'000	Other activities 2009 £'000	Corporate 2009 £'000	Total 2009 £'000
Fees payable to the Company's auditors for the audit of the Company's annual accounts	61	-	-	-	-	61	61	-	-	-	-	61
Fees payable to the Company's auditors and their associates for other services to the Company												
- The audit of the Company's subsidiaries pursuant to legislation	5	-	-	-	-	5	5	-	-	-	-	5
Total audit fees	**66**	**-**	**-**	**-**	**-**	**66**	**66**	**-**	**-**	**-**	**-**	**66**
Fees payable to the Company's auditors and their associates for other services to the Company												
- Other services pursuant to legislation	45	-	-	-	-	45	45	-	-	-	-	45
- Tax services	46	-	-	-	-	46	118	-	-	-	-	118
- Corporate finance services	9	-	-	-	-	9	-	-	-	-	-	-
- Other services	-	-	-	-	-	-	5	-	-	-	-	5
Total non-audit fees	**100**	**-**	**-**	**-**	**-**	**100**	**168**	**-**	**-**	**-**	**-**	**168**

5. Payroll costs and employees

a) Payroll costs

	Transportation 2010 £'000	Metering 2010 £'000	De Minimis 2010 £'000	Other activities 2010 £'000	Corporate 2010 £'000	Total 2010 £'000	Transportation 2009 £'000	Metering 2009 £'000	De Minimis 2009 £'000	Other activities 2009 £'000	Corporate 2009 £'000	Total 2009 £'000
Wages and salaries	4,321	-	-	-	-	4,321	3,500	-	-	-	-	3,500
Social security costs	479	-	-	-	-	479	409	-	-	-	-	409
Pension costs	337	-	-	-	-	337	269	-	-	-	-	269
	5,137	**-**	**-**	**-**	**-**	**5,137**	**4,178**	**-**	**-**	**-**	**-**	**4,178**

5. Payroll costs and employees - continued

b) Average number of employees

	Transportation 2010 Number	Metering 2010 Number	De Minimis 2010 Number	Other activities 2010 Number	Corporate 2010 Number	Total 2010 Number	Transportation 2009 Number	Metering 2009 Number	De Minimis 2009 Number	Other activities 2009 Number	Corporate 2009 Number	Total 2009 Number
Administration	66	-	-	-	-	66	55	-	-	-	-	55
	66	**-**	**-**	**-**	**-**	**66**	**55**	**-**	**-**	**-**	**-**	**55**

6. Directors' remuneration

Remuneration

The remuneration of the Directors was as follows:

	2010 £'000	2009 £'000
Emoluments	706	678
Amounts receivable (other than shares) under long term incentive schemes	21	79
Company contributions to money purchase pension schemes	46	38
	773	**795**

Pensions

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

	2010 Number	2009 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:

	2010 £'000	2009 £'000
Emoluments	727	757
Company contributions to money purchase pension schemes	46	38
	773	**795**

Transactions

There have been no transactions with Directors in the year (2009 - £nil) other than as set out above in respect of remuneration.

7. Tax on profit (loss) on ordinary activities

	Total **2010** **£'000**	Total **2009** **£'000**
Current tax		
UK corporation tax	9,901	5,745
Adjustments in respect of prior years	(541)	(3,167)
Total current tax	**9,360**	**2,578**
Deferred tax		
Current year - origination and reversal of timing differences	4,978	4,059
Effect of decrease in tax rate on opening liability	-	14
Adjustments in respect of prior years	1,725	1,721
Total deferred tax	**6,703**	**5,794**
Total tax on profit on ordinary activities	**16,063**	**8,372**

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 before tax is as follows:

	Total **2010** **£'000**	Total **2009** **£'000**
Profit on ordinary activities before tax	32,165	8,313
Tax on profit on ordinary activities at standard UK corporation tax rate of 28% (2009 - 28%)	9,006	2,328
Effects of:		
Expenses not deductible for tax purposes	5,873	5,490
Capital allowances in excess of depreciation	(3,362)	(4,325)
Other timing differences	(1,616)	(640)
Adjustments in respect of prior years	(541)	(346)
Effect of decrease in tax rate	-	71
Current tax charge for the year	**9,360**	**2,578**

The Company earns its profits in the UK, therefore the tax rate used for tax on profit on ordinary activities is the standard rate for UK corporation tax, currently 28% (2009 - 28%).

The Company's planned level of capital investment is expected to remain at similar levels as 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.

8. Dividends paid and declared on equity shares

	Total 2010 £'000	Total 2009 £'000
Equity shares:		
- interim dividend paid of £135,000 (2009 - £542,500) per ordinary share	13,500	54,250
- interim dividend declared of £142,500 (2009 - £165,000) per ordinary share	14,250	16,500
	27,750	**70,750**

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 and Total

	Total £'000
Cost at 1 April 2009 and 31 March 2010	164,457
Amortisation at 1 April 2009	15,761
Charge for the year	4,111
Amortisation at 31 March 2010	19,872
Net book value at 31 March 2010	**144,585**
Net book value at 31 March 2009	**148,696**

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 2009	2,979	1,457,994	9,692	34,429	16,392	1,521,486
Additions	-	29,340	4,705	4,799	9,787	48,631
Disposals	-	-	(1,703)	(4)	-	(1,707)
Transfers	-	-	-	3,141	(3,141)	-
Cost at 31 March 2010	2,979	1,487,334	12,694	42,365	23,038	1,568,410
Depreciation at 1 April 2009	1,038	121,662	3,759	11,989	-	138,448
Charge for the year	209	33,085	2,485	3,260	-	39,039
Disposals	-	-	(1,689)	(4)	-	(1,693)
Depreciation at 31 March 2010	1,247	154,747	4,555	15,245	-	175,794
Net book value at 31 March 2010	**1,732**	**1,332,587**	**8,139**	**27,120**	**23,038**	**1,392,616**
Net book value at 31 March 2009	**1,941**	**1,336,332**	**5,933**	**22,440**	**16,392**	**1,383,038**

Metering

	Other equipment £'000	Total £'000
Cost at 1 April 2009	4,582	4,582
Additions	1,707	1,707
Cost at 31 March 2010	6,289	6,289
Depreciation at 1 April 2009	739	739
Charge for the year	538	538
Depreciation at 31 March 2010	1,277	1,277
Net book value at 31 March 2010	**5,012**	**5,012**
Net book value at 31 March 2009	**3,843**	**3,843**

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 2009	2,979	1,457,994	9,692	39,011	16,392	1,526,068
Additions	-	29,340	4,705	6,506	9,787	50,338
Disposals	-	-	(1,703)	(4)	-	(1,707)
Transfers	-	-	-	3,141	(3,141)	-
Cost at 31 March 2010	2,979	1,487,334	12,694	48,654	23,038	1,574,699
Depreciation at 1 April 2009	1,038	121,662	3,759	12,728	-	139,187
Charge for the year	209	33,085	2,485	3,798	-	39,577
Disposals	-	-	(1,689)	(4)	-	(1,693)
Depreciation at 31 March 2010	1,247	154,747	4,555	16,522	-	177,071
Net book value at 31 March 2010	**1,732**	**1,332,587**	**8,139**	**32,132**	**23,038**	**1,397,628**
Net book value at 31 March 2009	**1,941**	**1,336,332**	**5,933**	**26,283**	**16,392**	**1,386,881**

Leased assets included above:

	Land and buildings £'000	Gas distribution assets £'000	Motor vehicles £'000	Other equipment £'000	Assets in the course of construction £'000	Total £'000
Net book value at 31 March 2010	**273**	**-**	**4**	**-**	**-**	**277**
Net book value at 31 March 2009	**314**	**-**	**37**	**-**	**-**	**351**

Short leasehold included within land and buildings above has a cost of £441,000 (2009 - £441,000), a depreciation charge in the year of £41,000 (2009 - £41,000), accumulated depreciation of £168,000 (2009 - £127,000) and a net book value of £273,000 (2009 - £314,000).

Leased assets included within motor vehicles above have a cost of £206,000 (2009 - £1,892,000), depreciation charge in the year of £8,000 (2009 - £101,000), accumulated depreciation of £202,000 (2009 - £1,855,000) and a net book value of £4,000 (2009 - £37,000).

Cumulative finance costs capitalised included in the cost of tangible fixed assets amount to £3,785,000 (2009 - £2,515,000).

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 £1,016,000 (2009 - £869,000) and £38,109,000 (2009 - £32,381,000) respectively.

11. Fixed asset investments

	Total 2010 £'000	Total 2009 £'000
Subsidiary undertaking	50	50
Other investment	104	104
	154	**154**

The Company has an investment in the following subsidiary undertaking:

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

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 2009 and 31 March 2010	**50**

Other investment

	Total £'000
Cost and net book value	
At 1 April 2009 and 31 March 2010	**104**

12. Debtors – due within one year

	Transportation 2010 £'000	Metering 2010 £'000	De Minimis 2010 £'000	Other activities 2010 £'000	Corporate 2010 £'000	Total 2010 £'000	Transportation 2009 £'000	Metering 2009 £'000	De Minimis 2009 £'000	Other activities 2009 £'000	Corporate 2009 £'000	Total 2009 £'000
Trade debtors	1,500	10	-	330	-	1,840	612	-	-	159	-	771
Prepayments and accrued income	27,779	-	-	-	-	27,779	29,651	-	-	-	-	29,651
	29,279	**10**	**-**	**330**	**-**	**29,619**	**30,263**	**-**	**-**	**159**	**-**	**30,422**

13. Creditors: Amounts falling due within one year

	Transportation 2010 £'000	Metering 2010 £'000	De Minimis 2010 £'000	Other activities 2010 £'000	Corporate 2010 £'000	Total 2010 £'000	Transportation 2009 £'000	Metering 2009 £'000	De minimis 2009 £'000	Other activities 2009 £'000	Corporate 2009 £'000	Total 2009 £'000
Bank loans	18,000	-	-	-	-	18,000	145,000	-	-	-	-	145,000
Obligations under finance leases and hire purchase contracts	218	-	-	-	-	218	218	-	-	-	-	218
Payments received on account	19,565	-	-	-	-	19,565	20,874	-	-	-	-	20,874
Trade creditors	790	-	-	-	-	790	5,279	-	-	-	-	5,279
Amounts owed to group undertakings	-	-	-	-	17,782	17,782	-	-	-	-	12,122	12,122
UK corporation tax	5,119	-	-	-	-	5,119	1,699	-	-	-	-	1,699
Declared dividends – equity shareholder	-	-	-	-	14,250	14,250	-	-	-	-	16,500	16,500
Other taxation and social security	2,409	-	-	-	-	2,409	1,942	-	-	-	-	1,942
Accruals and deferred income	37,292	-	-	-	-	37,292	59,749	-	-	-	-	59,749
Defined contribution pension scheme accrual	35	-	-	-	-	35	31	-	-	-	-	31
	83,428	**-**	**-**	**-**	**32,032**	**115,460**	**234,792**	**-**	**-**	**-**	**28,622**	**263,414**

The bank loan is a working capital facility repayable on 26 April 2010 with an interest rate at LIBOR plus a margin of 2.01%. This facility is available to be redrawn until 30 August 2012.

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

	Transportation 2010 £'000	Metering 2010 £'000	De Minimis 2010 £'000	Other activities 2010 £'000	Corporate 2010 £'000	Total 2010 £'000	Transportation 2009 £'000	Metering 2009 £'000	De Minimis 2009 £'000	Other activities 2009 £'000	Corporate 2009 £'000	Total 2009 £'000
Bank loans	124,977	-	-	-	-	124,977	365,850	-	-	-	-	365,850
Amounts owed to group undertakings	924,458	-	-	-	-	924,458	529,328	-	-	-	-	529,328
Deferred income	38,110	-	-	-	-	38,110	32,381	-	-	-	-	32,381
	1,087,545	**-**	**-**	**-**	**-**	**1,087,545**	**927,559**	**-**	**-**	**-**	**-**	**927,559**

The bank loans comprise an EIB loan of £100.0m which carries interest at 3 month LIBOR plus a margin of 0.65% and an EIB loan of £25.0m which carries interest at 3 month LIBOR plus a margin of 0.36%. These loans are repayable on 23 January 2023.

The amounts owed to group undertakings is an interest free loan of £24.3m which has no repayment date; an interest bearing loan of £505.0m with £250.0m repayable in 2027 and £255.0m repayable in 2035 with interest of 4.875%; an interest bearing loan of £198.2m repayable in 2019 with interest of 5.875%; and £196.9m repayable in 2040 with interest of 5.625%. A margin to cover related costs is added to all interest bearing loans.

15. Derivatives and other financial instruments

Pages 5 and 6 of the Operating and Financial Review provides an explanation of the role that financial instruments have had during the year in creating or changing the risks the Company faces in 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” (“FRS 13”). 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 £10,537,000 (2009 - £15,204,000) 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 2010 was as follows:

	Floating rate 2010 £'000	Fixed rate 2010 £'000	Interest free 2010 £'000	Total 2010 £'000
Borrowings – Bank loans	124,977	18,000	-	142,977
Borrowings – Intercompany loan	-	900,130	24,328	924,458
Finance leases	-	218	-	218
	124,977	**918,348**	**24,328**	**1,067,653**

The profile at 31 March 2009 for comparison purposes was as follows:

	Floating rate 2009 £'000	Fixed rate 2009 £'000	Interest free 2009 £'000	Total 2009 £'000
Borrowings – Bank loans	365,850	145,000	-	510,850
Borrowings – Intercompany loan	-	505,000	24,328	529,328
Finance leases	-	218	-	218
	365,850	**650,218**	**24,328**	**1,040,396**

15. Derivatives and other financial instruments - continued

Further analysis of the interest rate profile at 31 March 2010 was as follows:

	Floating Rate	Fixed Rate		Interest free
	Weighted average interest rate	Weighted average interest rate	Weighted average period for which rate is fixed	Weighted average period to maturity
	%	**%**	**Years**	**Years**
Borrowings – Bank loans	1.0	2.6	0.07	-
Borrowings – Intercompany loan	-	5.26	20.63	N/A
Finance leases	-	15	1	-

The profile at 31 March 2009 for comparison purposes was as follows:

	Floating Rate	Fixed Rate		Interest free
	Weighted average interest rate	Weighted average interest rate	Weighted average period for which rate is fixed	Weighted average period to maturity
	%	**%**	**Years**	**Years**
Borrowings – Bank loans	2.2	2.29	0.157	-
Borrowings – Intercompany loan	-	4.875	22.75	N/A
Finance leases	-	15	1	-

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:

	2010	**2009**
	£'000	**£'000**
In one year or less	18,218	145,218
More than one year, but not more than two years	-	340,850
More than five years	1,049,435	554,328
	1,067,653	**1,040,396**

Borrowing facilities

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

	2010	**2009**
	£'000	**£'000**
Expiring in more than one year but not more than two years	-	68,564
Expiring in more than two years	207,000	125,000
	207,000	**193,564**

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 2010 £'000	Fair value 2010 £'000	Book value 2009 £'000	Fair value 2009 £'000
Primary financial instruments held or issued to finance the Company's operations				
Short term borrowings	18,000	18,000	145,000	145,000
Long term borrowings	124,977	124,997	365,850	358,945
Intercompany borrowings	924,458	897,777	529,328	410,162
Derivative financial instruments held to manage the interest rate and currency profile				
Interest rate swaps	-	62,706	-	69,280

The fair value of the intercompany borrowings has been determined by reference to the underlying bonds market price. 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 2010 £'000	Losses 2010 £'000	Net 2010 £'000	Gains 2009 £'000	Losses 2009 £'000	Net 2009 £'000
Unrecognised gains and losses on hedges at 1 April	62,778	(132,058)	(69,280)	18,622	(25,646)	(7,024)
Gains and losses arising in previous years that were recognised in the year	-	16,830	16,830	-	13	13
Gains and losses arising before 1 April that were not recognised in the year	62,778	(115,228)	(52,450)	18,622	(25,633)	(7,011)
Gains and losses arising in the year that were not recognised in the year	(671)	(9,585)	(10,256)	44,156	(106,425)	(62,269)
Unrecognised gains and losses on hedges at 31 March	**62,107**	**(124,813)**	**(62,706)**	**62,778**	**(132,058)**	**(69,280)**
Of which:						
Gains and losses expected to be recognised within one year	-	-	-	-	-	-
Gains and losses expected to be recognised after one year	62,107	(124,813)	(62,706)	62,778	(132,058)	(69,280)

16. Provisions for liabilities excluding pension liability

	Transportation				Total			
	Environmental restoration costs	Deferred tax	Other provisions	Total	Environmental restoration costs	Deferred tax	Other provisions	Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
At 1 April 2009	7,859	109,055	9,286	126,200	7,859	109,055	9,286	126,200
Charge to profit and loss account	-	5,718	605	6,323	-	5,718	605	6,323
Utilised in the year	-	-	(824)	(824)	-	-	(824)	(824)
Released unused	(1,302)	-	-	(1,302)	(1,302)	-	-	(1,302)
Unwinding of discount	(605)	-	(280)	(885)	(605)	-	(280)	(885)
At 31 March 2010	**5,952**	**114,773**	**8,787**	**129,512**	**5,952**	**114,773**	**8,787**	**129,512**

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

	2010	**2009**
	£'000	**£'000**
Accelerated capital allowances	112,567	107,170
Other timing differences	2,206	1,885
	114,773	**109,055**

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

17. Called-up share capital

	2010	**2010**	**2009**	**2009**
	Number	**£**	**Number**	**£**
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 2009	238,645
Profit for the financial year	16,102
Actuarial gain relating to the pension scheme (note 23)	4,868
UK deferred tax attributable to the actuarial gain	(1,363)
Dividends paid and declared on equity shares	(27,750)
At 31 March 2010	**230,502**

19. Reconciliation of movements in shareholders' funds

	2010 £'000	2009 £'000
Profit (loss) for the financial year	16,102	(59)
Other recognised gains and losses relating to the year (net)	3,505	(6,039)
Dividends paid and declared on equity shares	(27,750)	(70,750)
Net reduction in shareholders' funds	**(8,143)**	**(76,848)**
Opening shareholders' funds	238,645	315,493
Closing shareholders' funds	**230,502**	**238,645**

20. Cash flow statement

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

	Transportation 2010 £'000	Metering 2010 £'000	De Minimis 2010 £'000	Other activities 2010 £'000	Corporate 2010 £'000	Total 2010 £'000	Transportation 2009 £'000	Metering 2009 £'000	De Minimis 2009 £'000	Other activities 2009 £'000	Corporate 2009 £'000	Total 2009 £'000
Operating profit (loss)	97,334	(40)	313	(6)	-	97,601	64,682	(63)	387	(5)	-	65,001
Depreciation and amortisation	43,150	538	-	-	-	43,688	41,182	369	-	-	-	41,551
Profit on sale of tangible fixed assets	(185)	-	-	-	-	(185)	(225)	-	-	-	-	(225)
Decrease (increase) in debtors	984	(10)	-	(171)	-	803	6,049	-	-	420	-	6,469
(Decrease) increase in creditors	(20,773)	-	-	-	5,660	(15,113)	21,893	-	-	-	1,728	23,621
Decrease in provisions	(1,521)	-	-	-	-	(1,521)	(361)	-	-	-	-	(361)
Adjustment for pension funding	(5,913)	-	-	-	-	(5,913)	(3,920)	-	-	-	-	(3,920)
Net cash inflow (outflow) from operating activities	**113,076**	**488**	**313**	**(177)**	**5,660**	**119,360**	**129,300**	**306**	**387**	**415**	**1,728**	**132,136**

20. Cash flow statement - continued

b) Reconciliation of net cash flow to movement in net debt

	Transportation 2010 £'000	Metering 2010 £'000	De Minimis 2010 £'000	Other activities 2010 £'000	Corporate 2010 £'000	Total 2010 £'000	Transportation 2009 £'000	Metering 2009 £'000	De Minimis 2009 £'000	Other activities 2009 £'000	Corporate 2009 £'000	Total 2009 £'000
Increase (decrease) in cash in the year	20,756	(1,219)	313	(177)	(24,340)	(4,667)	70,596	(1,430)	387	415	(68,272)	1,696
Cash outflow from increase in debt and lease financing	(26,693)	-	-	-	-	(26,693)	(24,000)	-	-	-	-	(24,000)
Change in net debt resulting from cash flows	(5,937)	(1,219)	313	(177)	(24,340)	(31,360)	46,596	(1,430)	387	415	(68,272)	(22,304)
Other non-cash movements	(564)	-	-	-	-	(564)	(308)	-	-	-	-	(308)
Movement in net debt in the year	(6,501)	(1,219)	313	(177)	(24,340)	(31,924)	46,288	(1,430)	387	415	(68,272)	(22,612)
Net debt at the start of the year	(806,816)	(3,868)	707	163	(215,378)	(1,025,192)	(853,104)	(2,438)	320	(252)	(147,106)	(1,002,580)
Net debt at the end of the year	**(813,317)**	**(5,087)**	**1,020**	**(14)**	**(239,718)**	**(1,057,116)**	**(806,816)**	**(3,868)**	**707**	**163**	**(215,378)**	**(1,025,192)**

c) Analysis of changes in net debt

	At 1 April 2009 £'000	Cash flow £'000	Non cash movements £'000	At 31 March 2010 £'000
Cash at bank	15,204	(4,667)	-	10,537
Debt due after one year	(895,178)	(153,693)	(564)	(1,049,435)
Debt due within one year	(145,000)	127,000	-	(18,000)
Finance leases	(218)	-	-	(218)
	(1,040,396)	(26,693)	(564)	(1,067,653)
Net debt	**(1,025,192)**	**(31,360)**	**(564)**	**(1,057,116)**

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 Financial Reporting Standard 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

At 31 March 2010 the Company had placed contracts for capital expenditure (tangible fixed assets) amounting to £5,775,000 (2009 - £6,047,000).

b) Lease commitments

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

	Land and buildings 2010 £'000	Land and buildings 2009 £'000
Expiry date:		
- between two and five years	53	53
- after five years	386	386
	439	**439**

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 capex and replacement programmes has been contracted out to UUOL. The total value of the contract, to its expiry date, is estimated to be £0.5bn (2009 - £0.6bn).

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 amounts recognised in the balance sheets are as follows:

	2010 £'000	2009 £'000
Present value of funded obligations	247,797	200,559
Fair value of plan assets	(220,709)	(165,088)
Deficit	27,088	35,471
Related deferred tax asset	(7,584)	(9,932)
Net liability	19,504	25,539
Amounts in the balance sheets		
- Liabilities	19,504	25,539

23. Pension arrangements - continued

The amounts recognised in the profit and loss accounts are as follows:

	2010 £'000	2009 £'000
Amount charged to operating profit		
Current service costs	5,383	6,996
Amount charged (credited) to net finance charges		
Interest costs	13,033	13,092
Expected return on plan assets	(10,635)	(11,820)
Net cost on pension scheme	2,398	1,272
Total	7,781	8,268

The total amounts recognised in the statements of total recognised gains and losses are as follows:

	2010 £'000	2009 £'000
Actuarial gains (losses)	4,868	(8,388)

The cumulative amount of actuarial gains and losses recognised in the statements of total recognised gains and losses is as follows:

	2010 £'000	2009 £'000
Actuarial losses	(16,942)	(21,810)

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

	2010 £'000	2009 £'000
Opening defined benefit obligation	200,559	223,423
Service cost	5,383	6,996
Interest cost	13,033	13,092
Member contributions	769	835
Actuarial losses (gains)	37,093	(40,541)
Benefits paid	(9,040)	(3,246)
Closing defined benefit obligation	247,797	200,559

23. Pension arrangements - continued

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

	2010 £'000	2009 £'000
Opening fair value of plan assets	165,088	193,689
Expected return	10,635	11,820
Actuarial gains (losses)	41,961	(48,929)
Employer contributions	11,296	10,919
Member contributions	769	835
Benefits paid	(9,040)	(3,246)
	220,709	165,088

The Company expects to contribute £11.6m to its defined benefit pension plan in 2010/2011.

The major categories of plan assets as a percentage of the total plan assets and the expected rate of return on plan assets are as follows:

	2010		2009	
	Percentage of plan assets %	Expected return on plan assets %	Percentage of plan assets %	Expected return on plan assets %
Equity securities	42.90	7.70	48.00	7.50
Bond securities	45.80	4.60	45.80	4.60
Real Estate	10.30	7.70	5.30	7.50
Other	1.00	0.30	0.90	0.30

To determine the overall expected rate of return on plan assets the Company considered the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the assets are invested and the expectations for future returns of each asset class in the plan. The expected return for each asset class was then weighted, based on the asset allocation in the plan to develop the assumption for the expected rate of return on plan assets.

The actual return on plan assets is as follows:

	2010 £'000	2009 £'000
Actual return on plan assets	52,596	(37,109)

Principal actuarial assumptions at the balance sheet date (expressed as weighted averages) are:

		2010	2009
Discount rate		5.6%	6.3%
Expected return on plan assets		6.1%	5.9%
Future salary increases		4.1%	4.0%
Future pension increases		3.6%	3.5%
Inflation		3.6%	3.5%
Life expectancy	- member age 65	21.6 years	22.2 years
	- member age 40	24.0 years	22.2 years

23. Pension arrangements - continued

Amounts for the current and previous four periods are as follows:

	31 March 2010 £'000	31 March 2009 £'000	31 March 2008 £'000	31 March 2007 £'000	31 March 2006 £'000
Defined benefit obligation	(247,797)	(200,559)	(223,423)	(209,463)	(196,000)
Plan assets	220,709	165,088	193,689	190,578	174,000
Deficit	(27,088)	(35,471)	(29,734)	(18,885)	(22,000)

Experience adjustments for the current and previous four periods are as follows:

	31 March 2010	31 March 2009	31 March 2008	31 March 2007	31 March 2006
Plan assets:					
Amount (£'000)	41,961	(48,929)	(17,913)	(4,317)	24,600
Percentage of plan assets	18%	(29%)	(9%)	(2%)	14%
Plan liabilities:					
Amount (£'000)	2,865	-	(802)	-	400
Percentage of the present value of plan liabilities	1%	-	-	-	-

The Company also operates defined contribution schemes for which the pension charge for the year amounted to £337,000 (2009 - £269,000).

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 Hongkong Electric Holdings Limited 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 (47.1%)
Beta Central Profits Limited (41.3%)
SAS Trustee Corporation (11.6%)

On 18 November 2009, United Utilities Energy and Contracting Services Holdings Limited sold its 15.0% shareholding in Northern Gas Networks Holdings Limited to the other consortium members in proportion to their existing shareholdings.

The Company had a debtor with PG (April) Limited of £15,000 at 31 March 2010 and 31 March 2009.

25. Amounts determined by apportionment

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

26. Charges and apportionments

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

26. Charges and apportionments - continued

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